ગુજરાત રાજ્યના શિક્ષણવિભાગના પત્ર-ક્રમાંક
મશબ/1215/12-22/છ, તા. 1-3-2016 –થી મંજૂર

ORGANISATION OF COMMERCE AND MANAGEMENT

Standard 11

PLEDGE

India is my country.

All Indians are my brothers and sisters.

I love my country and I am proud of its rich and varied heritage.

I shall always strive to be worthy of it.

I shall respect my parents, teachers and all my elders and treat everyone with courtesy.

I pledge my devotion to my country and its people.

My happiness lies in their well-being and prosperity.

Price : ₹ 34.00

Gujarat State Board of School Textbooks
'Vidyayan', Sector 10-A, Gandhinagar-382010

Subject Adviser
Shri J. M. Shah

Authors
Dr Urmish S. Jhaveri (Convenor)
Pro. Jiteshchandra J. Jani
Dr Bharat B. Ramanuj
Dr Ashish J. Dave
Dr R. G. Patel
Shri Ashwinbhai R. Patel

Translators
Dr Urmish S. Jhaveri
Pro. Jiteshchandra J. Jani
Dr Bharat B. Ramanuj
Dr Ashish J. Dave
Dr Bellur O. Baxi

Reviewers
Mrs. Daxa H. Pathak
Mrs. Vasudha J. Pandit
Mrs. Sonali Lalit Naik
Pro. M. M. Gandhi
Mrs. Shampa Bhattacharya
Mrs. Vijayeta Dawawala
Shri Dinesh V. Taneja

Language Reviewers
Dr Titixa U. Dhruv

Co-ordinator
Dr Chirag N. Shah
(Subject Co-ordinator : Commerce)

Preparation and Planning
Shri Haren Shah
(Dy. Director : Academic)

Lay-out and Planning
Shri Haresh S. Limbachiya
(Dy. Director : Production)

PREFACE

The Gujarat Secondary and Higher Secondary Board has prepared new syllabi in accordance with the syllabi at the national level. These syllabi are approved by the Government of Gujarat.

The Gujarat State Board of School Textbooks takes pleasure in presenting this textbook to the students. It is prepared according to the new syllabus of **Organisation of Commerce and Management, Std.11**

This textbook is written and reviewed by expert teachers and professors. This textbook is published after incorporating the necessary changes suggested by the reviewers.

The Board has taken ample care to make this textbook interesting, useful and free of errors. However, suggestions are welcome to improve the quality of this book from persons taking interest in education.

P. Bharathi (IAS)
Director — Executive President
Date : 04-11-2019 — Gandhinagar

First Edition : 2016, Reprint : 2017, 2018, 2019, 2020
Published by : P. Bharathi (IAS), Director, on behalf of Gujarat State Board of School Textbooks, 'Vidhyayn', Sector 10-A, Gandhinagar.
Printed by :

FUNDAMENTAL DUTIES

It shall be the duty of every citizen of India : *

(a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;

(b) to cherish and follow the noble ideals which inspired our national struggle for freedom;

(c) to uphold and protect the sovereinty, unity and integrity of India;

(d) to defend the country and render national service when called upon to do so;

(e) 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;

(f) to value and preserve the rich heritage or our composite culture;

(g) to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures;

(h) to develop the scientific temper, humanism and the spirit of inquiry and reform;

(i) to safeguard public property and to abjure violence;

(j) 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;

(k) to provide opportunities for education by the parent or gurdian, to his child or a ward between the age of six and fourteen years as the case may be.

* Constitution of India : Section 51-C

CONTENTS

●

1 Nature, Purpose and Scope of Business

What will you learn in this chapter ?

Introduction

Economic activities keep trade and commerce alive all over the world. In your city or village a potter, a blacksmith, a weaver, a cobbler gets economic benefits or monetary returns through economic activities. Thousands of employees work in cities in small or big factories to get employment. All these activities are economic activities conducted with the objective to earn income. Business is an economic activity conducted with the objective of profit. Besides business, profession and employment are also the types of economic activity. Human needs are increasing continuously. Man has to perform economic activity to satisfy his needs e.g. farmer produces food-grains, lawyer charges fees for representing a case in the court on behalf of his client. A worker gets wages by working in the factory. All these activities are called economic activities as the objective of these activities is to get monetary returns.

Some persons in society performs activities without aiming at economic benefits or monetary returns e.g. a social worker is working with the aim of social service. If doctor provides free medical service with the motivation of social service, it is called non-economic activity. There is no objective of economic benefit, monetary consideration or monetary return.

1.1 Economic Activity

Economic activity means an activity carried out with the objective of economic benefit or monetary consideration. Man has to perform economic activity for his livelihood, so that he can satisfy his needs by getting money. All economic activities are called productive activities. A person doing economic activity satisfies the need of others and gets economic benefits for him, e.g. a farmer by producing food grains, a weaver by manufacturing cloth, a carpenter by manufacturing furniture satisfies the needs of different classes of society and by this way gets economic returns. Economic activities is at the centre of the modern world.

1.2 Non-Economic Activity

The objective of non economic activities is neither monetary returns nor economic gains. Some persons in society perform activities without the objective of monetary consideration or economic gains. e.g. social service carried out by social worker, nursing activity by mother for her children, working of volunteer propagating(doing propaganda for) the unity of community, volunteer working in relief camps where the people are affected by natural calamities like earth quake, Tsunami etc. are called non-economic activities. The motivating factors for these activities are services to country, services to society, feeling of all these brings change in the life of a person.

1.3 Difference between Economic Activity and Non-Economic Activity

Sr. No.	Point of Difference	Economic Activity	Non-Economic Activity
(1)	Objective	Motive is to get economic benefit.	Motive is social service, human service or service to country.
(2)	Expectation	Expectation is profit, salary, fees and maximisation of wealth.	Expectation is service to country, social service
(3)	Type	There are mainly three types : businees, profession and employment.	No Type
(4)	Risk and Uncertainty	There remain risk and uncertainty.	No risk and uncertainty.

1.4 Types of Economic Activity

There are mainly three types of economic activities : (1) Business (2) Profession and (3) Employment.

1.5 Business

1.5.1 Meaning and Definition : The term **"Business"** is derived form English word "Busy", which means to remain active or to be active continuously. Business is carried out with motive of getting profit and wealth. The concept of business is related with profit motive. Some times loss is incurred in business even though it is an economic activity. A brief and precise definition of business can be stated as follows :

"Business means any legal economic activity with the motive of profit."

1.5.2 Characteristics

(1) Objective of Profit : The fundamental objective of business is to obtain profit through economic activity. In absence of profit there is no possibility of business. Profit is essential to continue the business. The Goods are sold at a price higher than the cost price, it is called profit. The efficiency of business is even measured with the measurement of profit. **Profit is the barometer of business.**

(2) Exchange of Goods and Services : Exchange of goods and services take place when goods and services are sold either by manufacturing or by purchasing. Business involves exchange of goods and services. Goods in physical form and service in invisible or intagible form are exchanged e.g. a Company manufacturing electric equipments exchanges physical goods, while a company providing electric service exchanges service.

(3) **Risk and Uncertainty** : Business involves risk and element of uncertainties of returns. It involves man made risks such as fire, accident, strike of employees, riot, robbery, theft, change in preferences, decrease in demand, change in life style of public, taste, habit, competition, change in technology etc. while natural risks like tsunami, earth-quake, strom are also involved. All these risks adversely affect the income of the business. The returns from business become uncertain due to various risks. Sometimes there is loss in business due the risks, even though the motive of business is profit.

(4) **Creation of Utility** : To provide satisfaction to the consumer with the use of goods and service is called creation of Utility. Creation of utility takes place in three ways : form, place and time. When raw material is converted in to consumable finished goods, creation of form utility takes place. When goods are carried over from the place of production to place of consumption, creation of place-utility takes place. Goods are stored when they are not needed and supplied at the time, when they are needed, creation of time utility takes place.

(5) **Continuance of Activity** : Transactions are carried out regularly and continuously in business. Business is an ongoing monetary activity. A businessman does the activity of purchase and sale continuously with the objective of profit. If a trader or producer constructs a building for his residence and later on sells it and earns profit it is not a business, because the activity of purchase and sale of buiding is not a regular or continuous activity for him.

(6) **Requirement of Money** : Money is required from the beginning to the end of a business. Money is required to manufacture finished goods from the raw materials in the factory and also by a trader to purchase goods.

(7) **Economic Activity** : Business is a part of economic activity under taken with the motive of making profit through earnings.

1.5.3 Objectives : Though the Primary objective of business is making profit, more than one objectives are accepted due to awarness among customers, restrictions of state and changing conditions. The objectives of business can be divided into two parts : (A) Economic and (B) Social.

(A) Economic Objectives :

(1) **Profit** : Since a business is an economic activity, a reasonable return on the employed capital must be obtained. This return is profit. To earn profit is essential not only for the existence of the business but also for the growth of business. Profit is a motivating force, barometer of efficiency and life blood of business. These days, the concept of reasonable profit is accepted instead of maximum profit. By earning reasonable profit, a business unit gets acknowledgement in the society along with earning fair profit. A business unit can be acknowledged by the society and can survive in the competition by earning fair profit.

(2) **Maximisation of Wealth** : The object of profit is a short term concept related with annual income of business. Maximisation of wealth is a long term objective. The projects which increase the wealth of business at a long run are accepted. In the circumstances like depression, business has to give up the objective of profit. The objective of maximisation of wealth is related with the economic benefit of the owner of the business.

(3) **Other Economic Objectives** : Other economic objectives include economic development and growth of business, expansion of market, best possible utilisation of resources, application of modern technology etc.

(B) Social Objectives :

Some social objectives are given priority by business for the benefit of the society. The existence of business is not possible without society. Business is due to society. Therefore, the importance of the objectives other than profit is accepted. Social objectives are given on next page :

(1 **Objective of Social Responsibility** It has become necessary for the business to be aware of the interest of the different groups of society because of consumer's awareness, state's restrictions, consumer's eduction, consumer's associations. Different interest groups or classes of society, such as owner, employees, customers, creditors, government etc. are associated with business unit and these different groups have different interest with business. It is necessary to take care of the interest of these different groups. The business has to abide by maintenance of environment, Employee's Welfare Act, Factory Act, Consumer Protection Act etc.

2 **Objective to Provide Employment Opportunities** The unemployment ratio is increasing day by day. Some business units are established with objective to create new opportunities of employment e.g., Khadi and Cottage Industries Commission selects those industries which provide employment opportunities. Preference is given to the establishment of business units in backward areas to provide employment to unemployed.

3 **Objective to Provide Quality Goods and Services** It is the objective to provide quality goods and services in order to make them easily avaiable to the people of society, so that they can satisfy their needs. The units manufacturing spices used in cooking, cold drinks, food products have to maintain the standards of high quality. Business units having social objective are committed to provide goods and services at fair price e.g. delivery of goods at home after sale service, installation of goods etc.

4 **Objective to Adopt Fair Trade Practices** Black marketing of products, accumulation of goods, misleading advertisement, etc. are unfair practices in business. Artificial scarcity of essential goods must not be created. Business units must adopt the objective of fair trade practices for the welfare of customers and society.

5 **Other Objectives** Other social objective are (I) to establish special identity in society. (II) to conduct research work in the field of production. (III) to be helpful in the economic development of the nation and to co-operate with the government for the same. (IV) to provide various incentives to the employees and execute welfare schemes for them.

1 5 4 Business Risks : There is an uncertainty of profit or risk of loss in the business. The uncertain events of the future affect the profit. Thus it can be said that **" Profit is a reward against business risks."** There are two types of risks in business. : (A) Natural risks and (B) Man made risks.

(A) Natural Risks : Natural risks like Earth-quake, flood, etc. hinder the growth of business and destroy or damage the assets of business. The business has no control over natural risks.

(B) Man-made Risks : Man-made risks hinder the development of business and as a result, business has to suffer the loss. These risks are; strike of employees, change in technology, change in taste and demand of customers, political instability, risks of competition in market and so on.

1 5 5 Causes of Business Risks :

1 **Change in Technology** Changes are necessary in production method due to inventions in technology. New technology is to be adopted to produce high quality goods. New machinaries have to be installed for the replacement of old machinaries.

2 **Threat of Substitute Products** The customers may turn to substitute product due to change in technology. e.g. ball pen in the place of fountain pen, vessels of steel in the place of copper and brass, television in the place of radio.

3 **Competition** Competition increases the business risks which directly affect the business profit. The sale price of the product is to be reduced and advertisement expenses are to be incurred by business unit to maintain its position in market and to face competition, thus profit gets reduced.

4 Legislation Government formulates law regarding pollution, customers, workers, industry etc. But these laws cause risks for business e.g. Minimum Wages Act and Factory Act. They hinder the business in decision making.

5 Uncertainty of Demand Uncertainty of demand for the product creates the risk for the business. Changes in customer's income, taste, product price, inflation etc. create uncertainty for demand, which affects the profit of business.

6 Physical Risk Damage to the assets which are utilised in business creates physical risk. Non- functioning of machinary and equipments, damages in transit of goods create physical risks.

1 6 Profession

1 6 1 Meaning : A person with specialised skill, knowledge, training and professional education renders services and in return receives fees, it is called profession. A professional has to obtain the membership of the respective professional association. He has to obey the established code of conduct of association e.g. Chartered Accountant has to have professional qualification of C.A. and has to become a member of Institute of Chartered Accountants of India, Doctor, Lawyer, Solicitor, Chartered Accountant etc. are professional persons. Professional skill can also be used for employment, e.g. when a doctor accepts to render services in a hospital in return of salary, it is called employment.

1 6 2 Characteristics :

(1) A professional has to obtain specialised knowledge, skill and professional education.

(2) He charges fees for providing services. However, the standard of fees varies as per his skill, knowledge and experience.

(3) The primary objective of a professional is to render service.

(4) It is an independent activity for earning.

(5) The professional activity has no relation with production, but it satisfies personal and business needs, e.g. a lawyer presents a case in the court on behalf of the client and inturn,charges fees.

(6) It is essential to obey the code of conduct laid down by the respective professional association.

(7) Monetary return remains uncertain in profession.

1 7 Employment

1 7 1 Meaning : Employment means job. It is an economic activity perfomed in return for a fixed salary where work is assigned as per the contract. E.g. a teacher teaching in a school or a government employee.

1 7 2 Characteristics :

(1) Fixed salary is paid at fixed intervals in return of physical or mental work.

(2) Certain other benefits are available in addition to the salary, e.g. medical allowance, pension etc.

(3) To perform the assigned work as per the contract under the control of the employer.

(4) Qualification, working hours, retirement, benefits after retirement etc. of the employee are predetermined.

(5) Employment is a dependent activity.

(6) Both Employer and employee are bound to follow the rules as per the contract.

(7) No capital investment is to be made by the employee.

1 7 3 Comparison of Business, Profession and Employment :

Sr. No.	Points	Business	Profession	Employment
(1)	Nature of work	Goods and services are supplied to the customer in exchange of money	Personal and business services are rendred with discretion in return of fees.	Performing work as per the rule and contract
(2)	Qualifications	No qualification is essential	Eductional qualifications, training and expertised knowledge are essential.	Qualification is required as per the nature of job
(3)	Reward or return	Return is called profit	Return is called fees	Return is called salary or wages
(4)	Capital	Capital is required as per the nature and type of business	Limited capital is required at the time of establishment	No capital is required
(5)	Risk	Uncertainty of profit and risk of loss remain in business	Risk of non-receipt of certain fees.	Less risk remains as regular fixed salary is received
(6)	Code of counduct	Legal provisions are to be followed	Code of conduct is to be followed as prescribed by the respective professional association	Rules specified in the agreement are to be followed
(7)	Transfer of ownership	Trasfer of ownership is possible	Tranfer of ownership is not possible	No title of ownership

1 8 Classification of Business Activities

Business activities are classified into three categories : (1) Trade (2) Commerce and (3) Industry.

1 9 Trade

1 9 1 Meaning : Exchange of commodity or service in return of commodity or service OR exchange of commodity or service in return of money with the motive of profit between two persons is called trade, E.g. When you purchase a book from a shopkeeper, you pay money against the purchase of the book. Here, exchange of commodity is done in return of money. When you purchase bus ticket and travel by bus, you get exchange of service in return of money paid.

1 9 2 Characteristics :

(1) Trade is an economic activity.

(2) There are two parties in trade purchaser and seller.

(3) Exchange is essintial in trade.

(4) In trade, transfer of ownership of goods and services are done.

(5) In exchange of goods, either an amount is paid or goods are exchanged.

(6) Trade is a continuous activity.

(7) The value of goods or service is determined in terms of money.

(8) Trade is a legal activity.

1 9 3 Types :

There are two types of trade. : (1) Internal trade and (2) International trade.

1 Internal Trade : Trade among different regions within the boundries of a country is called internal trade. A trader of Ahmedabad purchases boxes of apple from Kashmir or a trader of Nagpur sends oranges to Rajkot-these are examples of internal trade.

From the viewpoint of distribution, internal trade is divided in to two parts : (a) Wholesale trade and (b) Retail trade. A wholesaler purchases goods in bulk from the producer and distributes them to a retailer as per his requirement. The wholesaler is a connecting link between a producer and a retailer.

In retail trade a retailer purchases goods from wholesaler and supplies them to the consumers as per their requirement.

2 International Trade : Trade between two countries is called international trade. International trade crosses the boundries of the country. A Japanese company selling televisions to Indian traders or Kesar Mango being sent from India to U.S.A. are exmples of international trade.

International trade includes (a) Import trade (b) Export trade and (c) Re-export trade.

1 10 Commerce

1 10 1 Meaning : Commerce means trade and auxiliary services to trade. These services include the services of banking, insurance, transportation, communication, warehousing and agents. The world has become a global village from point of view of trade and its auxiliary services.

1 10 2 Characteristics :

(1) Trade is a part of Commerce.

(2) Commerce is an economic activity.

(3) Auxiliary services helpful to trade are included in commerce. e.g. banking, insurance, transportation etc.

(4) It increases time and place utility of the goods.

(5) Auxiliary services are demand-oriented yet continuous.

(6) If auxiliary services are available at reasonable price, goods can be supplied to customers at fair price.

1 10 3 Difference between Trade and Commerce :

Sr. No.	Points of difference	Trade	Commerce
(1)	Meaning	Exchange of goods or services in return of money	Commerce includes trade and auxiliary services to trade
(2)	Scope	Scope of trade is limited	Scope of commerce is wider. Trade is included in commerce
(3)	Parties	Both the parties of trade are mostly known to each other and are in proximity.	Both the parties may be at distant places and unknown, even though they can obtain auxiliary services

1 11 Industry

1 11 1 Meaning : A Process of converting raw material into finished goods by adding utility to satisfy human needs is called an industry, e.g. manufacturing of furniture from the wood, manufacturing of cloth from raw cotton.

Production, economic activity, change in the form of raw materials, production of different articles, utility and in addition to them the use of human labour, natural resources and machines are considered as the characteristics of Industry.

1 11 2 Classification : (1) Primary Industry (2) Secondary Industry and (3) Tertiary Industry.

1 Primary Industry : These industries are fundamental industries that are connected with sea, land and air. Production activity is relied on nature. Agriculture, animal husbandary and poultry farming are connected with land. Fisheries is connected with sea.

2 Secondary Industry : Various types of machines and technology are used. Here, the natural wealth is processed to make it consumable and is supplied to the customers. e.g. fertilizer industy, colour and chemical industry, steel industry etc.

3 Tertiary Industry : It has a wide scope. It provides help and services to primary and secondary industries and besides this, it is very near to customers. The products obtained from the primary industry and secondary industry are made more consumable for customers with different processes e.g. dairy industry, cold drinks industry, bakery industry and so on. Tertiary industry also includes the services of banking,insurance, transportation warehousing, agents, communication etc.

E.g. Production of wheat is a primary industry. Production of flour from wheat is a secondary industry. Production of bread, biscuit from flour is a tertiary industry.

What did you learn in this chapter

Economic Activity Activity carried out with the objective of economic benefit or monetary consideration.

Non-Economic Activity Activity without the objective of monetary consideration or economic earning.

Difference between Economic Activity and Non-Economic activity (1) Objective (2) Expectation (3) Type (4) Risk and Uncertainty

Types of Economic Activity (1) Business (2) Profession (3) Employment.

Business Any legal economic activity with the motive of profit

Characteristics (1) Objective of profit (2) Exchange of goods and services (3) Risk and uncertainty (4) Creation of utility (5) Continuance of activity (6) Requirement of money (7) Economic activity.

Objectives (A) Economic Objectives and (B) Social Objectives.

(A) Economic Objectives : (1) Profit (2) Maximisation of wealth (3) Other Economic Objectives.

(B) Social Objectives (1) Objective of social responsibility (2) Objective to provide opportunity of employment (3) Objective to provide quality goods and services (4) Objective to adopt fair trade practices (5) Other objectives.

Business Risks : Uncertainty of profit or risk of loss.

Two Type of Risks : (A) Natural risk (B) Man-made risk.

Causes of Business Risk : (1) Change in techonology (2) Threat of substitute products (3) Competition (4) Legislation (5) Uncertainty of demand (6) Physical risk.

Profession : A person with specialised skill, knowledge, training and professional education renders services and in return receives fees, it is called profession. e.g. Charted accountant, Doctor.

Characteristics : (1) Professional education (2) Fees in return of service (3) Primary objective is service (4) Independent activity (5) Membership of professional association (6) To obey the code of conduct (7) Uncertain Monetary Returns.

Employment : To perform economic activity as per work assigned in return of fixed salary as per the contract, Fixed salary is paid at fixed intervals in return of physical or mental work.

Comparison of Business, Profession and Employment :

(1) Nature of work (2) Qualifications (2) Reward or return (4) Capital (5) Risk (6) Code of conduct (7) Transfer of ownership.

Classification of Business Activity : (1) Trade (2) Commerce and (3) Industry.

Trade : Exchange of commodity or service in return of money means trade.

Characteristics : (1) Economic activity (2) Two parties (3) Exchange (4) Transfer of ownership (5) Consideration (6) Continuous activity (7) Value in terms of money (8) Legal Activity.

Types of Trade : (1) Internal trade and (2) International Trade. Internal trade is in within the boundries of the country. Trade between two countries means International trade.

Commerce : Commerce means trade and auxiliary services to trade. Auxiliary services include the services of banking, insurances, transportation, warehousing and agent. Trade is included in commerce.

Difference between Trade and Commerce : (1) Meaning (2) Scope (3) Parties.

Industry : Industry means production. To add utility on raw materials with different processes by which human needs can be satisfied.

Classification of Industries : (1) Primary (2) Secondary and (3) Tertiary.

Primary Industry : Fundamental industry connected with sea, land and air.

Secondary Industry : The natural wealth is processed through machine and techonology to make it consumable and supply to the customers.

Tertiary Industry : The products which are obtained from the primary and secondary industry are made more consumbale for customer with different processes their on.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) What is the objective of economic activity ?

(a) Service (b) Financial return (c) Love (d) Emotion

(2) What is necessary to continue the business ?

(a) Non-economic activity (b) Service to country (c) Profit (d) Re-export

(3) Which is the yard stick for the efficiency of buisness?

(a) Profit (b) Management (c) Production (d) Sales

(4) Which utility is created when finished goods are manufactured from the raw material ?

(a) Place (b) Time (c) Economic (d) Form

(5) With what is the objective of benefit of maximisation of wealth of business connected ?

(a) Manager (b) Employee (c) Owner (d) Customer

(6) What is the reward of employment ?

(a) Salary (b) Fees (c) Profit (d) Capital

(7) What type of activity is trade ?

(a) Economic (b) Non-economic (c) Religious (d) Social

(8) What is meant by production by adding utility to the natural wealth ?

(a) Trade (b) Auxiliary services (c) Commerce (d) Industry

(9) Which types of industries are agriculture, animal-husbandary, fisherises ?

(a) Primary (b) Secondary (c) Tertiary (d) Captial intensive

(10) Which type of economic activity is performed by a government servant getting salary in return of his work ?

(a) Business (b) Profession (c) Employment (d) Commerce

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

2. Answer the following questions in one sentence each :

(1) What is an economic activity?

(2) Whicn utility is created when goods are carried out from the place of production to consumer ?

(3) What is profession ?

(4) What is employment ?

(5) What is required to be a professional ?

(6) What is trade ?

(7) With what is primary industry connected ?

(8) Which industry is helpful to primary industry and secondary industry ?

3. Answer the following questions in short :

(1) Why business be called an economic activity ?

(2) State any two characteristics of employment.

(3) What is the objective of social responsibility of business ?

4. Answer the following questions in brief :

(1) What is the economic and non-economic activity ? Explain with illustration.

(2) Explain the meaning of profession and state its characteristics.

(3) Explain the difference between trade and commerce.

5. Answer the following questions in detail :

(1) What is business ? State the objective of business.

(2) Explain the characteristics of business.

(3) "Existence of business is not possible without society" Explain the statement with reference to social objectives of business.

(4) What is business risk ? State the causes of business risk.

(5) Distinguish between business, profession and employment.

(6) Give the meaning of industry and state its types.

•

2 Business Services-1

What will you learn in this chapter ?

Introduction

Importance of services are increasing in an economy. There is a rise in the facilities and convenience due to services like Banking Insurance, Postal, Storage and Transportation etc. These services are just not helpful in business as a part of commerce but they extend to facilitate industries, agricultural and other business activities. Services like Banking, Insurance, Postal, Storage and Transportation have undergone so much of change that they just do not only work as business services but also as social and family-related services. In modern age, there are varieties and specialities seen in such services. All these institutions have become naturally interdependent.

2.1 Insurance

2.1.1 Meaning : Insurance refers to that written contract or agreement between two parties, through which the insuree pays premium and as against getting an undertaking from the insurer that he will be compensated as per the risk covered and the amount decided for the financial loss.

Insurance contract in a written form is known as insurance policy. Insurance does not remove the risk involved but it compensates for the financial loss caused by that risk.

2.1.2 Principles : The roots of insurance are connected with society and it is an agreement between two parties. So insurance is not a simple or ordinary contract and it cannot be related to law of contract. It is a special form of contract and hence apart from law of contract the following specific principles are also applicable :

(1) Principle of Utmost Good Faith : The main objective of an insurance contract cannot be of making profit. lt is only to have compensation for financial loss. The basic law of insurance is a social concept. As such the parties involved in the insurance contract should have mutual and complete faith. While entering into a contract both the parties should provide all informations required regarding the insurance product. While taking an insurance policy, even if the information is not asked by either parties, both should provide it; if it is felt that it can have an impact on the contract. Any insurance agreement entered not having the necessary information amounts to fraud and it is

against the principle of utmost good faith. Whenever it comes to be known that the principle of utmost good faith is broken, the insurance agreement or policy stands null and void and the insuree cannot get back the premium already paid and he loses the right of compensation for the risk.

(2) Principle of Indemnity : Insurance contract is made to compensate for the loss incurred by the insuree. So, the main objective of insurance is the principle of indemnity.

This principle is used to decide how much the insurance company will have to pay to the the insuree in the event of loss incurred. Any person who takes an insurance policy can get only compensation for the loss and he cannot earn profit. In other words he cannot get additional amount over and above the loss incurred. It is not applicable to life insurance.

If an insuree takes a policy for a product at a lower value than the original value, it is implied that he will propotionately get a lesser amount and a part of the loss will have to be borne by him.

Eg. (A) If a person takes an insurance policy for ₹ 3 lakh but the original value of the product is ₹ 5 lakh. Then in the event of complete loss of the product, the insuree will get maximum ₹ 3 lakh.

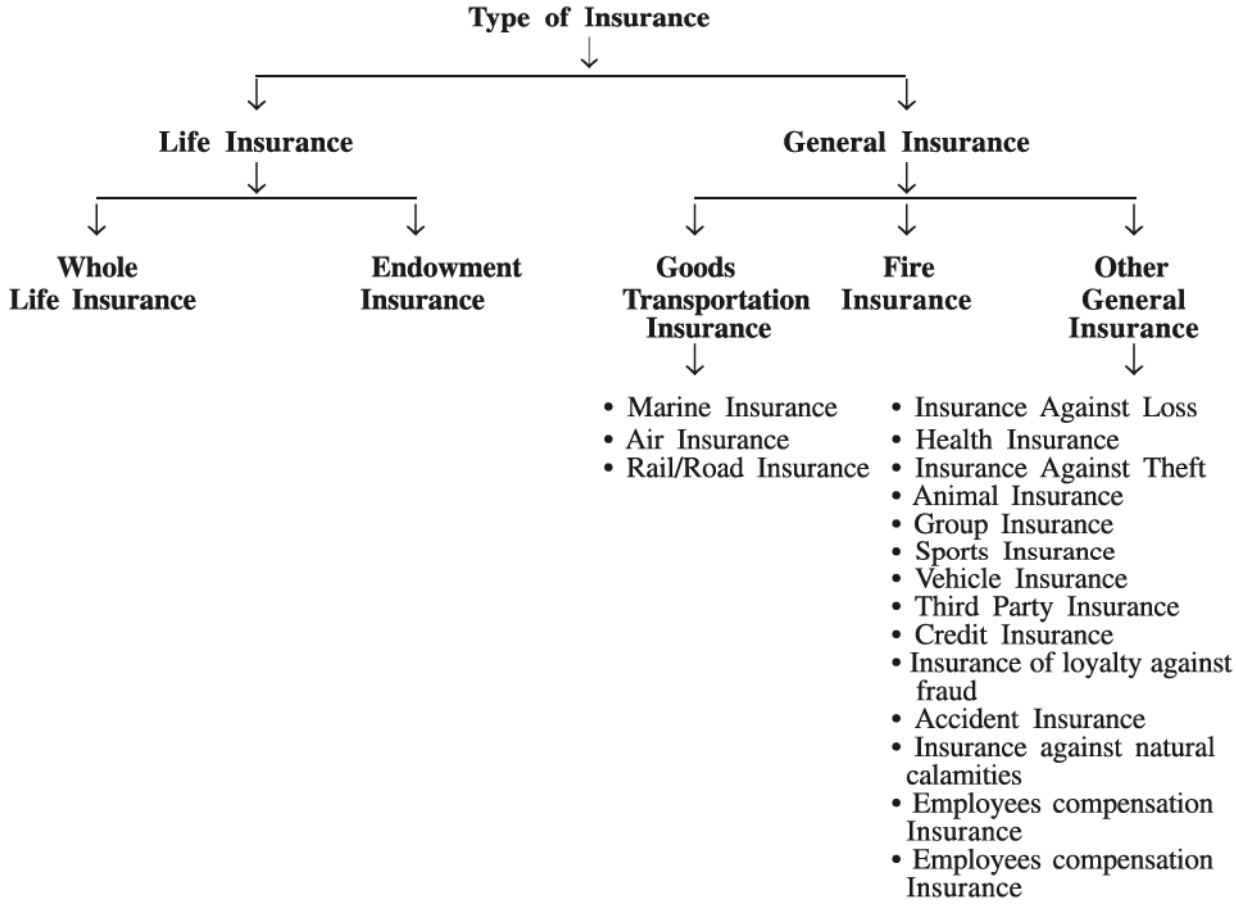
(B) When the value of product is ₹ 5 lakhs; but the insuree has insured it only for ₹ 3 lakh and if the product is partially damaged which is estimated at ₹ 2 lakh, the insuree will get only ₹ 1,20,000 as compensation as it is the proportionate amonut of ₹ 3 lakhs which is the insured amount

(C) When the value of the product is ₹ 5 lakh and it is insured for the full amount of ₹ 5 lakh and in the event of complete damage to the product, the insurance company will pay the full amount of ₹ 5 lakh to the insuree.

(3) Principle of Insurable Interest : The insuree must have financial interest in the product insured. Eg. The owner of the house has financial interest in a house while a tenant of the house does not have financial interest.

(4) Principle of Subrogation When a policy is taken for an insurable product and if it is fully damaged and when the insurance company pays compensation, the fully damaged product's ownership will be with the insurance company. This principle is not applicable in case of life insurance.

2 1 3 Type of Insurance :



(1) Life Insurance :

(a) Whole-Life Insurance : When a person who is insured dies, the insurance company undertakes to pay a pre-decided sum as a compensation to the legal heir of the deceased according to the contract or an agreement, it is known as whole life insurance. The insurer has to pay periodic premium which is to be paid, throughout his life.

Life is precious and hence there cannot be any price decided for it. An insuree decides the value of his life and his capacity to pay premium. In this case, the principle of Indemnity cannot be applied at the time of death of an insuree. If the death is not unnatural, the insurance company has to give the full amount as per the contract to the heir of the deceased.

(b) Endowment Insurance : When the insurance company promises to pay the policy amount to the insuree at the end of the policy period to him or to the legal heir in the event of his death, it is known as endowment insurance. In return, the insuree pays a pre-decided amount as premium, periodically till the duration of the policy.

(2) General Insurance :

There are three types of General Insurance (A) Goods Transportation Insurance (B) Fire Insurance, (C) Other forms of General Insurance.

(a) Goods Transportation Insurance : When goods are transported from one place to the other, there is a risk of full or partial loss/damage. There are insurance policies for such risk, which are (I) Marine Insurance, (II) Air Insurance, (III) Rail/Road Insurance.

(I) Marine Insurance : Transportation of goods through sea route is very economical but it is risky and slow. In the 18th century most of the international trade used to take place via sea route. Hence it is a very ancient and widely used form of insurance. Lloyds of London was the first to start marine insurance. This company has maintained its image of loyalty for more than 325 years.

(II) Air Insurance : With the advent of 19th Century, the movement of goods through air commenced, which also led to the beginning of air insurance. Air transportation is too costly and risky. Hence highly valuable and light weight goods are transported by air. The premium for air insurance is much higher than marine and rail/road insurance.

(III) Rail / Road Insurance : Land transit involves rail and road transit of goods. The most important form of risk involved in such transit are theft, dacoity and damage, to the products etc. Insurance is a form of protection against such risk.

(b) Fire Insurance : The promise by the insurance company to pay compensation against the full or partial loss or damage to property due to fire, against a predecided amount of premium is known as fire insurance. It is based on the principle of insurable interest. The insuree should get compensation equivalent to the loss of value of property due to fire provided he has insurable interest.

(c) Other General Insurance : The business of insurance has grown with the time and new types of insurance have come into existence. Insurance of the voice for a singer, third party insurance to give compensation because of use of vehicles to others, insurance for labour compensation in case of accident, insurance for labourers, employee insurance, student insurance to protect general and social damage, medical insurance (mediclaim) to compensate for medical treatment, insurance against loss caused due to the closure of a business unit, insurance against loss due to fraudulent activites by employees to employer, insurance against any cancellation or postponement of any entertainment programme/sports events either due to natural or man made risks are some of the types of insurance.

Mediclaim or medical insurance is to compensate for the huge medical expenses incurred by a person in the event of any health problem as against a periodical premium paid by an insuree to an insurance company.

2.1.4 Privatisation of Insurance :

Insurance was initiated by private sector in India. As India was a British Colony many foreign insurance companies started insurance business in India. As they were blamed for practising illegimate

business practices, on 19th January, 1956 through an ordinance, Life Insurance business was nationalised and the Life Insurance Corporation of India was set up. Thus, the monopoly of life insurance corporation was established.

General insurance was introduced by the Britishers in India. Periodical controls were imposed on general insurance as well and it has continued after-independence. On 1st January 1973, the general insurance business was nationalised on the basis of General Insurance Business (Nationalisation) Act of 1972.

To analyse and appraise the working of insurance sector, a committee was appointed. It recommended the joint business by foreign insurance company with Indian Counterparts. Insurance Regulatory and Development Authority (IRDA) was set up in 1999 to support it.

2.1.5 Insurance Regulatory and Development Authority (IRDA) : This is a supreme autonomous and legal institution which manages the regulatory and development activities in the field of Insurance. IRDA act of 1999 has opened the doors of insurance sector to the private insurance companies and to foreign insurance companies to the extent of 26%, which was raised to 49% in 2015. So foreign insurance company can invest directly in the Indian Insurance companies up to 49%. The main objectives of IRDA are (1) Policy holders gets more choice. (2) Promote healthy competition among the various insurance companies which can improve the services with the lower premium. (3) Mobilise more resource for the economy. (4) To bring self-discipline among the insurance companies. (5) To create a mechanism for complaint redressal etc.

2.2 Postal Services :

Postal services play an important role in the written information and communication. It is essential to pass on information from one place to another speedily and without interruption. The same service can be available through private postal service (courier services) or Aangadiya too, to individuals and business units. The Indian postal department has been providing information and communication services for more than 150 years. Postal department is providing services other than just postal services like money order, acceptance of various forms of deposits, through small savings plans, postal life insurance and rural insurance schemes. It also provides other services like investment in mutual funds and service of agent on behalf of the government of India for many schemes. It also provides services of paying retirement pension. It has got licence to provide banking services and hence it acts as a bank to its customers. There are more than 1,50,000 post offices in India, out of it almost 90 % are set up in rural areas. It provides following service.

2.2.1 General Posts/Letters : Information and communication can be sent through post card, inland letters covers etc.

2.2.2 Registered Post : Postal department provides services of registered post. Such posts are delivered by the postal department for which the charges are more than the general postal communication. If the sender of the post requires a proof in the form of the signature of the receiver (Acknowledgement), some extra charge will have to be paid.

2.2.3 Parcel Services : All products other than those prohibited by law can be sent in the form of parcel from one place to the other. If needed, insurance is taken for the parcel too. Booking of the parcel can be done from any post office. Generally the sender of the parcel pays fees to the post office.

Value Payable Post (V.P.P.) : Inparal service V.P.P. is more popular. Any producer or seller on receiving an order for a product, sends a parcel through the postal department and the receiver of the parcel pays the parcel charges and also the price which is predecided, to the postal department which in turn, is passed on to the sender.

2.2.4 Speed Post/Parcel : The postal department guarantees to deliver the post/parcel within a stipulated time, within the places decided in India. The charges are higher for speed post/parcel than general post/parcel. It can also be insured if required.

