
Class-XI

Business Studies

Design of the Question Paper

Maximum Marks: 100

(90 for theory paper + 10 for project)

PART-A: Foundations of Business

1.	Nature and Purpose of Business	20	08
2.	Forms of Business Organizations	24	12
3.	Public, Private and Global Enterprises	20	08
4.	Business Services	18	10
5.	Emerging Modes of Business	10	06
6.	Social Responsibility of Business and Business Ethics	12	06
		104	50

Part B: Finance and Trade

7.	Sources of business finance	28	14
8.	Small Business	14	06
9.	Internal Trade	28	12
10.	International Business	12	08
11.	Project Work	22	10
		104	50

Part A: Foundations of Business (Periods 104)

Unit I: Nature and purpose of business: 20 Periods

Concept and characteristics of business.

Business, profession and employment - distinctive features.

Objectives of business - economic and social, role of profit in business

Classification of business activities : Industry and Commerce.

Industry-types : primary, secondary, tertiary

Commerce-trade : types (internal, external, wholesale and retail; and auxiliaries to trade : banking, insurance, transportation, Warehousing, communication, and advertising.

Business risks - nature and causes.

Unit 2: Forms of Business Organizations (Periods 24)

Sole Proprietorship- meaning, features, merits and limitations.

Partnership Features, types, merits and limitations of partnership and partners, registration of a partnership firm, partnership deed. Type of partners.

Hindu Undivided Family Business: features.

Cooperative Societies- features, types, merits and limitations.

Company: private and public company -features, merits and limitations.

Formation of a company -stages.

Starting a business-basic factors.

Unit 3: Public, Private & Global Enterprises (Periods 20)

Private sector and public sector enterprises.

Forms of public sector enterprises: features, merits and limitations of departmental undertakings, statutory corporation and Government

Company

Changing role of public sector enterprises.

Global enterprises, Joint ventures, Public Private Partnership - features

Unit 4 Business Services (Periods 18)

Banking: types of bank accounts - savings, current, recurring, fixed deposit and multiple option deposit account,

Banking services with particular reference to issue of bank draft, banker's cheque (Pay order), RTGS (Real Time Gross Settlement) NEFT (National Electronic Funds Transfer), bank overdraft, cash credits and e- banking.

Insurance: principles, concept of life, health, fire and marine insurance.

Postal and telecom services: mail (UPC, registered post, parcel, speed post and courier) and other services.

Unit 5 Emerging Modes of Business (Periods 10)

E-Business - scope and benefits, resources required for successful e-business implementation, online transactions, payment mechanism, security and safety of business transactions.

Outsourcing-concept, need and scope of BPO (business process outsourcing) and KPO (knowledge process outsourcing).

Unit 6: Social Responsibility of Business and Business Ethics
(Periods 12)

Concept of social responsibility,
Case for social responsibility,
Responsibility towards owners, investors, consumers, employees,
government and community,
Environment protection and business.
Business ethics and elements.

Part B: Finance and Trade
(Periods 104)

Unit 7: Sources of business finance
(Periods 28)

Concept of business finance.
Owner's funds - equity shares, preference shares, GDR, ADR & IDR
and retained earnings.
Borrowed funds- debentures and bonds, loan from financial
institutions, loans from commercial banks, public deposits, trade credit,
ICD (inter corporate deposits).

Unit 8: Small Business
(Periods 14)

Small scale enterprise as defined by MSMED Act 2006 (Micro ,Small
and Medium Enterprise Development Act)
Role of small business in India with special reference to Rural Areas
Government schemes and agencies for small scale industries: NSIC
(National Small industries Corporation) and DIC (District Industrial
Center) with special reference to rural, backward & hilly areas.

Unit 9: Internal Trade **(Periods 28)**

Services rendered by a wholesaler and a retailer Types of retail trade-
itinerant and small scale fixed shops Large scale retailers-departmental

stores, chain stores, mail order business.

Concept of automatic vending machine.

Chambers of Commerce and Industry: basic functions

Main documents used in internal trade: Performa invoice, invoice, debit note, credit note, LR(Lorry Receipt) and RR(Railway Receipt) Terms of Trade: COD (Cash on Delivery), FOB(Free on Board),CIF (Cost, Insurance and Freight), E&OE (Errors and Omissions Excepted)

Unit 10: International Trade

(Periods 12)

Concept and problems of international trade.

Export import procedure and documents.

Role of WTO

CHAPTER - 1

Nature And Purpose of Business Economic and Non Economic Activities

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

Basic Meaning	Economic	Non-Economic
<ul style="list-style-type: none">• Purpose/ Notice	Those activities whose Objective is to earn money and to create Wealth.	Those activities whose aim is not to earn money, but to satisfy social, psychological and emotional needs.
<ul style="list-style-type: none">• Examples	<ul style="list-style-type: none">- People Working in factories- A teacher teaching in a school	<ul style="list-style-type: none">-A house Wife cooking food for her family- A teacher training his/ Daughter at home

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

Characteristics of Business :-

1. An economic activity : Business is considered as an economic activity as it is undertaken with the objective of earning money.
2. Production or procurement of goods and services :- Business includes all the activities concerned with the production or procurement of goods & services for sales. Services include transportation, banking, Insurance etc.
3. Sale or exchange of goods & services 1- There should be sale or exchange of goods & service between the seller & the buyer.
4. Dealing in goods & services on a regular basis :- There should be regularity of dealings or exchange of goods & services. One single transaction of sale or purchase does not constitute business.

5. Profit Earning :- The main purpose of business is to earn profit. A business cannot survive without making profits.
6. Uncertainty of return :- Every business invests money with the objective of earning profit. However there is always a possibility of losses.
7. Element of risk :- All business activities carry some elements of risk because future is uncertain and business has no control over several factors like, strikes, fire, theft, change in consumer taste etc.