2.2.5 Express Parcel : This service is available for both, individuals and business units. Express parcel is sent very speedily within the prescribed time limit. Postal department sends either through air or through any other fast route. The fees for this is even higher than the speed post.

2.2.6 Saving Services : Postal department, just like banks provides various types of saving schemes/ services like savings account, five year recurring deposit, term deposits, monthly income plan, senior citizen savings certificate, 15 years Public Provident Fund, 5/10 years Kisan Vikas Patra, Sukanya Samruddhi Account, etc.

Just like bank, post office savings account can also be opened for which cheque book is given and now there is the facility of ATM card too.

2.2.7 Recurring Deposit : According to this scheme, the account holder has to pay the amount as decided, on or before the pre decided date to the post office. At the end of five years when the account matures the entire principle amount along with the interest will be received by the account holder. After 5 years period if required the duration of the recurring deposit account can be extended for another five years.

2.2.8 Term Deposit : Term deposit is like fixed deposit schemes available in the post office. As per scheme, accounts can be opened for the duration of 1, 2, 3, or 5 years for ₹ 200 or in its multiple. Interest calculation is done every 3 months but the amount of interest is paid on yearly basis. This account can be transferred from one post office to another. Such an account can be closed anytime before the maturity period.

2.2.9 National Savings Certificate (N.S.C.) : Those who want to invest in NSC will have to purchase it from the post office. The duration of this savings certificate is 5 or 10 years. The information of interest rate is given in advance. At the end of the maturity period of 5 or 10 years, the amount can be claimed by fulfilling the required formalities from any post office.

2.2.10 Kisan Vikas Patra (K.V.P.) : The depositor in Kisan Vikas Patra gets double the invested amount after 100 months (8 years and 4 months). This certificate is available only for prescribed amount and after the maturity date the amount can be claimed by fulfilling the required formalities from any post office.

2.2.11 Public Provident Fund (P.P.F.) : Any individual can open an account in Public Provident Fund Scheme. The period/duration of this account is 15 years. The minimum amount to be paid in this account is ₹ 500 per annum. After 15 years, under the prevailing rules, the duration of this account can be extended by 5 years everytime. This account cannot be closed before 15 years. The money deposited in this account is exempted from income tax calculation. In the event of death of the account holder, the amount will be given to the nominated heir.

2.2.12 Postal Insurance : Prior to independence of India, as a part of welfare scheme, Postal insurace was started. All employees of central government, state government and other semi-goverment organisations are eligible for this insurance. There are different types of policies under the postal insurance schemes. The salient features of this postal insurance are the lowest premium and maximum bonus.

2.2.13 Monthly Income Scheme (M.I.S.) : This scheme is useful for those investors who require interest income on a monthly basis. Under this scheme individual or joint account can be opened. This account can be opened for a period of 5 years. As per the requirement, this account can be transferred from one post office to another. If needed, the depositor can withdraw money based on certain terms and condition after 1 year.

2.2.14 Money Order : Money order is an arrangement to send money from one place to other through post office. For this service post office charges commission. The receiver of money will have to sign a receipt which will be sent to the sender.

Post office has started Instant Money Order (IMO) by using online technology through which amount to the extent of ₹ 1000 to ₹ 50,000 can be sent to any part of India within a day. When the sender reaches post office and after paying money and commission, immediately a secret number in a sealed envelope is given to him. The sender gives that secret number to the receiver. When the receiver present a photo Id and secret number, he can receive money from any designated post office. Recently the department of Post through started E-Money Order (EMO). At present this service is made available in designated post office only. Through EMO, money can be received by the receiver the very next day at his address. ₹ 1 to ₹ 5000 can be sent through EMO. The postal department uses web services and computer network to send money. As EMO uses online technology, the sender of money will have to go to the post office personally or visit the web site of post office through his personal computer or mobile phone and fill up online form. The sender should fill up the name, address and pincode of the receiver. Within 24 hours money is paid to the receiver at his address. At the time of receiving money, proof of photo-Id should be presented by the receiver. Along with money, if needed one message out of pre-decided messages can be sent to the receiver.

2.2.15 Other Related Services : Postal Department provides other services like purchase and sale of foreign currency, traveller's cheque in foreign currency, debit card in foreign currency, draft in foreign currency, mutual fund investment agency, services for various schemes of Goverment of India as an agent, banking services, depositing pension money in the savings account of pensioners, railway ticket booking etc.

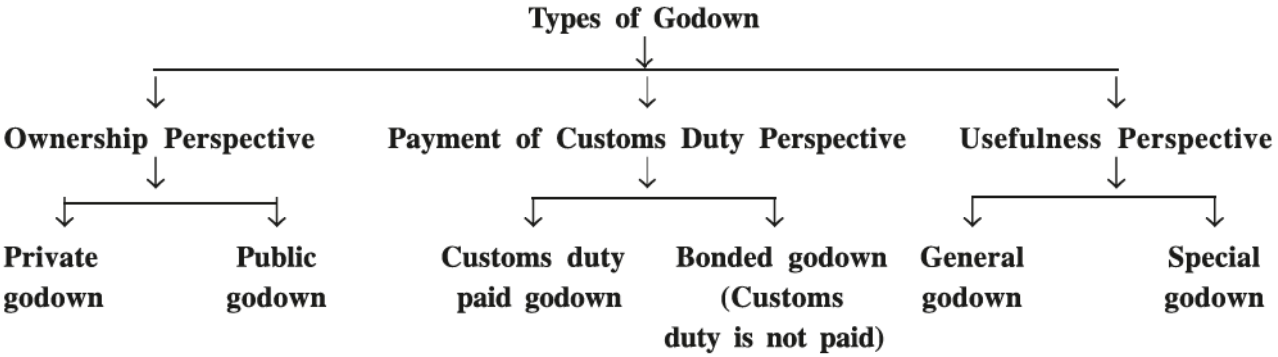
People have great faith in the postal department as it is under the direct ownership of Government of India

2.3 Godown/Warehouse

After production, every product cannot be immediately sold or consumed and hence storage becomes essential. Godown is necessary for preseving the perishable goods. Some goods have only seasonal demand but its production takes place throughout the year, such goods are stored in godown and when there is a demand it will be supplied from godown. On many occasions, materials are essential to be stored for production for inventory management as part of commerce and godown service is essential.

2.3.1 Meaning : Godown is such a service where product is stored. While storing the product the quality of the product is preserved so that minimum changes occurs in the quality. This is the main objective. Godown creates time utility for product.

2.3.2 Types :



(A) Types of Godown from the Ownership Perspective :

(1) Private Godown : Any trader or manufacturer who owns a godown for strorage of his goods according to his requirment is known as private warehouse.

(2) Public Godown : The godown which is owned not for storing goods for own business, but for

public use is known as public godown. Such godowns are owned by private individual or by an institution. Businessman and others use these godowns and they pay rent and bear other expenses. Public godowns are situated near railway station, port and airport.

Today, public warehouses have developed as an independent profession. Today public godowns have become an independent profession. They guarantee product storage, maintenance and protection. Public godowns provide receipts for the products which have been accepted by them for storage. The receipts are transferable and so while the product is in public godown, there can be purchase and sale of such products.

(B) Classification of Godowns from the Perspective of Customs Duty :

(1) Godowns for Product whose Customs Duty is Paid : Imported goods for which import duty has been paid but there is no immediate availability of transport facilities to transport them to their destination, they are stored in public godowns near sea port, airports and border areas. Such godowns are known as godowns for product whose customs duty is paid.

(2) Bonded Godown : Customs duty will have to be paid on import. If such goods for which customs duty has not been paid are stored in the godown, those godowns are known as Bonded godown. Such godowns are located near places of import like ports, borders of country etc. The importer wants to re-export the product, these godowns facilitate by way of classification and repacking. The basic nature of product is not to be changed. Such godowns are a blessing for re-exporting.

(C) Godowns based on Usefulness Perspective :

(1) General Godowns : Those goods for which no special care or specific maintenance or treatment is required and when such goods are stored in godowns, such godowns are known as general godowns. All product of different shapes, weight, volume, nature are stored in such godowns which are wide-spread.

(2) Specific Godowns : Those products which require special care, treatment and maintenance and godowns which store such products are known as specfic godowns. Such specific godowns become important for products like explosives, crackers, poisonous chemicals, cooking gas, petrol etc. Some examples of specific godowns are underground tanks for petroleum products, special types of bricks for poisonous chemicals, for perishable items like fruits, milk, vegetables etc. cold storage is necessary. These godowns are expensive. Different laws are to be followed for safety purpose.

2.4 Transportation Services :

2.4.1 Meaning : Transportation service facilitate transit of people, goods from one place to another. Transportation service is required to shift goods from one place to another. Initally animals and vehicles were used. Along with them water ways were used for the same purpose with the modern inventions, the use of aeroplane began.

2.4.2 Types :

(1) Human Operated : Even today human operated transportation exists, to manage transit of human beings and goods and it is environment-friendly too. In many places, pedal rickshaw is still prevalent, which transports people from one place to another. For instance, Kolkata has pedal rickshaw and in almost all parts of India goods are transported through human operated carriers.

(2) Animal Operated : For short distance transit of goods animal operated transportation is used e.g. horse cart, bullock cart etc.

(3) Airways : Airways are used for human and goods transit for long distance and speedy movement. For take off and landing, runway is necessary. For short distance and for less quantity of goods and few people, when runway is not available in hostile regions, helicopter service is more suitable.

(4) Land Transport :

(A) Railways : Human and goods transit takes place through railways. Usually diesel or electricity is used for railway engine. Many a times many coaches or all coaches have fuel engines which are known as multiple unit trains. Presently railways use cable, gravitational force, magnetic force etc.

Recently, Compressed Natural Gas (CNG) is being used as fuel in India for railway engines. Railways which connect different towns and cities and also trains running within the city have proved to be the spinal cord of transportation.

(B) Roadways : In roadways there is freedom to move from one road to another to change place, direction, speed and time according to the requirement; which is not possible or easy in other modes of transportation. It is possible to provide this service at the doorstep.

Bus is an effictive way of transportation for people. For transit of goods of lesser weight and distance, truck is very useful. Because of vehicular traffic, the problems of air pollution, noise pollution, traffic jam and parking arises. Due to this, in many cities, Bus Rapid Transit System (BRTS) has been started. For such buses, a dedicated road is reserved, so that such buses can reach from one place to another at a fast pace. The duration between one bus and the other is kept minimum which makes the service effective. In Gujarat, this service is prevalent in cities like Ahmedabad, Surat, Rajkot etc.

(5) Waterways : Sea, river, lake, canal are some of the waterways on which boats, ferries, ships etc provide water transport. Nearby seashore places or where water and even land is there, hovercraft is used which uses a giant, highspeed fan. Big dams are constructed and water is made available to distant places through canals. Canals are also used as waterways. Foreign trade takes place mostly through waterways.

Compared to other modes of transportation, waterways are slow even though now a days with the use of modern engines, huge quantity of goods can be transported effectively. Compared to airways, waterways is cheaper for transporting goods from one continent to other, but it takes more time. At the near by coastal areas, ferry service has proved very profitable.

(6) Transit through Pipeline : Pipeline is used for liquid or gaseous products. This arrangement is useful for transportation of fluid waste, water, petroleum, natural gas etc.

For instance, for transporting gas from Hajira (Gujarat) to Madhya Pradesh and Uttar Pradesh pipeline is laid. Oil, and petroleum products are transported through pipeline in states like Assam, Bihar, Gujarat, Uttar Pradesh and Haryana.

What did you learn in this chapter ?

(1) Insurance services :

Meaning : It is a written agreement between insuree and insurer which promises to pay the pre-decided amount according to the pre-decided calculation, a compensation against a pre-decided amount of premium in the event of pre-decided losses.

Principles : (1) Principle of Utmost Good Faith (2) Principle of Indemnity (3) Principle of Insurable Interest (4) Principle of Subrogation.

Types of Insurance : (1) Life Insurance (A) Whole Life Insurance (B) Endowment Insurance (2) General Insurance : (A) Transit Insurance

(I) Marine Insurance (II) Air Insurance (III) Road Insurance

(B) Fire Insurance

(C) Other General Insurance

Privatisation of Insurance :

Insurance Regulatory and Development Authority (IRDA) :

(2) Postal Services : (1) General Postal Letter (2) Registered Post (3)Parcel Services, Value Payable Post (4) Speed Post/Parcel (5) Express Parcel (6) Saving Services (7) Recurring Deposit Plans (8) Term Deposit, (9) National Savings Certificate (N.S.C.), (10) Kisan Vikas Patra (K.V.P.),

(11) Public Provident Fund (P.P.F.), (12) Postal Insurance, (13) Monthly Income Scheme (M.I.S.), (14) Money Order-Instant Money Order, E-Money Order, (15) Other Related Services.

(3) Godown/Warehouse Services :

Meaning : Product are stored in such a way through godown services that the basic nature and quality of the product is preserved or the change is minimal.

Types : (1) Based on Ownership : (A) Private godown, (B) Public godown,

(2) Based on Payment of Customs Duties :(A) Customs duty paid godown

(B) Bonded godown

(3) Based on uses : (A) General Godown (B) Special Godown.

(4) Transportation Services :

Meaning : To transport goods from one place to another, transportation services are used types. (1) Manually Operated (2) Animal Operated (3) Air Transport (4) Land Transport (a) Rail Transport (b) Road Transport (5) Waterways (6) Pipeline.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) Which of the following principle is not an insurance principle ?

(a) Principle of Utmost Good Faith (b) Principle of Indemnity

(c) Principle of Insurable Interest (d) Principle of Profit

(2) Which type of insurance is ancient and widely prevalent ?

(a) Goods Transit Insurance (b) Marine Insurance (c) Air Insurance (d) Rail/Road Insurance

(3) How much can Foreign Insurance Companies invest in Indian insurance companies ?

(a) 25 % (b) 49 % (c) 74 % (d) 100 %

(4) How much amount is paid for Kisan Vikas Patra on maturity ?

(a) Double (b) Triple (c) Four Times (d) Five Times

(5) Which types of Insurance involves highest risk, out of the following ?

(a) Goods transport Insurance (b) Marine Insurance

(c) Air Insurance (d) Rail/Road Insurance

(6) In which types of money order services, money does not reach to the doorstep of the receiver ?

(a) Ordinary Money Order (b) Instant Money Order (IMO)

(c) E-Money Order (d) Special Money Order

Answer : (1) (d) (2) (b) (3) (b) (4) (a) (5) (c) (6) (b)

2. Answer the following questions in one sentence each :

(1) What is insurance ?

(2) What is insurance policy ?

(3) What is life insurance ?

(4) Give the meaning of general insurance.

(5) State the fastest mode of transportation.

(6) Give the meaning of warehouse.

(7) What is multiple unit train ?

3. Answer the following questions in short :

(1) State the principles of insurance.

(2) Give a list of types of General Insurance

(3) Life insurance does not apply to loss-compensation principle - why?

(4) Write a note on Health Insurance.

(5) Write a note on Public Provident Fund scheme.

(6) For what kind of products Pipeline transit is most suitable ?

4. Answer the following questions in brief :

(1) What is the principle of Utmost Good Faith ?

(2) Explain principle of indemnity.

(3) Explain the principle of insurable interest.

(4) "Insurance does not remove risk, but it compensates for the loss resulting from the risk" Justify this statement.

(5) "Godown creates time utillity" - Discuss.

(6) What are special godowns ? Explain with examples.

5. Answer the following questions in detail :

(1) How does insurance contract differ from general contract ?

(2) State and explain the types of life insurance.

(3) State the types of General Insurance and explain any two in detail.

(4) Write a note on Insurance Regulatory and Development Authority.

(5) Show the classification of warehouses with the help of chart. Explain customs duty paid warehouse

Full Form of Abbreviations

LIC of India	:	Life Insurance Corporation of India
VPP	:	Value Payable Post
FDI	:	Foreign Direct Investment
ATM	:	Automated Teller Machine
MIS	:	Monthly Income Scheme
IMO	:	Instant Money Order
EMO	:	Electronic Money Order
CNG	:	Compressed Natural Gas
BRTS	:	Bus Rapid Transit System
IRDA	:	Insurance Regulatory and Development Authority
NSC	:	National Savings Certificate
KVP	:	Kisan Vikas Patra
PPF	:	Public Provident Fund
MIS	:	Monthly Income Scheme

●

3 Business Services-2

What will you learn in this chapter ?

Introduction

Importance of commerce is increasing in present time. In commerce, apart from trade, banking is considered as its auxiliary service. Banking industry is very useful to industries, agriculture and other fields in addition to trade.

The institute providing services of banking is called a Bank. The first bank of the world started in Geneva in the year 1407. The word **'Bank'** is derived from the Italian word 'Banco'. Evidences of the activities of the bank are also found in the ancient time. This word emerged in the Roman empire, where the money lenders, known as **'Macella'**, used to establish thier small temporary shops on a long bench called as **'Bancu'** within a closed fence. The word 'Bancu' and 'Bank' have been derived from this.

3.1 Meaning

(1) According to the Reserve Bank of India, "Bank is an institute which collects deposits in order to lend them with condition to return it at the end of the fixed term or whenever it is demanded".

(2) The institute providing service of banking is called bank.

3.2 Functions

(1) To accept deposits and apart from these services bank performs other activities too. (2) To invest or lend money. But in the present time, a bank does other functions too. Apart from these, banking services have been developed very well and variety is found in its services too. There is an immense growth in the services offered by bank and the focus is on customers. It is difficult to make a list of all functions of bank. Functions of bank can be divided into two parts. Main functions and subsidiary functions. They are as given on next page.

Main Functions	Subsidiary Functions
(1) To accept /collect deposits	(1) To look after the financial transations of the customers.
(2) To lend money.	(2) To do transactions of foreign exchange.
(3) To invest money.	(3) To issue letter of credit.
(4) To do inter banking transaction	(4) To issue traveller's cheque.
	(5) To provide draft service.
	(6) To provide information related to credit of a person associated with the bank.
	(7) To provide service as an underwriter.
	(8) To provide other related services such as ATM, DEMAT, Safe deposit vault etc.

(A) Main Functions of Bank :

(1) To Accept/Collect Deposit : Bank accepts some surplus amount as deposit. The bank pays interest to the deposit holder. The biggest responsibility of bank is to maintain trust of the deposit holder or the customer who invests money in the bank. Bank accepts various types of deposits as per different rates of interest.

Bank mainly accepts four types of deposits : (i) Savings Account (ii) Current Account (iii) Recurring Account (iv) Fixed Term Account

(2) To Lend Money : Bank accept deposits through different accounts. Thus the bank lends money to the borrowers which it has collected as the deposits from different accounts. Bank accepts deposits and provides interest to the deposit holders. The bank lends money to the needy people at a higher rate of interest than it pays to deposit holders. The bank gains profit from the difference in rate of interest. The bank lends money as per given below :

(i) Through a Loan : The bank provides loan for either a long term or a short term. In some kind of loans hypothecation is necessary while in some kind of loans hypothecation is not necessary. Such loans are provided to either businessman or an individual or industrialists, against which the bank demands for guarantee. In the present time home loan, car loan, education loan, cash-credit, machinary loan, gold loan, personal loan etc. are available.

(ii) By Overdraft and Cash Credit : If a current account holder withdraws more amount than the balance of that account for a pre-determined limit and short duration of time, it is called Overdraft. The duration of overdraft is short. But when the duration is pre-determined then it is known as cash credit.

(3) To invest : The bank cannot get benefit if it is not able to invest and lend the amount of the capital and deposit of the bank. An important work of bank is to invest this amount at some secure place and with proper calculation. The bank has to invest some percentage of total deposits in the government securities according to the rules of RBI, on which the rate of interest is low. It is inevitable for a bank to get instant cash by withdrawing investment during emergency or some accidental situation. A bank majorly invests in goverment securities or in other financially capable units.

(4) To Do Inter-Banking Trasaction : One of the main functions of the bank is inter-banking. Every bank sometimes faces shortage of money for a very short duration of time, even less than 24 hours. At this time unused money in a bank is provided to the needy bank. This arrangement is made by an agency appointed by the central bank (RBI). In this way the process of lending or borrowing money is completed through the central bank. The lender or the borrower does not come into direct contact with each other. The problem of the bank for that particular time is solved. Thus, when the bank gets the demanded amount instantly, it is called **'CALL MONEY'**. The interest has to be paid on the received amount. This rate of interest is determind on the basis of demand and supply and is called as **'CALL MONEY RATE'.**

(B) Subsidiary Functions of Bank :

(1) To Look After the Financial Transactions of the Customer : A bank has mainly two types customers : (A) Depositor and (B) Borrowers. Such customers do their financial transactions through bank. When a customer writes a cheque in favour of other person, then the money is paid to that person by bank on behalf of the person who has written the cheque. In the same way, when a person receives a cheque from the other person, the bank collects money from the person who has written the cheque on behalf of the person who has received the cheque. In present time, a bank performs different tasks on behalf of the customer such as payment of the electricity bills and phone bills, insurance premium and to transfer money from one account to another account etc.

(2) To Do Transactions Associated with Foregin Exchange : Now a days, import-export business is done compulsorily through bank. Foregin exchange is required for import-export business. The bank which has obtained permission from the central bank performs the tasks related to foreign exchange and provides services and receives the documents related to foreign trade.

(3) To Issue Letter of Credit : Letter of credit is a letter written by one bank addressed to the other bank. The bank ensures the payment of certain amount and at certain time by the person mentioned in this letter. The bank collects certain deposit from the respected person before issuing the letter of credit or the bank gets guarantee of the same amount. The amount mentioned in the letter of credit is paid at fixed time to the person whom the bank has ensured for the same. Thus, letter of credit makes the accounting transctions trustworthy. The bank earns income in the form of commission by offering this service.

(4) To Issue Traveller's Cheque : In present time, more and more people have started travelling. People have started getting traveller's cheque in order to prevent themselves in losing their cash or getting it stolen during their travel within country or abroad. The holder of traveller's cheque can withdraw money through the cheque from another outstation bank or from a foreign bank branch by signing as per his specimen signature. This cheque is very reliable and transferable. The use of traveller's cheque has decreased as the facility of ATM has become wide spread.

(5) Service of Demand Draft : Demand draft is a cheque written by a bank in favour of a branch of the same bank. The name of the person is mentioned in the demand draft and an order is issued to pay the amount to the person whose name is written on the draft. Draft is a secured medium while sending money to a person or firm. The person or the firm, desirable to send money, fills in a certain form and requests the bank to issue the draft. On the basis of this request, the bank writes the name of the receiver of the money on the draft and orders its branch or its associate bank to pay the amount. The sender pays the bank not only the amount mentioned in the draft but also the commission for the same. If the bank issues such draft which can be encashed in its own city, then it is called **'PAY ORDER'.**

(6) To Provide Information Related to Credit of a Person Associated with the Bank : The bank does frequent financial transactions on the basis of which, the bank is well aware of the financial capabilities of its customers. Any firm or institute considers the information provided by a bank more reliable in such dealing where credit transaction is required and the firm or the insitute wants to check reliability of other firm or institute. The bank issues 'Solvency Certificate' for the same.

(7) To provide service as an underwriter : When a company comes to the market for collection of capital it always has a fear whether it will get the amount for the issue or not ? The company finds difficult to run the business if it does not get the minimum amount. At this time the bank ensures full or minimum amount of subscription. In case of receiving less application amount as compared to underwriting by bank that amount will be subscribed by bank by way of buying securities.

(8) To provide other related services such as ATM, DEMAT, Safe Deposit Vault : The bank also provides its customers the facilities like ATM, DEMAT and Safe Deposit Vault. In addition to this, it also provides facilities of credit card and debit card to the customers.

3.3 Types of Bank Accounts

One of the functions of bank is to accept deposits. The bank demands KYC (Know Your Customer) from the customer at the time of opening a new account or for other services of the bank. This is as per the rules of the central bank (RBI).

3.3.1 Savings Account : It means the account in which people deposit their savings. A fixed rate of interest is paid in this account. The customer gets interest as per the amount and days for which the amount remains credited in the account. The bank provides facilities like cheque book, ATM card etc., in this account. The account holder can deposit cheque, draft and cash in his account. He can withdraw the amount through a cheque or a withdrawal slip. The bank compel the account holder to maintain minimum balance in his account. Generally the numbers of withdrawal in a savings account are limited in a month. This account can be opened in the name of an individual or more than one name that can be operated jointly. Nomination can be registered. Banks get deposits on a larger scale through these accounts.

3.3.2 Current Account : This account can be opened with the name of an individual or a business unit. Normally, no interest is provided in this account, but the bank may collect bank charges. Facilities of loan can be provided on this account. There is no limitation in terms of the numbers of transactions in a month in this account. Generally a business man opens this account.

3.3.3 Recurring Account : This is an account which is opened from the savings point of view in which it is compulsory to deposit certain amount every month. The rate of interest on such amount is higher than savings account and lower than fixed deposit. The bank pays the whole amount along with interest at the end of the term.

3.3.4 Fixed Deposit : Fixed deposit means a source of the money which can be used by the bank for the fixed term. The depositer cannot withdraw money until the maturity date of deposit. If the money is withdrawn before the term of maturity, then the rate of interest decreases. The bank gives the depositor written guarantee that it will pay the amount back along with interest at the end of the term. As the customer cannot withdraw money before the maturity date, the rate of interest in fixed deposit is higher than the savings account and recurring account.

3.4 Services Provided by Bank :

The main function of the bank is to invest money, provide loan and accept deposit. In addition to this the bank has some more functions like, looking after financial transctions of the customer, issue the letter of credit, issue the traveller's cheque, issue drafts, RTGS, NEFT, bank overdraft, loan, credit card, debit card and work related to core banking.

3.4.1 To Issue Draft : Draft means a cheque written by a bank addressing another branch. The name of the person is mentioned in the draft and order is issued to pay the amount to that person. The bank transfers the amount as the issuing authority on behalf of the customer.

When a person wants to send money to another person, he goes to the bank, pays money and the commission to be paid to the bank for issuing the draft and requests the bank to issue the draft.

The sender request the bank to issue the draft in favour of the receiver. The bank orders its branch or its associate bank located in the area of the receiver to pay the amount. The draft can be deposited only in the account of the person whose name is written on it, as it is 'A/C payee only'. Unlike cheque, such draft never bounces.

3.4.2 Bankers Cheque (Pay Order) : Bankers cheque is a facility similar to a bank draft. The cheque issued by the bank against the payment accepted by the bank is called pay-order. Pay-order can be encashed only in the same city.

3.4.3 Real Time Gross Settlement (RTGS) :

When an RTGS member bank transfers money to the any other RTGS member bank anywhere in India, this method is called RTGS. Each of the RTGS member bank branch is identified through IFSC code. It is an eleven digit alpha numeric code. IFSC code is provided by IDRBT (Institute for Development & Research on Banking Technology), Hyderabad. RTGS is a method of transferring money from any bank in India. In this method, the amount is debited or credited as per real time and as per gross settlement.

In RTGS method, money from the account of an account holder of a bank is transferred to the account of the account holder of another bank in India. The transaction is not done in cash, so both the sender and the beneficiary need to have IFSC code. For the deposit transaction of two lakhs or more, RBI provides services through RTGS. In this method the amount is debited in the account of the receiver on the same day as soon as the bank receives instructions from the sender.

An amount of two lakh rupees or more is transferred through RTGS. In this method, commission is charged from the sender of the money and receiver is not charged any commission.

3.4.4 National Electronic Fund Transfer (NEFT) :

NEFT is a method in which one bank having NEFT membership transfers money to another NEFT member bank in India.

NEFT is also a type of payment just like RTGS. This arrangement is provided through on-line system. For this IFSC code is given. In this system, there is no limit on minimum amount. Maximum ₹ 2 lakh can be transferred in batches in this system. RBI is setting transctions on hourly basis. In this system. money is credited to receiver's account on the same day or within 48 hours.

Here transactions are settled batchwise through DNS (Different Net Settlement). Maximum 10 transactions can be there in one batch.

IFSC CODE : All NEFT member banks are identified through IFSC Code. Which is in alpha numeric combination of 11 digits. In this method, commissions is charged from the sender, but in case of inward NEFT where in the receiver is not charged any commission.

To NEFT ₹ 50,000 by cash : ₹ 50,000 or less money can be NEFT by depositing cash in bank and facility of NEFT is available to walk-in-customer from all NEFT member branches of the bank.

3.4.5 Bank Overdraft : A business man holding a current account with the bank. When the facility to withdraw more money than the credit balance of his account is security given, then it is called **Bank Overdraft.** The business man may get overdraft on the self guarantee or the securities as a guarantee of the other. The interest has to be paid only on the overdraft amount though the maximum amount sanctioned for overdraft may be more.

3.4.6 Cash Credit : The loan provided to the businessman for the growth and development of his business considering the stock and due collection of the money, is called cash credit. In this kind of loan the stock of goods remains under the hypothecation of bank. The rate of interest is paid by the business units according to the amount and the time used for loan as decided earlier.

3.4.7 Loan : The main function of a bank is to receive deposits and provide loans. The bank receives deposits at lower rate and provides loans at the higher rate. The bank provides loans to the client/ businessman in different ways. The bank provides loans to the customers for different requirements like buying a house, buying furniture, renovation of the house, buying a vehicle or for the development of their business. If the advance is for a long term and the amount repayment is paid fully at a time or at a regular term installments then it is called as loan. In order to secure the loan amount, the bank keeps the immovable property of the client as mortgage. Such loan is repaid according to the terms decided at the time of sanctioning loan.

3.5 E-Banking

Meaning : E-banking means Electronic Banking. In this kind of banking transctions are done with the help of electronic media instead of physical method. The development in banking process is seen at three phases.

(1) Traditional Process : The transactions of bank were done traditionally and the ledgers were maintained for entries of the accounts. In addition to this any other work such as keeping vouchers or checking the speciman signature etc., was done without any type of machines.

(2) Connecting Computers Through Network : In the traditional process of banking all computers lying in the same branch are connected through network. One of these computers among all computers of the same branch was called **'the server'**. In this way connecting all computers of the same branch is possible and banking process become easy and speedy.

(3) Use of Internet : Bank computers were connected through internet, as a result of which banking process become very easy and speedy.

3.5.1 Internet, Core Banking and Mobile Banking :

Bank transactions are done through internet. For this kind of system bank has also set up arrangement like E-Corner or E-Gallery. In this kind of transactions, the bank provides unique code (password) to the customers. In this type, transctions are done in two ways. : (1) Financial Transaction (2) Non-Financial Transaction

(1) Financial Transaction : Here bank account holder transfers money from his bank account to another bank account of the other bank account holder. This transaction is called financial transaction. Payments like telephone bill, tax-bill or other such payments are included in this.

(2) Non-Financial Transaction : In this kind of transaction, financial transaction is not included but the account holder does the transaction like getting account statement, cheque book request, PIN change, stop payment request and other such non-financial transaction.

The following functions becomes easy due to use of internet in bank. :

(1) Core Banking (2) E-Banking (3) Mobile Banking.

(1) Meaning of Core Banking : 'CORE' in Core Banking means, 'Centralized Online Real time Exchange'.

In this system all the branches of the same bank located in the different parts of the world are connected to one another. In the centralized server of the bank, all the details of all the accounts of all the branches of the banks are available. Entry of the transaction of an account holder of a bank is recorded in the centralized server of the bank in real time. The change in entry occurring in this centralized server can be seen in all the branches of the bank. The account holder of any branch can complete his transction from any other branch of this bank. He can withdraw or deposit money or can do any transction in his account from any other branch. Thus, the account holder becomes the customer of the bank and not of the particular branch. This process can be done in different branches of the same bank. Because of this arrangement, time and expenses of both the bank and the customers are decreased.

(2) E-Banking : (Electronic Banking) In this present time, all banks are connected through intrenet to their branches by the medium of server. So a person can withdraw or deposit money from any other branch regardless of his home branch. Banks have established their E-corner at different places, by means of which the customer can either withdraw or deposit money from his account through his ATM card with the help of machine. He can also know the balance in his account by this system. Because of this kind of transaction, the bank also registers the account holder's mobile number, on which the customer receives messages whenever there is any trasaction in his account. Banking work becomes easy because of this system.

(3) Mobile Banking : Mobile banking is such a system through which any financial transaction is made possible from any corner of the world through electronic equipment, i.e. Mobile phone with internet connectivity.The person need not have to go to the bank physically in this system and can manage transactions like knowing the balance of the account, paying the light bill, gas bill, taxes, or making other payments. Money can be transferred from one account to another. The customer has to make an application to the bank in order to get this kind of services. The bank than provides Login ID and Password for mobile banking. It is necessary to follow security rules in this system.

3.6 Service Associated with Bank

3.6.1 ATM : The full form of this service is Automated Teller Machine. The bank account holder is given this facility. When the customer needs, he can withdraw the minimum amount decided by the bank and lesser than the balance of his account. The bank account holder can withdraw limited amount from his account under the daily withdrawal limit. The limitation of maximum withdrawal amount in the single time is also fixed by the bank. The bank provides ATM card to the customer. The customer is also given a secret pin. Money can be withdrawn from the ATM of the other bank also, but some extra charge has to be paid for the same.

3.6.2 Credit Card : This type of bank card has been used widely from the end of the 20th century. An account holder or any person can apply to the bank and can demand the credit card. The bank conducts a systematic study of the credit of the person like how much debt can be repaid by him through card. This is determined by the bank on the basis of study. On the basis of this study, the bank issues a credit card with a pre-decided limit to him. When he makes purchase the amount from his account will be debited and the amount will be credited to the seller's account. Balance statement is sent to the card holder at fixed time which he has to settle or repay within the prescribed time limit.

3.6.3 Debit Card : This card can be used at the place where, there is an arrangement to do the transaction through debit card. The card holder makes payment of his shopping through this card. This card is given to the seller to swipe after the shopping. The billing amount is debited to the account of the card holder. The card holder can spend only from the available balance in his account.

What did you learn in this chapter ?

Meaning of Bank : According to the Reserve Bank of India, " Bank means an institute which collects deposits in order to lend them and with a condition to return it at the end of the fixed term whenever it is demanded."

Functions of Bank : (A) Main Function : (1) To accept/collect deposit (2) To lend money (3) To invest money (4) To do inter banking transactions (B) Subsidiary Functions : (1) To look after the financial transactions of the customer (2) To do transactions associated with foreign exchange (3) To issue letter of credit (4) To issue traveller's cheque (5) To issue draft (6) To provide service as an underwriter (7) To provide other related services such as ATM, DEMAT, Safe Deposit Vault.

Types of Bank Account : (1) Savings Account (2) Current Account (3) Recurring Account (4) Fixed Term Account.

Services Provide by Bank : The bank Provides services to its customers, like; to issue Draft, Banker's Cheque, RTGS, NEFT, Bank Overdraft, Cash Credit, Loan etc.

E-Banking : Facilities like Internet, Core Banking and Mobile Banking are included in E-Banking (1) In E-Banking, banking transactions are completed in electronic form instead of physical form. In this type, bank transactions are completed through either internet or mobile phone in which Financial and Non-Financial transactions are included (2) 'CORE' in Core banking means 'Centralized Online Real-time Exchange'. In this system all the branches of the same bank located in the different parts of the world are connected to one another. The account holder can complete his transction from any other branch of this bank other than his home branch.

Services associated with bank : The bank provides services like ATM, Credit Card, Debit Card etc. to its customers.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) In which kind of account generally intrest is not paid on the deposit ?

(a) Savings account (b) Current account (c) Recurring account (d) Fixed deposit account

(2) In which kind of account, it is compulsory to deposit certain amount at certain time ?

(a) Savings account (b) Current account (c) Recurring account (d) Fixed deposit account

(3) In which kind of account the bank gives maximum rate of interest on the deposited amount ?

(a) Current account (b) Fixed deposit account (c) Recurring account (d) Savings account

(4) What is the name of the central bank (Monetary Authority) of India ?

(a) State Bank of India (b) Central Bank of India

(c) Reserve Bank of India (d) Bank of India

(5) What is the facility of overdraft for the certain period is called ?

(a) Pay order (b) Cash credit

(c) Demand draft (d) Over draft

(6) What type of cheque is used by the bank to repay its debts ?

(a) Travelar's cheque (b) Pay-order

(c) Demand draft (d) Cash credit

(7) Which facility of bank can be used against the risk of cash in travelling ?

(a) Demand draft (b) Cheque

(c) Pay-order (d) Traveller's cheque

(8) Minimum how much amount can be transferred through RTGS ?

(a) Any amount (b) 2 lakh (c) 5 lakh (d) 50,000

(9) In which kind of transaction the central bank transacts as per Batch ?

(a) NEFT (b) RTGS (c) CORE Banking (d) Call Money

(10) How do the banks transact with one another to solve the problems of fund/money occurring at certain time ?

(a) Call money (b) Pay-order (c) Over draft (d) Cash credit

(11) Minimum how much amount can be transferred in NEFT ?

(a) Any amount (b) 2 lakh (c) 5 lakh (d) 50,000

(12) Which card is issued to the customer by the bank on the basis of his credit ?

(a) Debit card (b) Credit card (c) Letter of credit (d) Demand draft

Answer : (1) (b) (2) (c) (3) (b) (4) (c) (5) (b) (6) (b) (7) (d) (8) (b) (9) (a) (10) (a) (11) (b) (12) (b)

2. Answer the following questions in one sentence each :

(1) Write the meaning of 'Bank'.

(2) Which kind of account can be opened in the name of a business unit ?

(3) In which kind of account the number of withdrawn tranction is limited up to a certain limit ?

(4) How much amount can be transacted in cash through NEFT ?

(5) Within how much time money is transferred through NEFT ?

(6) In which kind of card only the amount available in the account can be spent ?

3. Answer the following questions in short :

(1) What is Overdraft ?

(2) What is Cash Credit ?

(3) Define 'Traveller's cheque' ?

(4) Give two examples of Non-Financial transaction done through E-Banking.

(5) Explain : (a) Credit Card (b) Debit Card (c) ATM

4. Answer the following questions in brief :

(1) Write Short Notes :

(a) Call Money (b) Core Banking (c) RTGS (d) NEFT (e) M-Banking

(2) Explain - "The account holder is not the customer of a particular branch of the bank but of the bank."