Comparison of Business Profession and Employment

Economic Activities

Business	Profession	Employment
- Fishing	- Medical (Doctor)	- Worker
- Manufacturing goods	- Legal (Lawyer)	- Employee
- Mining	-Accountancy (CA)	

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

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

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

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

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

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

1. Economic Objectives

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

- (i) **Earning Profit** Profit means excess of income over the expenditure. The foremost and prime objective of every businessman is to earn profit. A business cannot survive without earning profit. Not only for survival but it is also required for growth and expansion of business.
- (ii) **Market standing/ creation of customer** Business can survive for a longer period only if it is able to capture a big share in the market and has market standing. It is possible only when business provides goods and services to satisfy the needs and wants of customers. Therefore, creation and satisfaction of customers (market) is an important objective of business.
- (iii) **Innovations** Innovation means making new products or adding new features to old products for making it more useful, improving methods of production and distribution, exploring new markets, etc. In these days of competition, a business can be successful only when it creates new designs, better machines, improved techniques, new varieties, etc.
- (iv) **optimum utilization of resources** It refers to the best use of men, material, money and machinery employed in business. The resources of business are scarce so these must be utilized in the best possible manner so that the business can get maximum benefit from these resources.
- (v) **Improving Productivity** - It is used as a measure of efficiency. Every business enterprise must aim at greater productivity - to ensure continuous survival and growth. This objective can be achieved by reducing wastages and making efficient use of machines and equipments, human resources, money etc.

2. Social Objectives

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

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

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



- (ii) **Avoidance of Anti-Social and Unfair trade practices :** Anti-Social practices include hoarding, black marketing and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Business should not indulge in such practices.
- (iii) **Generation of Employment :** Now a days, employment is the biggest problem of society. Business should provide employment to more and more people living in the country. Handicapped and disabled people should be given extra care.
- (iv) **Employee Welfare :** Employees are a valuable asset and they make significant contributions towards the success of business. Another social objective of business, therefore, is to ensure welfare of employees by providing good working conditions, fair wages and facilities such as housing, medical and entertainment etc. such welfare facilities help to improve physical and mental health of employees.

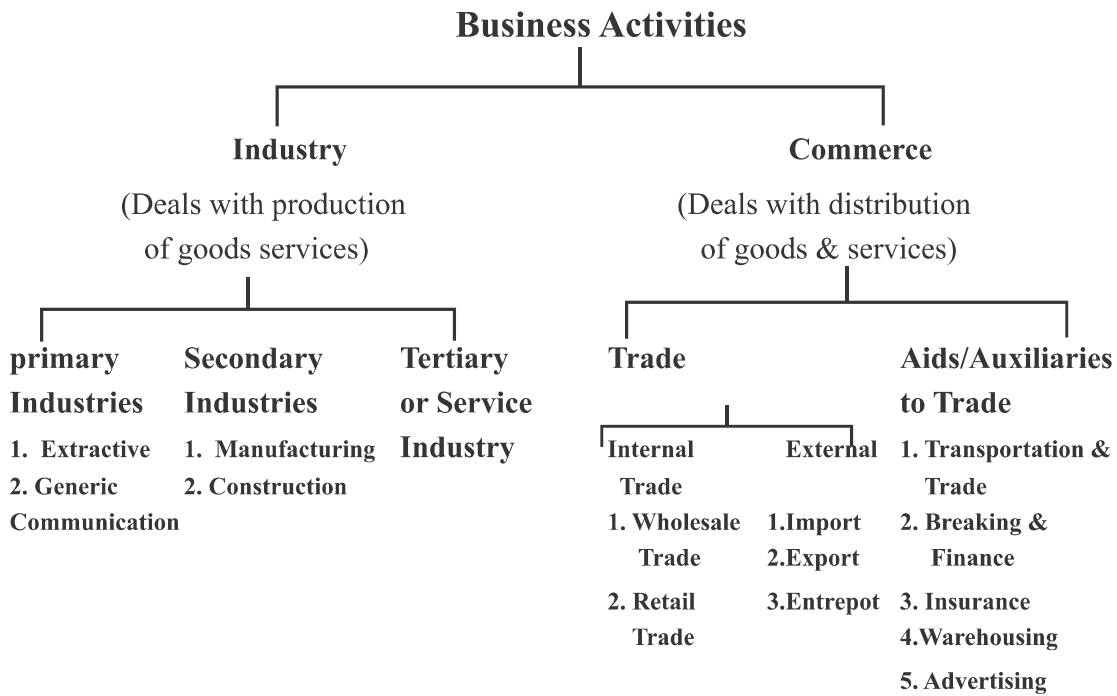
- (V) **Community service** : Business should contribute something to the society where it is established and operated library, dispensary, educational institutions etc. are certain contributions which a business can make and help in the development of community.

Role of Profit in Business

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

- (1) **For Long Survival** Profits alone help a business to continue to exist for a long period. In the absence of profit the establishment of a particular business loses its justification.
- (2) **For Growth & Expansion** All businessmen want their business to expand and to grow. For development of business additional capital is needed. Retained earnings is a very good source of capital. The more the profit is in.
- (3) **For Increasing Efficiency**: Profit is that power which motivates both the parties - owner and workers to do their best. As they know that in case of good profits they will get good compensation for their efforts so it finally helps in increasing the efficiency of business.
- (4) **For Building Prestige and Recognition** : For gaining prestige in the society, business has to satisfy all the parties concerned. It has to supply good quality product/service at reasonable price to customers, adequate remuneration to employees, to pay sufficient dividend to the shareholders etc. and all these are possible only if the business is earning good profit.