5. Answer the following questions in detail :

(1) Explain functions of bank.

(2) Explain the types of bank account.

Full Form of Abbreviation

RBI	:	Reserve Bank of India
ATM	:	Automated Teller Machine
KYC	:	Know Your Customer
DEMAT	:	Dematerialized
RTGS	:	Real Time Gross Settlement
NEFT	:	National Electronic Fund Transfer
IFSC	:	Indian Financial System Code
DNS	:	Different Net Settlement
CORE	:	Centralised Online Realtime Exchange
PIN	:	Personal Identification Number
IDRBT	:	Institute for Development and Research on Banking Technology

●

4 Communication, E-Commerce and Outsourcing

What will you learn in this chapter

Introduction

Now a days the competition in business has increased. In this age of competition, for the development of business, the factor like human resources have become important. Elements like high quality goods, low cost, prompt transportation of goods and better services to customers have become important in business. The process of communication through proper means of communication has become essential for business units. E-Commerce has come into existence for the transactions between units and with the customers. Further, outsourcing has also become necessary for smooth operation of internal transactions of business.

4.1 Meaning and Definition of Communication

4.1.1 Meaning : Communication is made of two Latin words "Communis" and "Communicare". That means 'To share common' Gradually the meaning of Communication has been changed and now a days its meaning has become wider.

The primitive man used non-verbal communication through signs and expressions. After that, language as dialect was used in communication. As a result of the development of science and technology with the help of language and signs, communication has become faster and easy through various media of communication.

Communication is a two-way process. It is the process of sending information from a source to the target. In this process, the sender, first collects information in proper form and then sends it via medium or channel. The receiver of information interprets the message and responds. Thus, in communication, information, concept, emotions, feelings or instructions are exchanged between two or more persons. In communication, when messages are transmitted through words i.e. by use of language, it is known as verbal communication. In verbal communication, information is in written or in oral form. Proper selection of words and their placement in the sentence is also important in verbal communication. Thus, specific meaning is extracted from the sentence. 'Keep it Short and Sweet' principle should be followed while creating a message. The message should be short and easy to understand.

When communication, process of passing information is attempted without using words, it is known as non-verbal communication. In this type of communication, information is exchanged through signals, physical expressions, gestures, postures, facial and eye expressions and in artistic way i.e. music, singing, dance, sculpture, picture, drawings, maps, cannon salute, siren etc.

4 1 2 Definition : Communication means exchange of thoughts, opinions and information through speech, writing or signs.

- Communication means a process of exchange of information among people regarding knowledge, concept, understanding, emotions, feelings and opinions. The sender selects proper medium which affects the receiver, and as a result his/her behaviour is changed, and a relationship with him/her is established and maintained.
- Communication means the process of inducing our thoughts into other's mind.

Process of Communication :

Information : Information means the outcome received after the processing the data. e.g., if we collect price of a thing from five different sources then these prices are data; but the details like maximum price, minimum price etc, are information.

Process : At this stage of communication the steps of exchanging information are :

(1) Creation of Message : Message is formulated in the process of exchange of communication. Message may be oral, written, verbal or non-verbal e.g. For travelling from Rajkot to Vadodara after 8 pm, the steps of information process will be as follow

The Steps of Communication Process

Steps		Explanation of Steps	Example **At what time after 8 pm a bus from Rajkot to Vadodara will be available ? The process of Communication of such questions.**
(1)	**Formation of message**	Message is created in exchange of information. Message can be oral, written, verbal or non-verbal.	At what time after 8 pm a bus from Rajkot to Vadodra will be available ? That sort of question is formed.
(2)	**Selection of Medium**	After creating the message in order to send the message one needs to go personally or select any one or more than one means of communication avaialble.	Telephone is used as the medium of sending message.
(3)	**To send message**	The message is sent after selecting the information and medium of message.	It is inquired that at what time after 8 pm a bus from Rajkot to Vadodara will be available ?
(4)	**To accept the message**	The sender sends the message and receiver accepts the message.	Using the medium of telephone, the receiver receives the message that at what time after 8 pm a bus from Rajkot to Vadodara will be available.
(5)	**Interpretation of the message**	The sender selects proper words and uses such a language in the message that the receiver can interprete it very well.	When the sender sends the message that at what time after 8 pm a bus from Rajkot to Vadodara will be available ? The receiver understands that there is a quary regarding a bus available for Vadodara's after 8 pm.
(6)	**Reply to the message**	The receiver of the message interpretes the message properly and gives the reply.	The receiver of the message replies to the quary "At what time after 8 pm a bus from Rajkot to Vadodara will be available, and will supply information accordingly."

4 2 Meaning of Internet

The word Internet is derived from two words 'Interconnection' and 'Network'. The word 'inter' refers to Internal and the word 'net' refers to 'network' in the word internet. Thus, internet means internal network. Internet is the largest computer operated system in the world. It has other names like the net, information super high-way, cyber space etc.

When a group of computers are connected with the purpose to share information and resources, it is called Network. For this, they should be connented using hardware and software. The system of connecting two or more computers is called Network. These computers may be in the same room, in different offices or at remote places. The area of network covers nearby computers as well as computers placed worldwide. Internet means the network of computers' network. No one owns the internet. Some organizations help in the management of various activities of the network.

There are four categories of computer network :

(1) LAN (Local Area Network) means computers at certain place are connected with one another through wire or without wire.

(2) CAN (Campus Area Network) means computers at a campus are connected with one another.

(3) MAN (Metropolitan Area Network) means computers of a city are connected with one another.

(4) WAN (Wide Area Network) means computers are connected globally without any physical boundries. Thus, the different types of network is called internet.

Wide Area Network is divided into two categories. (a) Enterprise WAN (b) Global WAN.

(1) Enterprise WAN : It is wide area network of computers of a big organization. It is a network of the network of fixed computers of various places. It is a network established for an organization. This type of network is known as Intranet. e.g. , Indian Railways connect all its office computers through this type of network.

(2) Global WAN : This is a large network. This network has no geographical boundries. It is spread in various countries and continents. It is one collective network of various organizations. It is called WWW (World Wide Web).

Nowadays, internet service providers have established their own separate communication system by removing the necessity of telephone. Many famous organizations have connected their computers and created a network. Thus, internet means a network of computers which establishes communication by a centralized organization with or without the help of telephone (cable) or with the help of satellite.

Text, picture, audio-visual, visual, audial and numeric information can be exchanged with the help of internet.

Mainly the following three types of functions can be performed through internet. :

(1) Contact with Other Persons : We can promptly and easily communicate with any person in the world with the help of E-mail through internet. We can chat with internet users across the world as if we are sitting in the same room.

(2) Receiving of Information : The computers across the world are connected with the help of internet. Thus, we can easily and immediately receive any information about any field.

(3) The Connection with Other Computer System : The direct connection with the other computer system is possible by using the medium of internet broadcasting.

E.g. : (1) The banking facilities are available online, (2) The railway tickets are available from any place, (3) The observation in the examination centre held by Gujarat Secondary and Higher Secondary Board is done with the help of internet.

To Search Information From Internet : The required information is easily available on internet. To search information steps are as follows :

Step 1 : Selection of Browser

- After being connected with internet, open any internet browser. For example : FireFox
- In the figure 4.1 you can see the homepage of internet browser - Firefox.

Figure 4.1

Step 2 : Selection of the Search Engine

- The Homepage Search Engine will be open as we write the name of the website of the Search Engine in the search bar, in the browser window. For example If you write down www.google.co.in, the Indian Homepage of Google Search Engine will open as shown in the Figure 4.2.

Figure 4.2

Step 3 : To enter required information in the search-bar.

In the Homepage of the search-bar of Search Engine, the required information is entered in the text-box. e.g. if we want to get information about 'Lion' then type 'lion' in the search-box. If it is done so, we can find picture as seen in figure 4.3.

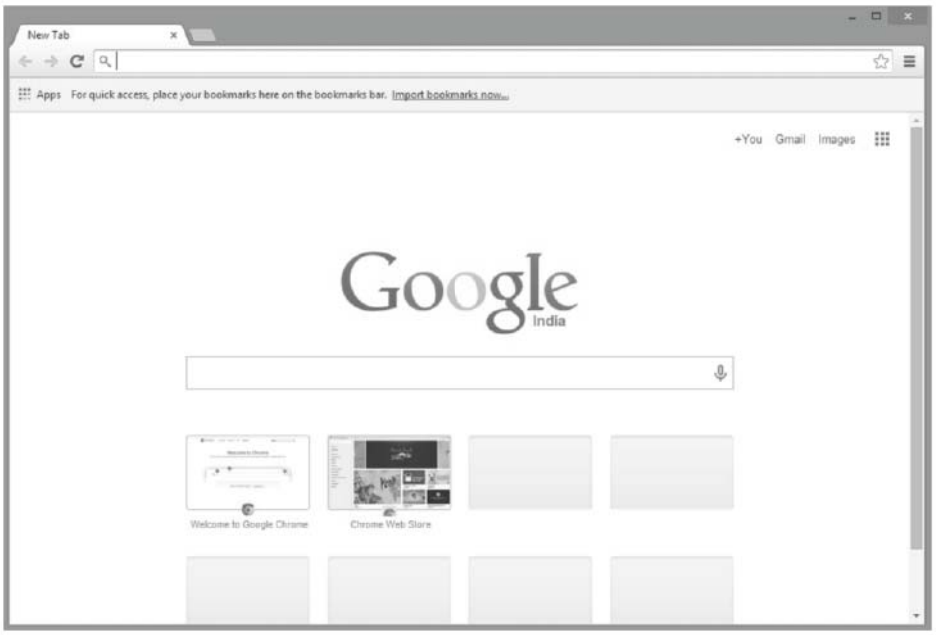


Figure 4.3

Step 4 : To select the Website.

The list of websites showing information about lion will open as soon as you click on search button which is shown in figure 4.3. The list of websites shown in figure 4.4. will follow :

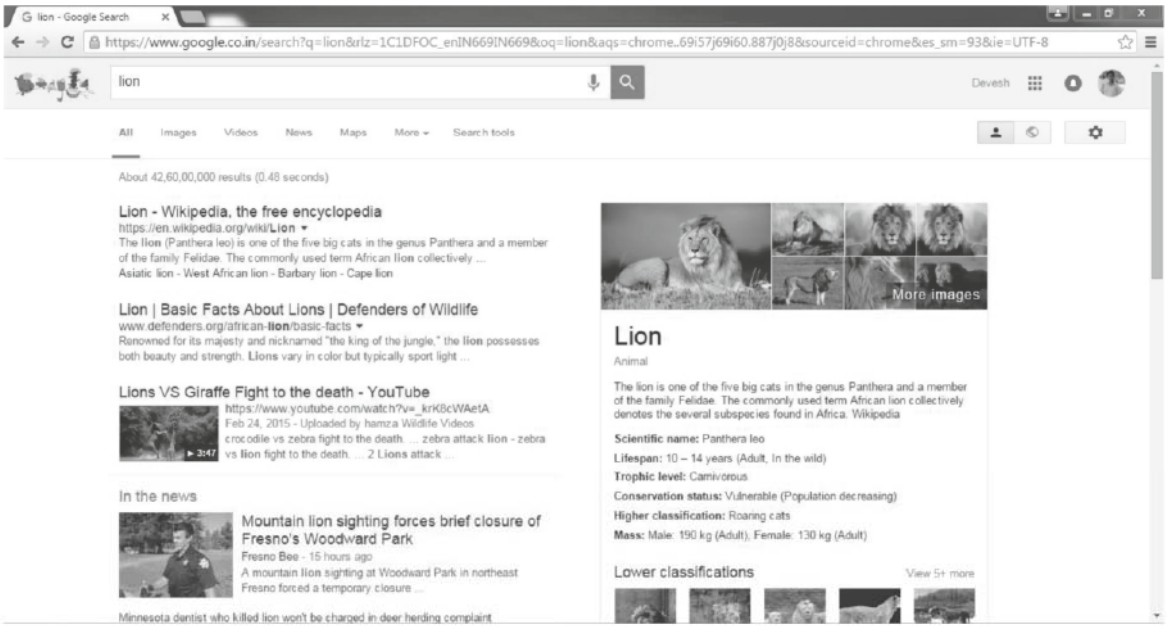


Figure 4.4

Step 5 : To get the required information.

From the list of the websites related to Lion, if you click on a particular website then that website will open and you can see the information available on that website.

If you want to see the various images of lion, then you have to click on 'Images' button on screen and then you will see various images of Lion as shown in the figure 4.5.

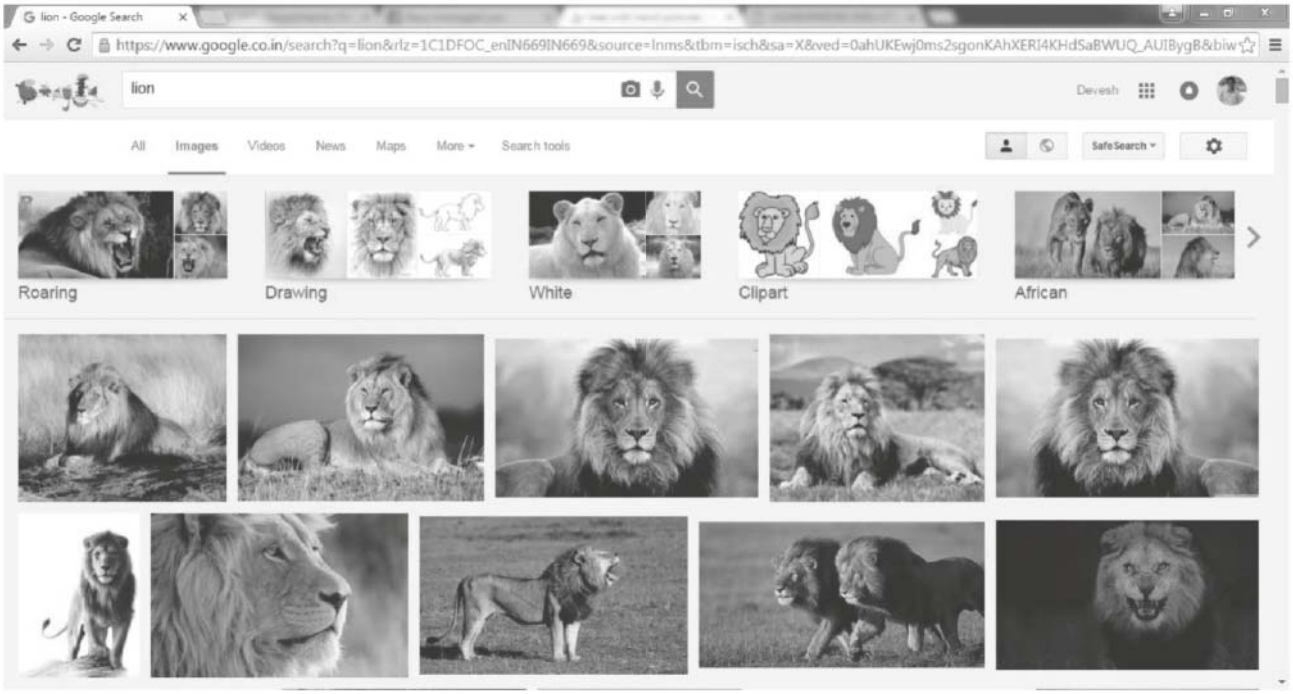


Figure 4.5

In this way if there is requirement of any information related in any field, you can get that from various websites in the forms of Text/Images or Video.

4 3 E-Commerce

4 3 1 Meaning : E-Commerce means electronic commerce in which trading is done by electronic gadgets and medium. All the processes of this E-Commerce such as purchase, selling, advertisement and comparison with other products, transfer of money etc, are made by electronic gadgets. Media like internet, computer network, e-mail service, bank credit card, debit card are used for the trading.

Buying-selling, delivery of goods and payment of money by professional units have become easier due to E-commerce. Also time and expenditure of customers for buying have been reduced. Thus, there are many advantages of E-commerce.

The whole process of buying-selling has become easier and faster in comparison to the system of traditional business due to E-commerce. Business can be done at any time and place with the help of E-commerce. Many activities such as marketing process, distribution, phone, post and printing work are reduced because of internet. As a result, there is a decrease in over all cost and time for transportation. E-commerce provides better and quick service to the customer. Process of communication becomes faster by internet. Price of product, quality of goods and other questions can be solved easily due to easy interaction with customers. Solution to services or goods related problems has become faster.

4 3 2 Field : On the basis of parties involved and provided activities and services provided by E-commerce, the scope of E-commerce services can be clasified as :

(1) B2C : (Business to Customer) (2) B2B : (Business to Business)

(3) C2C : (Customer to Customer) (4) C2B : (Customer to Business)

1 B2C : (Business to Customer) : In this, there is a seller at one end and a customer at other end. The sellers sell their products or services to the customers with the help of internet through website. Customers can place their orders for the product of their choice at any time and from any place. The seller sells products directly to the customer without any middle man. The buyer is an independent customer. Online shopping is an ideal example of this type. In this process purchasing-selling are fast and easy. Besides retail selling, B2C includes many services like online banking, transportation etc.

2 B2B : (Business to Business) : In this, both the parties are professionals or traders, In today's competitive world, business units have become interdependent. B2B trading makes inter-dependency easy and effective. It establishes E-relationship with suppliers, distributors or other middle men. Competence can be achieved due to transparency among the professionals. The competence of daily business activities like management of supply, management of stock list, management of payment etc. is increased with the help of B2B.

3 C2C : (Customer to Customer) : Trading activities of customer is directly connected with other customer in this kind of arrangement. Internet users using website become seller or buyer as per the requirement. Customers get online facility of buying and selling without any middle man. The best example of this is auction sites (E-Auction). A customer who wants to sell a thing can put the details of his things on the website for function and other persons can bid for them. A person who bids the highest buys the thing. Besides, in the website like **olx.com, quicker.com** a seller puts information about his things and selling price. The buyer negotiates with him and then the transaction is processed.

4 C2B : (Customer to Business) : In this kind of E-commerce, customer gets large choice of products or services at suitable and reasonable price. The business units that provide such services or offer products declare conditions for sale and price of their services or products. This system helps to reduce time of negotiation and increases flexibility of customer as well as business unit. In this, terms of payment is decided by a customer. There are more arrangements in E-commerce besides this. If we consider Government as an indepedent body, the following kinds of arrangements can emerge.

(1) Government to Business (2) Government to Citizen (3) Government to Government

4 3 3 Requsite Equipment for the Successful Implementation of E-Commerce. :

Capital, human resource and machinery are needed at primary stage to start any business while in E-commerce more resources are needed. They are :

(1) Website : For continuance of E-commerce, development, management, maintenance and upgradation of website is a must. In website, web means **WWW (World Wide Web)** while site means place. Website is address of a firm at World Wide Web. However, website is not any physical or geographical address but, it is an organized form of information provided by a firm which is made available online.

(2) Computer with Internet Connectivity : The computers of the traders or customers must have internet connectivity for the purpose of purchase or sale or business activities in E-commerce.

(3) Credit Card or Debit Card : The traders are not familiar with one another in E-commerce. So the question of financial transaction arises. The buyer feels insecurity in payment before purchase, and the seller feels insecurity in providing goods before he receives money. Credit/debit cards solve this problem. The payment through the card is done in such a way that we can stop the payment after the order of payment within seven days. These, cards are important tools in E-commerce.

4 3 4 Online Transactions :

(1) Pre Buying/Selling Stage : Advertisement and information receiving are included here.

(2) Conditions of Buying/Selling : This includes price fixation and other related conditions.

(3) Delivery of Goods/Payment : Information flow is associated with the above stages. While this stage includes exchange of products and money. The process becomes quick and less expensive if transaction is done online through internet. This entire process is explained from by the customer's point of view.

(i) Registration : Registration by filling in the registration form is a must for a customer who wants to purchase online. Registration means to open an online account at seller's site. Registration means to sign in for online transaction. For this, a customer needs to provide personal details like name, address, phone number etc. A password is provided for online transaction. The account is protected by this password so that other person cannot login this account.

(ii) Place an Order : We can select and put the product of our choice in shopping cart while shopping online. (Shopping cart is a list of product selected by the buyer while shopping online.) After preparing a list in shopping cart, an option of payment can be selected there after.

(iii) Payment System : Payment can be made in different modes like cash on delivery, cheque, net banking transfer, credit card, debit card, digital cash etc. in online shopping.

4 3 5 Mode of Payment :

Mode of payment can be different in online shopping.

(i) Cash on Delivery (COD) : In this way the customer has to make payment of money on receiving goods at his address mentioned for delivery.

(ii) Cheque : Online seller can collect cheque from the customer. A person who buys goods issues a cheque to the seller. The seller dispatches goods only after the cheque is credited to his account

(iii) Net Banking Transfer : Banks also provide the facilities of making payment or transferring money through internet to the customer in recent time. In this process the customer transfers necessary amount from his bank account to the account of the seller. Goods are dispatched only after the amount is transfered.

(iv) Credit Card / Debit Card : These types of cards are known as Plastic money. These cards are used in large extent in online shopping. Credit card provider bank provides facility of shopping to the card holder on his credit. An amount to be paid by customer to the online seller is paid by respective bank. Then the card holder pays this amount to the bank within prescribed time. The card holder gets freedom of payment by installments or at his convenience within prescribed time.

Debit card holder is provided facility of online shopping upto the existing credit balance of his account. As soon as online transaction is done through debit card, the same amount is debited from the bank account of the card holder.

(v) Digital Cash : This is one type of currency which exists only in cyber space (internet world). There is no physical existence or form of this type of currency. But bank provides a facility to the customer to use his real currency in electronic form. The customer has to pay the same amount of real money as digital cash to the banks. Then banks maintaining forms of E-cash send a special software to the customer. Digital cash can be received through the account of the customer. This digital fund can be used for online shopping.

4 3 6 Safety and Security of Transactions : There are many risks in online transaction in comparison to traditional money transactions. : (1) Risks of transaction (2) Risks of data (3) Risk of Intellectual property and secret data.

(1) Security Against Risk of Transaction : For the dispute among the online seller and customer, at times the argument from the seller remains that the customer has not placed order properly. At times it may also happen that the customer has not placed order at all. The complaints like non-receipt of goods at the place mentioned or receipt of goods not complying with the required quality remain common in online transaction. To prevent this risk, verification of identity and address should be done during registration of account. Further, customer should prefer to purchase goods from reliable and well-established websites only.

(2) Security Against Risk of Data Collection : There are many risks related to data. Important data can be changed or stolen for the purpose of enjoyment or with selfish motive. You may be familiar with the word 'virus' or 'hacking'. Virus is a computer programme. It creats clones or replicas, that damages the data in computer system. Virus interrupts on screen, prevents the computer to work, it may damage the data files or whole system. Anti-virus software is to be used to prevent these risks.

(3) Security Against Intellectual Property and Privacy : Internet is an open plateform. Once the information is placed on internet means it becomes public. Information such as e-mail, address, phone number, bank account number, password provided during online transaction and many more business information are required to keep confidential while dealing online. There are possibilities of misusing information. Customer must change his password periodically.

4 3 7 Outsourcing : When miscellaneous work or process is handed over to other group by business group as per contract for prescribed time, it is called outsourcing. Outsourcing is neccesary to concentrate on main activities of a company. Thus, companies outsource minor activites. Besides this, some business units make outsourcing of intellectual works even though it is their core activity. Outsourcing can be done within the company or out side the company.

4 3 8 Concept, Requirement and field of BPO :

Explanation of BPO : BPO means to get the contractual services of external company or group to complete special work or process of a company. Eg. The main purpose of the companies that want to outsource the work of call centres or data entry is to reduce their expenditure. The main reason of popularization of outsourcing is that human resources for such work are available at lower rate in some countries. So the countries like India, China who have larger population get first preference for BPO.

Requirement of BPO : BPO reduces the workload of employees of a company from the responsibility of their daily minor works. So these employees can focus more to the productive activities and customers.

(1) Cost cutting : Business Units can reduce expenditure by outsourcing of front office works like billing, purchasing, data entry and marketing survey.

(2) Focus on Principal Works of Company : Managers can specially focus to the principal works of company by outsourcing of daily works of professional units.

(3) Benefit of Efficiency : Business concerns can get quality work by outsourcing instead of recruiting and training employees.

(4) To Cater the Dynamic Demand : BPO companies provide facilities to cater the ever changing demands of the customers.

(5) Increase in Profit : Business units can outsource their subsidiary functions and pay more attention toward main functions like increase in sale, development of new products, expansion of business and satisfy the customer. As a result, profit of the business unit increase.

Scope of BPO :

(1) Back Office Outsourcing : It includes internal functions of business like billing, purchases, data entry etc.

(2) Front Office Outsourcing : It includes customer oriented services like marketing-technical assistance etc.

4 3 9 Concept, Requirement and field of KPO :

Explanation of KPO : KPO means outsourcing of knowledge based process. BPO is work oriented while KPO is knowledge oriented. Processes related to works are focused in BPO. While mostly the processes related to knowledge are focused inconcept of KPO. KPO includes processes which expect advanced knowledge and skills that are responsible for the development of the company.

Requirement of KPO

(1) Achievement of the Best Skills : An institution providing service of KPO possesses advanced skills on account of investing heavily in human resource and their training. As a result, business unit gets its advantages at minimum cost. KPO provides the best result by maximum investment in techniques, human resource and systemic method. They have achieved advanced expertise with experience of work. This proficiency of skills gives maximum benefit to the business units with minimum investment.

(2) Maximum Use of Sources : Available resources are limited in all business units. Human resources of units become free because of outsourcing. They can be used in customer oriented activities.

(3) Solution of Complex Problems : Some complex problems which require advance technical expertise can be solved easily because of outsourcing.

(4) Special Attention to Principal Functions : Business units can pay special attention to their principal function with the help of outsourcing. Eg. If a school perfers to outsource works like computer education, canteen facility, stationery facility, then it can pay more attention to its principal work of imparting education.

(5) Maximum Use of Money : If outsourcing of some functions is preferred in business units, then it is not require to invest its capital for these functions. As a result, business units can use its capital for maximum business development.

(6) Reduction of Expenditure : Decrese in expenses is one of the principal reasons of popularization of outsourcing. Expenses of business units are reduced by doing outsourcing of functions like marketing process and research and development of the company.

(7) Reduction in Risk : Market-competition, government policy rules and different techniques are changed rapidly in recent times. In course of time, investment made by business units will be of no use. These risks are reduced by outsourcing.

Scope of KPO : Scope of KPO is as follows :

(1) Business and market researches (2) Legal services (3) Medical services (4) Training and guidance (5) Research and development (6) Computer programming (7) Animation and Design.

What did you learn in this chapter

Meaning of Communication : Information, ideas, emotions, feelings or instructions are exchanged between two or more persons is communication.

Definition : Communication means expression of ideas, opinions or information and exchange of message by writing or using signs and signals.

Meaning of Internet : In internet, a word 'inter' means internal and 'net' means web. Thus internet means internal web. Internet means group of computers connected to one another with purpose to use information and research for processing and research on joint basis. Network of such computers means internet.

Meaning of E-commerce : E-commerce means electronic commerce in which trading is done by electronic gadgets and mediums.

Scope of E-Commerce : On the basis of concerned parties, activities and services provided the scope of E-Commerce is : (1) Business to Customer (2) Business to Business (3) Customer to Customer (4) Customer to Business,

Required Tools for Successful Implementation of E-Commerce : (1) Website (2) Computer with internet connection (3) Payment options like credit card or debit card are required for business through E-commerce.

Online Transctions : In online transaction, process of buying/selling is undertaken after considering the process of pre-buying or selling.

Mode of Payment : In online shopping payment is made by cash on delivery, cheque, net banking transfer or credit or debit card.

Safety and Security of Online Transactions : There are three types of risks involved in online transactions.

(1) Risks of Transactions : Complaints like order of goods is not received, goods are not received at proper place or it is not of good quality are found in online transaction. Customer should check proper identity and address during registration of account as well as should do shopping from trusted website to prevent this kind of risks.

(2) Risk of Data Collection : Data of transactions may be lost due to virus in online transactions. Anti-virus software should be used for security against this risk.

(3) Intellectual Property and Privacy : Data like E-mail, address, phone number, bank account number, password etc. should be kept secret . If secrecy of such data is not maintained, there is possibility of its misuse. Password should be changed periodically against this risk.

Outsourcing : Business units get principal or subsidiary works done in company or out of company by external agency is called outsourcing.

Concept of BPO : To get the contractual services of external company or group to complete special work or process of business units is called Business Process Outsourcing (BPO).

Requirement of BPO : Business Process Outsourcing is required for business units for cutting down the expenditure, paying attention to the principal work of company, gaining benefit of external efficiency, catering the dynamic and continuous changing demand and to increase profit.

Scope of BPO : Scope of BPO includes services like back office outsourcing and front office outsourcing.

Concept of KPO : To get the contractual services from external company group to complete intellectual work process of the professional units is called Knowledge Process Outsourcing (KPO). Thus KPO, means outsourcing of knowledge based processes in which advanced knowledge and skill are outsourced.

Requirement of KPO : Knowledge Process Outsourcing is required for professional units for maximum use of sources to achieve the best skills, for solution of complex problems, for special attention to the principal function, for maximum use of money, for cutting down the expenditure and reducing risks.

Scope of KPO : Knowledge Process Outsourcing (KPO) includes Trade and Market researches, Legal services, Medical services, Training and Guidance, Research and Development, Computer programming, Animation and Design.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) By which process the customer is provided the facility of purchase and sale by the bid of the production ?
(a) Business to Customer (b) Business to Business (c) Customer to Customer (d) Business to Customer

(2) The Railway tickets are available from any place: Which network facilitates this ?
(a) Enterprise WAN (b) LAN (c) MAN (d) CAN

(3) The Business units allot their works to the outside instituition that is known as :
(a) E-Commerce (b) Outsourcing (c) E-mail (d) Net-banking

(4) The Process by which the whole process of understanding is created in the mind of the other person is known as?
(a) Message (b) Communication (c) E-mail (d) E-Commerce

(5) To type the message on computer screen and communicate with the help of computer by the medium of internet; this activity is known as
(a) E-Commerce (b) Fax (c) Intranet (d) E-mail

(6) The commercial transaction and distribution which is done with the help of Electronic machine and medium is known as
(a) Intranet (b) E-Commerce (c) E-mail (d) Internet

(7) What is known as the 'super highway' of the information ?
(a) Internet service (b) Banking service (c) E-Commerce (d) Outsourcing

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

2. Answer the following questions in one sentence each :

(1) What is communication ?
(2) What is Enterprise WAN ?
(3) What is computer network ?
(4) Give full-form of www
(5) How the payment of money in E-Commerce is made ?
(6) What is Hacking ?

3. Answer the following questions in short :

(1) Give meaning of Internet.
(2) Give meaning of E-Commerce.
(3) Give meaning of Outsourcing.
(4) Explain the requirement of Business Process Outsourcing (BPO).
(5) Write the meaning of Knowledge Process Outsourcing (KPO).

4. Answer the following questions in brief :

(1) Explain the steps of Communication Process.
(2) Explain the four main types of Computer net.
(3) Explain the function of the three major types of Internet.
(4) Give the name of tools required for successful implementation of E-commerce.
(5) Write Short Note : (1) Digital Cash (2) Safety and security of transactions

5. Answer the following questions in detail :

(1) Explain the steps of the process of searching information on internet
(2) Explain scope of E-commerce services.
(3) Explain the steps of process of online transaction.

Full Form of Abbreviations

Communication	:	Exchange of information
Internet	:	Inter Connected network
LAN	:	Local Area Network
CAN	:	Campus Area Network
MAN	:	Metropolitan Area Network
WAN	:	Wide Area Network
WWW	:	World Wide Web
COD	:	Cash On Delivery
BPO	:	Business Process Outsourcing
KPO	:	Knowledge Process Outsourcing

●

5 Forms of Business Organisation-1

What will you learn in this chapter

Introduction

Along with the time the needs of man has increased and become varied. Man became incapable to satisfy his needs by himself so he needed the help of other people. Thus, the trading activites began through barter system. Therefore a class of people came into existance in the society, who started spending time and energy to satisfy the needs of people by exchange activites of goods, services and money. This class was called traders. For activites of purchase and sale, they introduced a different arrangement. Thus, different forms of business organisations, such as Sole Proprietorship, Partnership, Hindu Undivided Family (HUF), Co-operative Society and Joint Stock Companies came in to existance, one after the other.

5 1 Sole Proprietorship

The form of sole proprietorship is the oldest and simple than other forms of business organisations. This form came in to exsitance right from the begining of trading. In rapidly changing world, various forms of business came in to existance and got developed, but this oldest and simple form or system is still in existance.

5 1 1 Meaning : Sole Proprietorship is such a form in which the firm is owned, managed and controlled by only one person. Only one person invests capital, starts and developes business and looks after the activites of business like purchase, sale and the result of business such as profit and loss are borne by him only.

According to Louis and Henry "Sole Proprietorship is such a form of business organisation in which there is only one person at the top, who is responsinble, who directs activites of business and bears the risk of failure only by himself" From the definition one can understand that alone trader or a sole proprietor is only and wholly responsible, whole business is carried out under his direction and the risks of business, like loss or insolvency rests on his shoulders only.

5 1 2 Charactaristics :

(1) Easy to Establish : The process of establishing the sole proprietorship firm is very easy. Complexities of laws do not affect. Any person can start lawful trading at any place of his liking.

(2) Capital : In sole proprietorship the owner himself invests the capital. If he finds the capital insufficient, then he can run business by borrowed money also. The owner himself is responsible to return this borrwed money.

(3) Power of Administration : Sole proprietor himself is the administrator of business. Generally the owner himself looks after the purchase, sale, collection, accounting work and other activies. He

himself is the owner of business and he himself is the manager. If needed, then help can be taken from the member of family/relatives or a salaried person.

(4) Freedom of Work and Quick Decisions : Sole proprietor has freedom regarding the business. He performs the activites of business with his intelligence and experience under total freedom and as he himself is the owner, he can take quick decision with ease.

(5) Liability : Liability for payment of debts is unlimited for sole proprietor. Unlimited liability means that for payment of debts, the creditors can put claim on the personal properties of sole proprietor in the court of law. In other words it can be said that when sole proprietor incurr loss in the business, debts go on increasing and for payment of debts if there are insufficient funds in the business, then sole proprietor is liable to pay total debts from his personal properties.

(6) Maintainace of Secrecy : In sole proprietorship as the trader is the sole owner of business, the secrecy is maintained.

(7) Personal Contact : In sole proprietorship as the working area of business is limited, personal contact with customer can be maintained. By keeping focus on the changing taste of customers, their requirement, fashion, demand etc. more satisfaction can be given to customers.

(8) Centralisation of Ownership and Management : In sole proprietorship, the owner himself is the manager. Thus, there is a centralisation in owenership and management. In other business organisations the owner and management are different entities.

5 1 3 Advantages :

(1) Easy Establishment Process : The process of establishing the sole proprietory firm is simple. There is no need to prepare any document. There is no need to pass through any difficult and complex process of law. Therefore any person with limited capital, uneducated or having general capabilities can start the business.

(2) Less Capital : Less capital is an important characteristic and is the specific advantage of sole proprietorship. Sole proprietor can start business with less capital. If additional funds are required, then the owner can bring borrowed money and invest in the business.

(3) Maintainance of Secrecy : It is advantageous for the businessman to maintain business secrets. In sole propritorship as only one person has all authority, he can maintain secrecy relating to business transations, accounts and the key factors of the bussiness. As compared to the other forms of business organisations, in this form secrecy is better maintained.

(4) Quick Decisions : As sole proprietor is the chief decision-maker regarding the matters related to business, he can take quick decisions regarding important matters of business. He can take quick decision according to trends in market and changing circumstances.

(5) Personal Contact : In sole proprietorship there is centralisation in ownership of business and management. As the owener himself acts as the manager, he can maintain personal and live contact with customers, empolyees and creditors. According to changing business trends, fashion and customer preferences he can make required changes in production and distribution system and keeps his market safe.

(6) Flexibility : In sole proprietorship the owner can make required changes according to changing business environment. Due to quick decision and constant awareness, he can bring flexibility to business.

(7) Less Tax Burden : Income of sole proprietorship is the income of the owner. So personal the norms of taxation are applicable to him. Generally, as the size of sole proprietorship is small, the income is also less. Therefore the burden of income tax is less.

(8) Less Legal Restrictions : As compared to other forms of business organisations, there is less legal restriction in sole proprietorship firm. There is no need of approval from anybody to increase or decrease the capital. As the size of business is small, the legal restrictions are also less.

5 1 4 Limitations :

(1) Limited Capital : Trading can be done with less captial. This is the important advantage of sole proprietorship. But this is also a limitation. After industrial revolution the size of business unit is getting larger. For this, raising required capital becomes difficult for the owner. Many times sole proprietorship firm is not capable to purchage raw materials in large quantities, big size machines and to have big storage facilities.

(2) Unlimited Liability : Sole proprietor has unlimited liability. Therefore he cannot free himself from his liabilities. If the borrowings have increased over business asset and credits, then he has to sell his personal properties and make payment for business debts. In this way, the owner himself has to bear all the risk of business.

(3) Short Duration : When the owner of business dies or is declared insolvent or loses mental balance, the existance of business can come to an end. If the heirst do not have the ability to run the business, then it is possible that the business gets weaker and in many cases business comes to an end.

(4) Limited Work Capacity : In sole proprietorship, the owner is responssible to formulate the policies of business. Everybody has limitations of working. Though he may be very intelligent, sometimes the business suffers due to his certain limitations. In morden time, the business requires different types of skills and knowledge. As in sole proprietorship the scope of exchange of ideas with others is very little, the development of bussiness remains limited.

(5) Possibility of Wrong Decisions : Sole proprietor himself takes bussiness decisions. He does not have advantage to take the help from experience and specialised knowledge of others. He may be most capable and skilled, but his personal decisions some times may be hasty, erroneous and tend to damage to the bussiness.