Classification of Business Activities



1. **Primary Industry :** The primary industry includes those activities through which the natural resources are used to provide raw material for other industries. Primary industries are of two types.
 - (i) **Extractive** Industry refers to those industries under which something is extracted out of the earth, water or air e.g., coal, iron, gas etc.
 - (ii) **Genetic** Industry refers to those industries under which the breed of animals and vegetables are improved and made more useful e.g., poultry farms, agriculture, dairy farming, tree planting etc.

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

1. **Manufacturing :-** These industries convert raw materials or semi finished products into finished products e.g., paper from bamboo, sugar from sugar cane. It is further to be divided into four parts.
 - (i) **Analytic :-** Different things are manufactured out of one material e.g., petrol, diesel, gasoline out of crude oil.
 - (ii) **Processing :-** Those industries wherein useful things are manufactured by making the raw material to pass through different production process e.g., steel from iron ore.
 - (iii) **Synthetic :-** Many raw materials are mixed to produce more useful product e.g., paints, cosmetics.
 - iv) **Assembling :-** Where in the parts manufactured by different industries are assembled to produce new and useful product e.g., computers, watches etc.
- 3 **Tertiary or Service Industry :-** Includes those services which help business to move smoothly e.g. transport, bank, Insurance, storage and Advertising.

COMMERCE :-

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

The functions of commerce are as follows

1. Removing the hindrance of person by making goods available to consumers from the producers.
2. Transportation removes hindrance of place by moving goods from the place of production to the markets for sale.
3. Storage and warehousing activities remove the hindrance of time.....b
facilitating holding of stock of goods to be sold as and when required.

4. Insurance removes hindrance of risk of loss or damage of goods due to theft, fire, accidents etc.
5. Banking removes hindrance of finance-by providing funds to a businessman for acquiring assets, purchasing raw materials and meeting other expenses.
6. Advertising removes hindrance of information-by informing consumers about the goods and services available in the market.

Commerce includes two types of activities.

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

1. **Internal Trade :-** Takes place within a country. Internal trade is classified into two categories wholesale trade and retail trade.

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

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

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

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

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

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

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

- i) **Transportation and Communication :-** The production of goods takes place at one place where as these are demanded in different parts of the country. The obstacle of place is removed by the transport. Along with transport communication is also an important service. It helps in exchange of information between producers, consumers and traders. The common communication services are postal service, telephone, fax, internet etc.
- ii) **Banking and Finance :-** Business needs funds for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from a bank.
- iii) **Insurance :-** It provides a cover against the loss of goods, in the process of transit, storage, theft, fire and other natural calamities.
- iv) **Warehousing :-** There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouses from the time of production till the time they are demanded by customers.
- v) **Advertising :-** Advertising brings goods and services to the knowledge of prospective buyers. It is through advertising that the customers come to know about the new products and their utility.

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

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

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

Starting a Business :- Basic Factors

1. Selecting the line of business : - The first thing to be decided by the entrepreneur is the line and type of business to be undertaken.
2. Scale or size of business :- After deciding the line of business the businessman must decide whether he wants to set up large scale or small scale business.
3. Choice of form of Business organization :- The next decision must be taken is to finalize the form of business i.e., to set up sole proprietorship., partnership or joint stock company.
4. Location of Business Enterprise :- The entrepreneur has to decide the place where the enterprise will be located. Before taking this decision he must find out availability of raw materials, power, labour, banking, transportation etc.
5. Financial Requirement: The businessman must analyze the amount of capital he might require to buy fixed assets and for working capital (Day to day expenses) Proper financial planning must be done to determine the amount of funds needed.
6. Physical facilities : include machinery equipment building etc. This decision depends upon the size, scale and type of business activities he wants to carry on.
7. Plant layout :- Showing the physical arrangement of machines and equipment needed to manufacture a product.
8. Competent and committed Workforce :- The entrepreneur must find out the requirement of skilled and unskilled workers and managerial staff to perform various activities.
9. Tax planning :- The entrepreneur must try to analyze the types of taxes because there are a number of tax laws in the country which affect the functioning of business.

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

EXPECTED QUESTIONS :- (ONE MARK QUESTION)

- Q.1. Give an example of activity which is economic in one side and non economic on other side.
- Q.2. Why is business considered an economic activity?
- Q.3. If a person sells his domestic computer at a profit, will it be considered a business? Also explain the characteristic of business which is being stressed upon in the above said example.
- Q.4. Name the economic activity in which specialized knowledge is required.
- Q.5. Why is the insurance known as a tertiary industry?

3/4 marks

- Q.6. ABC Ltd. Is planting a tree on roadside which objective it is trying to achieve?

3/4 marks

- Q.7. Write four differences among business, profession and employment.
- Q.8. No business is risk free in the light of this statement, explain the concept of business risk and its any three causes.
- Q.9. Explain any four objectives of business.
- Q.10. Define commerce, why is it of great importance in modern life?
- Q.11. Distinguish between primary & secondary industry Give examples.

5/6 marks

- Q.12. Categories the following into business, profession and employment.

- (i) A farmer (ii) An advocate (iii) A clerk
(iv) A hawker selling toys for children (v) A doctor
(vi) A person repairing scooter on roadside

- Q.13. Define business. Explain the characteristics of business (any four)
- Q.14. Commerce is the sum total of activities that remove hindrances in the free flow of goods from producers to consumers. Explain.
- Q.15. Explain any six factors that are important to be considered while starting a business.
- Q.16. Write difference among industry, commerce and trade on any five basis.
- Q.17. Profit maximization can't be the sole objective of a business. Explain.

CHAPTER 2

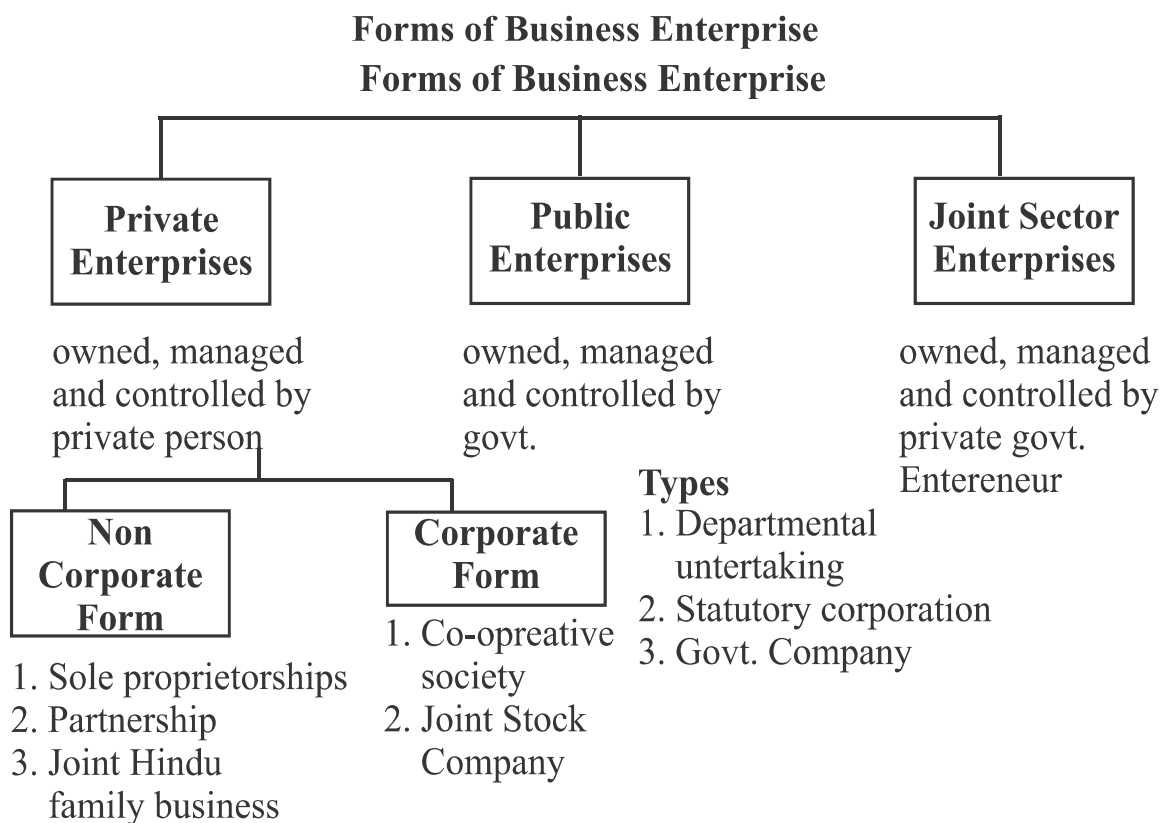
Forms of Business Organisation

Meaning

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

Classification

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



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

SOLE PROPRIETORSHIP

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

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

FEATURES

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

MERITS

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

customers and employees.

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

LIMITATIONS

1. Limited financial resources :- funds are limited to the owner s personal savings and his borrowing capacity.
2. Limited Managerial ability 1- Sole trader cant be good in all aspects of business and he cant afford to employ experts also.
3. Unlimited liability :- of sole trader compels him to avoid risky and bold business decisions.
4. Uncertain life :- Death, insolvency, lunacy or illness of a proprietor affects the business and can lead to its closure.
5. Limited scope for expansion :- Due to limited capital and managerial skills, it cannot expand to a large scale.

SUITABILITY :

Sole trader-ship is suitable.

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

JOINT HINDU FAMILY BUSINESS

It is owned by the members of undivided joint Hindu family and managed by the

eldest member of the family known as KARTA. It is governed by the provisions of Hindu law. The basis of membership is birth in a particular family.

FEATURES

1. Formation - for a joint Hindu family business there should be at least two members in the family and some ancestral property to be inherited by them.
2. Membership by birth-
There are two systems which govern membership

Dayabhaga System	Mitakshare System
It prevails in west Bengal and allows both male and female member to co-parceners.	It prevails all over India except West Bengal and allows only male members to be coparceners.
3. Liability - of Karta is unlimited but of all other members is limited to the extent of their share in property
4. Continuity - The business is not affected by death or incapacity of Karta as in such cases the next senior male member becomes the Karta.
5. Minor members - A minor can also become full fledged member of Family business.

MERITS

1. Effective control - The Karta can promptly take decisions as he has the absolute decision making power.
2. Continued business existence - The death, Lunacy of Karta will not affect the business as next eldest member will then take up the position.
3. Limited liability - The liability of all members except Karta is limited. It gives them a relief.
4. Secrecy - Complete secrecy regarding business decisions can be

maintained by Karta.

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

LIMITATIONS

1. Limited capital - There is shortage of capital as it is limited to the ancestral property.
2. Unlimited liability of Karta - It makes him less enterprising.
3. Dominance of Karta - Karta manages the business and sometimes he ignores the valuable advice of other members. This may cause conflict among members and may even lead to break down of the family unit.
4. Hasty decisions - As Karta is overburdened with work. So sometimes he takes hasty and unbalanced decisions.
5. Limited managerial skills of Karta also poses a serious problem. The joint Hindu family business is on decline because of the diminishing no. of joint Hindu families in the country.

PARTNERSHIP

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

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

FEATURES

1. Two or more persons - There must be at least two persons to form a partnership. The maximum no. of persons is 10 in banking business and 20 in non banking business.
2. Agreement - It is an outcome of an agreement among partners which may be oral or in writing.