(6) Lack of Advantage of Larg Scale Bussiness : Due to limited capital, the bussiness remains limited in sole proprietorship. As there is unlimited liability, the owner can not go for larger enterprise. As purchases and sales are on a small scale basiss, sole proprietor can not avail the advantage of large scale purchases and sales.

5.2 Business run by Hindu Undivided Family (HUF)

5.2.1 Meaning : According to Hindu law, business is inheritable. Business acquired by way of inheritance by Hindu Undivided Family, is called a firm of HUF. All the members of family are called its members. Administration of such firm is in the hands of the head of the family. He is called **'Karta'.** If the senior most (in age) person does not wish to run the business then the administration is passed on to the next eldest person. Existance of such firms is popular in India and Nepal.

5.2.2 Characteristics :

(1) Existance by Law : The firm of Hindu Undivided family come into existance by law.

(2) Management : The management of the firm is in the hand of senior most person of family who is called **'Karta'**.

(3) Independent Field of Operation : Business managent is done by karta independently. Other members have no right to take part or interupt in the bussiness but they can help. Other members can not object against the suitability of decisions taken by karta.

(4) Membership : The membership in the firm of Hindu undivided family is by birth. The child born in the family gets the membership right from his birth.

(5) Financial Control : All financial matters of the business lie in the hands of karta. So the financial control also remain in the hands of karta.

(6) Liability : Entire business is under the administration of karta. Therefore the liabilites of karta is unlimited. Whereas the liability of other members is limited.

(7) Life Span : On the death of karta or other member of family, the business continues. If karta dies, then the next senior most person becomes karta.

(8) Difficalty in Raising Funds : The sucsess of the firm depends on the efficiency of karta. The firm has to depend on the members of the family for fund-raising. So it is difficult to raise additional capital.

(9) Insolvency : When the firm becomes insolvent, the members of the family are declared insolvent, the minors are excluded. For payment of debts, the share of all family members of HUF can be taken into consideration. The liability of Karta is unlimited.

5.3 Partnership

As the scope of business and commerce expanded, the limitation of sole proprietorship become clear. Partnership firm as a form of business came into existance with an idea to establish business at large scale. Partnership came in to the existance to remove limitation of sole proprietorship. Like huge capital, efficient administrative power and risk bearing capacity.

5.3.1 Meaning : Partnership is such a business system in which the ownership of the business remains with more than one person and in the same way the business is managed by all or by one or more on behalf of all partners. The results of such business are borne by all partners.

According to Indian Partnership Act, 1932 "Partnership is a relation between such persons, who have agreed to share the profit of business, which is run by all or by one person on behalf of all."

5.3.2 Characteristics :

(1) Relation by Agreement : Partnership comes in to existance by an agreement. This agreement can be written or oral. Partnership also comes into existance by understanding created by the actions of partner. It is preferable to have a written agreement.

(2) Establishment Procedure : Establishment procedure of a partnership firm is very simple. One does not have to pass through the complex and long procedure of law.

(3) Registration : It is not compulsory to register a partnership firm. Registration can be done by the Registrar of Firms to whom the partnership deed is submitted for registration.

(4) Number of Partners : In partnership firm the minimum number of partners are two. According to companies Act 2013 clause no 464, Number of partners in partnership firm cannot be more than 100 members. As per Government decision According to companies Act(Year 2014) clause No.10 (Miscellaneous Rule) number of maximum partners in partnership firm is 50.

(5) Purpose : The main purpose of a partnership firm is to carry out lawful business activities to earn profits. An activity without profit is not partnership. e.g. Social service and religious activities are legal, but their purpose is not to earn profit, so it is not partnership.

(6) Capital : Generaly all partners bring capital. But still it is not necessary for all partners to bring capital. Partners bring the capital as shown in partnership deed.

(7) Management : In Partnership firm, all partners can manage the firm jointly. All partners have right to take part in the decision making process. As shown in the partnership deed, any one or more than one partner can take part in the management.

(8) Unlimited Liablity : Like sole proprietorship, in the matters related to the payment of debts, liability of all the partners is unlimited. All the partners have to sell their private properties for the payment of debts. According to the partnership Act for a partnership firms partners are responsible personally and jointly for the payment of the firm's debts. Hence, if any one of the partners is unable to pay the debt from his personal property then, rest of the partness have to pay the debts from thier personal properties.

(9) Transfer of Ownership : In partnership firm the transfer of ownership is not easy. Without the consent of all the partners, any partner can not transfer his share in favour of other person. If any partner transfers his share without the consent of all partner then any partner can bring dissolution of the firm.

(10) Legal Status : Indian Partnership Act 1932 clarifies, partners' rights, duties, rules, registration of firm as well as other provisons.

(11) Life Span of Firm : The life span of partnership is limited. If any partner looses mental balance(turns insane), dies or is declared insolvent, then partnership comes to an end. Remaining partners with thier mutual consent, can distribute the share of such partner among themselves or admit a new partner. In this way, partnership comes to an end but many a times partnership firm is not dissolved.

5.3.3 Advantages :

(1) Easy and Less Expensive Process of Establishment : The process of establishing a partnership firm is easy and less expensive. In establishment process, one does not require to pass through a special process of Law. According to the act, registration is not compulsory but advisable.

(2) Efficient Management : Unlike sole proprietorship, the partnership firm gets benefits of the knowledge, intelligence, skill and experience of many partners. As the management is in the hands of partners, they take personal interest and care in the management. As there is a direct control of partners over employees, the firm is managed efficiently.

(3) Increase in Goodwill/Credit Worthiness : As every partner has unlimited liability, other traders do not hesitate to sell goods on credit or lend finance to the firm. Creditors can realise there debt from any partner, even from his private properties. Thus in comparison to sole proprietorship, the possibility of increasing the credit worthiness of the firm is more.

(4) More Capital : In partnership firm, as there are two or more partners more capital can be raised. In future when bussiness develops, it will require more capital. Then by admitting a new partner, additional capital can be realised.

(5) Advantage of Division of Labour : Advantages can be derived from the different skills and abilities of the partners of a firm. By alloting the work to partners according to their abilities and experience the advantage of division of labour can be obtained.

(6) Proper Decisions : In partnership firm before tasking any decision for any matter discussion and thinking process take place. Opinion of each partner is noted and only then in the intrest of business, a decision is taken by consent. As the benefit of all knowledge and experience of all partners is available the possibility of wrong decision is very less.

(7) Flexibility : Partnership is a voluntary agreement. In this agreement required changes can be made. According to changing environment the necessary changes can easily be made in the management and in the structure of the firm.

(8) Protection of the Interest of Minority : Usually, in partnership firm all types of work is carried out with the consent of all the partners. If one partner does not agree to any decision, then that work can not begin. Any partner can ask for the dissolution of partnership. This way, the interests of minority in protected.

(9) Direct Relation with Customer : Like sole proprietorship, in partnership also change can be made easily as there is direct contact with customers and empolyees .

(10) Decentralisation of Economic Power : In partnership firm as there are more than two partners, economic power is divided among all partners.

(11) Less Burden of Income Tax : The profit of partnership firm is divided among partners as per the partnership deed. Therefore the burden of Income Tax is less.

5.3.4 Limitation :

(1) Limited Capital : Considering the development and big size of morden industries and trade, the capability to raise large capital by partners is limited. There is a less scope for partnership firm to engage in large scale bussiness activity and due to limited capital, the activities like research can not be undertaken.

(2) Unlimited Liability : In partnership firm the liability of each partner is unlimited. All partners are responsible for the work done for the firm by any other partners. If assets of the firm are insufficient to pay the debt then in that situation all partners have to pay debt even by selling their personal properties.

(3) Possibility of Disagreement : There is a possibility of difference of opinion and disagreement in partnership. In partnership, management of the firm runs properly till there is unity and agreement. When disunity and dispute arise, there is a possibility of disagreement in partnership.

(4) Difficulty in Maintaining Secrets : In partnership important bussiness decision can not be taken without proper discussion and thinking process. Due to discussions among partners the maintenance of bussiness secrets are difficult.

(5) Difficulty in Share Treansfer : In partnership firm, a partner can not transfer his share to other person easily. Share transfer to another person require the consent of all partners.

(6) Delay in Decision Making : According to the law, each partner can take part in management of the firm. Due to internal disputes and disagreement among partners decision taking process is delayed. As a result the management becomes weak. Due to internal disputes many partnership firms may dissolve.

(7) Short Life Span : For the reason of death, insolvency or loss of mental balance of any partner the partnership comes to an end.

5 3 5 Types of Partners :

(1) Active Partner : According to partnership Act the person who becomes a partner and takes keen part in the management is called an **active partner**. Such partner gets his agreed share in profit-loss. For the activites of the firm, he is called an agent of other partners.

(2) Sleeping/Dormant Partner : The person who become a partner by the partnership deed and bears loss or profit but he does not take active part in management of the firm, then he is called **Dormant or Sleeping** partner. Though he is an inactive partner but like other partners his liability in the firm is unlimited.

(3) Nominal Partner : For quick growth of new establishing firm and to stay alive in tough competition, if a wellknown person allows his name to be used by the firm, then that person is called a nominal partner. Nominal partner dose not bring captial in the firm. He only allows his name to be used for the firm. So the goodwill of the firm increases; But his liability like other partner remain unlimited.

(4) Partner in Profit Only : If a person is made a partner in the firm to take advantage of his special skill, knowledge and experience, then such person is called partner in profit only. Partner in profit only may or may not bring in capital but he is entitle for profit. He has not to share to loss of firm.

(5) Partner by an Estopple or Holding Out : The person who has not signed the partnership deed, dose not bring capital and dose not share the profit ; but on the basis his behaviour, when a third party assume him as a partner, then he is called partner by Estopple or Holding out. Though he can not take part in management and profit. As third party dose bussiness with the firm, after taking his credit his liability become unlimited.

(6) Minor Partner : According to partnership act only an adult person is able to sign the partnership deed. Therefore only an adult person can become a partner. A minor can not.

If any of partner dies, then his minor child can be made a minor partner. A minor partner has no liability to pay the debt of the firm. Creditors can not take the personal property of a minor partner. When he become an adult and if he desires then he can become a partner just like other partners.

5 3 6 Types of Partnership Firm :

Types

(A) According to Time Limit	(B) According to Liability	(C) According to Registration
(1) Partnership at Will	(1) Partnership firm with limited liability	(1) Registered partnership firm
(2) Term Partnership firm	(2) Partnership firm with unlimited liability	(2) Unregistered partnership firm
(3) Partnersh firm for a specific work		

(A) According to Time Limit :

(1) Partnership at Will : In this type of partnership firm the lifespan of firm depends upon the wishes of the partners. There is no time limit. The firm exists till there is unity and agreement among partner. If any one of the partner wishes to dissolve the firm, then according to law, by giving notice he can bring the dissolution of firm.

(2) Term Partnership : When in partnership deed the time limit of partnership is mentioned,

then it is called term partnership. After completion of time limit the firm is dissolved automatically. Still if all partners agree, then time limit can be extended further.

(3) Partnership firm for a Specific work : According to partnership deed when a partnership firm is established for completing a specific job, then it is called partnership firm for a specific work. After completion of specified work, the firm is dissolved automatically. E.g. Partnership firm for the construction of Bridge, Road, Canal etc.

(B) According to Liability :

(1) Partnership Firm with Limited Liability : This is a special type of partnership firm. Excluding one partner of firm, all other partners liability can be kept limited.

(2) Partnership Firm with Unlimited Liability : In this type of partnership firm, the liability is unlimited for all partners. If debts of the firm increase more than the asset of the firm then each partner has to pay the debt of bussiness even by selling personal properties.

(C) According to Registration :

(1) Registered Partnership Firm : The Partnership firm which is registered with the Registrar of firms, then such firm is called a Registared partnership firm. When a partnership firm is registered such firm can approach court of law for the recovery of debt from a third party/person. It is not compulsory to register a partnership firm but it is advisable.

(2) Unregistered Partnership Firm : When a partnership firm is not registered with Registrar of Firms, it is called unregistered partnership firm. For such firm it is difficult to recover their debts through court of Law.

5 3 7 Registration of a Partnership Firm : Registration of Partnership firm can be done according to partnership act 1932. Registration of firm is not compulsory. But there are certain disadvantages, if registration is not done. Therefore registration of firm is advisable.

The state in which the firm is situated, there is a registrar of firm which is an appointed officer by the state government. For registration, necessary informations are to be filled in by all the partners and the form is to be submitted to the Registrar by paying fees.

(I) Details included in registration form :

(1) Name and Address of the firm

(2) Branches of the firm

(3) Name, Address and Telephone numbers of partners.

(4) Date of admission of each partner.

(5) The ratio of profit & loss of each partner

(6) Details regarding the capital of partners.

(7) Duration of the firm

After considering above details the Registrar registers the firm and issues the certificate.

(II) Advantages of Registration of Firm :

(1) For recovery of firms dues, the firm can file a claim in the court of law.

(2) Partner of the firm can file a case in court of law against other partners or firm.

(3) A partner can demand justice from the court of law for his right and share.

(4) The retiring partner, by giving notice to public, can free himself from his liabilities.

(5) The existence of the firm becomes, public through Registration.

5 3 8 Partnership Deed : Partnership is a relationship originating from the Partnership deed. This deed or agreement can be in written form or oral. Written agreement is preferable.

Details Included in Partnership Deed :

- Name and Address of Firm
- Name, Address, Age, Type and Telephone number of partners
- Purpose and type of business of the firm
- Date of establishment and duration of firm
- Detail of partner's capital and the interest on capital, if to be mentioned
- Partner's borrowings, Interest on borrowings and their Limits
- Rate of Interest on loan given by partners
- Ratio of profit-loss distribution
- Distribution of work among the partners
- Details of salary, commission or other facility for partners
- Provision for accounting and book-keeping of partnership firm
- Provision of power for opening bank account and for banking transactions
- The method of valuation of goodwill
- Provision of Intermediatory for solution of disputes and difference of opinion
- Signing authority for various documents
- Provisions for admission of new partner and retirement of old partner
- Rights and Duties of Partners
- Provisions for admission of a minor partner
- Provisions for settlement of account at time dissolution of the firm

The above details can be shown in written partnership deed. In case of absence of partnership deed, the Partnership Act comes in to force automatically.

The Difference between Sole Proprietorship and Partnership Firm :

Sr No.	Basis of Difference	Sole Proprietorship	Partnership Firm
(1)	Meaning	When a person wishes to establish the business, arranges capital and bears loss and profit by himself it is called sole proprietorship.	Partnership is a relation between two or more persons who have agreed to run business by all, or by one, or on behalf of others and agree to share the profit-loss
(2)	Number of members	There is only one person	Minimum two persons. According to companies Act 2013 clause no 464, Number of partners in partnership firm cannot be more than100 members. As per Government decision According to companies Act(Year 2014) clause No.10 (Miscellaneous Rule) number of maximum partners in partnership firm is 50.
(3)	Capital	Capital is brought by the owner.	Partners bring capital as per the partnership deed.
(4)	Establishment	Any person can establish a lawful bussiness	Establishment is by oral agreement or written agreement.
(5)	Decisions	In sole proprietorship, as there is only one owner, decision can be taken quickly.	In partnership firm, as there are more than one partner, there is a delay in taking decision.
(6)	Profit-Loss	Only the owner has to bear Profit-Loss	Profit-Loss is distributed among the partners as per partnership deed.
(7)	Registration	No provision for Registration.	As per partnership Act registration can be done ; but not compulsory.
(8)	Maintainance of secrecy	As there is only one owner secrecy maintained.	As there are more than one partner maintenance of secrecy is less.
(9)	Transfer of Share	As and when owner decideds he can transfer the share.	If there is consent of all partners then only a partner can transfer his share.
(10)	Risk	Risks of business are borne by the owner.	Risks of firm are distributed among the partners.

What did you learn in this chapter

(1) Sole Proprietorship :

Meaning : When only one person wishes to establish the business, arranges capital and bear the Profit-Loss by himself then it is called sole proprietorship.

Characteristics : Easy in Establishment, low capital, Administrative power, Work independence and quick decisions, Personal contact, Flexbility, Less burdan of Incometax.

Advantages : Easy in establishment, low capital, maintenance of secracy, quick decisions, personal contact, flexibility, Less burdan of Income tax.

Limitations : Limited capital, Short life span, Limited working efficiency, Possibility of wrong in decisions and Non-availability of the advantages of trading on large scale.

(2) Bussiness run by Hindu Undivided Family :

Meaning : Business run by Hindu Undivided Family which is received as a inheritance according to Hindu law is called HUF Firm.

Characteristics : Comes in to existance by Hindu Law, the senior most person of family manages the business and is called karta. Field of operation is independent. Membership is by birth. Financial control is in the hands of karta. Liability of karta is unlimited whereas other members have limited liabilities. Difficulty to bring more capital, only adult member can be declared insolvent.

(3) Partnership :

Meaning : Partnership is a relation between persons who have agreed to run business jointly or on behalf of others and have agreed to share the profit of bussiness.

Characteristics : Relation is on the basis of an agreement, Process of establishment is easy, number of partners, the purpose is to earn profit, partners bring captial according to partnership deed. Business is managed by any one or more than two or all partners according to the partnership deed. If the assets of the firm are not sufficient to pay the debts, then debts are paid from the personal properties of partners, transfer of share is through the consent of all partners. Life span of a firm is limited.

Advantages : Process of establishment is easy and less expensive, efficient management, increase in goodwill of firm, more capital can be brought as compared with sole proprietorship, advantage of division of labour, possibility of erroneous decision in less, flexible, protection to minority, direct contact with customers as there are more than two partners. Decentralisation of financial control. As the Profit of the firm is distributed the burden of income tax is less.

Limitations : Limited capital, all partners have unlimited liability excluding a minor partner, possibility of difference of opinion and disputes, delay in decisions, life span of firm is less then other forms of bussiness organisations.

Types of Partnership : Active partner takes active part in the management. Inactive partner does not take part in managment. Nominal partner is one, who allows his name to be used by the firm. Profit partner is one who offers benifits to the firm by his skill, knowledge and experience. He does not share loss.

Partner by Estopple or Holding out is the one who is by his actions is considered to be a partner by a third party. Such partner does not take part in management or in profit and loss. Minor partner - if any partner dies then his minor is made partner.

Types of Partnership Firms

(a) According to time limit : Voluntary partnership, life span of firm depends upon the wishes of partner. Time limit Partnership. Time limit if decided in advance. After predecided time period the firm is dissolved. Partnership for a specific job - Firm is established to complete a specific job. On complition of job the firm is dissolved.

(b) According to liability : Firm with limited liability. Liability is limited up to invested capital. Firm with unlimited liability - one has to sell even personal properties to pay the debts of the firm.

(c) According to Registration : Registred Partnership - It is registered with the Rigestrar of Firms according to partnership Act. Unregistered Partnership - such firms which are not registered with registrar of firm.

Registration of Partnership Firm : According to partnership Act 1932. It is not compulsory to register the firm. But there are certain disadvantages in not registering the firm. Therefore it is preferable to register the firm.

Details included in Registeration of Partnership firm : Name of firm, address of firm, Partner's Name, Address, Phone number, Date of admission, Ratio of Profit-Loss, Time limit of the firm and details of capital invested.

Partnership Deed : Partnership is a relation arising out of an agreement/deed. Agreement can be in written or in oral form. In a written agreement the following details are included.

Name of firm, partner's name, address, phone numbers, age, purpose of firm and type of bussiness. date of starting the bussiness and time limit, partner's capitals and rate of interest to be paid on their borrowings, rate of interest on loan given by a partner to the firm, work distribution, provisions for accounting and bookkeeping, provisions for an intermediary to solve the disputes the power to sign important documents, the provisions for admission and retirement by a partner, duties of partner and rights, provisions for admission of a minor partner, provisions for settling the account at the time of dissolution of the firme etc.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) Which is the oldest form of Business enterprise ?

(a) Sole Proprietorship (b) Partnership

(c) Co-operative Society (d) Company

(2) In which form the owner, establisher and manager is only one ?

(a) Joint Enterprise (b) Government Company

(c) Co-op. Society. (d) Sole Proprietor

(3) The firm of Hindu Undivided Family is managed by whom ?

(a) Owner (b) Karta

(c) Manager (d) Partner

(4) In the firm of Hindu Undivided Family, how one gets the membership ?

(a) By Agreement (b) By Birth

(c) By Investing Capital (d) By Managing

(5) When did the Indian Partnership Act came in to existance ?

(a) 1932 (b) 1956 (c) 1960 (d) 2013

(6) What is the minimum number of partner in Partnership firm ?

(a) 2 (b) 3 (c) 5 (d) 7

(7) What is the maximum number of members in a Partnership firm at present ?

(a) 20 (b) 30 (c) 15 (d) 50

(8) According to Indian Partnership Act the Registration of Partnership firm is .....

(a) Compulsary (b) Not compulsary

(c) Not essential for interest (d) Not in the interest of firm

(9) Partnership created for doing Bussiness with time limit means .....

(a) Firm with limited liability (b) Voluntry partnership

(c) In active partnership firm (d) Partnership firm with time limit

(10) The firm whose life span is depend upon the wishes of partner, such firm means .....

(a) Time limit Partnership (b) Voluntary Partnership

(c) Nominee Partnership (d) Inactive Partnership

Answer : (1) (a) (2) (d) (3) (b) (4) (b) (5) (a) (6) (a) (7) (d) (8) (b) (9) (d) (10) (b)

2. Answer the following questions in one sentence each :

(1) Who is called a sole proprietor ?

(2) How is the liability of owner in sole proprietorship ?

(3) Who is called Karta ?

(4) In Hindu Undevided Family how is the liability of Karta ?

(5) How decision are taken in a Partnership firm ?

(6) Who manages the Partnership firm ?

3. Answer the following questions in short :

(1) In sole proprietorship, how unlimited liability is harmful to the owner ?

(2) How is it possible to maintain secrecy in sole proprietorship ?

(3) What is unlimited liability ?

(4) Give defination of partnership according to partnership Act 1932.

(5) When can a minor become a partner ?

(6) Who is called the partner by Estopple ?

(7) Who is called a nominal partner ?

(8) What is a Partnership deed ?

4. Answer the following questions in brief :

(1) Give the meaning of sole proprietorship and explain the characteristics.

(2) Give the meaning of partnership firm and list out the characteristics.

(3) 'Sole proprietorship is a training school of business' Explain.

(4) Each Partner is an agent of other partner - Explain this statement.

(5) Clarify the difference between sole proprietorship and a partnership firm.

(6) Explain the advantages of registration of a partnership firm.

5. Answer the following questions in detail :

(1) State meaning of Hindu Undivided Family and clarify the characteristics.

(2) Explain the advantages and limitation of sole proprietorship.

(3) Explain the limitations of partnership firm.

(4) State the details to be included in partnership deed.

●

6 Forms of Business Organisation-2

What will you learn in this chapter

(I) Co-operative Society

6.1 Meaning

- 6.1.1 Characteristics
- 6.1.2 Advantages
- 6.1.3 Limitations

(II) Joint Stock Company

6.2 Meaning and definition of company

- 6.2.1 Characteristics
- 6.2.2 Advantages
- 6.2.3 Limitations
- 6.2.4 Types of company
  - (A) Statutory company.
  - (B) From the view point of number of members
  - (C) From the view point of control
  - (D) From the view point of place of registration.
- 6.2.5 Procedure of Formation of Company.

6.3 Difference between Partnership and Company.

6.4 Difference between Private Company and Public Company

6.5 Difference between Co-operative Society and Company.

Introduction :

Sole proprietorship, Partnership and Company are three forms of business organisation from the point of view of their primary objective of profit. All these three forms can exploit the customers through various means to get profit e.g. providing low quality goods, charging high price, black marketing of goods etc. Though co-operative society is a form of business organisation, it differs from the other forms of business organisation due to its special characteristics. Put in to execution the slogen **No progress without co-operation.** It comes in to being with the objective of **Each for all and all for each.**

(I) Co-operative Society

6.1 Meaning

Co-operative society is a voluntary form of business organisation. Where in persons with common interest get associated voluntarily. The individuals form a co-operative society to achieve their definite objective. The objective of a co-operative society is to promote the economic interest of the members through co-operation among the members. In simple words the definition of co-operative society is as follows : **Co-operative society is a form of business organisation in which individuals get associated for the upliftment of their economic interests on equal basis.**

6 1 1 Characteristics :

(1) Voluntary Association : It is a voluntary association of individuals. Individuals join in the Co-operative society on the basis of equity.

(2) Easy Formation Process : The formation process of a Co-operative society is easier than that of a company. Minimum ten persons join together and get it registered with the Registrar of Co-operative Society under Co-operative Society Act. With registration, the society gets a separate legal identity.

(3) Equality of Members : Members have equal right and equal opportunity in the co-operative society. There is no distinction among the members due to capital investment or for any other reason.

(4) Separate Identity : With the registration, the co-operative society gets a legal separate identity from its members. Entry or Exit of the member does not affect on its existence.

(5) Democratic Management : A Co-operative society is managed by the representatives, elected by the members. In company voting right is per share, but in the Co-operative society voting right is per member. Significance is not to capital but significance is given to man in Co-operative society. Any member can contest the election of executive committee, can participate in management. The management of the Co-operative society is really democratic as compared to a Company. Hence, **Co-operative society is called a training school of democracy.**

(6) Main Motive of Service : The main objective of co-operative society is to serve members. Profit is a secondary objective. Economic upliftment of the members is through service motive. Co-operative society attempts to raise the living standard of the members and make them self reliant E.g. the aim of a consumers' co-operative society is to provide the goods of proper quality at a fair price.

(7) Fair Distribution of Profit : Inspite of motto of service, if there is **excess of income,** the profit is distributed among the members of society subject to the provisions of law. Residual profit is utilized for the welfare of the members of society.

(8) Low Price of Share : Person with low income can purchase share and become the member of society, as the price of share of co-operative society is low. Sometimes, instalment facility is also provided to member instead of paying full amount at once.

(9) Voting Right Per Member : Each member is entitled to a single vote regardless of the number of shares held by him. Representatives are elected on the basis of the principle of one member one vote. Conference and training classes are planned to promote equality and brotherhood and to add knowledge among the members.

(10) Separate Institution From Politics and Religion : Membership of co-operative society is open to all irrespective of religion, caste and sex. A co-operative society cannot exist on the political or religion principle. Thus, Co-operative society is separate from politics and religion.

(11) Unrestricted number of members : There is no restriction on the numbers of members so that as many persons as possible can become members of society for their economic upliftment.

6.1.2 Advantages :

(1) Easy Formation Process : No lengthy legal formalities are required for the formation of co-operative society. Only ten persons come together voluntarily and can get it registered with the registrar of co-operative societies.

(2) Perpetual Existence : As soon as a co-operative society is registered, it gets a separate legal existence from its members. Death, insolvency or resignation of the members do not affect the existence of society. In this sense, society enjoys long life.

(3) Open Membership : The membership is open to all those who have common interest. Religion, cast, sex or economic condition do not become obstacles in getting membership.

(4) Limited Liability of the Members : The liability of the members of the society is limited to the shares purchased by them.

(5) Government Assistance : Financial assistance is provided by the government to society for the member-oriented and services oriented activities. This assistance is in the form of loan, grant and subsidy.

(6) Democratic Management : Each member of the society is entitled to give a single vote, per person. Decisions are taken by majority. Every member has a right to contest election, to cast vote, to participate in discussion and to elect representatives. The executive committee elected by the members manage the society in democratic manner.

(7) Less Administrative Expenses : The co-operative society is based on the principle of thrift. Honorary services of members is available in the management. Management is also economical and advertisement expense is not incurred.

(8) Special Class of Customers : Mostly the members are the customers. Members are specific and goods are sold only to them.

(9) Strong Competitors Against Trading Institutions : Sometimes trading institutions in lure of more profit, indulge in adulteration, cheating, black marketing etc. A co-operative society can stand as a strong competitor against trading institutions, because a co-operative society ensures economic upliftment, social and economic justice to the members and addition to this, it is free from unfair trade practices followed by trading institutions.

(10) Welfare Activities for the Society : Co-operative society conducts welfare activities for the society like arrangement of medical diagnosis camp at low fees or free of cost. providing and maintaining services of dispensaries, schools and gardens.

(11) Training School for Democracy : Democracy predominates in the management of the society. The significance is given to human beings rather than capital. Democarcy remains alive as the significance of the members is maintained. Thus co-operative society is the training school for providing education of the ideal principles of democratic management.

(12) Economic Upliftment and Growth of Members : Co-operative society gives important contribution towards the growth of its members. E.g. consumer's co-operative societies supply day to day quality consumable products at fair price, prevents economic exploitation of customers by middlemen. In the same way the co-operative societies of producers supply raw materials, equipments, tools etc. at fair prices to members. Small producers can produce easily and can realise economic growth. Co-operative societies have achieved much progress in the fields like sugar, milk, leather and raw cotton.

6 1 3 Limitations :

(1) Limitation of Capital : It is difficult to raise large amount of capital. Limitation of capital because of low price of share, members belonging to poor class and less attraction to purchase share due to is voting right per member.

(2) Lack of Efficient Management : The Directors of society who are the representatives of the members provide honorary services. They may not take personal interest in the management and administration of society due to honorary service, Inefficiency may enter in the management of the society due to lack of specialised knowledge, business experience and time. Mismanagement takes place due to groupism and personal interest.

(3) Political Interference : Various political parties directly or indirectly attempt to get control over the society. If the society functions under political influences, business freedom is jeopardised. As a result democratic value are jeopardised.

(4) Non Co-operation Among the Members : Non co-operation enters in the co-operative institution, when there is doubt, discord, conflict, groupism, selfishness among the members. As a result, even though co-operative society is an organisation of the individuals with common interest, it cannot get the benefits of co-operation.

(II) Joint Stock Company

Large scale production in anticipation of demand started after industrial revolution. The risk increases along with increased needs of large scale capital. In these circumstances, naturally sole-proprietorship and partnership firm are not suitable as forms of business organisation. Unlimited liability, limitation of capital, short life etc. are the main limitations of sole-proprietorship and partnership. As a solution to the problems of large need of capital for large scale activities along with the security of capital, distribution of liability and risk, efficient management, new form of business organisation emerged in form of Joint stock company. We shall identify in short as a company. The trade and industry got rapid momentum due to development of company form. Hence the company is known as the engine of economic growth. companies Act. 1956 was inforce for the regulation on companies in India. Now Companies Act 2013 is introduced from 01-04-2014

6 2 Meaning and Definition of Company

Company is an artificial person coming into existence by law, with common goals. Company is an artificial, invisible and intangible person in the eyes of law. As per the Companies Act 2013, **"Company means company registered under this act or under any former act.** (This definition makes it clear that a company is a creation of law.)

6 2 1 Characteristics

(1) Legal Personality : Company gets a separate legal personality with its registration. Company can sue in its own name, can enter into contract and can be sued against the company.

(2) Perpetual Existence : Company has a separate legal entity by law. It is not affected by the circumstances like death, insolvency of the members. A company can be brought to an end only through liquidation procedure.

(3) Division of Capital in Small Fraction : The Capital of company is divided into small parts. Each part is called share. A company can raise capital funds on large scale through the issue of shares. The purchaser of share is called shareholder of the company.

(4) Easy Transfer of Share : Shareholders can sell and purchase the share of a company subject to the provisions of the company and law. Transfer of share is an important characteristics of a company.

(5) Common Seal : The Seal is affixed on the contracts, share certificates, documents and the day to day transactions of the company to express the consent of the company.

(6) Management : As the company is an artificial person, the board of directors manage the company subject to the Memorandum of Association and Articles of Association. The shareholders elect their representatives among themselves who is called Director. As a group, directors are known as a Board of Directors, who manage the company. Thus ownership and management are separate.

(7) Status of Member : Neither a member can enter into contract on behalf of the company nor can a company be liable for the act of members, as the management and ownership are separate and also the company has separate legal entity. But a member can enter into contract with the company.

(8) Number of Member : Minimum number of members in private company is 2 and maximum numbers of member is 200. Minimum number of member is 7 while there is no restriction to the maximum number of members in a public company.

(9) Liability of Members : Liability of members may be limited or unlimited. Liability of the members is limited to the share held by them in case of company limited by share. Companies with unlimited liability are rarely seen in reality. Liability of the members is Limited or Unlimited is stated in the Memorandum of Association.

(10) Fundamental Rights : A company gets a separate legal entity by law, but company is not a citizen of the country. Hence, company has no fundamental right as enjoyed by the citizens.

(11) Voting Right per Share : Members of the company can cast vote on the basis of the number of share they hold. Easy transfer of share and voting per share are special characteristics of the company.

6.2.2 Advantages :

(1) Huge Capital Fund : A company divides its capital into small fractions. Attraction to purchase more number of share always remain, because voting right is per share. As a result company can raise large capital.

(2) Easy Transfer of Thares : The member of the company can sell shares and get money whenever he desires and can purchase shares as required, due to easy purchase and sale of share in a recognised stock exchange. Althogh restriction is laid down on the transfer of share of a private company.

(3) Limited Liability of the Members : The liability of the members is limited upto the face value of share in company limited by share. In circumstances of liquidation or winding up of a company they have not to pay more money than the face value of the share.

(4) Separate Identity and Perpetual Life : Company has perpetual life due to separate identity and entity from its members by law. The existence of company is not affected even in the circumstances of death, insolvency, insanity of members or in the case of transfer of shares by members.

(5) Advantages of Large Scale : Large scale purchase-sale and production are possible for a company.

The benefits of large scale production is obtained at low cost due to large capital fund, modern machineries, expert services, research etc. Hence, company is considered as an engine of economic growth.

(6) Efficient Management : Management of company becomes professional and efficient due to expert services and efficient directors.

(7) Democratic Management : The company is managed democratically by elected representatives of members called Directors. Decisions are taken by the majority in the general meetings of the members.

(8) Benefits to Society and Nation : Public invest their savings in the share, debentures and public deposits of the company. Saving is encouraged. They receive dividend and interest as income on investment. Advantages of large scale production are also available to the society. Employment opportunities increase. Some companies spend a part of profit for the benefits of society like art, garden, school, college, play-ground etc. Provides many facilites voluntarilly to the employees too. Companies pay crores of rupees to the government by way of taxes. This amount is also used for the development of the country.

6 2 3 Limitations :

(1) Lengthy and Expensive Incorporation Procedure : The formation procedure of company is lengthy, complicated and expensive in comparison to sole proprietorship and partnership. Company has to submit the documents like memorandum, articles before the registrar of companies to obtain the certificate of incorporation. For this, experts services are obtained. In addition to the registration fees to the registrar, experts are to be paid high fees for their services.

(2) Legal Restrictions : A company comes into existence by law. Company has to observe legal provisions during its lifetime. The statements, reports, accounts are to be submitted to registrar of companies regularly at a certain time. Some provisions of SEBI (Securities and Exchange Board of India) are to be fulfilled.

(3) Increase in Administrative Expense : Administrative expense increases due to high fees to experts, attractive salary of the specialised officers, expenses on research.

(4) Autocratic Management : Though many rights are entrusted to the members by law, they enjoy nominal power. Due to voting right per share, some person gets control through groupism and impose their desires. They use company's money, assets and secret information for their personal interest and selfishness.

(5) Difficulty in Maintaining Secrecy : Company has to get audited compulsorily its final accounts and to furnish to the members and registrar of companies. Other certain information like redeemption of debentures, bonus shares also to be published as per law. Thus, it is difficult to maintain secrecy.

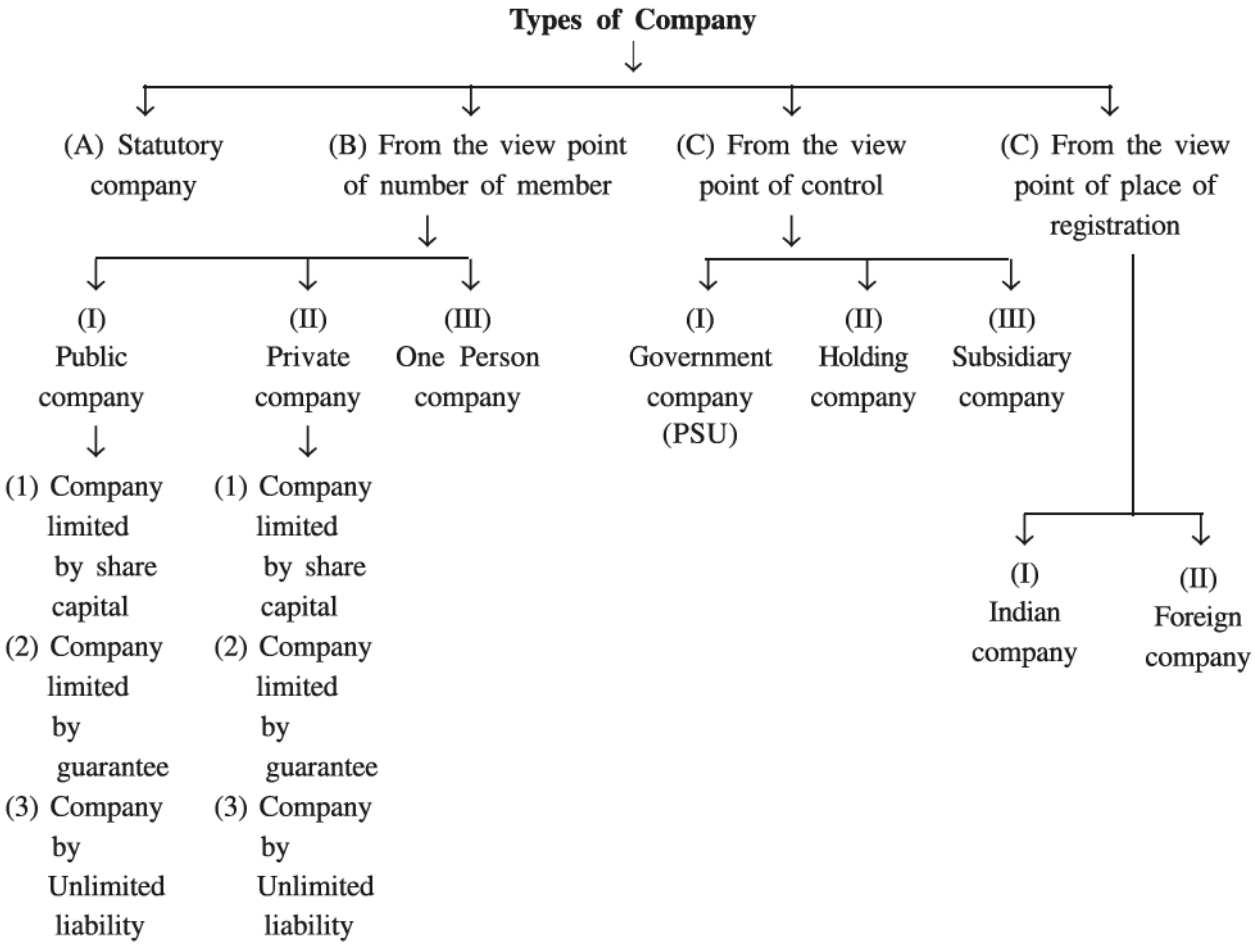
(6) Delay in Policy-Decisions : The consent of members is essential in making policy decision. For this meeting of the members is to be called. Notice of the meeting is to be furnished to members in advance before certain days. Resolution is to be passed in meeting. For all these time is wasted and decisions are delayed.