3. Lawful business- It can be formed only for the purpose of carrying on some lawful business.
4. Decision making & control - Every partner has a right to participate in management & decision making of the organizations.
5. Unlimited liability - Partners have unlimited liability.
6. Mutual Agency - Every partner is an implied agent of the other partners and of the firm. Every partner is liable for acts performed by other partners on behalf of the firm.
7. Lack of continuity - firms existence is affected by the death, Lunacy and insolvency of any of its partner. It suffers from lack of continuity.

MERITS

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

LIMITATIONS

1. Limited resources - There is a restriction on the number of partners and hence capital contributed by them is also limited.
2. Unlimited liability- The liability of partners is unlimited and they are liable individually as well as jointly It may prove to be a big drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.

3. Lack of continuity - Partnership comes to an end with the death, retirement, insolvency or lunacy of any of its partner.
4. Lack of public confidence - Partnership firms are not required to publish their reports and accounts. Thus they lack public confidence.

TYPES OF PARTNERS

1. General / Active Partner - Such a partner takes active part in the management of the firm.
2. Sleeping or Dormant Partner - He does not take active part in the management of the firm. Though he invest money, shares profit & Loss, has, has unlimited liability.
3. Secret Partner - He participates in business secretly without disclosing his association with the firm to general public. His liability is also unlimited.
4. Nominal Partner - Such a partner only gives his name and goodwill to the firm. He neither invests money nor takes profit. But his liability is unlimited.
5. Partner by Estoppel - He is the one who by his words or conduct gives impression to the outside world that he is a partners of the firm whereas actually he is not. His liability is unlimited towards the third party who has entered into dealing with firm on the basis of his pretensions.
6. Partner by holding out - He is the one who is falsely declared partner of the firm whereas actually he is not. And even after becoming aware of it, he does not deny it. His liability is unlimited towards the party who has deal with firm on the basis f this declaration.

Minor as a Partner

A minor is a person who has not attained the age of 18 years. Since a minor is not capable of enlarging into a valid agreement. He cannot become partner of a firm. However a minor can be admitted to the benefits of an existing partnership firm with the mutual kensent of all other partners. He can not be asked to bear the

losses. His liability will be limited to the extent of the capital contributed by him. He will not be eligible to take an active part in the management of the firm.

Types of Partnership

A. Classification on the Basics of Duration

Partnership at will

This type of partnership exists at the will of partners

Particular Partnership

This type of partnership is formed for a specified time period to accomplish a particular project (Consolidation of building

B. Classification on the basis of Liability

General partnership

1. The liability of Partners is limited and joint
2. Registration of firm is optional

Limited Partnership

1. The liability of at least one partner is unlimited whereas the other partners may have limited
2. Registration of firm is compulsory

PARTNERSHIP DEED

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

It generally includes the following aspects -

- Name of the firm
- Location / Address of the firm
- Duration of business.
- Investment made by each partner.

- Profit sharing ratio of the partners.
- Terms relating to Salaries, Drawing, Interest on capital and Interest on Drawing of partners.
- Duties and obligations of partners.
- Terms governing admission, retirement and expulsion of a partner.
- Preparation of accounts and their auditing.
- Method of solving disputes

REGISTRATION OF PARTNERSHIP

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

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

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

CO-OPERATIVE SOCIETY

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

FEATURES

1. Voluntary association - Everyone having a common interest is free to join a cooperative society and can also leave the society after giving proper notice.
2. Legal status - Its registration is compulsory and it gives it a separate legal identity.
3. Limited liability - The liability of the member is limited to the extent of

their capital contribution in the society.

4. Democratic control - Management and control lies with the managing committee elected by the members by giving vote. Every member has one vote irrespective of the number of shares held by him.
5. Service motive - The main aim is to serve its members and not to maximize the profit.
6. State control - They have to abide by the rules and regulation framed by govt. for them.
7. Distribution of surplus - The profit is distributed on the basis of volume of business transacted by a member and not on the basis of capital contribution of member.

MERITS

1. Ease of formation - It can be started with minimum of 10 members. Registration is also easy as it requires very few legal formalities.
2. Limited liability :- The liability of members is limited to the extend of their capital contribution.
3. Stable Existence - Due to registration it is a separate legal entity and is not affected by the death, Lunacy or insolvency of any of its member.
4. Economy in operations - Due to elimination of middleman and voluntary services provided by its members.
5. Government Support - Govt. provides support by giving loans at lower interest rates, subsidies & by charging less taxes.
6. Social utility :- It promotes personal liberty, social justice and mutual cooperation. They help to prevent concentration of economic power in few hands.

LIMITATIONS

1. Shortage of capital - It suffers from shortage of capital as it is usually formed by people with limited means.
2. Inefficient management - Co-operative society is managed by elected members who may not be competent and experienced. Moreover it can't afford to employ expert and experienced people at high salaries.
3. Lack of motivation - Members are not inclined to put their best efforts as there is no direct link between efforts and reward.
4. Lack of Secrecy - Its affairs are openly discussed in its meeting which makes it difficult to maintain secrecy.
5. Excessive govt. control - it suffers from excessive rules and regulations of the govt. It has to get its accounts audited by the auditor and has to submit a copy of its accounts to registrar.
6. Conflict among members - The members are from different sections of society with different View points. Sometimes when some members become rigid, the result is conflict.

TYPES OF CO-OPERATIVE SOCIETIES

1. Consumers co-operative Society - It seeks to eliminate middleman by establishing a direct link with the producers. It purchases goods of daily consumption directly from manufacturer or wholesalers and sells them to the members at reasonable prices.
2. Producer s Co-operative Society - The main aim is to help small producers who cannot easily collect various items of production and face some problem in marketing. These societies purchase raw materials, tools, equipments and other items in large quantity and provide these things to their members at reasonable price.
3. Marketing Co-operative Society - It performs various marketing function such as transportation, warehousing, packing, grading, marketing research etc. for the benefit of its members. The production of different

- members is pooled together and sold by society at good price.
4. Farmer s Co-operative Society - In such societies, small farmers join together and pool their resources for cultivating their land collectively. Such societies provide better quality seeds, fertilizers, machinery and other modern techniques for use in the cultivation of crops. It provides them opportunity of cultivation on large scale.
 5. Credit co-opearative Society - Such societies protect the members from exploitation by money lenders. They provide loans to their members at easy terms and reasonably low rate of interest.
 6. Co-operative Housing Society - The main aim is to provide houses to people with limited means / income at reasonable price.