(7) Less Flexibility : Lesser element of flexibility is there in company form as compared to proprietorship and partnership. A resolution is to be passed in general meeting to make important changes. Approval of central government and court is required in some circumstances.

(8) Encouragement to Speculation : Artificial changes in the stock market encourage speculation as the directors are acquainted with the secret information of the company. The speculation in share affects the economic interest of small investors.

(9) Disadvantages to the Society : Society has to become the victim of strike of employees, lock-out by employers etc. Monopolistic evils enter as more importance is given to capital than man. Hence, unequal distribution of income and wealth arises in society.

6 2 4 Types of Company



(A) Statutory Company : It comes into existence by special law of parliament or legislative assembly, e.g. Reserve Bank of India, Life Insurance Corporation of India.

(B) From the View Point of Number of Member :

(I) Public Company : As per Companies Act, a company which is not a private company is public company. In which minimum 7 members are necessary. There is no restriction on maximum number of members.This company can give invitation to general public to purchase its shares and debentures. There is no restriction on transfer of shares. There are three types of public company from the view point of liability of members.

(1) Company Limited by Share Capital : The liability of the member of company is limited upto the face value of shares of the company purchased by them. This company has to insert the word 'Limited' at the end of its name.

(2) Company Limited by Guarantee : The liability of the members of the company is limited upto the amount guaranteed by them. Member has to pay guaranteed amount at the time of liquidation of the company.

(3) Company by Unlimited Liability : The Liability of members is unlimited in this type of company. If the debts of company exceed its assets, the members become liable personally. In case of liquidation of the company members will have to pay contribution from their personal assets.

(II) Private Company : Private company is a company which has minimum 2 members and maximum 200. There is a restriction on the transfer of shares of private company. It cannot invite public to purchase its shares or debentures. There are three types of private company from the view point of liability of members.

(1) Company Limited by Share Capital : The liability of the members is limited upto the face value of share purchased by them. Limited private company has to insert the words **'Private Limited'** at the end of its name.

(2) Company Limited by Guarantee : The liability of members of the company is limited upto amount of guarantee given by them. Members have to pay the guaranteed amount at the time of liquidation. This company has to insert the word **'Private'** at the end of its name.

(3) Company with Unlimited Liability : The liability of the members of the company is unlimited. If the debts of the company exceed its assets, members become liable personally. In case of liquidation of the company, members have to pay contribution from their personal assets. The word **'Private'** is to be inserted in the name of this company.

(III) One Person Company : One person company means a company in which one person is a member. One person (Private) company, can enter into the contract with director who is its member. A written consent of such person is essential in one person company. In addition the memorandum and articles are to be presented before the registrar of companies at the time of incorporation of company. There was no provision for one person company in the Companies Act 1956, but a private company can be one person company as per the provisions of the Companies Act 2013.

(C) From the View Point of Control :

(I) Government Company : If the minimum 51 % of the paid up capital of a company is held by (1) Central government or (2) State government or (3) more than one state governments or (4) Central government and one or more than one state governments is called Government Company. e.g. Ashok Hotels Limited, Bharat Heavy Electricals Limited (BHEL), Maha Nagar Telephone Nigam Limited.(MTNL).

(II) Holding Company : Holding company means a company which holds more than 50 % share of other company and has the right to appoint majority of directors in that company.

(III) Subsidiary Company : Subsidiary company means the company of which more than 50 % shares are held and the right to appoint majority of directors is with the holding company.

(D) From the View Point of Place of Registration :

(I) Indian Company : The company which is registered in India, under the Indian companies Act or under the special act passed by Parliament is called Indian company. Indian company can be public company, private company or government company.

(II) Foreign Company : A company which is registered outside India, whose registered office is not in India and whose place of business is in India is called Foreign company.

6 2 5 Procedure of formation of Company :

Procedure of Formation of Company

↓

(A) Promotion

↓

(1) Idea of the promotion of a company

(2) Primary and detailed investigation

(3) Mobilisation of resources

(4) Financial arrangement

(B) Procedure to obtain certificate of incorporation

↓

(1) Memorandum of association

(2) Articles of association

(3) List of directors

(4) Written consent of directors

(5) Declaration of interest in other company

(6) Statement of fulfilment of provisions of law

(A) Promotion : The idea to bring a company into being and to make preparations for the same. The executor of idea of promotion of a company is called Promoter. At this stage, following points are to be considered by promoter.

(1) Idea of the Promotion of a Company : The idea of promotion arises in the mind of promoter. He considers to promote a company in order to implement a research or to place a new product in the market. Promotion is the brain - child of the promoter.

(2) Primary and Detailed Investigation : After having an idea of promotion of company the promoter has to under take business oriented empirical scrutiny in the direction of implementation. Selection for business location, profitability are to be evaluated.

After primary test a detailed analytical evaluation is essential. Information about capital, raw material, demand, equipments, facility of transport etc. are to be collected.

(3) Mobilisation of Resources : Promoter has to enter into contracts to obtain land, raw material, machinery, services etc. for the implementation of promotion.

(4) Financial Arrangement : It is to be considered from where and how to procure capital for procuring the equipments and assets. Newly established company raises capital through shares.

(B) Procedure to Obtain Certificate of Incorporation : Certificate of Incorporation is to be obtained from the registrar of companies for inception of company. Following documents are to be prepared and submitted before the Registrar of companies to obtain this certificate:

(1) Memorandum of Association : It is a basic document and constitution of a company on which building of a company is constructed. Provision of following clauses are compulsory in Memorandum.

(a) Name Clause : A public company with limited liability by the share has to insert the word **Limited** and a private company with limited liability by share has to insert words **'Private Limited'** at the end of its name. Company cannot adopt a name which resembles that of other company registered in India or which is detrimental to national interest.

(b) Address of Registered Office Clause : Company has to mention the address of the registered office so the registrar of companies and public can correspondence with company and jurisdiction of court can be fixed.

(c) Object Clause : It is most important clause of Memorandum. For what objective and what type of business is conducted by the company is stated in this clause. The company cannot perform activity except for the goal for which the company is established.

(d) Liability Clause : The Liability of the member is limited, unlimited or limited by guarantee is indicated in this clause.

In the case of one person company, whose name will be entered as a second person in case of death or incapability of doing contract of the original person.

(e) Capital Clause : Authorised capital of the company and its division among the share of the fixed value is stated.

(f) Association Clause : Minimum 7 members in a public company and minimum 2 members in a private company have to give a statement with their signature stating that, they desire to establish a company.

(2) Articles of Association : It is a document determining rules of internal administration of the company. Rules for the administration of company are mentioned in articles within the boundry of the Memorandum. It includes rights of members, share instalment, share forfeiture, powers of board of directors etc. Both the documents Memorandum and Articles become public documents after their registration.

(3) List of Directors : The list of persons who are ready to work as directors is to be registered before Registrar of companies along with their name, address, age, business, nationality etc. Minimum one person must be as a female director in the Board of Directors.

(4) Written Consent of Directors : Those persons whose names are mentioned as directors have to give a written consent that they are ready to work as directors.

(5) Declaration of Interest in Other Company : If the directors of company, manager, secretary or subscriber have interest in other company have to file a statement regarding it.

(6) Statement of Fulfilment of the Provisions of Law : The statement in a prescribed form is to be registered before the Registrar of Companies stating that, all the above legal provisions have been fulfilled for the incorporation of company.

Necessary registration fees are to be paid along with the above documents. After the scrutiny of the above documents the Registrar of companies records in the book of companies, if the documents are found satisfactory. The Registrar issues a **Certificate of Incorporation** after completing this procedure. The date which is stated in the Certificate of Incorporation is considered as the date of the commencement of the company.

Along with the issue of Certificate of Incorporation, the Registrar of companies allots the Corporate Identification Number (CIN) to the company. Which becomes identity of the company and it is mentioned on Certificate of Incorporation. Company has to preserve original documents and statement of information at its registered office till the winding up of the company.

Private company can start the business after completion of this procedure. While public company can allot the shares after fulfiling the conditions of minimum subscription through the issue of prospectus.

6 3 Difference between Partnership and Company

Sr. No.	Points of Difference	Partnership Firm	Company
(1)	Establishment process	Easy and voluntary registration. No separate legal entity	Lengthy and complicated. Compulsory registration. Separate legal identity
(2)	Number of members	Minimum two persons. According to companies Act 2013 clause no 464, Number of partners in partnership firm cannot be more than100 members. As per Government decision According to companies Act(Year 2014) clause No.10 (Miscellaneous Rule) number of maximum partners in partnership firm is 50.	Minimum 7 members and maximum unlimited in public company. Minimum 2 and maximum 200 in private company.
(3)	Capital	Can procure less capital comparatively	Can procure capital on large scale through issue of shares.
(4)	Transfer of part or interest	Partner can not transfer his part or interest without consent of other partners	Members can easily and freely transfer their shares. Though there is restriction on transfer of shares of the private company.
(5)	Liability	Liability of partners is unlimited	Shareholder are not personally liable for the debts of the company by limited liability
(6)	Management	Partner themselves manage the firm	Management of company is by directors elected by shareholders.
(7)	Life	Dissolution of partnership due to death or insolvency or insanity of any partner. Thus, life is short.	Existence of company does not end in the circumstances of death, insolvency or insanity of members. Thus, life is long.
(8)	Maintenance of secrecy	Secrecy of the business can be maintained.	Difficult to maintain secrecy.
(9)	Flexibility	It is flexible.	Flexibility is difficult.
(10)	Personal contact	Partners can maintain direct contact with employees and customers.	Lack of such a personal contact.
(11)	Winding up	End of partnership can be as per contract or the circumstances determined by law or at will of partners.	Winding up of a company is through fulfilment of law.

6 4 Difference between Private Company and Public Company

Sr. No.	Points of Difference	Private Company	Public Company
(1)	Number of members	Number of member is minimum 2 persons and number of member should not increase more than 200.	Minimum member is 7 persons and no restriction on miximum number.
(2)	Transfer of share	Private company puts restriction on the transfer of share through its Articles	Transfer of share is easy.
(3)	Invitation to Public	Cannot invite public to subscribe shares or debentures. Cannot issue prospectus.	Can invite public to subscribe into the shares or debentures by issue of prospectus.
(4)	One person company	Private company can be a one man company. One person company can enter into the contact with only one member who is a director.	Public company can not be a One Person Company and public company cannot do such contract.
(5)	Number of directors	There must be minimum 2 directors	There must be minimum 3 directors, of whom one director must be a woman
(6)	Name of company	**Private Limited** words are to be inserted after the name of a private company with limited liability and the word **Private** in the name of a private company with unlimited liability.	The word **'Limited'** is inserted after the name of the public company with limited liability.
(7)	Articles of Association	Articles of Association is to be prepared and get registered compulsorily with the Registrar of companies.	Model Articles stated in schedule-1 are applicable automatically in case, Articles are not prepared.
(8)	Minimum subscription	The provision of minimum subscription does not apply.	The provision of Minimum Subscription is applicable
(9)	Issue of New shares	Issue of new shares can be offered to the persons other than the existing members of the company.	Issue of new shares is to be offered first to the existing members of the company.

6 5 Difference between Co-operative Society and Company

Sr. No.	Points of Difference	Co-operative Society	Company
(1)	Meaning	It is a voluntary association of persons on the basis of equality to improve their economic condition	It is a voluntary association of persons to earn profit through legal business.
(2)	Motive	Main motive is service, economic development and upliftment of members. The motive of profit is subsidiary	Main motive is profit.
(3)	Number of members	Minimum 10 members and no provision for maximum number of members.	Minimum 7 members and maximum as many as in public company. Minimum 2 and maximum number of members upto 200 in private company.
(4)	Process of establishment	Process of establishment is easier than company.	Process of establishment is lengthy and complicated comparatively.
(5)	Management	Management is run in a democratic way. A single vote per member.	Democratic management is only in principle. The concept of democracy becomes illusive due to vote per share.
(6)	Issue of shares	Can issue shares carrying equal rights and of the same type	Can issue preference shares in addition to equity shares.
(7)	Transfer of shares and end of membership	No transfer of shares. Members can bring the end of membership by redemption of shares to society.	Shares can be transferred
(8)	Effect on share capital	Reduction in capital fund as the members can redeem the share to society.	No alteration in capital fund by the purchase and sale of shares by the members.
(9)	Use of profit	The profit is used to give dividend to members and for the benefit of members subject to the provisions of law.	Some part of profit is distributed as dividend to members.

What did you learn in this chapter

(I) Co-operative Society :

Meaning of Co-operative Society : Co-operative society is such a form of business organisation, where in persons get associated voluntarily for the upliftment of their economic interest on equal basis.

Characteristics : (1) Voluntary association (2) Easy formation (3) Equality of members (4) Separate identity (5) Democratic management (6) Main motive of service (7) Fair distribution of profit (8) low price of share (9) Voting right per member (10) Separate institution from politics and religion (11) Unrestricted number of members.

Advantages : (1) Easy formation (2) Perpetual Existence (3) Open membership (4) Limited liability of the members (5) Government assistance (6) Democratic management (7) Less administrative expenses (8) Particular class of customer (9) Strong competitor against trading institutions (10) Welfare activities for society (11) Training School for democracy (12) Economic upliftment and growth of members.

Limitations : (1) Limitation of capital (2) Lack of efficient management (3) Political interference (4) Non co-operation among the members.

(II) Joint Stock Company

Meaning : An artificial person coming into existence by law. Company is an artificial, invisible and intangible person in the eyes of law.

Characteristics : (1) Legal identity (2) Perpetual existence (3) Division of capital in small fractions (4) Easy transfer of shares (5) Comman seal (6) Management (7) Status of members (8) Number of members (9) Liability of members (10) Fundamental rights (11) Voting right per share.

Advantages : (1) Huge capital fund (2) Easy transfer of shares (3) Limited liability of the members (4) Separate identity and perpetual life (5) Advantages of large scale (6) Efficient management (7) Democratic management (8) Benefits to society and nation.

Limitations : (1) Lengthy and expensive incorporation procedure. (2) Legal restrictions (3) Increase in administrative expenses (4) Autocratic management (5) Difficulty in maintaining secrecy (6) Delay in policy matter decisions (7) Less flexibility (8) Encouragement to speculation (9) Disadvantages to the society.

Types of Company :

(A) Statutory Company

(B) From the View Point of Number of Members : (1) Public company (2) Private company and (3) One person company.

(C) From the View Point of a Control : (1) Government company (2) Holding company and (3) Subsidiary company.

(D) From the View Point of Place of Registration : (1) Indian company and (2) Forcign company.

Procedure of the Formation of Company :

(A) Promotion : (1) Idea of the promotion of the company (2) Primary and detailed investigation (3) Mobilisation of resources (4) Financial arrangement.

(B) Procedure to Obtain Certificate of Incorporation : (1) Memorandum of Association. (2) Articles of Association (3) List of directors (4) Written consent of directors (5) Declaration of interest in other company (6) Statement of fulfilment of the provisions of the law.

Difference Between Partnership Firm and Company : (1) Establishment (2) Number of members (3) Capital (4) Transfer of part or interest (5) Liability (6) Management (7) Life (8) Maintenance of secrecy (9) Flexibility (10) Personal contact (11) Winding up.

Difference Between Private Company and Public Company : (1) Number of member (2) Transfer of share (3) Invitation to public (4) One person Company (5) Number of directors (6) Name of company (7) Articles of Association (8) Minimum subscription (9) Issue of new shares.

Difference Between Co-operative Society and Company : (1) Meaning (2) Motive (3) Number of members (4) Establishment process (5) Management (6) Share (7) Transfer of share and end of membership (8) Effect on share captial (9) Use of profit.

EXERCISE

1. Select the correct alternative and write answer to the following questions :

(1) In a Co-operative society member **.....**

(a) can vote per share

(b) can vote per member

(c) can vote in proportion of capital

(d) can vote as per efficiency

(2) Co-operative society is called training school for what ?

(a) Service (b) Splendour (c) Autocracy (d) Democracy

(3) Co-operative society **.....**

(a) is the institution of capitalists

(b) has the motive of service to member

(c) has the motive of profit

(d) encourages speculation

(4) How many persons are required for the formation of Co-operative society ?

(a) 10 (b) 20 (c) 30 (d) 50

(5) The upliftment of the members predominates in **.....**

(a) Sole Proprietorship (b) Private company (c) Public company (d) Co-operative society.

(6) Co-operative society **.....**

(a) can not pay dividend

(b) can pay dividend in any proportion

(c) can pay dividend subject to the law

(d) can pay dividend subject to the permission of State and Central government.

(7) Which is considered as the engine of economic growth ?

(a) Sole Proprietorship (b) Partnership (c) Co-operative society (d) Company

(8) Which Companies Act is inforce in India at present ?

(a) 1912 (b) 1932 (c) 1956 (d) 2013

(9) How does a company express its consent ?

(a) By name (b) By common seal (c) By memorandum (d) By artificial identity

(10) In which document does a company state the liability of its members ?

(a) Memorandum of Association. (b) Articles of Association

(c) Membership letter (d) Contract letter

(11) What is the important feature of the company form ?

(a) Large scale capital (b) Legal identity

(c) perpetual entity (d) Easy transfer of share

Answer (1) (b) (2) (d) (3) (b) (4) (a) (5) (d) (6) (c) (7) (d) (8) (d) (9) (b) (10) (a) (11) (d)

2. Answer the following questions in one sentence each :

(1) state the meaning of Co-operative society ?

(2) Why do persons join a Co-operative society ?

(3) What is the main objective of Co-operative society ?

(4) When does a Co-operative society get separate legal identity ?

(5) Which type of Co-operative society provides day to day consumable goods to its members at fair price ?

(6) What is meant by 'vote per member' in Co-operative society ?

(7) Why is a Company called engine of economic growth ?

(8) What is the minimum number of members in Public company and Private company ?

(9) What does limited liability of the members of a company mean ?

(10) What is meant by one person company ?

(11) Give full form of SEBI.

3. Answer the following questions in short :

(1) Why is a Co-operative society called training school of democracy ?

(2) Under what circumstances non Co-operation can be created in co-operative society ?

(3) How is profit distributed in Co-operative society ?

(4) How do ownership and management differ in Company form ?

(6) What are benefits to society and nation by Company ?

(5) Explain any three characteristics of a Company.

(7) What is vote per share in a Company ?

4. Answer the following questions in brief :

(1) state the advantages of co-operative society?

(2) Clarify the limitations of co-operative society.

(3) Explain the types of company.

5. Answer the following qustions in details :

(1) Explain the meaning of Co-operative society and describe its characteristics.

(2) Give the meaning of Company and state its characteristics.

(3) Clarify the advantages and limitations of a Company.

(4) Explain the procedure for getting the Certifacate of Incorporation

(5) Distinguish : (a) Co-operative society and Company (b) Private company and Public company.

●

7 Public Sector, Private Sector and Global Enterprises

What will you learn in this chapter

Introduction

After independence, India has adopted mixed economy due to which there is a co-existence of public and private enterprises. In private sector business, the ownership rests on individual or group of individuals. Types of business Units are like individual ownership, partnership, co-operative society and joint stock company. Those units whose ownership, management and control rest in the hands of government are known as **public sector unit.** The ownership of such units are either partially or fully in the hands of central government or state government. Such units can be either government department or its part, could be set up through an act of Parliament. Through such enterprises government participates in the economic activities. Various objectives have been prescribed in the **Industrial Policy of 1956** for public sector and through that it was undertaken to speed up the industrialisation and development. The role of public sector was given more importance and along with that public and private sector were made complementary. There was a shift in emphasis in the **1991 Industrial Policy.** Government started disinvestment by selling stakes to private sector as and when required and accepted to offer greater autonomy to the private sector.

7 1 Public Sector

7 1 1 Meaning : Any enterprise, which is owned, managed and controlled by government is called public sector enterprise.

7 1 2 Characteristics

(1) Establishment of Basic Industries : The basic objective of setting up public sector enterprise is to provide basic infrastructure for a speedy industrialisation for which huge investment is needed. Immediately after independence, it was impossible for private enterprises to invest such huge amounts. Basic industries require huge investment in the initial stage, but returns in initial years will be low and hence private sector is not interested in ownership

of heavy industries. Government invests in such industries and makes it possible to achieve faster rate of growth.

(2) Elimination of Monopoly : When government owns industries, private monopoly vanishes.

(3) Balanced Regional Development : Private enterprises are not interested in investing in backward areas and government can play an important role in developing backward areas. For ex. government invested in Rourkela, Bokaro, Bhilai etc. in iron and steel industries and developed such backward areas.

(4) Objective of Social Welfare : Generally the objective of private sector is to maximise profit while public sector aims at achieving social welfare along with maximising profit. All sections of society receive benefits from public sector without any discrimination, by speeding up industrialisation basic industries are set up and through that the entire society will attain welfare.

(5) Low Level of Profit : Public sector provides services at very low level of profit. In the early years, even if public sector incurred losses, government has accepted. But after 1991, policy change led to an expectation that public sector should also earn normal profit.

(6) Maintenance of National Interest : Public sector is more suited for the protection of the national interest. For example the production of defence equipment is done by the government.

(7) Generation of Employment Opportunities : Developing country like India which is highly populated should have priority for employment generation. When investment of public sector increases, related industries also develop and that leads to employment generation.

(8) Increase in Economic Development of the Country : Every country needs economic development. Public sector industries create a base for further industrialisation. This will further increase economic development.

(9) Social and Economic Justice : The management of public sector is in the hands of the government and hence the implementation of government policies becomes essential. Hence we see positive trend of providing free or concessional service, job security, improving job conditions, labour laws are fully followed, priority to women is given etc. This helps public sector to provide social justice in a better way.

(10) Ideal Wages and Facilities for Employees : As the ownership of public sector rests with the government they pay decent wages to the workers. We can see better facilities given to employees of public sector as against private sector employees and strives to become an ideal employer.

7 1 3 Nature of Public Sector :

(I) Government Department (II) Public Corporations (III) Government Companies

(I) Government Department

Government always handles its various functions through different departments. Any public sector managed by the government is known as government department. A public sector unit is managed by government authority and all workers are treated as government employees. Government departments are either managed by central or state government and hence the rules and regulations of central or state government are be applicable. For example; Postal Department, Railways etc.

Characteristics :

(1) Financial Allocation : Government departments get financial allocation through the government budget. Their incomes are deposited in government treasury.

(2) Maintenance of Accounts : The maintenance of accounts of government department is done by the respective department and its audit is done by (CAG) i.e. The Comptroller and Auditor General.

(3) Appointment of Employees : The employees of the government departments are considered as government employees and hence their appointment and service conditions are the same as any other government employee.

(4) Government Management and Control : The management of government department and their control is directly through the minister concerned and through civil service officers.

(5) Responsibility : All responsibilities lies with the departmental minister and they are directly accountable to the Parliament or Legislative Assembly.

(II) Public Corporation :

Public corporation is that, which comes into existence through a special Act of either the parliament or Legislative Assembly. In this act corporation's authorities-duties, rights, responsibilites, service rules for employees and relationship with government department is mentioned. i.e. Life Insurance Corporation of India, Food Corporation of India, Gujarat State Textbooks Board etc.

Characteristics :

(1) Establishment : The establishment and management of public corporation is through a special act of either the Parliament or the Legislative Assembly. In this act, all objectives, powers, responsibilities and special facilities to public corporation are stated.

(2) Ownership : The ownership is either with the central or the state government or with both. Government decide the financial responsibility and profit sharing of these corporations. The burden of loss is naturally borne by the government.

(3) Capital Accumulation through Government : Government provides capital to this Corporation. They can also borrow capital from the government or the public, if needed.

(4) Seperate Identity : Public corporations has legal identity and it can command all the facilities structure like any other company.

(5) Managerial Autonomy : Ownership of public corporation lies with the government. Still it has complete autonomy. The minister does not interfere in the day today activities. The corporation gets enough freedom to take decisions and to implement them.

(6) Service Rules : The employees of public corporations are not bound by the service rules of the government employees. The job rules of the employees of corporation are determined by the concerned corporation and accordingly the employees will have to perform duties. Many times, government officers are sent on deputation to manage this corporation.

(7) Management Through Board of Directors : The Board of Directors manage the working of the public corporation. The government appoints the Board of Directors from celebrities, eminent personalities, prominent industrial experts, professionals etc. The Board of directors takes care of policy decisions. Managing director is responsible to implement the policy decisions and also takes care of day to day activites.

(8) Answerable to Parliament/Legislative Assembly : As periodical report has to be submitted to the Parliament/Legislative Assembly, corporation is unable to earn extra profit at the cost the public. As such Parliament and Legislative Assembly has control over these public corporations.

(III) Government Company :

The establishment and organisation of a government company is done on the basis of Companies Act. According to the Companies Act, the objective of Government Company is pure business and they compete with private companies. According to Indian Companies Act government companies are those which have government's contribution, at least 51%, in the capital. Government capital is that which is contributed by either the central government of state government or both or by one or more than one state governments. Hence the government can exercise its control and supremacy on government company. The shares of government in government company are in the name of the President of India. As the government is the single largest shareholder in these companies, it has maximum control and hence such a company is known as Government Company.

Characteristics :

(1) Establishment : These companies are set up according to the Indian Companies Act.

(2) Separate Identity : The government company has legal identity and hence it can sue or can be sued as individuals in the court of law. It can own property or enter into any contract with any individual.

(3) Capital : Government owns at least 51% share capital of these companies.

(4) Management : The managment of the government company is as per the guidelines of the Companies Act.

(5) Appointment of Employees : The employees of these companies are appointed on the basis of rules and regulations of the each company.

(6) Appointment of Members of Board of Directors : The Board of Directors are appointed by the government.

(7) Appointment of Auditors : For the maintenance of accounts and rules of audit government companies are exempted from the rules and regulations of the Companies Act. But the government appoints auditors who submit annual report in the Parliament/Legislative Assembly.

(8) Arrangement of Capital : Government companies accumulate capital from the shares issued to government and private shareholders as per requirement. It can sell shares to the private individuals too according to the requirements.

(9) Policy Decisions : The policy decisions of the government companies are taken by the respective ministers.

7.1.4 Comparison of the Government Enterprises :

Sr. No.	Basis	Government Department	Public Corporations	Government Companies
1.	Establishment	Through government Department	Special act of the Parliament/Legislative Assembly	By the government according to the provision of Companies Act.
2.	Legal entity	Does not have any separate identity from the government	Separate identity on the basis of law	Separate identity on the basis of law.
3.	Favourable in which sector ?	Public services and defence sector are suitable	For industrial enterprise and public services	For industrial enterprise and foreign venture companies
4.	Source of capital	Allocation from government budget.	Capital investment by the government	Minimum 51% share investment by government

5.	Working capital	Allocation from government budget	As per requirement it can raise funds	On the basis of requirement it can raise funds
6.	Responsibility	Related minister of the department	Responsibility lies with Parliament or Legislative Assembly	Responsibility lies with Parliament or Legislative Assembly
7.	Autonomy in management	No autonomy	Autonomy exists	Autonomy exists
8.	Employees	Employees are considered government employees and hence government rules have to be followed	Not government employees and hence the service rules can be framed by the corporation itself	Not government employees and hence the service rules can be framed the company it self
9.	Management	The officers of Indian Administrative Services take care of management	The Board of Directors and Managing Director take care of management and they are appointed by the government	Government appoints eminent personalities as Board of Directors
10.	Control	Direct control of the minister of concerned department	Parliament/Legislative Assembly has a direct control	Related ministry has control

7 1 5 Changing role of public sector : After the independence, it was expected that public sector would play a major role in fulfilling certain objectives of an economy. Public sector was expected to create systemtic facilities or structure for the development of key industries which are necessary for economic development. In certain areas, huge investments are needed, where profitability is low, private sector will not prefer. In such areas public sector should play an active role. Public sector created infrastructure and produced necessary raw materials and services. The five year plans also gave very high importance to the public sector.

After 1991, the policy of liberalisation privatisation and globalisation was adopted due to which the role of public sector has changed. Public sector started competing with private sector. More importance given to Profitability. Those public sector units which were making continuous losses, started making structural change & few public sector units were closed. Equity shares of certain public enterprise were given to the general public or sold to private companies. Government appointed various committees to make unproductive public sector units more productive. The era of 1950-1990 was important for public sector.

7 2 Private Sector

Private sector is an oldest form of an economy. Business activities itself started through private sector. In the olden days business activities were managed by the private sector. Public sector came into existence due to certain limitations of private sector and also due to certain special requirements of the time. Even today private sector is important to our country. Economic development of any nation is mainly due to private sector. A lion's share of our national income comes from private sector. The existence of private sector is for ages. Time and circumstances bring changes in private sector. Government has accepted positive approach for existence of private sector and continuous steps are being taken by government.

7 2 1 Meaning : When a business is managed by an individual or group of individuals with the objective of earning profit, it is known as private sector. Individual ownership, Partnership, Hindu Undivided Family, Co-operative Society and Joint Stock Companies are all parts of private sector.

7 2 2 Characteristics :

(1) Oldest Form : Private sector is the oldest form of business units. The existence of business started with private sector and even today private sector is a very important entity in our economy.

(2) A big Share in Economy : Private sector occupies an important place in India's economy. It is difficult to imagine economy without private sector.

(3) Changes According to the Requirement: Private sector since its inception has been open to changes on the basis of time and circumtance.

(4) Priority to Profit and Acceptance of Social Responsibilities : The main objective of private sector is profit, but also accepted social responsbilities. Along with these environmental protection, women empowerment, literacy etc. are some of the social obligations which have been accepted by the private sector. So along with profit, social responsibilities also have been accepted.

(5) Existence of Private Sector in all Countries : Private sector prevails in one form or the other in all the countries of the world. Laws governing this private sector may be different in different countries. The existence of private sector, is accepted by all countries.

(6) Inclusion of Multinational Corporation : Any business activity undertaken by a firm in more than one country is known as multinational corporation. Multinational companies started more dominance in the 19th century. Many companies started producing and selling in more than one country due to which the standard of living of the people improved across the world.

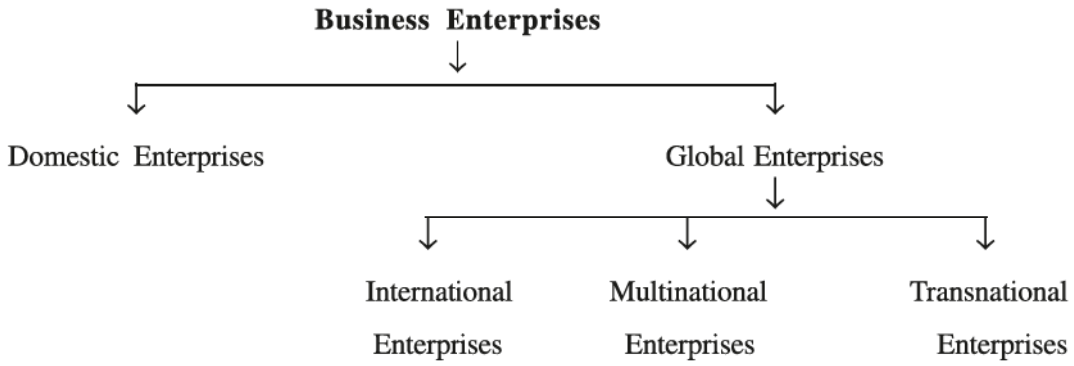
(7) Employment Generation : Private sector provides maximum employment opportunities to the people around the world even today. Due to the expansion of economic activities, people get more employment opportunities leading to rise in people's income and standard of living.

7 2 3 Difference between Public Sector and Private Sector :

Sr. No.	Point of difference	Public Sector	Private Sector
(1)	Ownership	Ownership lies with centre or state or jointly owned by centre and state government	Owned by individual or group of individuals
(2)	Control	As it is owned by the government it can be controlled easily by the government	Through various laws government can control the private sector.
(3)	Main objective	Main objective is welfare.	Generally the main objective is profit
(4)	Profitability	Due to government control it is not keen for profit maximisation	Private sector is keen for profit maximisation
(5)	Nature	Government department, Public Corporation and Government Companies are examples of public sector	Individual ownership, Partnership, Hindu Undivided Family, Co-Operative Society, Joint Stock Companies are examples of private sector.

7 3 Global Enterprise

7 3.1 Meaning : Any business unit, when it expands its activities outside the political boundries, known as global enterprises.



(1) Domestic or Local Enterprise : Those enterprises which limit their business activities within the political boundaries of their country are known as domestic enterprise. Normally based on the country's business enviroment, their business policies are formulated.

(2) Global Enterprise :

(i) When any business unit expands its business activities outside the political boundary. It is known as a global enterprises.

(ii) By using the experience of domestic business as a global enterprise when they spread their wings in foreign country, they are known as multinational enterprises.

(iii) Transnational enterprises produces, sells and invests across the world. They are such organised enterprise which use the factor of production and wealth of the entire world to earn profit from the world market.

7.3.2 Characteristics :

(1) Business in More than One Countries : Global enterprises work on a very large scale at the international level. They conduct business in different countries in different ways at a time.

(2) Priority : Global enterprises give priority to regional aspects while making investment, production and distribution. Every country has different religion, social structure, economic and behavioural set up and global enterprise takes note of these and accordingly business enterprises are expanded.

(3) Size and Sales : The size and sales of global enterprise is huge. In most cases the national income of some small countries are much lower than the sales of these global enterprises.

(4) Economic Capability : Financially global enterprise are very sound. Many a times they can afford to operate at negligible profit or can make losses also if needed to improve their market. As they have a very sound financial backing they can produce and sell on a massive scale.

(5) Political Supremacy : Due to their economic power, their political reach is also strong. In many cases they can influence the economic policy of the country by influencing the political leaders.

(6) Loyalty : Global enterprises do business with number of countries but many times they are not loyal to these countries. Their loyalty level is very high for their parent nation.

(7) Emergence in Developed Countries : Global enterprises have predominantly emerged in economically developed countries while they do business mostly in developing and under developed countries of the world.

(8) Massive Expenditure on Research and Development (R&D) : Global enterprises spend huge amount of money on R&D and improve their knowledge. A huge amount from their income is used for research and development and to develop new products, services and modern technology constantly. As a result they are able to afford capital intensive technology.

(9) Changes in the Life Style: To develop their products and services they bring changes in the life style of the people of home countries and for that global enterprises start from basic necessities.

India and Global Enterprises : Prior to 1991 the entry of global enterprises in India was slow. After adopting the policy of liberalisation, entry and expansion of global enterprise became faster. Global enterprises are also known as international companies or multinational companies. When a list of such companies is made there can be two ways of making it. Companies from other countries come to do business in India and their list is long like Coca-cola, Pepsi, Mcdonald, Nokia, Sony, General Motors etc. In recent years Indian origin companies like Infosys, Reliance, Maruti, Wipro, ONGC, Tata Steel, Asian Paints etc. are also spreading their business in other countries. Number of India based business houses are developing their business activities in foreign markets. These enterprises are supplying products and services to many countries of the world. The sales and income of global enterprise are more than that of domestic industries. Global enterprises are proving to be more effective because of their huge capital, good image and modern technology.

7 4 Joint Venture

7.4.1 Meaning : A business unit which join hands with the other units for mutual benefits is known as joint venture. Such units joining hands can be private, government owned or global enterprises. These enterprises survive for a longer period. Business units of any size can join to fulfill and safe guard mutual interest. Joint ventures should fulfill the mutual requirements of the parties. If joint venture occurs between two enterprises of two different countries, then it becomes mandatory to follow the rules framed by both the countries. In joint venture two business units utilise the resources to the best of their activities by using their expertise and bear the business risk and divide the profits amicably.

The main objectives of creating joint venture are expansion of business, development of new products, creation and expansion of new market. Recently, number of industrial units have created joint ventures with other industrial units. Such joint ventures are started to utilise their excess capacity, to develop distribution channels, to improve production technique or for financial reasons. In India, there is no seperate law for joint ventures. The company listed in India is considered as domestic company. Number of joint ventures are operating successfully in India at present. Those global enterprises which want to have partnership or those non-resident Indians who want to invest in Indian industries should have government approval. Such approval can be available as per the polices of the Reserve Bank of India or from the Foreign Investment Promotion Board.

7.4.2 Characteristics :

(1) Profitable for Both Parties : Joint venture proves to be beneficial for both parties. They complement each other due to their individual capabilities.

(2) More Resources and Capabilities : Both parties forming joint venture, share their resources and capabilities to increase their mutual benefits. Thus the accumulated resources and capabilities can improve the opportunities for the joint venture.

(3) New Technology : In joint venture exchange of technology is possible. Good quality products can be produced because of better technology. Time, capability, technology and effectiveness leads to increase in productivity.

(4) Development of new market : When one business unit joins with another business unit of another country to form a joint venture for possibility of developing new market. For example when any company of India enters into a joint venture with any other company of a foreign country, the doors of the market opens in India for foreign company. Many companies aim at continuous growth through joint venture and enter the foreign market when it reaches to maximum sales in the domestic market.