JOINT STOCK COMPANY

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

FEATURES

1. Incorporated association - The company must be incorporated or registered tender the companies Act 1956. without registration no companies Act. 1956. Without registration no company can come into existence.
2. Seperate Legal Existence - It is created by law and it is a distinct legal entity independent of its members. It can own property, enter into contracts, can file suits in its own name.
3. Perpetual Existence - Death, insolvency and insanity or change of members as no effect on the life of a company It can come to an end only through the prescribed legal procedure.
4. Limited Liability - The liability of every member is limited to the nominal value of the shares bought by him or to the amt. guaranteed by him.

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

MERITS

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

LIMITATIONS

1. Legal formalities - The procedure of formation of Co. is very long, time consuming, expensive and requires lot of legal formalities to be fulfilled.
2. Lack of secrecy - It is very difficult to maintain secrecy in case of public company, as company is required to publish and file its annual accounts and reports.
3. Lack of Motivation - Divorce between ownership and control and absence of a direct link between efforts and reward lead to lack of personal interest and incentive.

4. Delay in decision making - Red papism and bureaucracy do not permit quick decisions and prompt actions. There is little scope for personal initiative.
5. Oligarchic management - Co. is said to be democratically managed but actually managed by few people i.e. board of directors. Sometimes they take decisions keeping in mind their personal interests and benefit, ignoring the interests of shareholders and Co.

TYPES OF COMPANIES

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

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

CHOICE OF FORM OF BUSINESS ORGANIZATION

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

1. **Cost and Ease in Setting up the organization** - Sole proprietorship is least expensive and can be formed Without any legal formalities to be fulfilled. Company is most expensive with lot of legal formalities,
2. **Capital Consideration** - Business requiring less amount of finance prefer sole proprietorship and partnership form, where as business activities requiring huge financial resources prefer company form.
3. **Nature of Business** - If the Work requires personal attention such as tailoring unit, hair cutting saloon, it is generally set up as a sole proprietorship. Units engaged in large scale manufacturing are more likely to be organized in company form.
4. **Degree of Control Desired** - A person who desires full and exclusive control over business prefers proprietorship rather than partnership or Co. because control has to be shared in these cases.
5. **Liability or Degree of Risk** - Projects which are not very risky can be organised in the form of sole proprietorship & partnership. Where as the risky ventures should be done in company form of organisation because the liability of shareholders is limited.

FORMATION OF A COMPANY

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

- i) Promotion
- ii) Incorporation
- iii) Capital subscription
- iv) Commencement of business.

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

I. Promotion :-

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

Step in Promotion :-

1. Identification of Business Opportunity : The first and foremost function of a promoter is to identify a business idea e.g. production of a new product or service.
2. Feasibility Studies :- After identifying a business opportunity the promoters undertake detailed studies of technical, Financial, Economic feasibility of a business.
3. Name Approval z After selecting the name of company the promoters submit an application to the Registrar of companies for its approval.
4. Fixing up signatories to the Memorandum of Association :- Promoters have to decide about the director who will be signing the memorandum of Association.
5. Appointment of professional : - Promoters appoint merchant bankers, auditors etc.
6. Preparation of necessary documents :- The promoters prepare certain legal documents such as memorandum of Association, Articles of Association

which have to be submitted to the Registrar of the companies.

II. Incorporation :-

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

Steps for Incorporation

1. Application for incorporation :- Promoters make an application for the incorporation of the company to the Registrar of companies.
2. Filing of necessary documents :- Promoters files the following documents:-
 - i) Memorandum of Association.
 - ii) Articles of Association.
 - iii) Statement of Authorised Capital
 - iv) Consent of proposed director.
 - v) Agreement with proposed managing director.
 - vi) Statutory declaration.
3. Payment of fees :- Along with filing of above documents, registration fees has to be deposited which depends on amount of the authorised capital.
4. Registration :- The Registrar verifies all the document submitted. If he is satisfied then he enters the name of the company in his Register.
5. Certificate of Incorporation :- After entering the name of the company in the register. The Registrar issues a Certificate of Incorporation. This is called the birth certificate of the company.

III. Capital Subscription :-

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

Step required for raising funds from public :

1. SEBI Approval z SEBI regulates the capital market of India. A public company is required to take approval from SEBI.
2. Filing of Prospectus z- Prospectus means any documents which invites offers from the public to purchase share and Debenture of the company.
3. Appointment of bankers, brokers, underwriters :- Banker of the company receive the application money. Brokers encourage the public to apply for the shares. underwriters are the person who undertake to buy the shares if these are not subscribed by the public. They receive a commission for underwriting.
4. Minimum subscription : According to the SEBI guide lines minimum subscription is 90% of the issue amount. If minimum subscription is not received then the allotment cannot be made and the application money must be returned to the applicants within 30 days.
5. Application to Stock Exchange 2- It is necessary for a public company to list their shares in the stock exchange therefore the promoters apply in a stock exchange to list company shares.
6. Allotment of Shares : Allotment of shares means acceptance of share applied. Allotment letters are issued to the shareholders. The name and address of the shareholders submitted to the Registrar.

IV. COMMENCEMENT OF BUSINESS :-

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

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

Important documents used in the formation of company:-

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

Contents of Memorandum of Association :

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

2. Articles of Association :

The articles of Association are the rules for the internal management of the affairs of a company the articles defines the duties, rights and powers of the officers and the board of directors.

Contents of the Article:-

1. The amount of share capital and different classes of shares.
2. Rights of each class of shareholders.
3. Procedure for making allotment of shares.
4. Procedure for issuing share certificates.
5. Procedure for forfeiture and reissue of forfeited shares.

6. Procedure for conducting meeting, voting, quorum and proxy.
7. Procedure for appointment, removal and remuneration of directors.
8. Procedure for declaration and payment of dividend.
9. Procedure regarding alteration of share capital.
10. Procedure regarding winding up of the company.

3. Prospectus:

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

Main contents of the Prospectus:-

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

4. Statement in Lieu of Prospectus:

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

It contains information much similar to that of a prospectus.

1 Mark Questions :-

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

3 MARKS QUESTIONS

9. Explain the concept of mutual agency in partnership with suitable example.
10. What is the role of Karta in joint Hindu Family business?
11. Name the types of company which two person can start.
12. What is meant by Partner by estoppel?
13. What is Secret Partner?
14. Write a short note on producers co-operative society.
15. Explain a co operative organization in a democratic setup.

4/5 MARKS QUESTIONS :

16. Is registration of partnership compulsory? What are the consequences of non-registration?
17. Explain any four limitations of joint Stock Company.

18. Differentiate between Private Co. & Public Co.

6 MARKS QUESTIONS :-

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

20. Discuss the reasons for the superiority of joint Stock co. over sole proprietorship and partnership.

21. Explain the factors which affect the choice of form of business organization.

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

a) Beauty Parlor

b) Coaching center for Science Students

CHAPTER 3

Public And Global Enterprises

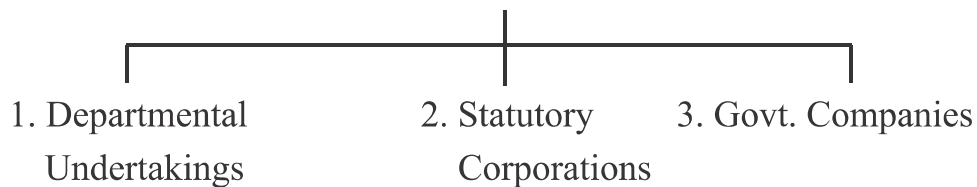
PUBLIC SECTOR ENTERPRISES

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

FEATURES :

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

FORM OF PUBLIC ENTERPRISES



I. DEPARTMENT UNDERTAKING

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

Examples :- Indian Railways, Post & Telegraph

FEATURES

1. No Separate Entity :- It has no Separate legal entity.
2. Finance :- It is financed by annual budget allocation of the govt. and all its earnings go to govt. treasury

3. Accounting & Audit :- The govt. rules relating to audit & accounting are applicable to it.
4. Staffing :- Its employees are govt. employees & are recruited & appointed as per govt. rules.
5. Accountability :- These are accountable to the concerned ministry

MERITS

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

DEMERITS

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

STATUTORY CORPORATIONS

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

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

FEATURES

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

MERITS

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

DEMERITS

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

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

GOVERNMENT COMPANY

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

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

FEATURE

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

MERITS

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

LIMITATIONS

1. It suffers from interference from govt. officials, ministers and politicians.
2. It evades constitutional responsibility which a company financed by the

govt. should have, as it is not directly answerable to parliament.

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

CHANGING ROLE OF PUBLIC SECTOR

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

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

1. **Development of Infrastructure :-** At the time of independence, India suffered from acute shortage of heavy industries such as engineering, iron and steel, oil refineries, heavy machinery etc. Because of huge investment requirement and long gestation period, private sector was not willing to enter these areas. The duty of development of basic infrastructure was assigned to public sector which it discharged quite efficiently.
2. **Regional balance :-** Earlier, most of the development was limited to few areas like port towns. For providing employment to the people and for accelerating the economic development of backward areas many industries were set up by public sector in those areas.
3. **Economies of scale -** In certain industries (like Electric power plants, natural gas, petroleum etc) huge capital and large base are required to function economically. Such areas were taken up by public sector.
4. **Control of Monopoly and Restrictive trade Practices -** These enterprises were also established to provide competition to pvt. sector and to check their monopolies and restrictive trade practices.
5. **Import Substitution -** Public enterprises were also engaged in production of capital equipments which were earlier imported from other countries. At the same time public sector Companies like STC and MMTC have

played an important role in expanding exports of the country.

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

PUBLIC SECTOR REFORMS :-

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

- a) **Reduction in no. of industries reserved for public sector** - This no. is reduced from 17 to 8 and to 3 industries only in 2001. These three industries are atomic energy, arms and rail transport.
- b) **Memorandum of Understanding (MOU)** - Under this govt. lays down performance targets for the management and gives greater autonomy to hold the management accountable for the results.
- c) **Disinvestment** - Equity shares of public sector enterprises were sold to private sector and the public. It was expected that this would lead to improved managerial performance and better financial discipline.
- d) **Restructure and Revival :-** All public sector sick units were referred to Board of Industrial and financial Reconstruction (BIFR). Units which were potentially viable were restructured and which could not be revived were closed down by the board.

MULTINATIONAL COMPANIES/GLOBAL ENTERPRISES

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

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

FEATURES

1. Huge Capital Resources :- MNCs possess huge capital resources and they are able to raise lot of funds from various sources.
2. International Operations :- A MNC has production, marketing and other facilities in several countries.
3. Centralized control : MNCs have headquarters in their home countries from where they exercise control over all branches and subsidiaries. It provides only broad policy framework to them and there is no interference in their day to day operations.
4. Foreign Collaboration :- Usually they enter into agreements relating to sale of technology, production of goods, use of brand name etc. with local firms in the host country.
5. Advanced technology - These org. possess advanced and superior technology which enable them to provide world class products & services.
6. Product Innovations :- MNCs have highly sophisticated research and development departments. These are engaged in developing new products and superior design of existing products.
7. Marketing Strategies - MNCs use aggressive marketing strategies. Their brands are well known and spend huge amounts on advertising and sale promotion.