(5) Innovation : Through joint venture, new and creative products are placed in the market. Foreign partners often provide benefit through new technology and new ideas through joint venture.

(6) Low production cost : Large scale production is possible through the use of modern technology and this leads to low cost. Low cost of production leads to low sales price which in turn helps to increase demand for its product.

(7) Increase in business credit : The different business units join to form a joint venture. Their individual business credibility leads to a greater business credit to the joint venture. Some times a joint venture foreign company can allow an Indian partner to use its brand name.

7 5 Public–Private Partnership (PPP)

7.5.1 Meaning : Public-private partnership is a new arrangement and it is a requirement of time. In 1991 the Indian government has accepted globalisation and many products which were earlier not available in the Indian market is now made available from the foreign market. For this the country required infrastructure which in turn required large scale investment. For example for air services we need airport and such other allied facilities. For new and modern car, a good road is must. For all these infrastructural development, government needed massive investments which was not possible for the government. Private sector was capable of such huge investments but there was danger of monopoly element if everything was handed over to the private sector permanently. Hence a new arrangement was acceptable according to which government gives land for developing infrastructure, private sector invest and allowed to collect fees from the beneficiaries of that services for a described duration. For that described duration, maintenance is a responsibility of private sector. After a described duration, private sector handover the infrastructure to the government and then entire responsibility of maintaning it also goes to the government e.g., Ahmedabad-Vadodara Express Highway.

7 6 Public Utility

7.6.1 Meaning : There is a continuous increase in the requirement of basic infrastructure with the growth of village and cities. In modern civilised society, certain services and utilities are essential. Such services and utilities are provided continuously and efficiently which is known as public utility services. Public utility units provide such basic facilities like water supply, electricity, transportation, communication facilities, gas, sewerage etc. Any deterioration in the quality of service affect the public life and hence monopoly is offered to such services and at the same time it is controlled by the government.

Public utility services are available to every citizen regularly, at the nearest point, at low cost. This service are provided without any discrimination to every one.

Due to the adoption of the ideology of privatisation, competition has been accepted even in this field. A suitable changes have been done in public utility services by law of the Parliament. Initially, government had a monopoly but by a change in the law, more units were allowed to enter.

Telephone service is a public utility service. Initially as per law, government has established seperate department and had monopoly but now by making changes in law, it accepted that telephone service can be provided by more than one company. Even after allowing competition in this field, government continues to control these private service providers to safeguard the interest of consumers and protect them from exploitation.

The management of public utility service is taken care by village panchayat, taluka panchayat, district panchayat, Nagarpalika and Mahanagarpalika. At the state level certain public utility service like transporation, electricity, health services etc. are taken care by government departments, Company or Corporation. At the national level, transportation , Post and Telegraph, Telephones are provided by Central Government Department, Company or Corporation. Gujarat Road Transport Corporation takes care of the Bus services in Gujarat.

Thus, the objective of public utility services is to provide basic services to make life easier to the people and due to such services life becomes simple.

What did you learn in this chapter

Public Sector Enterprise

Meaning : Those enterprise which are owned, operated and controlled by the government is called public sector enterprises.

Feature : (1) Establishment of basic industries (2) Elimination of monopoly (3) Balanced regional development (4) Objective of social welfare (5) Low level of profit (6) Maintenance of national interest (7) Generation of employment opportunities (8) Increase in economic development of the country (9) Social and economic justice (10) Ideal wages and facilities for employees.

Types of Public Sector :

(I) Departmental Management : Features : (1) Financial allocation (2) Maintenance of account (3) Appointment of employees (4) Government Management and control (5) Responsibilitiy.

(II) Public Corporation : Features : (1) Establishment (2) Ownership (3) Capital accumulation through government (4) Separate identity (5) Managerial Autonomy (6) Service Rules (7) Management through Board of Directors (8) Answerable to Parliament/Legislative Assembly.

(III) Government Company : Features : (1) Establishment (2) Separate identity (3) Capital (4) Management (5) Appointment (6) Appointment of members of Board of Directors (7) Appointment of auditors (8) Arrangement for capital (9) Policy Decisions.

Comparison of Govt. Enterprises : (1) Establishment (2) Legal identity (3) Favourable for which field ? (4) Capital acquisition (5) Working capital (6) Responsibilities (7) Operational freedom (8) Employees (9) Operation (10) Control.

Changing of Public Enterprise :

Meaning of Private Sector : When any business is managed by one individual or group of individuals with the objective of earning profit, it is known as private sector.

Features : (1) Oldest form (2) A big share in the economy (3) Changes according to the requirement (4) Priority to profit and acceptance of social responsibility (5) Existence of private sector in all countries (6) Inclusion of multinational companies (7) Employment generation.

Diefference Between Public Sector and Private Sector : (1) Ownership (2) Control (3) Main objectives (4) Profitability (5) Nature.

Global enterprises : (1) International enterprises (2) Multinational enterprises (3) Transnational enterprises.

Features of Global Enterprise : (1) Business in more than one country (2) Priority (3) Size and sales (4) Economic capability (5) Political supremacy (6) Loyalty (7) Emergence in developed countries (8) Huge expenditure on research and development (9) Changes in the life style.

India and Global Enterprise

Meaning of Joint Venture : When business units join hands to protect the mutual interest it is known as joint venture.

Characteristics : (1) Profitable for both parties, (2) More resources and capabilities, (3) New technology, (4) Development of new market, (5) Innovation (6) Low production cost, (7) Increase in business credit.

Public-Private Partnership : Meaning : In this system, government gives land for development, private sector invests for structure and in exchange they will be given licence to collect fees for a stipulated period from the beneficiaries of these infrastructures and takes responsiblity of maintenance of the structure. After that stipulated period the system should be handed over to the government, who will also take the responsibility of maintaining the infrastructure from the private sector.

Public Utility : Meaning : Public utility refers to the availability of most essential services and facilities in a productive manner at a very low cost to the people of the country.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) Which is not the type of public sector from the following ?

(a) Government department (b) Individual ownership

(c) Public corporation (d) Government company

(2) In which of the following types, the employees are governed by government rules ?

(a) Government department (b) Public corporation

(c) Government company (d) Private company

(3) Which of the following is considered the oldest form of business ?

(a) Public enterprise (b) Private enterprise

(c) Global enterprise (d) Public-Private Partnership

(4) Which of the following statement is wrong for private global enterprise ?

(a) Active at international level

(b) Massive size and sales.

(c) Direct control of Parliament/Legislative Assembly.

(d) Political supremacy exists due to strong economic capability.

(5) Which of the following is incorrect for public-private partnership ?

(a) Necessary land is to be purchased by them from the government.

(b) For a prescribed period fee is collected from the beneficiaries.

(c) Creation of Infrastructural facility from their own investment.

(d) After the stipulated time period infrastructure set up will have to be handed over to the government.

Answer : (1) (b) (2) (a) (3) (b) (4) (c) (5) (a)

2. Answer the following questions in one sentence each :

(1) Define public enterprises.

(2) Give name of types of public sector.

(3) How much is the minimum share proportion of the government in government companies ?

(4) In whose name shares are held in Government company ?

(5) Which is the oldest form of business ?

(6) State the meaning of global enterprise.

(7) What is public private partnership ?

3. Answer the following questions in short.

(1) Give a list of various types of business unit.

(2) How can balanced regional development be achieved through public sector enterprises?

(3) What is government department ? Explain with an example.

(4) "The only objective of private enterprise is to earn profit" - Discuss

(5) State the importance of private enterprises in the economy.

(6) What is the importance of global enterprise in the Indian economy?

4. Answer the following questions in brief :

(1) What is departmental management ? state its features.

(2) After giving the meaning of public corporation explain its features.

(3) Define government company and write a note on its features.

(4) State the changing role of public enterprise.

(5) State the points of difference between public and private sector.

(6) After giving the meaning of global enterprises, state its characteristic features.

5. Answer the following questions in details :

(1) What is public sector ? explain in detail their characteristics.

(2) Compare the three types of public enterprise.

(3) Prepare a note on meaning and characteristics of private enterprise.

(4) Give a detailed explanation of meaning and characteristcs of joint enterpises.

(5) What is public utility ? Explain its features.

(6) "Public-private partnership is an arrangement due to the need of time." - Explain,

•

8 Sources of Business Finance

What will you learn in this chapter

Introduction

During industrial revolution, in the field of Science and Technology many invention took place. Mechanisation in the field of production resulted in the increase of size of business unit. For each function the needs arises for different specialists. For this reason, specialisation in the business unit became essential and this resulted in high proportions of products. This neccesitated high capital investments in the business unit. This became impossible for one group of people in investment of capital and take risk. As a result, company form of business organisation came in to existance. At the same time sources of business finance also came in to existance.

8 1 Meaning of Business Finance

According to Accounting view point the term capital has narrow meaning. From the accounting view point, capital means amount of cash, assets and goods invested in business, but in commerce the word Captial has wider meaning. Capital, includes the amount invested by owner in business

and the borrowed funds from different financial sources, Thus in broad meaning Capital means the funds raised to satisfy the various financial requirements of the business.

8 1 1 Need of Business Finance : Capital requirement is of most important to carry out each activities of business unit effectively.

Following are the factors determining need for capital **:**

(1) For Establishing Business : Various expenses are to be incurred to establish the business unit. Capital is required to meet the expenditures like conducting primary and extensive research, to prepare documents like certificate of registration, fees of experts in the field of law, registration fees etc.

(2) For Purchase of Fixed Assets : The long term investments made for the assets of the business unit is called **Fixed Assets.** In this type of assets frequent change is not possible. Long term finance in large proportions is needed for acquring fixed assets like land, building, machinery, vehicles etc.

(3) For Current Assets : Working capital is required to carry out daily activities smoothly in the business. Working capital is needed for the purchase of raw materials, to pay salary and wages, to make payment for services assisting trade and to invest in the stock of finished goods.

(4) For Mordernisation and Expansion of Business : Capital is required in large proportions due to new invention; for modernisation expansion and to adopt new production techonology in the business

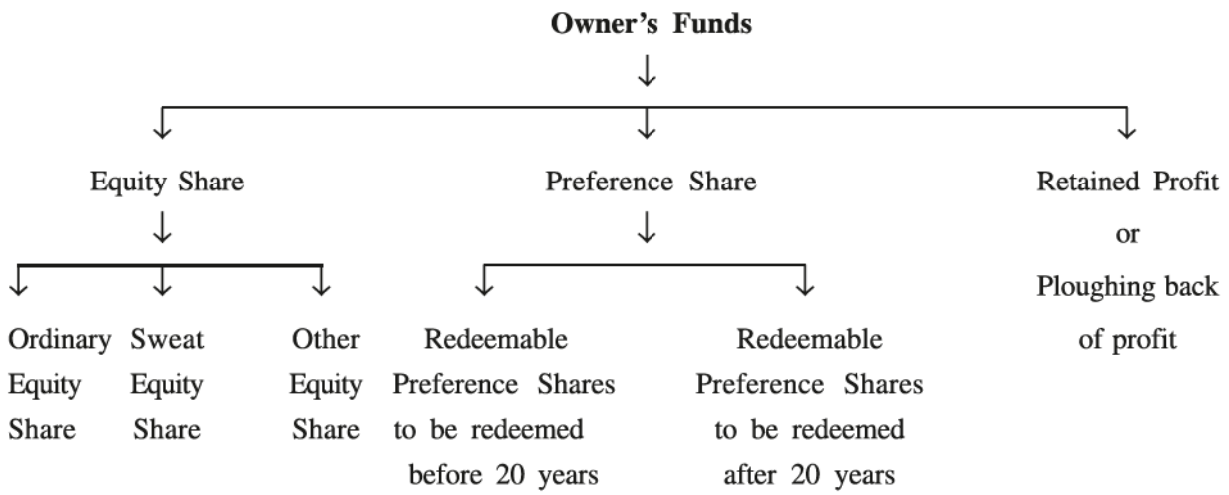
(5) For Accidental Requirements : There are many internal and external factor which affect the business unit. Due to which requirement of capital arise to meet the factors like employee's strike, changes in government policy, trade cycle, natural disasters etc.

8 1 2 Importance of Finance in Business Firm :

Finance is such an axis, around which all financial activities rotate. Capital can be compared with the human blood. The importance of blood in a human body is almost equal to the importance of capital in business unit. To run all activities of business on time, a proper financial system is inevitable. Without capital, transaction of business unit is impossible. Amount of finance is limited and alternative uses are many. Therefore the use of funds should be done optimally.

Due to non-availability of sufficient fund, business has to face many difficulties. Credit worthiness of business unit is affected if there is delay in making payment to creditors. Some times the firm has to ignore the opprtunity of high profit investments, overlook the advantage of cash discount, face difficulty in timely purchase of raw materials etc.

8 2 Owner's Funds



8 2 1 Equity Share :

8 2 1 1 Meaning : The shares having last right to receive dividend as well as capital as compared to preference shares are known as equality shares.

8 2 1 2 Characteristics :

(1) True Owners : This types of shareholders are called true owners of company or faithfull companions, because they take more risk than preference shareholders.

(2) Right to Vote : Equity holders have right to cast votes as per shares held by them.

(3) Rate of Dividend : For such shareholder the dividend and rate of dividend is not fixed.

(4) Profit Related : Dividend receivables to such shareholders is related with profit, hence dividend will increase-decrease with profit.

(5) General Meeting : These shareholders have right to attend the general meeting, vote and elect the directors.

(6) Repayment of Capital : Generally the share capital is not repaid during the existence of company.

(7) Dissolution (liquidation) : At the time of liquidation after the repayment of capital to preference shareholders, capital is repaid to equity shareholders. if surplus funds are avaialble.

(8) Shares of Qualification : If there is a provision in the memorandum and director have given consent to become the elected directors of company, then this share is considered as share of qualification.

(9) Capital Benifits : These shareholders receive various benifits. Right share, bonus share, benefit arising due to increase in share price in market etc. called capital benefits.

(10) Registration of shares : These types of share are registered in recognised share market, So purchase and sale of shares at market price can be done freely.

8 2 1 3 Types of Equity Share :

(A) Ordinary Equity Share : These share are very important for the company. Companies which raise share capital, it is compulsory to issue equity shares. These shareholders are true owners of company. Only these shareholder bear the real risk of business, because it is not definate to get dividend and if receivable then the rate of dividend is not fixed. Moreover if the company becomes insolvent or goes in to liquidation then funds realised after selling the assets, then debts are paid and after that in the end they are repaid their capital. The Promoters issues these share to raise the capital keeping in mind their short term, medium term and long term capital requirements. To raise large capital, the company divides the capital in small parts/shares. such each part is called share. **The purchaser of these share is called shareholders.**

(B) Sweat Equity Share : Company allotes shares to its directors, persons working in company who posses special knowledge and to employees at discount or without consideration of cash, such shares are called sweat equity shares.

(C) Other Equity Shares : Other equity shares are of two types :

(i) Equity share with voting rights.

(ii) Equity share with different rights in relation of dividend and having voting rights.

8 2 2 Preference Share :

8 2 2 1 Meaning : The shares having first right to receive dividend from company's profit and at the time of liquidation of company have first right for getting repayment of capital such shares are called preference shares.

8 2 2 2 Characteristics :

(1) Dividend : Preference share holders have first right to get dividend at fixed rate.

(2) Right to Vote : Preference Shareholders have right to vote for matter relating to their interest only.

(3) Preference : The investors prefering to buy this type of share as they like to have a steady, fixed income and security of their capital.

(4) Market Price : The price of these shares usually remain steady. Only when there is a change in rate of interest then their market price changes.

(5) Proportion of Risk : In this type of shares as compared with equity shareholders the proportion of risk is less due to priority of repayment of capital.

(6) Repayment of Capital : At the time of liquidation of company, after repayments of all the liabilities, preference shareholders have preference over equity shareholders to get repayment of capital.

8 2 2 3 Types of Preference Shares :

(1) Redeemable Preference shares before 20 years.

(2) Redeemable Preference shares after 20 years.

8 2 3 The Difference between Equity Share and Preference Share :

Sr. No.	Basis of difference	Equity Share	Preference Share
(1)	Compulsory	It is compulsory to issue each company.	It is not compulsory to issue such share by each company.
(2)	Rate of Dividend	Rate of dividend is not fixed.	Rate of dividend is fixed.
(3)	Rights	There is a right to attend company's meeting, to vote and elect managers.	There is right to vote only in matters related to their interests.
(4)	Risk	Proportion of risk is more	Proportion of risk is less.
(5)	Investors	These shares are preferred more by investors who wish to take risks and speculate (gamble) in shares.	These shares are preferred more by such investors who wish to get fixed income and security of capital.
(6)	Market Price	There is increase-decrease in market price of shares.	Proportionately the price of a share remain fixed. No increase-decrease in market price.
(7)	Addition in capital	In this type of shares, capital can be raised by right shares and bonus shares.	Capital can not be raised.

8 2 4 Retained Profit or Ploughing Back of Profit :

Meaning : During sound financial position, company earns more profit. Instead of distributing all profits in the form of dividend, company keeps some part of profit in the form of reserves in business. For future payment of business liabilities, these retained earning are reinvested in the business, it is called ploughing back of profit.

8 2 4 1 Advantages :

(1) Useful in Times of Recession : Negative changes in the market as well as to face difficulties arising in times of recession, the retained profit is very useful.

(2) Useful in Implimentation of Future Plans : For implementation of future plans like Development of Business unit, Expansion and Modernisation there is need to raise capital, company does not have to depend on external sources.

(3) Useful to Purchase New Assets : At the end of estimated life of assets, the retained profit can be used to purchase new assets.

(4) Fixed Dividend Policy : When sometimes company adopts a stable dividend policy then retained earning become useful.

(5) Burden Free Assets : As it is a source of ownership capital, retained profit, there is no need to create burden on the assets.

(6) Borrowed Capital Can be Repaid : Retained profits are useful to repay borrowed capital.

(7) Decrease in Cost of Capital : Due to having retained profit the business unit has not to depend on to raise capital by external sources or no expenditure is incurred in getting capital. Thus there is a decrease in cost of capital.

(8) Owner's Funds : Ploughing back of profit is an owner's fund, there is no need to pay interest.

8 2 4 2 Limitations :

(1) Encouragement to Monopoly : Excessive ploughing back of profit encourages monopoly.

(2) Promote Speculation : Many times managers of business by paying less dividend, carry excess profits to reserve fund. As a result market price of share decrease. At this time directors buy the shares and in future they declare higher dividends and when market price of share increase then by selling such share at higher price they derive personal profit.

(3) Difficult for Financially Weak and For New Companies : Ploughing back of profit is not possible for financially weak and also for new company.

(4) No Benefit to Small Investors : Small investors invest in business unit for expectation of higher dividend. If Directors, prefer plough back profit more necessary, then small investors do not get sufficient dividend.

8 3 Borrowed Funds :

8 3 1 Debentures : When company requires more capital then, company issues debentures to raise borrowed capital. Debenture is a liability of the company. Buyers of debentures i.e. debenture holders are creditors of the company. Debenture holders are paid interest at predecided rate and at specified time and at the end of predecided time limit money is returned or transferred into shares as per conditions. This is a important source for satisfying company's requirenents for long time and medium term finance. When debenture are issued, trustees are appointed for protection of interest of debenture holders, who protect the interest of debenture holders as per **Trust Deed.**

8 3 1 1 Characteristics :

(1) Creditors of company : As Debenture is a debt of company, debenture holders are creditors of the company.

(2) Fixed rate of Interest : Debenture holders are paid interest at predecided rate and time.

(3) Charge(burden) on Asset : For protection of money of debenture holders company creates a charge as security on its assets in favour of debenture holders, means company can use this assets.

(4) Necessity : It is a useful tool to satisfy the needs of long term and medium term finance.

(5) Registration at stock exchange : If debentures is listed at stock markets then it can be sold or purchased.

(6) Repayment : At the end of time limit the entire amount of debentures are repaid either once at a time or as per agreement by installements.

(7) First perference for payment : As the debentures are debts of company so at the time of liquidation along with third party debts, the money of debentures are paid.

8 3 1 2 Types of Debentures :

(A) Secured Debentures (B) Convertible Debentures (C) Non-Convertible Debentures

(A) Secured Debentures : Such debentures when issued with charge on assets of company as security against the money of debentures are called secured debentures or mortgaged debentures, These mortgaged assets can be used by the company. It mens a floating charge is crated on the assets.

(B) Convertible Debentures : The Debentures which at a specific time and as per the condition can be converted completely or partly in to the shares are called convertible debentures. If company has made provisions in memorendum of association, then against such debentures after a specific time and at a specific price, shares are given in predecided ratio.

(C) Non-convertible Debentures : These Debentures are not converted into shares and debentures holders are refunded money after a specific time and condition.

8 3 2 Bond : Bond is an important source for long term financial requirements of the company. Bond is a borrowed capital for the company. Bond is a debt and bond holders are creditors of the company. They are paid interest at fixed rate and time.

The basic price of bond is usually more than debentures. Mostly these are issued by Government, Municipal corporation and Companies. Bonds are known by the name given in the issue e.g. Sardar Sarovar Bond.

Bonds are issued for a fixed time limit. Governments and Companies when want to implement large size project then to satisfy long term requirement bond are more suitable.

8 3 3 Public Deposites : Company accept Deposits from general public to satify the need for short term working capital. They are called Public Deposits. These are borrowed capital as well as debt for the company and investors who invest money in deposits are creditors of the company. The time limit can be from 6 month to 36 months. Company pay interest at a specific rate to the deposit holders. Which may be quarterly, half yearly or yearly or on maturity of principal amount. According to the provisions of Companies Act 2013, excluding Banking and Non-Banking finance companies, can not accept public deposits from public.

8 3 3 1 Advantages :

(1) Easy to Receive Finance : Well established and profit making companies get finance easily.

(2) Less Expence in Receiving Finance : As compared with other sources of finance, finance throgh Public Deposits is less expensive and time required is also short.

(3) Assets Do Not have Charge : Companies need not mortgage the assets against getting finance through public deposits. Therefore in future these assets can be mortgaged to recieve additional borrowed capital.

(4) Interest is An Expense : The interest paid on Public Deposits is an expense to the company, therefore it is deducted from profit in calculating Income tax. Thus company has to pay less income Tax.

(5) Used as Working Capital : To satisfy the short term finance requirement the company can get finance through Public Deposits and thus can satisfy the need of working capital.

8 3 3 2 Limitations :

(1) Uncertainty : There is uncertainty in getting finance through public deposits. Because the mood of the investors can not be predicted.

(2) Insecurity to Investors : Public deposits are considered unsecured debt. Therefore there is an element of risk for investors.

(3) Fair Weather Friends : Public deposits are considered as "Fair Weather Friends". Because when the financial condition of the company deteriorate or damaging, rumours about company spread in market, then depositors make a rush to withdraw deposits before the maturity date. This create financial problems for the company. Therefore public deposits are called "Fair Weather Friends".

(4) Difficult for New and Weak Companies : In the begining the depositors have no trust in new and financial weak companies. Therefore investors do not take risk to invest funds in such companies

8 3 4 Loan from Financial Institutions : Due to changes in the field of Science and Technology there was a rapid growth in the development of Industry and commerce. So the needs of long term finance also increased. Individual investors and commercial banks can not satisfy the increased need. Therefore need to establish special Financial Institutions is arised to meet large and long term capital requirements of the country.

With the begining of five year plans in country, emphasis was laid on industrial development. For satisfying long term capital requirement of Public sector, Private sector and Newly established industries financial institutions were established by Government of India Along with this, state financial corporation had been established to provide financial help to small and medium size units.

Some of main financial institutions providing long term borrowed capital are as under :

(1) IFCI - Industrial Finance Corporation of India

(2) IDBI - Industrial Development Bank of India

(3) ICICI - Industrial Credit and Investment Corporation of India

(4) GSFC - Gujarat State Finance Corporation

(5) GIIC - Gujarat Industrial Investment Corporation

8 3 4 1 Functions :

(1) Provide Finance for Buying Shares : At the time of incorporation of company and at the time of modernisation and expansion, Financial Institution buy the issued share and provide help. Moreover they also help by offering the services of underwriter.

(2) Provide Finance by Giving Loan : Financial Institution give Loan to business units against mortgage. Moreover in certain special situations if there is a need, then over and above the assets of company they take mortgage of personal properties also.

(3) Help through Direct Payment for Technological Services : Many times the companies have to spend heavily for technological services. Financial Institutions provide technical services, and on behalf of the company they make payment directly to such technological companies.

(4) Provide Guarantee : By becoming Guarantor they offer assurance to other financial institutions. This way they offer indirect help to the companies to get finance.

(5) Other Services : Financial companies offer help in establishment of company, market reserch and also providing information of foreign markets.

8 3 5 Commereical Banks : For providing short term working capital, the source of commercial bank is very important. Bussinessmen and Industries depend on commercial banks for their short term capital requirements to certain extent. Deposits accepted from public are used by the bank for lending purpose to business units. Lending of finance of three types : (1) Loan (2) Cash credit (3) Over Draft.

8 3 5 1 Loan : Commercial banks lend money to business organisation in the form of loan, which is as per such and policy of the bank. They provide loan after proper evaluation of the company's financial requirements, capability to repay money, last year's annual account and profitability of the business. While offering loan, the assets of company is mortgaged in favour of bank. Interests have to be paid at fixed rate of interest over approved loan. Amount of loan can be repaid in predecided installment or total at a time.

8 3 5 2 Cash Credit (C.C.) : For meeting the requirements of businessman, Industrial bank approves an amount of loan against the security of stocks and personal properties, then approved amount is called **Cash Credit**.

Intreast on such credit facility will be charge on the basis of amount utilised and time of utilisation of fund.

8 3 5 3 Over Draft (O.D.) : Bank offers the facility for withdrawal of more money than the balance in current account of the business man, under certain limtation is called **Over Draft.**

8 3 6 Trade Credit : Business units have needs of raw material, finished goods or other tools and things. In this situation a business unit purchases from other producers or traders on credit for some time period and create working capital. Thus the creditors do not provide capital directly. But by giving goods or services on credit they satisfy the capital requirement.

8 3 7 Internel Corporate Deposites : Usually when a company gives deposit to other company which is in need of fund, then such deposit is called **Inter corporate Deposit**. Usually these types of transaction occur between a major company and a minor company, also happens between various companies managed by one group. Rate of interest and time limit is decided by an agreement. As compared with other sources this borrowing is easy.

8 3 8 Difference Between Owner's fund and Borrowed Fund :

Sr. No.	Basis of difference	Owner's fund	Borrowed fund
(1)	Meaning	Funds invested by shareholders is called owner's fund.	Funds borrowed from other sources and invested in business is called borrowed fund.
(2)	Source	Can be received from equity shares, ploughing back of profit, depreciation fund and reserves.	Can be received from debenture commercial banks and financial institutions.
(3)	Return	Return is in form of dividend of owner's fund.	Return is in form of interest at fixed rate.
(4)	Rate of return	Rate of return is uncertain or not fixed.	Rate of return is fixed.
(5)	Repayment of capital	Owner's fund is repaid at last.	Repayment of borrowed funds is made earliar than owner's fund.

What did you learn in this chapter

(1) Meaning of Business Finance : As per accounts, capital means cash, goods or assets invested by owners of business. In view of commerce, the funds invested by the owner himself and borrowed funds from various sources is included in capital.

Factors determining need for capital :

Business Finance : (1) For establishment of the business (2) For purchase of fixed assets (3) For current assets (4) For modernisation and expansion of business (5) For accidental requirements.

Importance of finance : Finance is an axis around which all financial activities rotate. Business finance can be compared with the blood of human body. Due to insufficient finance business has to face many problems.

(2) Owner's Fund :

Equity Share : Meaning : The share which have the right to receive dividend and repayment of capital in the last is called equity share.

Characteristics : (1) True owners (2) Right to vote (3) Rate of dividend (4) Relation with Profit (5) General meeting (6) Repayment of capital (7) Dissolution/Liquidation (8) Share of qualification (9) Capital benefits (10) Registration of shares.

Types of Equity Share : (A) Ordinary Equity Share (B) Sweat Equity Share (C) Other Equity Share

(A) Ordinary Equity Share : Very important share. It is compulsary to issue share for the companies which generate capital by issuing share. True owners of company. Bear true risks. Rate of dividend is not fixed. Repayment is made in the last of all.

(B) Sweat Equity Share : Company allots shares to its managers and persons with specialised knowledge at a discount or for non cash consideration, such shares are called sweat equity share.

(C) Other equity Shares : These shares are of two types :

(1) Share with voting right (2) Share having various rights in rotation to dividend along with voting rights.

Preference Share : Meaning : The share having first right to receive dividend from profit as well as having first right to get repayment of capital at the time of liquidation are called preference share or share having a preference.

Characteristics : (1) First right to receive dividend (2) Voting right only for the matters related to their interest, (3) Steady, fixed income, Preferred by investors who wish to have security of capital. (4) Usually market price remain steady (5) Proportion of risk is less. (6) Repayment of capital is received prior to equity shareholders.

Types of Preferences Share : (1) Such preference share which can be repaid before twenty years (2) Such preference share which can be returned after 20 years.

Difference Between Equity Share and Preference Share :

Points: (1) Compulsory (2) Rate of dividend (3) Rights (4) Risk (5) Investors (6) Market price (7) Growth in capital.

Retained Earning or Ploughing Back of Profit :

Meaning : Instead of distributing all profits as dividend, some part is kept in the form of reserves. If need arise in future then this retained earning are reinvested in business.

Advantages : (1) Useful in time of recession (2) Useful for implimentation of plan in future (3) For purchase of new assets (4) Fixed dividend policy (5) Assets do not have charge as a security (6) Borrowed capital. (7) Decrease in cost of capital (8) Owner's fund.

Limitations : (1) Encouragement to monopoly. (2) Promote Speculation (3) Difficult for financially weak and new companies (4) No benefits to small Investors.

(3) Borrowed Funds :

Debenture : Issued for raising more capital. It is a debt of company. Purchasers are called debenture holders. They are creditors of company. Interest is paid at fixed rate of interest and at fixed time. At the end of time limit, money is returned as per conditions. It is an important source for long term and medium term finance.

Characteristics : (1) Creditors of company (2) Interest at fixed rate. (3) There is a charge on assets. (4) Necessity. (5) Listed at stock exchange. (6) Money repaid (7) First preference for repayment.

Types of Debentures :

(1) Secured Debentures : When comany received money after mortgaging its assets, then such debentures are called secured debentures.

(2) Convertible Debentures : Such Debentures can be converted into shares at a fixed time and as per rules and conditions.

(3) Non-Convertible Debentures : Such debentures are not converted in to shares. Money is returned.

Bonds : Useful to satisfy long term requirements of business finance. It is a debt of company. Bond holders are called creditors of company. They are paid interest at the fix rate and at fixed time. They are known by name in which they are issued e.g; Sardar Sarovar Bond.

They are issued by the Government, Municipal corporation and the Company. They are useful to implement long term projects.

Public Deposits : Company accepts deposits from Public to satisfy the short term working capital needs. It is a borrowed fund and debt. Depositors are creditors of the company. The time limit is of from 6 months to 36 months. Interest is paid at decided fixed rate and as per conditions. At the time of maturity the money is paid back.

Advantages : (1) Easy to raise finance. (2) Less expensive to raise finance. (3) Assets are charge free. (4) Interest paid is an expeanse (5) Used as working capital.

Limitations : (1) Uncertain (2) Risky to Investors (3) Fair weather friends (4) Difficult for new and financially weak companies.

Loans from Financial Institutions : To meet the long term capital requirements of the company, the financial Institution were established. These Institutions are established by Central Govern-ment and State Government, e.g; (1) Industrial Finance Corporation of India (IFCI) (2) Industrial Development Bank of India (IDBI) (3) Industrial Credit and Investment Corportion of India. (ICICI) (4) Gujarat State Finance Corporation (GSFC) (5) Gujarat Industrial Investment Corporation (GIIC).

Functions : (1) Provide finance for purchase of shares (2) Private finance by giving loans (3) Help by paying directly for Technology Services (4) Provide Guarantee (5) Other services.

Commerical Bank : Provide short term working capital. Deposits accepted by Gerenal Public is used to finance the companies by three ways : (1) Loan (2) Cash Credit (3) Over Draft.

(1) Loan : After proper evaluation of company, according to the rules and polices of the bank-offer loans to the company. Assets are to be mortgaged. Interest is to be paid at fixed rate of interest on approved amount of loan. Loan is to be repaid according to predecided conditions.

(2) Cash Credit : Bank approves an amount of loan against the security of company's stock of goods or personal assets is called cash credit.

(3) Over Draft : The Bank provides the facility for withdrawal of more money then the balance in company's current account, under certain limitations. This facility is called an Over Draft.

Inter Corporate Deposits : When one company provide funds in the form of deposit to another company who is in need of company then it is called inter-corporate deposit. These transactions happen between a holding company and a subsidiary company. Rate of interest is determined by an agreement.

The Difference Between the Oweners Fund and Borrowed Funds :

Points: (1) Meaning (2) Source (3) Returns (4) Rate of Returns (5) Repayment of capital.

Trade Credit : When purchases of raw material, finished goods and other Equipments are made from producers and traders on credit, it is called trade credit. Trade credit is a source of working capital.

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) Out of the following which is not the sources of ownership capital. ?

(a) Ordinary equity share (b) Sweat equity share

(c) Preference share (d) Debenture

(2) Who are called the true owners of company ?

(a) Equity shareholders (b) Preference shareholders

(c) Debenture holderes (d) Bond holders

(3) Which shares are offered to the managers at a discount or in place of cash ?

(a) Ordinary equity share (b) Sweat equity share

(c) Bonus share (d) Right share

(4) Who has the first right to recieve dividend from profit of company ?

(a) Preference shareholders (b) Debenture holders

(c) Equity shareholders (d) Creditors

(5) At time of Liquidation who get capital first ?

(a) Preference shareholders (b) Oridany Equity shareholders

(c) Premoters (d) Debenture holders

(6) The capital invested in the permanent assets of business is known as which capital ?

(a) Working capital (b) Short term capital

(c) Current capital (d) Fixed capital

(7) What are the Debenture holders of the company called ?

(a) Owners (b) Debtors

(c) Creditors (d) Promoters

(8) ..... is the internal source to satisfy the long term finance requirements for business unit.

(a) Ordinary equity share (b) Preference share

(c) Public deposits (d) Ploughing back of profits

(9) Which companies can plough back the profits ?

(a) Newly established company (b) Running company

(c) Financially sound company (d) Loss making company

(10) How do the government get finance to implement long term project ?

(a) By ordinary equity share (b) By bond

(c) By debentures (d) By public deposits

(11) The proper source of getting short term working capital is.....

(a) Preference share (b) Bond

(c) Financial Institutions (d) Trade credit

Answer (1) (d) (2) (a) (3) (b) (4) (a) (5) (d) (6) (d) (7) (c) (8) (d) (9) (c) (10) (b) (11) (d)

2. Answer the following questions in one sentence each :

(1) Which shareholders are the true owners of business ?

(2) Who has the first right to receive dividend from company's profit ?

(3) State the sources of borrowed capital.

(4) What is a convertible debenture ?

(5) Explain the following terms :

(1) IFCI (2) IDBI (3) ICICI (4) GSFC (5) GIIC

(6) State the main lending polices of commercial banks.

3. Answer the following questions in short :

(1) Give meaning of capital from the view of commerce.

(2) What is called sweat equity share ?

(3) Why preference shares are called the share of preference ?

(4) State types of preference share.

(5) Why ordinary equity share is called risky share ?

(6) What is the main difference between bond and public deposits ?

(7) What is a floating charge ?

4. Answer the following questions in brief :

(1) Explain advantages and limitations of ordinary equity share.

(2) Distinguish between equity share capital a preference share capital.

(3) Explain the lending policy of commerical bank.

(4) Distinguish between ownership capital a burrowed capital.

(5) Write short notes on.

(A) Bond (B) Trade credit (C) Inter corporate deposits.

(6) "Public Deposit is known as Fair Weather friends"-Explain statement.

(7) "Ploughing back of profit is not possible for every company"-Explain statement.

5. Answer the following questions in detail :

(1) Explain the factors deciding the need of capital.

(2) Define share and explain the charactristics of equity share.

(3) Give meaning of preference share and explain its characteristics.

(4) Give the meaning of debenture and explain its types.

(5) What is the ploughing back of profit ? Explain its advantages and limitations.

(6) What is public deposits ? Explain advantages and limitations of public deposit.

(7) Explain the functions of financial institutions.

•

9 Internal Trade

What will you learn in this chapter ?

Introduction

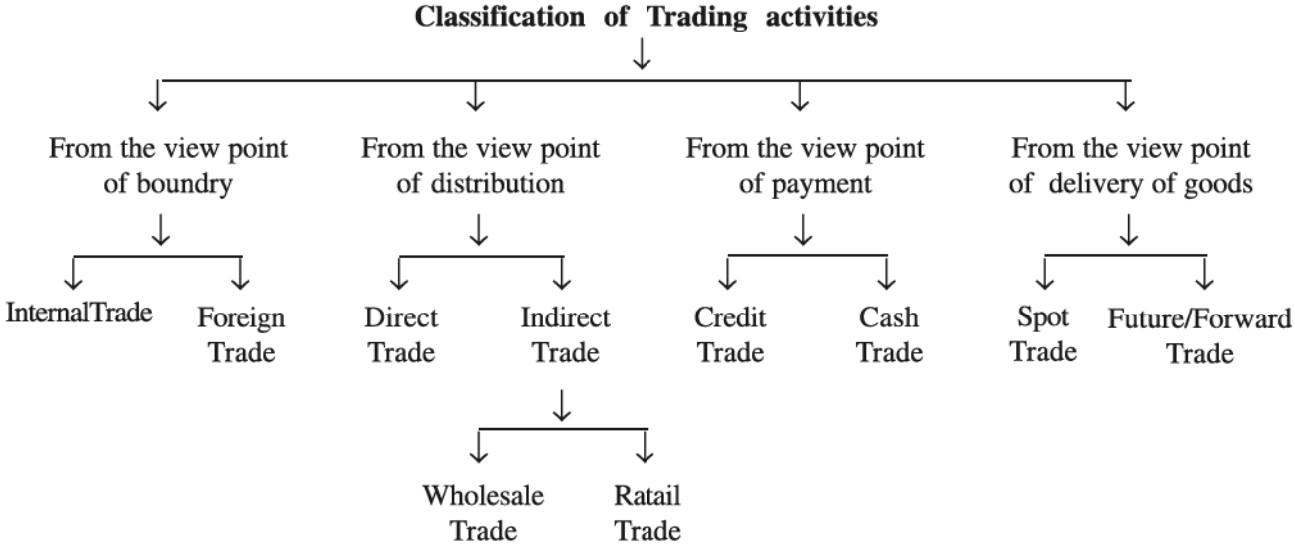
Trade means an exchange of goods or services in return of a goods, service or money. The objective of trade is to get profit by providing goods and services to the customers. When such transactions take place among different areas, territories or the states in the geographical boundries of a country, it is called internal trade. Various types of productions are not possible in a country due to unequal distribution of natural wealth, because of this, producers supply their products to the customers over different areas of the country. This is called internal trade.

9.1 Internal Trade

9.1.1 Meaning : Internal trade means trade within the geographical boundries of a country.

Currency, Weight, Measurement, Trade Practices and Legal Matters are common in the internal trade. It takes less time, risk is less, and contact between purcharser and seller can easily maintained due to easy transportation of goods in the internal trade.

9.1.2 Classification of Trading Activities



9.1.3 Wholesale Trade :

9.1.3.1 Meaning : A trader purchases the goods in large quantity from the producers and sells the goods to the retailers as per requirement in small quautity is called wholesale trade. Thus, Wholesaler is a connecting link between the producer and the retailer.

9.1.3.2 Services of Wholesaler :

(A) Services of Wholesaler to Producer :

(1) Order in Large Quantity : Wholesaler places order in large quantity to producer after receiving order from many retailers.

(2) Information of Market : Wholesaler obtains information from many retailers regarding demand of product, taste, prefereces, fashion etc. and conveys it to the producer. Hence, the producer becomes acquainted with present situation of the market and some-times suggests changes with reference to goods as required.

(3) Freedom from the Storage of Goods : Wholesaler purchases the goods in large quantity from the producer and stores in his own warehouse, hence the producer has not to store the goods.

(4) Freedom from the Worry of Sales : Wholesaler purchases the goods in large quantity from the producer. Hence producer will be free from the worry of sale of goods in small quantity.

(5) Relief in Capital : Wholesaler many times makes the payment in advance before the purchases of goods. Hence the producer gets relaxation in capital.

(6) Freedom from the Risk : Wholesaler purchases the goods from the producer and stores in warehouse so producer remains free from the risk of wastage, destruction of goods etc.

(B) Services of Wholesaler to Retailer :

(1) Goods as Per Requirement : The wholesaler supplies goods to the retailer in sufficient quantity whenever it is required. Hence, retailer has not to store the goods.

(2) Goods on Credit : The Wholesaler sells the goods on credit to the retailer, hence they can carry out more business with less capital.

(3) Decrease in Advertisement Expense : The retailer obtains the advantage of advertisements given by wholesaler and efforts of sales promotion, so it decreases advertisement expenses of retailer.

(4) Redressal of Complains : The retailer conveys the complains to the producer through wholesaler received from the customers regarding goods and thus wholesaler becomes helpful in its quick redressal.

(5) Freedom from Risk : The wholesaler gives freedom to retailer from the risks such as wastage, loss to goods, increase or decrease in price etc. because the wholesaler stores the goods.

(6) Guidance : Wholesaler gives the advantage of his knowledge and experience to the retailer, particularly, he gives the guidance regarding price of goods, its use and sale.

9.2 Retail Trade

9.2.1 Meaning : When goods are purchased either in small or large quantity from the wholesaler or producer and are sold to the customer as per requirement, it is called retail trade. The retailer is in direct contact with the customers so he understands their needs. As a result he tries to provide better services to customer. Thus retailer is a connecting link between the wholesaler and customer in the channel of the distribution of goods.

9.2.2 Services of Retailer :

9.2.2.1 Services of Retailer to Wholesaler and Producer :

(1) Information About Market : A retailer understands the demand for goods of customer, taste, preference etc. as he is in direct contact with the customer. Thus he supplies this information to producer through wholesaler.

(2) Helps in Advertisement : A retailer advertises the producer and wholesaler by placing their sign boards, pamphlets, samples at his premises.

(3) Increase in Creditability : A retailer sales the goods to the customers by purchasing from the producer or wholesaler providing better quality goods at a reasonable price. As a result his creditability increases in market.

9.2.3 Advantages :

(1) Opportunity of Selection : In a retail trade, retailer keeps different varities of goods of many producers. Hence, customers have the opportunity of selection.

(2) Home Delivery of Goods : In the retail trade some times the retailer render services of delivering goods at the customer's home and save their time.

(3) Redressal of the Complains of the Customers : Retailer in retail trade receives complaints about the goods from the customers, conveys them to the wholesaler or producer and there by becomes helpful in the quick redressal of the complaints.

(4) Sales on credit to customers : Retailer in retail trade is in direct contact with the customers, so he is aware of their economic position. Hence, he sells the goods on credit to customers as per requirement.

(5) After Sales Services : Retailer in retail trade provides services after sales of goods such as repairing, taking back or exchange the damaged goods etc.

(6) Helpful to Decision of Purchase : By effective demonstration of products retailer in retail trade provides information about its utility, quality, price etc. Hence, it is useful to customers to take decision of purchase.

(7) Freedom from the Storage of Goods : A retailer in retail trade supplies the goods to customer whenever it is needed as per requirements. As a result customers get freedom from the storages of goods.

(8) Guidance to Customers : A retailer in retail trade provides the guidance about the product to customers, provides the guidance about future prices of product, supply of product and methods of consumption of product.

9.2.4 Limitations :

(1) More Capital Investment : Trader in retail trade provides the oppotunity of selection to customers. For this he has to keep various products of many producers. Hence, he requires large capital investment.

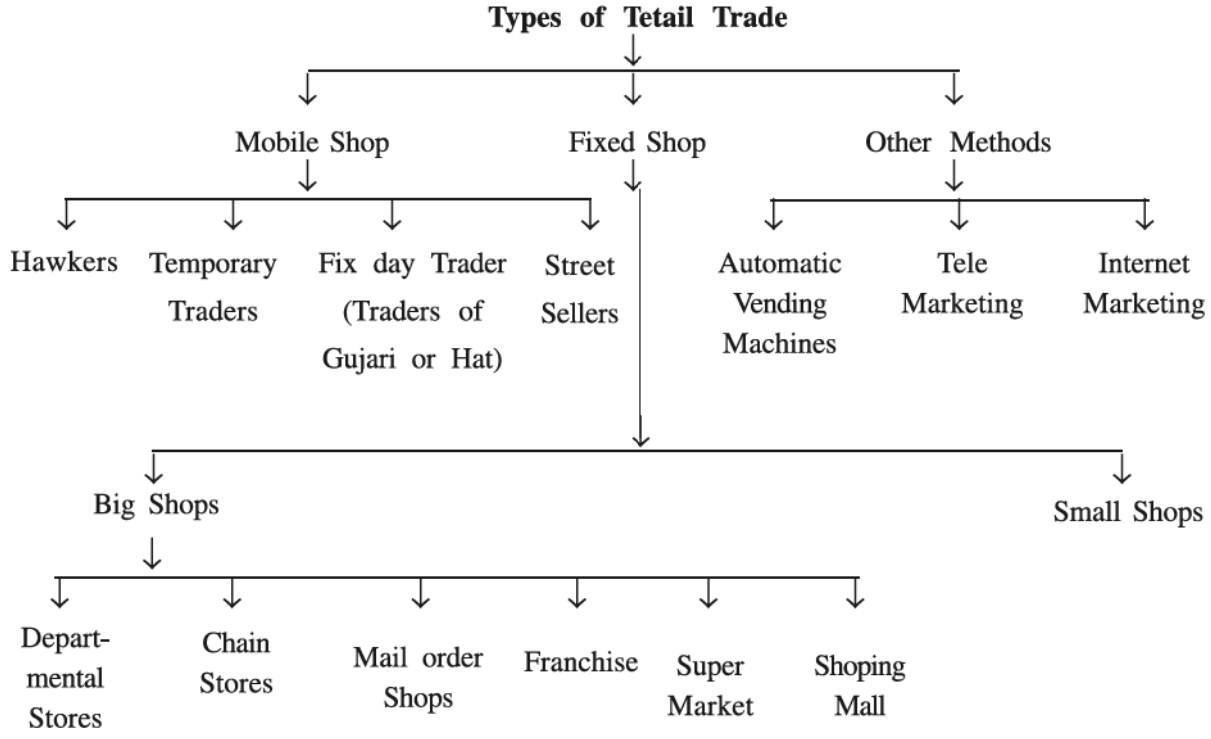
(2) Risk of Deterioration of Perishable Goods : Sometimes perishable goods like fruit, vegetable, milk, milk products remain unsold. There is possibility of deterioration. The loss on this is borne by the retailer.

(3) Risk of Goods Getting Outdated : When the goods become outdated, sometimes due to change in preference, taste, fashion or technology, then they are to be sold at cost price or less than cost price.

(4) Risk of Loss, Shortage or Fluctuations of Price : Retailer bears the risk of the damage to the goods, shortage of goods or price fluctuations.

(5) Bias : Some time trader in retail trade does not sell the goods of such producers toward to whom he has a bias.

9.2.5 Types :



9.2.5.1 Mobile Shops :

(A) Hawkers : Hawkers sell the goods to the customers by carring goods at different places such as home, railway station, bus station etc. Generally they sell news papers, vegetables, fruits and home utility items. Such hawkers sell the goods at the price lower than that of shop, because cost and other expenses are less for them.

(B) Temporary Traders : The traders selling certain goods during certain occasions, festivals or seasons are called temporary traders, e.g. The traders selling goods in fairs, sellers of kite during **uttrayan**, sellers of crackers during **Diwali**.

(C) Fixed day Traders : In some cities, towns or villages a market is arrenged on a certain place on fixed day of the week or month. Many sellers bring the goods of various types for sell. Such market is for whole day. It is called **Gujari** or **Hat**.

(D) Street Seller : Street seller means selling goods of daily requirements on footpath and the customers staying in the surrounding area purchase the goods e.g. vegetables, fruits etc**.**

9.2.5.2 Fixed Shops :

(1) Big Shops :

(A) Departmental Stores : Retail sale is on large scale in departmental stores. Where many types of goods are available at the same place. There is a different section or department for the sale of each type of goods in such stores. So it is called departmental stores. The ownership and management of such stores are in the hands of single person. The customers can purcharse mostly the goods from basic necessities to the luxuries.

Characteristics :

(1) Sales on Large Scale : The retail sale of different types of goods is carried out on large scale in the departmental stores.

(2) Separate Department for Separate Item : A separate department for separate item in the departmental stores.

(3) Ownership and Management : The ownership and managentment of departmental stores is in the hands of a single person.

(4) In Urben Areas : The departmental stores are generally located in the urban areas.

(5) Training to Employees : A special training is given to the employees of the departmental stores for the proper behaviour with the customers and sales promotion.

(6) High Expenses : High expenses are to be incurred to build infrastructure facilities and for its maintenance in the departmental stores.

(7) Facilities to Customers : Facilities like entertainment, restaurant, wifi are rendered to the customers in the departmental stores.

(8) Guidance : Customers are welcomed by the employees of the departmental stores, providing guidance for the selection of goods through demonstration of the product.

(B) Chain Stores : The chain stores sell goods in retail on large scale. These stores are commenced by a single person at different places or cities. Generally the limited items of essential commodities of the same class are sold in such stores and external layout of each store is the same.

Characteristics :

(1) Single Owner : A chain stores is owned by a single person.

(2) Layout : External layout of the chain stores is similar.

(3) Training to Employees : Policies of business unit, behaviour with customers etc; are seen to be uniformed. For this training is given to employees.

(4) Centralised Management : The chain stores are managed from one place.i.e. from the head office.

(5) Common Identification : Common identification is established as the external layout and the identical uniforms of employees.

(C) Mail Order Shops : Orders are received from the customers by sending catalogue through post. Goods are also delivered through post and payment of money is made through post at the time of delivery of goods. It is called mail order shops.

Goods are delivered at the door steps of the customers residing at far away areas of the country. Such shops sell mostly the products that are light in weight, durable and costly. In short, these shops perform all the activities by post from receiving order to receipts of payment.

(D) Franchises : A special right is given by signing a contract with a company having a particular trade mark or brand to sell its product or service or to manufacture its product and sell it, it is called franchise.

These types of shops sell the goods on large scale in retail. Their methods of doing business, quality of goods, decoration of the shop are similar to that of parent company. Generally parent company supplies the raw materials if the product is to be sold after manufacturing. For this the parent company provides improvement oriented guidance by doing continuous supervision. Parent company allows to use its trade mark or brand. In return of it, it receives royalty from the seller at the fixed rate.

The parent company imparts training to the employees of business unit obtaining franchise. some refreshment houses, computer training centres provide goods or services under this system. The frenchised company has to incur less advertisement expense because of the advertisement published by the parent company.

(E) Super Market : Super market is a retail shop selling on large scale. It sells the products to the customers at reasonable price by purchasing large quantity from the reputed companies or producers. This type of stores attract the small shopkeepers too. All types of products of daily requirement are sold in super market. The super markets are located in various big city or town in a country. They are big sized from the view point of construction.

(F) Shoping Mall : Shoping mall is dcvclopcd duc to changc in dcpartmcntal storcs in mordcn time. The constructions of shoping mall is larger than super market. In which many small-big shops are commenced under the ownership of a single person or more than one person. Various types of branded goods of daily requirement and luxurious products are available to the customers together at the same place. Efforts are made to attract the customers through various types of proposals of sales promotion. Competition among identical products of various producer is the specific charactristic of shoping mall. So customers have wide opportunities of selection. Morden facilities such as refresment house, entertainment department for children, Wi-fi, auditorium etc; are in shoping mall.

9.2.5.3 Other Methods of Selling :

(A) Automatic Vending Machine : This is one kind of automatic machine for selling products. By which retail sale is made. Products are arranged in advance in this machine. Customer has to drop the currency/coins in the machine to purchase product like news papers, cold drink, ice-cream, coffee etc. How many coins are to be inserted in the machine is indicated on the machine. The required product comes out from the machine as the coin is inserted in to machine.

These types of machines render services for twenty four hours (24 × 7) continuously. The expense on the salary, training etc. of the salesmen decrease because of the automatic vending machine. At present these types of machines are seen at public places like shoping mall, airport, railway station. This type of machine was invented by Greek engineer and mathematician Alexandria Hero.

(B) Tele Marketing : Tele marketing can be divided into two parts.

(i) Telephonic Marketing : Potential customers are contacted through telephone or mobile to provide commodity or services in this method. Interested customers are then directly visited and are provided information at the time and place convenient to them through fixing appointment on telephone or mobile . This methods of selling is called telephonic marketing.

This method is useful for loan, financing, insurance services, credits card etc. Products or services are avaible at fair prices and the customer's time is saved due to the absence of midlemen.

(ii) Television Marketing : In this method customers are attracted by providing full information of product or service through live demonstrations of various products. Along with this customers are given either phone number or name of the website to purchase products or services. Customer can contact accordingly and can place the order. The product is delivered to the customer's home. Under this method products of home appliences, luxurious and comforts products are sold. Payment for these products is made through two methods :

(1) Advance payment by credit/debit card

(2) Payment can be made by cash when the product is delivered at home.

Due to the absence of middlemen, products are available at reasonable price and it saves time.

(C) Internet Marketing : Producer places the advertisement of his products on differtent medias of internet like E-mail, Portal, Browser. Sometimes, they have their own website like Flipkart, Snapdeal, Amazon.com etc.

The customers compare the products of competitors by observing such advertisements and select the product of their own and places the order through internet and make the payment through online or cash on delivery.

The customers have turned to the media of internet in morden time. Because of the absence of middlemen, showroom expenses etc. products are available at cheaper price in comparison to local market, along with this customers also get after sales services.

9.3 Terminology of Trade

(1) Cash On Delivery(COD) : Payment of cash to producer or seller when goods are delivered to the customer is called cash on delivery.

(2) Free On Board(FOB) : The exporter bears the expense till the goods reach to the importer's port is called Free On Board.

(3) Cost, Insurance and Freight(CIF) : When invoice includes the cost of goods, insurance and Freight is called CIF invoice.

(4) Errors and Omissions Excepted(E&OE) : Generally errors and omisions excepted are mentioned in invoice which means any accounting or calculating mistakes are acceptable to the issuer of the receipt.

9.4 Distinguish Between Departmental Store and Chain Store

Sr. No.	Points of Difference	Departmental Store	Chain Store
(1)	Objective	To supply all types of goods to customers at the same place	To supply goods by reaching near the customers at various places
(2)	Method of sales	Sales of goods at the same place in different departments	Sales at different places through branches
(3)	Risk	Greater risk as the sales activity is at the same place.	Comparitively risk is less as the sales activity is at different places by branches
(4)	Sales of goods	Sales of goods is either on cash basis or instalment system	Sales of goods is on cash
(5)	Opportunity of selections for the customers	Wider opportunity of selection to customers as many types of products are sold in departmental stores	Less opportunity of selection as limited products of the same class are sold in the chain stores

9.5 Distinguish between Retailer and Wholesaler

Sr. No.	Points of difference	Retaile Trade	Wholesale Trade
(1)	Capital Investment	Less capital investment is required for business	More capital investment is required for business
(2)	Purchase-Sales	Purchase the good in small or large quantity and sells to the customers in retail as per requirements	Purchase the goods in large quantity and sells the good in small quantity to the retailers
(3)	Distribution channel	Connecting link between customers and wholesalers	Connecting link between retailer and producer
(4)	Sales of products	Sells various products of many producers or wholesalers	Sells the various products of limited producers
(5)	Number of traders	Comparatively retailers are more in number	Comparatively wholesalers are less in number

What did you learn in this chapter ?

Meaning of Internal Trade : Internal trade means trade within the geographical boundaries of country.

Wholesale Trade : In wholesale trade, trader purchases the goods in large quantity from the producers and sells the goods to the retailers as per requirement in small quantity is called wholesale trade .

Services of Wholesaler to Producer : (1) Order in large quantity (2) Information of market (3) Freedom from the storage of goods (4) Freedom from the worry of sales (5) Relief in capital (6) Freedom from the risk

Services of Wholesaler to Retailer : (1) Goods as per requirement (2) Goods on credit (3) Decrease in advertisement expense (4) Redressal of complaints (5) Freedom from risk (6) Guidance.

Retail Trade : Meaning : When goods are purchased either in retail or in large quantity either from wholesaler or producer and sell the goods to the customers as per requirement is called retail trade.

Services of Retailer :

Services of Retailer to Wholesaler and Producer : (1) Information about market (2) Helps in advertisement (3) Increase in creditability.

Advantages : (1) Opportunity of selection (2) Home delivery (3) Redressal of complaints (4) Sale on credit to customers (5) After Sales Services (6) Helpful in decision of purchase (7) Freedom from the storages of goods (8) Guidance to customers.

Limitations : (1) More capital investment (2) Risk of deterioration of perishable goods (3) Risk of goods being outdated (4) Risk of loss, shortage, fluctuation of price (5) Bias

Types of Retail Trade :

(A) Mobile shops : (1) Hawkers (2) Temporary traders (3) Fixed days traders (4) Street seller.

(B) Fixed shops :

Big Shops :

(1) Departmental stores :

Characteristics : (1) Sales on large scale (2) Separate department for Separate item (3) Ownership and management (4) In urban areas (5) Training to employees (6) High expense (7) Facility to customers (8) Guidance to customers.

(2) Chain Stores :

Characteristics : (1) Single owner (2) Same external layout (3) Training to employees (4) Centralised management (5) Common identification

(3) Mail Order Shops

(4) Franchises

(5) Super Market

(6) Shoping mall

(C) Other Methods of Selling :

(1) Automatic Vending Machines.

(2) Tele Marketing : (i) Telephonic Marketing (ii) Television Marketing

(3) Internet Marketing

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) Link between wholesaler and customers refers to.....

(a) Producer (b) Broker (c) Retailer (d) Customer

(2) Link between producer and retailer refers to .....

(a) Customer (b) Wholesaler (c) Retailer (d) Broker

(3) Who is the first middleman in the channel of goods distribution ?

(a) Wholesaler (b) Producer (c) Retailer (d) Customer

(4) Trader in direct contact to customers refers to .....

(a) Broker (b) Wholesaler (c) Producer (d) Retailer

(5) In which types of shops middlemen are not existing ?

(a) Departmental stores (b) Mail order shop

(c) Chain stores (d) Wholesaler's shop

(6) For which type of goods mail order shops are not suitable ?

(a) Valuable (b) Low in weight (c) Perishable (d) Durable

(7) Which is the shop where various type of goods are available at the same place ?

(a) Franchise (b) Chain stores (c) Mail order shop (d) Shoping mall

(8) A shop with a contract with a company having a particular brand or trade mark sells the product of that company or manufactures and sells its product is known as .....

(a) Super market (b) Franchise (c) Shoping mall (d) Chain stores

(9) Why can goods and services be supplied to the customers at fair price by telemarketing ?

(a) Due to large number of customers (c) Due to objective of service

(a) Due to wholesale sales (d) Due to absence of middlemen

Answer : (1) (c) (2) (b) (3) (a) (4) (d) (5) (b) (6) (c) (7) (d) (8) (b) (9) (d)

2. Answer the following questions in one sentence each :

(1) Give the meaning of Internal Trade.

(2) State the types of the big shops.

(3) Which types of goods are suitable for selling through mail order shops ?

(4) Which types of goods and services are useful of Telemarketing ?

(5) Who has invented automatic vending machine ?

3. Answer the following questions in short :

(1) "Departmental stores save the time and labour of the customers" - Explain

(2) State the types of moblie shop.

(3) Bad debt is not possible in mail order shops. why ?

(4) "A wholesaler is a link between producer and retailer" - Explain

(5) Which types of risks are borne by the retailer ?

(6) How is payment made in television marketing ?

4. Answer the following questions in brief :

(1) State the difference between :

(i) Departmental store and Chain stores (ii) Retailer and wholesaler

(2) Write short notes :

(i) Mail order shops (ii) Franchise

(iii) Super market (iv) Shoping mall

(v) Automatic Vending machine

5. Answer the following questions in detailS :

(1) Giving the meaning of wholesale trade, explain various services of the wholesaler to the producer

(2) Giving the meaning of retail trade, explain the services of retailer to wholesaler and producer.

(3) Explain the advantages and limitations of retail trade.

(4) What is the departmental store ? Explain its characteristics.

(5) What is the chain store ? Explain its characteristics.

(6) Explain the telemarketing and internet marketing.

•

10 International Trade

What will you learn in this chapter

Introduction

Natural resources have been distributed unequally among the different countries of the world. As a result of this, people have to depend upon the other countries to fulfil their needs. If it is not possible to produce an item in a paritcular country or the production of that item is lesser than, its requirement and at the same time the other country has an adequate amount of that item, then such items can be bought from that country through international trade. In additional to this, if some items can be manufactured in a country with less equipments, less labour and less expenses and with better quality then such items can be sent to other conutries then utilisation of the natural resources of world can be done in the best way. If the developed countries have industries and under developed countries have raw materials then, the trade between such countries become necessary. We can not imagine the world without international trade. International trade is an ancient system.

10 1 Concept of International Trade

When the people or institutions of a country do trading with the people or institutions of another country, such trading activity is called International Trade or Foreign Trade.

According to Thomas "Exchange of the products of one country with the another country means Foreign Trade".

10 2 Importance

(1) Benefits of Division of Labour and Specialization : As the natural resources of different countries have been distributed unequally, all demanding items cannot be produced in only one country. In a country where the production of a particular item is suitable, such can be manufactured easily and with low cost and can be exported to another country. In the same way some demanding items can be imported from foreign country. Due to International trade, both the importing country as well as the exporting country get benefit of division of labour and specialization.

(2) Development of Under Developed Countries : A under developed country can import things like foreign technology, modern administrative knowledge, researches and foreign capital. Less developed countries can make development possible by entering into the contract of co operation in industries and business with other countries.

(3) Maximum Utilization of the Resources : Maximum utilization of the resources of different countries is made possible due to international trade. Every country import the technology, machines and human labours as per its requirements and utilizes its resources maximum. People living in different countries use the natural resources of their country by means of their skills and increase the production. Such surplus production is exported.

(4) Development of Auxiliary Services : The auxiliary services have developed commerce related services such as bank, insurance, warehouse, communication, agency etc. Due to import and export in international trade.

(5) To Maintain Price Stability : Easily available items of a country can be exported and to over

come price fall and highly demanding items can be imported to control the price hike, and this way the price level can be stable by means of international trade.

(6) High Standard of Living: Competition can be seen among different countries in international trade. Just to stand in competition each producer tries to lower the price and higher the quality of its product. The standard of living of people can be improved when they get good quality at low price.

(7) Exchange of Culture, Fashion and Knowledge : Different countries come into contact with one another by means of international trade and can get information about one another and understand one another's culture. So that, international co-operation and harmony can be maintained over a period of time. Thus culture, fashion and knowledge are exchanged among different countries.

(8) Helpful in Calamities : International trade gains more importance whenever there is disruption in supply of goods due to manmade or natural calamities such as drought, earthquake, epidemic, cyclone etc. In country like India, agriculture mainly depends upon rain. Agriculture fails when there is inadequate rain. In such condition, grains can be imported and the natural calamity like drought can be overcome.

(9) World as a Market : Industrially developed and prosperous nations use superior technology and produce things on large scale. They are always trying to find out the potential market for surplus productions accross their borders. As a result of this international market is developed. This ways many countries of the world enter the international market. Hence the world becomes a market.

10 3 Incentives for Export Trade

A country has to import things to maintain the supply of inevitable items, for the security of the nation and the economical development. Imported products and services have to be paid in the form of foreign exchange. Export has to be made in order to gain foreign exchange and for the stability and security of economy. In this situtation, every country provide incentives for export trade. Any incentive provided to the exporters who export the products of high quality at cheaper rate and make it available their when it is demanded in their country and export them to the importers is called as incentives for export trade. Usually Government is responsible to provide export incentives. The Government performs as a media for providing incentives.

Different Media of Export Incentives

↓

Trade Agreements	Financial and Economic Encourage-ment Reward	Collective and Systematic Economic Encourage-ment	Financial Facilities and Services	Non-Economic Facilities	Special Economic Zone	Export Processing Zone

(1) Trade Agreements : Export is encouraged by means of trade agreements. These trade agreements are made by the medium of the politicians who are politically favourable to each other. As per trade agreements one or more countries imports product or services or give it a priority.

(2) Financial and Economic Encouragement Reward : Export encouragement is provided by means of financial and economical encouragement.

This medium has been widely used for a long time.

As per this scheme -

(a) To give direct reward to the exporter at pre-determind rate.

(b) No collection or less collection of sales-tax and excise duty on exported products.

(c) To give full or partial exemption in the income-tax on export income.

(d) Encouragement is given by providing the raw material, other equipments and electricity at the lower rates to the products for export.

(3) Collective and Systematic Economic Encouragement : In this scheme, the pre-decided amount or products are exported than right of import is assigned up to the amount equivalent to the proportionate amount of foreign exchange earned. In return of export guarantee, the following encouragements are provided.

(a) Allotment of land at subsidised rates to produce items for export purpose.

(b) Benefit of establishment of factories.

(c) Encouragement to establish factories in free trade zones which are free from taxes and other regulations on obligation to export total production or as per predecided ratio.

(4) Financial Facilities and Services : Export encouragements are provided by means of financial facilities and services such as;

(a) To make arrangement for the exporter to get the billing amount on the same day when they export the products.

(b) To provide protection against the fluctuation in exchange rate.

(c) To make arrangement for the importer to receive the goods easily.

(d) To provide services as the guarantor of the importer after assessing the financial soundness of the importer.

(5) Non-Economic Facilities : Encouragement is provided by means of non-economic facilities instead of direct economic aid to the exporters such as;

(a) To provide necessary information for the export.

(b) To train and prepare men power required for the production of export worthy products.

(c) To promote a competition among the exporters and give award to one who exports the most.

(d) To provide information about the export markets.

(e) Declaring strike and lock out as an illegal activities of the factories; in which export products are produced. Such Non-economic encouragements are provided.

(6) Special Economic Zone : A law about special economic zone was passed in the parliament in the year 2005 and was implemented from 10th February 2006

Special economic zone is such a geographical area where the economical laws of the country are more liberal. Many special zones are covered under Special Economic Zone such as,

(a) Export Processing Zone (b) Free Trade Zone (c) Free Ports and (d) Industrial Zones etc. The main aim of this is to attract domestic and direct foreign capital investments.

Necessary encouragemernts like exemption from customs duty, central excise, service tax, central sales tax and security transaction tax are being provided for the export growth of the products of industrial units located in special economic zones. To invite domestic and foreign capital investement and to develop infrastructural facilities in such areas are etc. the encouragements.

(7) Export Processing Zone : The Government of India has established export processing zone in different areas of the country in order to encourage export trade. It is an attempt to obtain foreign exchange on large scale by way of export promotion. Export processing zone and free Trade zone are synonyms to each other. Under the policy declared by the Government of India; free trade zones have been established at different places like Kandla, Santa Cruz (Mumbai), Falta, Noida, Cochin, Chennai, Vishakhapattannam, Kosindra near Dwarka and Dahej near Bharuch.

In free trade zones excise duties, regulations of financial transactions inside the country and foreign country and some labour laws are liberal in order to encourage exports. Assurances are given for the primary facilities such as roads, electricity, water supply, communication facilities and continuous supply of high quality raw materials in order to run the industries in such zones.

The Government provides the latest and various information about exports to the exporters of export processing zones. Information are provided related to the position of market of different products in foreign countries, political situation for export, available transport facility etc.

10 4 Import Procedure

Interntional trade means trade of import and export. When goods are sent to foreign countries from India, it is called **'Export'** for India and when goods are bought from a foreign country, it is called **'Import'** for India. The process of import and export trade is different. The import procedure in different countries is also different. The procedure to import goods in India is as follows :

(1) Obtaining Import Licence : If the importer wants to import the goods listed in the list of required items and services published by the Government, he has to obtain an Open General Licence(OGL), which is easier. But, if the importer wants to import the goods excluded from the list, he has to apply to Comptroller of import trade. In this application name of the importer, address, details of the goods, economic condition of the importer, name of exporting country etc. are mentioned.

If the officer is satisfied with the details of the application then only he issues the import licence. If the quota method is prevailing, the importer is given a quota certificate describing the fix quota.

(2) Obtaining Foreign Exchange : When goods are to be imported from a foreign country, the payment has to be made in foreign currency/exchange. The Reserve Bank of India has control over foreign exchange. First an application is to be sent to the bank permitted by the government for foreign exchange trade before applying the Reserve Bank of India. The bank makes an endorsement on the application form of the importer on the basis of import licence. Then the Reserve Bank sanctions the foreign exchange. In the application form, how much foreign currency is required and of which country is to be shown in US Dollars.

(3) Placing an Order : After the completion of the procedure of import licence and foreign exchange, the importer collects information of different manufactures and exporters for the details of the goods, price and other conditions. The importer gives the order to the exporter or manufacturer whose terms and condition seem suitable to him. Importer places the order for the import of the goods is called **"Indent"** The details regarding the goods, price, packing, insurance, the name of the transport company etc, are mentioned clearly in indent.

(4) Dispatching Letter of Credit : Letter of Credit means a document assuring the exporter regarding the payment of the goods on behalf of importer. The exporter demands for letter of credit to know the finacial capabilities of the importer. The importer has to obtain the Letter of Credit from his bank and has to send it to the exporter. The exporter is assured about getting his money on receiving the letter of credit.

(5) Receipts of Documents : The exporter sends all required documents to the importer through his bank. Generally he sends documents through **'Documents against Acceptance' (D/A)** or through **D/P (Documents aginst Payment)** which are released by the importer.

(6) To Obtain the Order of Receiving Goods : Bill of lading is one of the documents received by the importer showing the ownership of the goods. The exporter makes endorsement on this document for the transfer of ownership of goods in favour of importer.

This document is to be presented to the office of the shipping company. The possession of the goods is with shipping company. If the freight is to be paid by the importer, after receiving freight shipping company makes an endorsment on the Bill of Lading giving order to captain of ship to release goods in favour of importer.

(7) Paying the Import duty/Excise : The importer has to pay import duty on the imported goods. The goods are not allowed to bring outside the port untill the import duty is paid or exemption of duty certificate is produced. On the basis of consular invoice and the certificate of origin of the goods, if less excise duty is to be paid a bill of entry form has to be prepared. In this form complete informations of the name of the ship, name of the port of the foreign country from where the goods had been loaded on the ship, name of the exporter and address, name and address of the importer and total details of the goods are mentioned. Excise is determined on the basis of the details of this form. When the decided duty is paid, the excise officer makes an endorsement on the bill of entry and hand over it to the importer. The goods on which excise duty is not paid are kept in bonded warehouses.

(8) Payment of Dock Charges : The importer has to pay a certain kind of charges for using the place where the vehical arrives; either by airway, roadway or seaway. Such charges are known as dock charges. Dock charges includes all expenses related to the equipments of that place,

facilities available till the importer gets possession of the goods after boarding the goods from the vehicle. A receipt is issued after payment of dock charges is called dock receipt.

(9) Getting Possession of the Goods : After completing all the formalities on the part of the importer, the importer gets the possession of the goods. The possession of the goods has to be moved out from the bonded warehouse within a certain time limit. If the goods are not moved but from the bonded warehouse within the certain time limit, then the rent and the demurrage have to be paid for using bonded warehouse for excess time.

10.5 Export Procedure

When a trader of a country sends goods to a trader of a other country, it is said that he has exported goods. Export procedure is different in different countries. Export procedure from India is as under. :

(1) Getting an Order : The exporter is given the order of goods by the importer. In the orders details of the goods, quantity, prices as decided, type of packing, date of dispatch of goods, details of insurance, detail of transportation services through which the goods have to be sent, mode of payment of bill and terms and conditions decided are mentioned. Before receiving the order, the exporter gets the information about the financial capabilities, creditability and relevant matters of the importer.

(2) Obtaining Export Licence : The exporter has to obtain an export licence in order to export the goods which come under the import-export control laws. The other items, apart from these can be freely exported, but for this, a general licence has to be obtained. To obtain licence, an application is to be made in prescribed form to the trade department of Government. It is necessary to give clear identity of the exporter, details of the exporter and assurance of regular payment of the income tax and the other taxes in the application. Those professionals who export regularly are called **'Export House'**.

(3) Collecting Goods : The exporter collects the goods as per the importer's order after obtaining the export licence. If the exporter is the manufacture, he starts manufacturing the goods as per the order and if the exporter is a trader, he starts collecting the goods as per the order.

(4) Foreign exchange Activity : Many controls related to foreign exchange have been liberalized after economic reform of 1991. The importers make payment to the exporters, amount of bill either in the exporters currency or in U.S. $. The Reserve Bank and its appointed banks and institutions, keep control over foreign exchange. Therefore the exporter has to make an application to the Reserve Bank of India with a view to convert the foreign exchange received from the importer into the currency of his country. The exporter has to provide the complete details in this application regarding how much foreign exchange he is going to earn. The exporter has to submit a copy of this application to the bank or institution through which he makes transactions.

(5) Obtaining Letter of Credit : The exporter checks the finacial capability of the importer before exporting the goods for the securities of the amount of his bill. For which the exporter writes a letter to the importer to demand a letter of credit from his bank. Sometimes the bank of the exporter assigns this task to its own branch, working in the foreign countries or get it through other sources. The exporter, the certificate of credit of the importer mentioning that the creditability of the importer is reliable. This is known as the **Letter of Credit.**

(6) Obtaining Shipping Order : The exporter has to contact a shipping company if the goods are to be exported through seaway. An application is made to the company which assures about readiness to reach the goods on a certain date. The details of goods such as the quantity, weight, size, the date of sending the goods, the price etc. are mentioned in this application. In short, shipping order means an order issued to the captain of the ship by the shipping company to accept the goods. In the case when the exporter wants to export the goods in a large quantity and wants to book the whole ship, it is called a **'Charter'**. The agreement between the shipping company and the exporter to keep the whole ship on the rent is called **'Charter Party Agreement'**.

(7) Payment of Excise Duty : Each exporter has to pay the duty. The exporter has to obtain the certificate from the duty officer if the duty is not to be paid. Then a prescribed form containing a public notification certifying that the goods is duty free. If the goods are excisable, the exporter has to prepare a shipping bill in which the details like the name of the importer, address, price of the goods, quantity, weight, the name of the port where the goods is to be boarded, the name of the ship and shipping company etc. should be described. The excise officer calculates the duty on the basis of the price of the goods, quantity etc. The excise officer determines the amount of duty after checking the shipping bill and inspecting the goods by himself, if necessary. When the exporter pays the amount of the excise duty, he gets the permission to carry the goods on the port.

(8) Packing and Marking of Goods : Packing is very important in international trade. The goods are to be transported for a long distance therefore it should be packed in such a way that it dose not get damaged due to transportation or due to humidity in the atmosphere. Sometimes, shipping companies also consider the size of the packing while determining the fare. The packing must be done as per the packing instructions mentioned by the importer in the order. Marking of some important details related to the goods on the packing is also necessary. Details like the name and address of the importer and exporter, the name of the destination port, weight of the goods etc. are mentioned in the marking.

(9) Getting Insurance of the Goods : In the order to protect the goods against the possible risks in the sea like cyclone, damage in goods due to weather, due to pirates etc. the goods has to be insured to get economic return especially it is to be transported through the seaway. An agreement is made with the insurance company regarding this. The exporter obtains the **'Cover Note'** after paying the premium determined by the insurance company. The insurance company issues the policy against the cover note.

(10) Obtating Carting Order : Carting order means permission of boarding goods on the ship. The Exporter has to make an application to the port authority from where the goods are to be exported in

order to obtain carting order. In this application, all the details of shipping bill along with the details of the payment of excise duty are mentioned. When the exporter pays the port expenses like the charge of transfer of the goods and the charge of boarding the goods on the ship, he obtains the carting order.

(11) Mate Receipt : The goods is boarded on the ship on the basis of carting order. The representative of the captain of the ship is known as **'Mate'**. Mate checks whether the goods are as per the shipping bill or not. When the goods are loaded on the ship, a receipt is issued by either the captain of the ship or by his representative certifying the acceptance of goods is called **'Mate Receipt'**. The captain of the ship checks the packing of the goods. If the captain finds the packing improper and the goods is not suitable for transportation, it is remarked in the receipt, such remarked receipt is know as 'Foul Receipt' If all the matters are proper, then a Clean Receipt is issued. If the mate's receipt is foul, it means that the goods which have been loaded on the ship are not properly packed as specified in the order and if the goods are damaged during the transportation, the shipping company is not responsible for that.

(12) Obtaining Bill of Lading : Mate receipt is a receipt of goods loaded on the ship. It is not agreement of transporting the goods. The exporter obtains Bill of Lading from shipping company after producing the mate receipt to the shipping company. Bill of lading is an agreement between the shipping company and the exporter by which the shipping company gives assurance to transport the goods from one port to another. Details like the name of the exporter, the name of the ship, freight, details of the goods, quantity of the goods, price, weight, name of the exporting port, terms and conditions of transportation etc. are discribed in this agreement. Bill of lading is an important document. Three copies are prepared. One copy remain with shipping company. The remaning two copies are sent to the exporter out of which the exporter sends one copy to the importer. The importer receives goods on the basis of this copy.

(13) Certificate of Origin : The certificate describing the details where the goods were produced is called the certificate of origin. According to the agreement made by different countries, respected countries provide relief on import excise. In order to get relief under this agreement, a certificate of origin for that particular goods is required. Such certificate can be obtained from Trade Association, Chamber of Commerce or the Government.

(14) Consular Invoice : When the exported goods reaches in the country of the importer, excise on that goods has to be paid. To make the payment of excise simple, consular invoice is an important document. The consular of importing country is working in the exporting country. The exporter obtains a certificate about the price of the goods from the consular is called Consular Invoice. The details like quantity of the goods and price are mentioned in it and the excise is collected on the basis of this.

(15) Sending Documents : The exporter send the important documents like invoice, insurance, policy or cover note, bill of lading, certificate of origin, consular invoice and bill of exchange etc. to the importer's bank through his bank.

(16) Collection of Money : The exporter gives the advice to the bank for the collection of the money. The exporter writes bill of exchange to the importer in order to collect the amount mentioned in the invoice. This bill of exchange may be Documents against Acceptance (D/A) or Document against Payment (D/P). In D/A the bank of the exporter presents the bill of exchange to the importer. The bank release the documents of the goods; once the bill of exchange is accepted by the importer but if it is D/P, the bank gives the documents only after the full payment of bill of exchange is made. The bank collects the money as per the maturity date of the bill of exchange in D/A. Where as in D/P, the amount is sent to the exporter.

10 6 Role of WTO and GATT

After the second world war, political, equations at international level have been changed. The nations have been involved in the war became weaker economically. In such new political condition, the necessity emerged to establish an organization in order to create harmony among the different countries in the field of trade and other fields. As a result of this General Agreement on the Trade and Tariff (GATT) was made. Each country created some restrictions or limit as per its requirements but no development could be achieved due to this and the necessity of liberalization emerged and World Trade Organization was formed.

(1) World Trade Organisation (WTO) : WTO maintains international trade relationship so that there can be a common place for the international trade and the path to globalization can be widen and spread. The world's 104 countries have signed in suppor of this organization. This organization started its work officially from 1st January, 1995. India is a member of this organization from the beginning. Service sectors have got rapid growth due to the work and administration of WTO. Boundary lines were erased in the field of insurance, banking and transportation and the entire world has become a global village. World market is developed along with world trade. Due to this organization, products related to agriculture, industries, health related facilities can be produced at a larger scale and exports of such things are promoted. In the field of education, foreign universities have got the opportunities to enter India. Countries like America, Canada and Australia have arranged their campus in Gujarat and other various states of India.

(2) General Agreement on Trade and Tariff (GATT) : The Government of India has made different agreements with different countries in order to join its industries with the foreign stream. It is called GATT.

In 1948 an agreement among 23 nations was made at Geneva. The basic aim of this agreement was to bring international trade in the direction of free trade and to enhance the international trade and to encourage the division of regional labour. GATT is a free trade policy suitable to globalization. The administration system is also favourable and the material facilities have also been increasing. Modern streams in trade world are taking shapes.

10 7 Problems of International Trade

Trade taking place among the different countries of the world is called **'International trade'**. Different countries have different restrictions in international trade. They are known as the problems of international trade. They are as under :

(1) Problems of Currency : Different countries have different currencies. So it becomes difficult to settle a deal due to currency problem. The importer and exporter face problems due to lack of adequate knowledge about foreign exchange.

(2) Diversity of Language : Each country of the world has different language. So diversity of language is also a problem in international trade. However English language gets rid of this problem to some extent, even though dealing with some backward countries creates this problem.

(3) The Problem of Distance : Due to very long distance between two countries in international trade, a lot of problems in communications and transportation of goods are created.

(4) Restrictions and Controls : Different countries impose different restrictions on international trade as per their political and economical policies. International trade gets barrier due to too much restrictions imposed by the government.

(5) Risk : Most of the international trade is transported via searoute, it involves risks like damage of goods due to bad weather, sinking of the goods and robbery of the goods by the pirates etc.

(6) Difference in Laws : Different countries have different trade laws. It becomes a problems to understand them easily.

(7) Lack of Trader's Contact : The contact with trader is very rare in international trade. The traders are quite unfamiliar with each other when there is a great distance between two countries. It creates a problems in payment when there is no direct contact between the importer and the exporter.

(8) Problem of Weighing Scale : Sometimes different countries have a problem regarding weighing scale as, they have different weighing scale.

Differences between Internal and International Trade

Sr. No.	Points of difference	Internal Trade	International Trade
(1)	Meaning	Trade taking place within geographical boundaries of a country means internal trade e.g. Trade from Gujarat with the other states of India.	Trade taking place outside the boundries of country means international trade, e.g. Trade between India and other countries of the world.
(2)	Currency	No problem is created in the payments and accounts due to the same currency in the whole country.	Problems in terms of payments and accounts are created due to different currencies.
(3)	Laws	Trade laws are similar in the whole country.	Different countries have different trade laws.
(4)	Problems of language	Language doesn't create any problems.	Language creates problem.
(5)	Government Control	There are less Government controls.	There are more Government controls.
(6)	Risk ratio	Risk ratio is low.	Risk ratio is high.
(7)	Distance	Distance is short because the work field is limited upto a country.	Distance is long because the work field is spread over more than one country.
(8)	Insurance	It is not compulsory to get insurance.	It is compulsory to get insurance.
(9)	Payment of excise	It is easy to pay the excise and the rate of excise is low.	The process of payment of excise is complicated and the rate of excise is high.
(10)	Market	Market is limited.	Market is wide.

What did you learn in this chapter

Concept of International Trade : When the people or institution of a country do trading with the people or institutions of another country, such trade is called International Trade.

Importance : (1) Benefits of division of labour and specialization (2) Development of under developed countries (3) Maximum utilization of resources (4) Development of auxiliary services (5) Maintains price stability (6) High standard of living (7) Exchange of culture, fashion and knowledge (8) Helpful in calamities (9) World as a market.

Incentives for Export Trade : Any incentive provided to the exporters who export the product of high quality at a cheaper rate and make it avilable when demanded in their country and export them to their importers is called as incentives for export trade. Incentives for Export trade can be provided by different media, such as; (1) Trade Agreements (2) Financial and economic encouragement (3) Collective and systematic economic encouragement (4) Financial facilities and services (5) Non-economic facilities (6) Special economic zone (7) Export processing zone.

Import Procedure : When goods are bought in India from a foreign country it is called **'Import'.** The person who imports is called an Importer and the procedure to be followed is called Import Procedure. (1) Obtaining Import Licence (2) Obtaining Foreign Exchange (3) Placing an order (4) Dispatching Letter of Credit (5) Receipts of Documents (6) To obtain the order of receiving goods (7) Paying the Import duty/Excise (8) Payment of Dock Charges (9) Getting Possession of the Goods.

Export Procedure : When goods are sent to foreign countries from India, it is export. The exporter does the following procedure to export goods. :

(1) Getting an order (2) Obtaining export licence (3) Collecting goods (4) Foreign exchange activity (5) Obtaining letter of credit (6) Obtaining shipping order (7) Payment of duty/excise (8) Packing and marking of goods (9) Insurance of the goods (10) Obtaining carting order (11) Mate receipt (12) Obtaining bill of lading (13) Certificate of origin (14) Consular invoice (15) Sending documents (16) Collection of money

WTO and GATT : WTO maintains international trade relationship so that there can be a common platform for the international trade and the path to globalization can be widen and spread, 104 countries of the world have signed, supporting the organization.

The Government of India has made different agreements with different countries in order to join its industries with the other foreign stream. It is called GATT.

Problems of International Trade : (1) Problems of currency (2) Diversity of language (3) The Problem of distance (4) Restrictions and controls (5) Risk (6) Difference in laws (7) Lack of trader's contact (8) Problems of weighing scale.

Differences between Internal and International Trade : (1) Meaning (2) Currency (3) Laws (4) Problems of language (5) Control of the Government (6) Risk Ratio (7) Distance (8) Insurance (9) Payment of excise (10) Market

EXERCISE

1. Select the correct alternative and write answers to the following questions :

(1) What is the trade of a country with another country ?

(a) Local Trade (b) Regional Trade (c) National Trade (d) International Trade

(2) What is the letter known as on which the importer describers the details of the order ?

(a) Input (b) OGL (c) L/C (d) Indent

(3) By which type of trade, foreign exchange can be received ?

(a) Export trade (b) Import trade (c) Internal trade (d) Regional trade

(4) Who issues the Bill of Lading to the exporter ?

(a) Insurance company (b) Shipping company (c) The captain of ship (d) Bank

(5) Name the certificate that states the country in which the goods were produced.

(a) Consular invoice (b) Certificate of origin

(c) Shipping order (d) Letter of credit

(6) Who issues the Shipping Order ?

(a) The captain of ship (b) Shipping company

(c) Owner of the ship (d) Central bank

(7) Which bank holds the control over foreign exchange in India ?

(a) Local Bank (b) Merchant Bank (c) Reserve Bank (d) Agriculture Bank

(8) What kind of receipt does the captain of the ship issue to the exporter when, there is no proper packing of the goods ?

(a) Foul receipt (b) Clean receipt (c) Incomplete receipt (d) Torn out receipt

(9) Which of the following media provides export incentives ?

(a) World Bank (b) Merchant Bank (c) Merchant Agreement (d) Marchants

(10) Name the document that the bank issues to the importer against the payment of the bill as per the instructions given by the exporter.

(a) D/A (b) D/P (c) OGL (d) LOC

(11) Name the agreement made between shipping company and exporter to book the whole ship on the rent ?

(a) Internet agreement (b) Credit agreement (C) Charter party agreement (d) Export agreement

Answer : (1) (d) (2) (d) (3) (a) (4) (b) (5) (b) (6) (b) (7) (c) (8) (a) (9) (c) (10) (b) (11) (c)

2. Answer the following questions in one sentence each :

(1) What is International Trade ?

(2) What is import ?

(3) What is Export ?

(4) Explain the terms :

OGL, WTO, GATT, SEZ, EPZ, D/A, D/P.

3. Answer the following questions in short :

(1) What is Bill of Lading ?

(2) What is called Consular Invoice ?

(3) Why the certificate of origin is required in foreign trade ?

(6) What is Mate Receipt ?

(5) What is Charter Party Agreement ?

(6) What is the Shipping Order ?

4. Answer the following questions in brief :

(1) Explain briefly the different incentives for export trade.

(2) Explain the role of World Trade Organization (WTO) in international Trade.

(3) Write a note on General Agreement of Trade and Tariff (GATT) in International Trade.

(4) "Sometimes the captain of the ship issues a foul receipt". Explain the statement.

(5) Explain 'world - a global village'.

5. Answer the following questions in detail :

(1) Give the meaning of Foreign Trade and explain its importance.

(2) Describe Import procedure.

(3) Explain steps of Export procedure.

(4) Describe the problems of International Trade.

(5) State the difference between Internal and International Trade.

Full Form of Abbreviations

SEZ	:	Special Economic Zone
EPZ	:	Export Processing Zone
OGL	:	Open General Licence
L/C	:	Letter of Credit
D/A	:	Documents against Acceptance
D/P	:	Documents against Payment
WTO	:	World Trade Organisation
GATT	:	General Agreement on Trade and Tariff
FTZ	:	Free Trade Zone
M/A	:	Memorandum of Association

•

11 Social Responsibility of Business

What will you learn in this chapter

Introduction

Business is an economic activity, which is done with an aim to earn profit. However, we can observe many business units to perform their works in several activities. Certain activities performed by a business unit cannot earn profit directly. Though some activites are performed by business units. For example, public garden has been developed and/or maintained by the some business groups. While, some business units provides through researches to improve the quality of their products. Business units provides transportation facilities, education facilities and healthcare facilities to the children of their employees. Moreover, some business units perform activities such as to provide free or low-cost medical treatment and medicines to poor patients. While some business units awards by providing financial assistance in national and international sports or cultural competitions. These are all social concept behind all these activities of a business unit.

11 1 Social Responsibility Concept of Business

Business is an integral part of the society. Any social activities can not be seperated from society. Various categories of society are contributing to develop business. A business earns income and that income also comes from various classes of the society. Therefore, it is a responsibility of any business unit to contribute certain part of their income for social services. Every business unit have to decide themselves, to give this benefit to society or not and if yes then, up to what extent. Thus, social responsibility is an moral responsibility of a business.

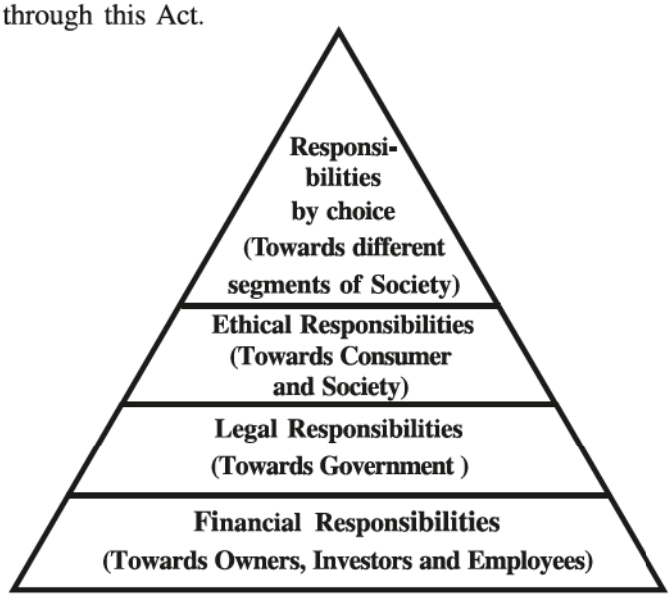
The concept of social responsibility of company was presented at first time by Mr H. R. Boven in 1963 at USA in his reaserch paper. The concept of social responsibility of company has become talk of town since then. As defined by, World Business Council "For Sustainable Development, development of a company, improvement in standard of living, of emploees & their families, the ethical commitment towards local communities and ethical responsibility of company towards society means social responsibility.

In wider sense, the policies made in favour of all the social responsibilities towards concerned stakeholders of a company, is a compilation of programmes and projects, which force the company

to take decision as a part of the responsibility towards these stakeholders. Generally, social responsibility is an ethical and optional idea; but as per new companies act 2013 it has been made mandatory. Therefore, now the social responsibility can be considered as mandatory for the units like a company.

As per article 135 of The Companies Act-2013, from 1st April 2014, the companies having yearly turnover more than ₹ 1000 crore or having a net value more than ₹ 500 crore or having more than ₹ 5 crore as profit for any financial year, will be mandatorily applicable the provisions of a social responsibility. Such companies would have to spend at-least 2% of average profit of previous 3 financial years as Expenditure for the activities of social responsibility or have to present a report showing reasons for not incurring such expenditures.

Thus, as per new Companies Act, the companies adhered to provision of minimum social responsibility, it is mandatory to form a social responsibility committee which includes social responsible three members from board of directors. The Ministry of Law has emphasized on companies to become socially responsible through this Act.



11 1 1 Definition of Social Responsibility :

At the time of establishment and development of a business unit, the services and contribution provided by the various segments of society and organizations, the duties which occurs to obligate them as a responsibility towards the society, calls the social responsibility of a business.

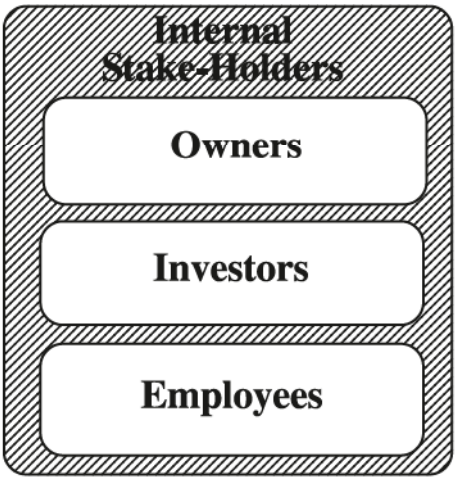
Mainly the social responsibility of a business can be divided in four levels :

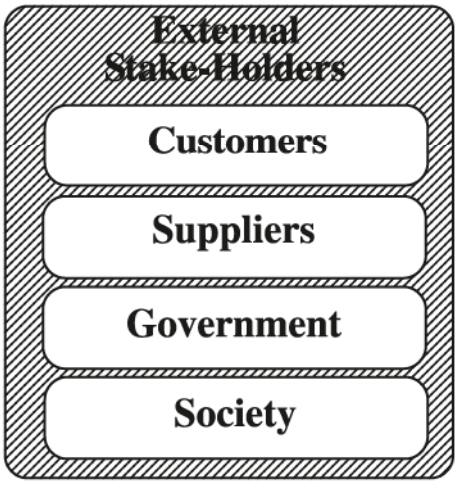
(1) Financial responsibilities (2) Legal responsibilities (3) Ethical responsibilities (4) Responsibilities by choice.

11 2 Social Responsibilities Towards Various Stake-Holders.

Generally, a business unit is an independent unit. It earns progress through doing financial activities. Any business unit cannot earn progress without having contribution from various categories of society. Different interest of various categories of the society, groups or institutions have been associated with a business unit. Each of them recognize as stake-holder group.

The stake-holding groups which are associated with a business unit can be divided in two categories :





Internal Stake-Holders : The intrest groups which are associated directly with the management of a business unit and which is a part of the unit are called an internal stake-holders.

External Stake-Holders : The interest groups which are indirectly associated with the management of a business unit are called an external stake-holders.

11 2 1 Social Responsibility of Business Towards the Owners : After second world-war the era of industrial development in India was initiated, along with the incredible changes happened in size and type of business or industries, as a result of it the need of capital was increased, as to fulfill the needs by sole proprietor or partnership was not possible so form of company was established. Existence of two different entities in this form such as actual owners means share-holders and the management came in existance. Due to this reason the social responsibility of the company towards the actual owners arises which is as follows :

(1) Participation in Decision Making Process : Share-holder are the owners of the company; therefore it is necessary to have confidence in them while taking any decisions regarding policy. It is a social responsibility of a company to make them participate in decision making process.

(2) Capital Security and Growth : It is the social responsibility towards the owners of the company by put their personal interest aside. The management have to use their skills for the security of share-holder's capital and to increase its value.

(3) Protecting Interests of the Owners : The owners interest always found in safety of capital, increase the value and in growth of the company. It is the social responsibility of the management to protect long-term interest of the company.

(4) Priority for Development : When the development plan being put in to practice, there should be priority of getting more capital from the actual owners and to offer them right shares is a social responsibility.

11 2 2 Social Responsibility of Business Towards the Investors : As the size of the unit increase, simultaneously requirement of capital increases. Capital provided by the investors in different forms like loan, preference share or debenture. The social responsibilities of a unit towards investors are as under :

(1) Timely Payments of Returns : The investors have invested their money with an expectation of high, regular and reasonable returns. It is the social responsibility of a unit to pay regular returns.

(2) Providing Necessary Information : Providing information regarding current status and future plans of the unit to the investors.

(3) Growth in Investment Value : The market value of the investment is determined as per the financial result of the unit. The financial decisions of a unit must be taken with the intention to increase the investment value of the investors.

(4) Security of Money : Investors have invested their money entrusting efficiency of the management of the unit. It is the social responsibility to make proper use and to provide security of their money. So in future while the financial requirement arises unit can easily procure the money from them.

(5) Suggestions are Welcomed : Generally the investors are aware with market trends, thus their suggestions should be welcomed.

11 2 3 Social Responsibility of Business Towards Employees : Employees are required to perform in any unit. It is not prone to exaggerate by saying this the unit cannot achieve its' goal without efficient employees. Therefore it is the prime social responsibility of a unit to maintain and take care of its' employees.

(1) To Maintain the Standard of Living : Remuneration is the main purpose of an employee to perform their tasks. If the remuneration is improper, dissatisfaction arises among the employees. It is the responsibility of a company to see that the employees are getting their remuneration in time too. Thus, the unit doesn't have to exploit their employees and have to provide their reasonoble remuneration in time.

(2) To Provide Proper Atmosphere and Facilities for Work : To keep the business unit efficient the favorable atmosphere play an important role. It is the social responsibility of a unit to look forward for positive atmosphere in a unit and appropriate growth of employee relationship. A unit can provide this atmosphere by various facilities. E.g. Providing canteen, transportation and cleanliness and proper ventilation facilities in the unit. If possible, air-condition facility and separate arrangements for ladies employees should be provided.

(3) To Provide Social Security : In addition to timely reasonable salary, employees have to provide facilities such as provident fund, pension, sick leaves, insurance protection of life - healthcare and group insurance schemes etc.

(4) Give Recognition to Employee Union : Employees forms employee union to present their demands in organized way to the management. They must get the recognition from the managment. The employee union represents the employees of the unit. By accepting their reasonable demands, a unit can enhance employees enthusiasm.

(5) Compromising Attitude of the Higher Management : Employees are treated as an asset of a unit. Any unit has to accept that they are efficient in their work. At other side, employees should represent their grievances in person or through their union. By timely considering these presentations and keeping compromising attitude and interest of a unit, employees must be treated like family members. which create family atmosphere.

(6) Motivation : You can buy hours of your employees, but have to win their abilities. Any unit cannot survive without constant encouragement of employee's enthusiasm. Therefore, to motivate the enthusiasm of employees, unit have to give increament, promotion, rewards etc. Through it, employee's morale get boosted. e.g. owner of the company encourage the employees by going on tour with the employees and their families, employees awarded for their advanced researches or new work-techniques etc.

(7) Other Responsibilities : Employee's participation in decision of a unit, arrangement to get informed the employees about the decisions and important information, conditions of their tasks to be decided before appointment. Units have to manage the responsibilities such as look after the arrangement of education of the employee's children and to arrange the planning their timings for the same family of employees.

11 2 4 Social Responsibility of Business Towards Customers : The existence of any business unit is difficult to imagine without customers. The customer is the center of the existence in any business unit, that's why **a customer is called the king of market.**

(1) Selling of Proper Product or Services : It is considered as social responsibilities towards consumers while maintaining proper quality of product or service. It is a duty of any business unit to provide their products in appropriate packing, weight, without adulteration to satisfy the needs of consumers.

(2) Reasonable Price : Any business unit providing services or products have to keep their price reasonable which gives a customer proper satisfaction and proper return to the producer. In today's competitive era, a unit requires a reasonable profit in order to survive, but along with as a part of social responsibility the units have to charge reasonable price to the consumers rather than recovering more prices.

(3) Maintaining Continuity of Supply in the Market : Some times artificial scarcity has been created to recover more price from the consumers. It is responsibility of a business unit that not to create any scarcity by maintaining continues supply of a product in the market.

(4) Not to use Misleading Advertisements : Some business units are advertising for the benefits of their products or services in a exaggerated manner, in reality which is mostly misleading. Some customers inspire to purchase product or service due to, attraction of these advertisements. After purchasing they feel as cheated due to not getting their desired benefits from the product or services as shown in the advertisement. Therefore, such misleading advertisements should not be given.

(5) After Sales Services : After selling a product or service to the customer the responsibility of a business unit does not complete, infact it is the begining of a responsibility. For grievances redressal of a customer regarding product or services availability of nearer service center and if the customer doesn't like the product then freedom to returning back, it is the customer's legal right and social responsibility of the unit. If unit voluntarily accepts it, the social status of the unit increase. Otherwise if it is forced by the present legislation, then the social and business status of the unit diminish.

11 2 5 Social Responsibility of Business Towards the Suppliers : Success of any business unit depends upon continuous supply of better quality of goods. This supply may be of physical materials or of services as well. The external factor which performs an important role in success of unit is a supplier and the responsibility of a unit towards supplier is:

(1) Information in Advance About the Supply : Except emergency reasons suppliers should be informed in advance about requirement of good as per demands so that continuous supply become possible. As a result, the continuity of production may maintain and the business status may increase as well.

(2) Clarity of Quality and Skills : The unit have to be clear in advance about their quality needs to the supplier of raw material and services. Thus the continuity of supply may maintain.

(3) Timely Payments : The payments to the supplier of raw materials and the labours should be fulfill as per determind terms and conditions.

11 2 6 Social Responsibility of Business Towards the Government : A business unit have to operate its economic activities as per law defined by the Government.

(1) Abide by the Laws : It is the responsibility of the business to abide the laws laid by the Government.

(2) Payment of Taxes Honestly : The business unit has to pay all the taxes honestly intime laid by the Government.

(3) Participation in the Execution of Government Programmes : Various programmes have been arranged by the Government for the progress and development of the nation time to time. A unit time should have to be involved in such public-participation programmes which should reach the people. e.g. Clean India Campaign has been launched by the Government. After this some units have participated in cleanliness programmes.

(4) To Participate in the Implementation of the Industrial Policy : The Government frames Industrial Policy by considering the needs of the nation. It is the social responsibility of a unit to participate in the implementation of this policy.

11 2 7 Social Responsibility of a Business Towards the Society : The Management expert Mr. Peter F. Drucker said that, "The management of any business unit should be done in such a way which brings the balance of intrest between the unit and various sections of the society." The business management, has to maintain the economic and social interest of the society.

(1) Preservation of the Environment : The unit has to choose such production process which creates least pollution and maintain the environment.

(2) Contribution to National Development Programmes : Development of the nation is the combined result of personality development and progress of a unit. A unit have to contribute in dvelopment of a nation through optimum utilisation of financial resources.

(3) Give Importance to the Research Programmes : Industrial research contributes to the development of the nation. Business units of developed countries are using some share of their profit in researches and try to keep their unit at prime position in international competition. Thus the unit have to give importance to the researches and have to produce goods or services as per the needs of the society.

(4) Helpful During an Emergency : In the situations such as natural calamities the units have to perform social responsibility by being helpful to government and semi-government organisations.

(5) Conservation of Social and Cultural Heritage : The units have to oversee about conservation of social and cultural legacy of the nation through their products or services. Have to use such broadcasting mediums and ideas through which the cultural value does not hinders. E.g. Depiction of obscenity or apartheid concept should not be involved in advertisement.

(6) Partcipation in Social Encouragement : Social development is not possible without the equality in any society. Social equality is achieved through procurement of proper opportunity in each community. The business units have to be helpful in development by providing proper opportunities to the weaker section of the society.

(7) Creating Employment Oppotunities : By achieving progress a unit should create employment opportunities. National Growth Ratio or National Equality can be achieved through employment opportunities.

(8) Maintain Human Rights : It become a part of a social responsibility for the unit to maintain natural and constitutional human rights.

11 3 Business Unit and Preservation Enviroment

When the world is facing very difficult problem of Global Warming and actions have been taken for its resistance, the business unit must have to participate in it. It become a social resposibility for a unit to abide by the environmental standards enacted by the Government. As a part of social responsibility a business unit has to make its business with consideration of four different sectors of environmental preservation :

(1) Land and Forest Preservation : There is a need of land establishment of a unit. If it was possible to cut down trees as a requirement for this land, then it become a social responsibility to grow new trees by plantation in that ratio. Along with it is a responsibility of a unit to look after not to affect productivity of surrounding fertile land by unit's disposal of waste and chemicals. Otherwise the society does not hesitate to taking final action such as social exclusion of the unit.

(2) Preservation of Water Resources : Arrangement of the disposal of polluted liquid and solid waste during production process of a unit should be done, thus the unit has to look after that external and underground water resources does not be polluted.

(3) Preservation of Air and other Gases : A unit must have to make arrangement such as not to increase in air pollution to manage the disposal of solid, liquid and air waste during its production process. In past due to leakage of toxic gas in many units resulted in loss of life and physical deformaty among children. It is a part of the social responsibility for a unit for the preservation of general health of the society.

(4) Preventing Noise Pollution : Layout of machineries in production process and construction of a factory should such that it reduces the noise pollution.

11 4 Business Ethics :

Set of accepted principles and standrads for behavior and character is business ethics. Discussion and implementation of such principles and standrads happens in business ethics which decides and implements what is right and what is wrong in human relation. e.g. fraud, bribe etc.

The main difference between principles of ethics rules and legal regulations is that ethic principles cannot be implemented by the authority, while it is possible in legal regulations. If business units properly adopts the ethical principles in the society and also expect from each business units that they perform their activities with ethical values.

Mostly violation of business ethics occur when a businessman hopes for speedy and more profit; but

as per the common observation the units that are be able to maintain ethical standrads, its existence survive for long period and can achieve good economic growth as well.

11 4 1 Elements of Business Ethics : Ethical behaviour is good for both the business and the society. If a unit have element of values and ethics in its day to day transactions then only the right atmosphere can be set-up in the unit.

(1) Commitment of Top Level Management : Role of top level management remains crucial in the sucess of ethical behaviour and the top level officers of the unit always need to be committed to achieve its result. To be bound with the values they have to inspire behaviour of the entire unit by their leadership.

(2) Publishing Directional Rules : For providing ethical behavioral direction to the employees of the unit the higher management should have to publish guidelines in written form, so that the employees can get inspiration and direction in different situations.

(3) Structural Formation : The decision taken by the unit obeys the ethical principles of the unit to ensure the same appropriate infrastructure should be created for its implementation.

(4) Participation in Decisions : Employees participation in decision making makes the ethical values successful.

(5) Evaluation of Results : Usually an ethics are the matter of qualitative concept becomes concept of ethical standard, Which can be learn by the feedback from different categories associated with the unit.

What did you learn in this chapter

Company Oriented Social Responsibility : An ethical commitment of a company regarding economical progress of the company, for improvisation of the quality of standrads of living of employees and their families, for local communities and the society means the company oriented social responsibility.

Definition of Social Responsibility : The services and contribution which have given by the different factors and the organizations of the society in establishment and development of any business unit is called as social responsibility of a business.

Social Responsibility Towards Business Stake-Holding Groups :

Social Responsibility of Business Towards the Owners : (1) Participation in decision making process (2) Capital security and growth (3) Protecting interest of the owners (4) Priority in development.

Social Responsibility of Business Towards the Investors : (1) Timely payment of returns (2) Providing necessary information to investor (3) Growth in investment value (4) Security of money (5) Suggestions are welcome.

Social Responsibility of Business Towards Employees : (1) Maintain the living standard (2) To provide proper atmosphere and facilities for work (3) To provide social security (4) Give recognition to trade union (5) Compromising attitude of the top level management (6) Motivation (7) Other responsibilities.

Social Responsibility of Business Towards Consumers : (1) Selling of proper product or services (2) Reasonable price (3) Maintaining continuity of supply in the market (4) Not to issue misleading advertisements (5) After sales services.

Social Responsibility of Business Towards the Suppliers : (1) Information in advance about the supply, (2) Clarity of quality and skills, (3) Timely payments.

Social Responsibility of Business Towards the Government : (1) Abide by the laws (2) Paying taxes honestly (3) Participation in Government programmes (4) To participate in the implementation of the Industrial Policy.

Social Responsibility of Business Towards the Society : (1) Preservation of environment (2) Contribution towards National Development programmes (3) Give importance to the research programme (4) Helpful during emergency (5) Conservation of social and cultural legacy (6) Participation in social encouragement (7) Creating employment opportunities (8) Maintain Human Rights.

Business Unit and Protection of Environment : As a part of social responsibility a business unit has to make its business with consideration of four different sector of environmental preservation

(1) Land and Forest preservsation (2) Preservation of water resources (3) Preservation of air and other gases (4) Preventing noise pollution.

Business Ethics : Business ethics is a set of accepted principles and standrads for behavior and character.

Elements of Business Ethics : Ethical behaviour is good thing for both the business and the society. If a unit have element of values and ethics in its daily transactions then only the right atmosphere can be set-up in the unit. Some elements of business ethics are as under :

(1) Commitment of top level management (2) Publishing directional rules (3) Infrastructural formation, (4) Participation in decisions (5) Evaluation of result.

EXERCISE

1. Select the correct alternatives and write answer to the follwing questions :

(1) As per the provision of company's Act-2013 it is becoming mandatory to perform social responsibility for given company.

(a) The company which have yearly turnover worth ₹ 5 crore.

(b) The company which have yearly turnover worth ₹ 50 crore.

(c) The company which have yearly turnover worth ₹ 500 crore.

(d) The company which have yearly turnover worth ₹ 1000 crore.

(2) As per the provision of company's Act-2013 it is becoming mandatory to make expenditure for a company as a part of its social responsibility.

(a) Minimum 2% of its average yearly profit (b) Minimum 5 % of its average yearly profit

(c) Maximum 2% of its average yearly profit (d) Maximum 5 % of its average yearly profit

(3) Select a stake-holding group which includes in external stake-holding group in a company.

(a) Employee (b) Investor (c) Owner (d) Customer

(4) Social responsibility of a business means,

(a) Responsibility of the society towards a business

(b) Responsibility of the consumer towards in society

(c) Responsibility of a business towards the society

(d) Responsibility of the society towards a consumer

(5) Towards how many stake-holding groups the social responsibility of a business is there ?

(a) Five (b) Six (c) Seven (d) Eight

(6) Who is a king of the market in regard to the social responsibility ?

(a) Investor (b) Consumer (c) Owner (d) Employee

(7) Obscene or discrimination is not to be shown in advertisement as it is a

(a) Political responsibility (b) Religious responsibility

(c) Financial responsibility (d) Social responsibility

(8) How implementation of business ethics, is done ?

(a) As per Company's Act (b) As per Partnership Act

(c) Voluntarily (d) As per Co-operative Society's Act

(9) The scripture which interprets ethical behavior of human means

(a) Sociology (b) Psychology (c) Political Science (d) Ethics

(10) According to the Company's Act-2013, as per which section the concept of social responsibility made as mandatory ?

(a) 135 (b) 143 (c) 153 (d) 137

Answer : (1) (d) (2) (a) (3) (d) (4) (c) (5) (c) (6) (b) (7) (d) (8) (c) (9) (d) (10) (a)

2. Answer the following questions in one sentence each :

(1) Give the meaning of social responsibility.

(2) Producing zero pollution in atmosphere called what type of responsibility ?

(3) What is a reasonable price ?

(4) Give the meaning of ethics.

(5) To preserve atmosphere called which type of responsibility ?

3. Answer the following question in brief :

(1) 'Timely and appropriate wages becomes social responsibility of a unit' - describe.

(2) 'Protecting the interest of consumer increase reputation of a unit' - Explain

(3) Which elements are included in business ethics ?

4. Answer the follwing questions in brief :

(1) Explain in details : In which sector a business unit should have to serve regarding environment ?

(2) "A business unit can increase its goodwill by performing social responsibilities." - Explain.

(3) "Social responsibility towards employees eliminates displeasure from the unit." How ?

(4) Implementation of business ethics is not possible by law.

(5) Explain the difference between Ethics and law.

5. Answer the follwing questions in detail :

(1) Describe social responsibility of a business towards owner.

(2) Describe social responsibility of a business towards society.

(3) Explain the Internal social Responsibilities of a business in detail.

(4) Describe the External Social responsibility of a business in detail.

Full Form of Abbreviation

USA : United States of America

WBCSD : World Business Council for Sustainable Development

•

Project-Work

1. Make a list of auxiliary services like Banking, Insurance, Warehouse/Godown, Transportation and Communication. Give the name of five companies providing these services. Make report of any one of them.
2. Make a list of Co-Operative Societies operating in your area and prepare detailed report of its activites.
3. Various types of sector : Make a list of any five public and private sector and global enterprise. Make a detailed report of activities of any one.
4. Make a visit of any bank. Collecte information to open saving account and differnt document required for it. Make Report of it.
5. Prepare a detailed report of insurance policies offered by LIC and other Private Insurance Companies.
6. Selelct any type of business unit. Prepare a detailed reports of its difficulties and its solutions.
7. Prepare an imaginary partnership deed.

   (Prepare ANY ONE Project from 1 to 7.)

8. Selelct a company or firm. Make a report of steps taken by company regarding social responsibilities.
9. Collect the Final Account of company of your choice and make a note of the sources of capital.
10. Make a chart showing classification of fixed shops of your surroundings.(as per syllabus)
11. Make a note on incentives given by Government of Gujarat for export promotion.
12. Make a report on Internet marketing of a business unit of your choice.
13. Visit small scale business unit and make a report on difficulties faced by it.

    [ANY ONE From 8 to 13]

• • •