JOINT VENTURES

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

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

FEATURES

1. Capital is provided jointly by the Government and Private Sector Entrepreneurs.
2. Management may be entrusted to the private entrepreneurs.
3. It combines both social and profit objectives.
4. It is responsible to the Government and the private investors.

BENEFITS

1. Greater resources and Capacity - In a joint venture the resources and capacity of two or more firms are combined which enables it to grow quickly and efficiently
2. Access to advanced technology - It provides access to advanced techniques of production which increases efficiency and then helps in reduction in cost and improvement in quality of product.
3. Access to New Markets and distribution network - A foreign co. gain access to the vast Indian market by entering into a joint venture with Indian Co. It can also take advantage of the well established distribution system of local firms.
4. Innovation - Foreign partners in joint ventures have the ideas and technology to develop innovative products and services. They have an advantage in highly competitive and demanding markets.
5. Low Cost of production - Raw material and labor are comparatively cheap in developing countries so if one partner is from developing country they can be benefitted by the low cost of production.
6. Well known Brand Names :- When one party has well established brands & goodwill, the other party gets its benefits. Products of such brand names can be easily launched in the market.

Public Private Partnership (PPP):

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

FEATURES:

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

VERY SHORT ANSWER QUESTIONS (1 MARK)

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

SHORT ANSWER QUESTIONS (3 MARKS)

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

LONG ANSWER QUESTIONS (5/6 MARKS)

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

CHAPTER 4

Business Services

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

NATURE OF BUSINESS SERVICES :

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

Type of Services :-

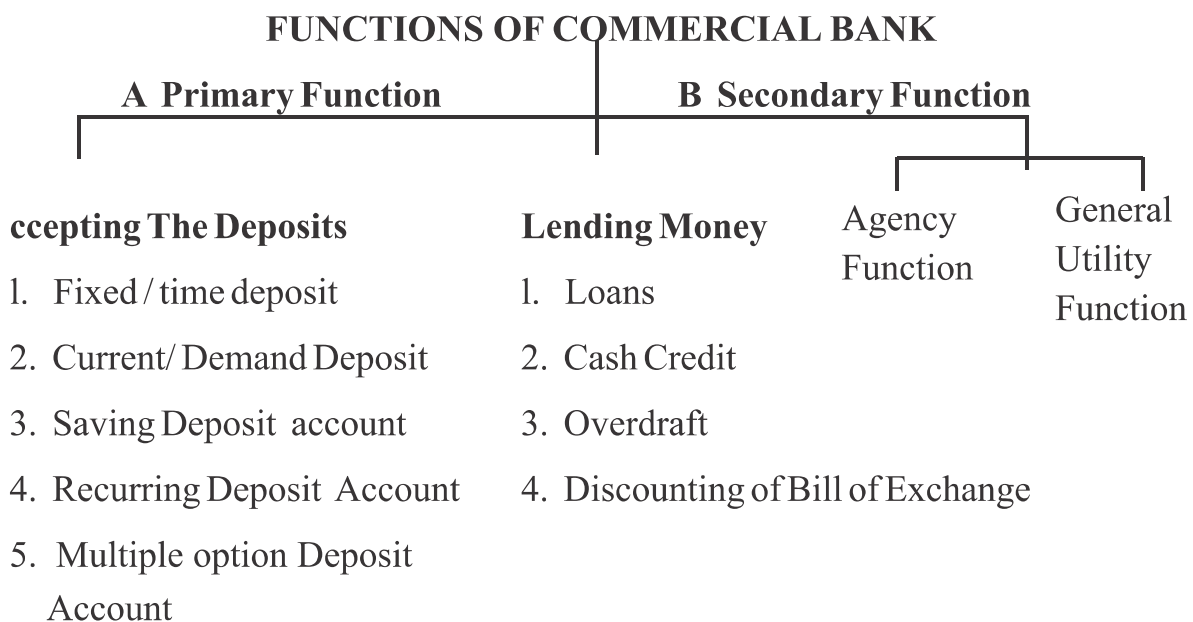
1. Social Services :- Provided voluntarily to achieve certain goals e.g. health care and education services provided by NGOs.

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

Banks

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

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



Primary Functions

- I. **Accepting Deposits** Accepting deposits is the main function of commercial banks. Banks offer different types of Bank accounts to suit the requirements and needs of different customers. Different types of Bank accounts are as follows :
 - A. **Fixed Deposit** : Account Money is deposited in the account for a fixed period. After expiry of specified period person can claim his money from the bank. Usually the rate of interest is maximum in this account. The longer the period of deposit, the higher will be the rate of interest on deposit.
 - B. **Current Deposit** : Account Current deposit Accounts are opened by businessman. The account holder can deposit and Withdraw money. Whenever desired. As the deposit is repayable on demand, it is also known as demand deposit Withdrawals are always made by cheque. No interest is paid on current accounts. Rather charges are taken by bank for services rendered by it.
 - C. **Saving Deposit Account** : The aim of a saving account is to mobilize savings of the public. A person can open this a / c by depositing a small sum of money. He can withdraw money from his account and make additional deposits at will. Account holder also gets interest on his deposit in this account though the rate of interest is lower than the rate of interest on fixed deposit account.
 - D. **Recurring Deposit** : Account The aim of recurring deposit is to encourage regular savings by the people. A depositor can deposit a fixed amount, say Rs. 100 every month for a fixed period. The amount together with interest is repaid on maturity The interest rate on this account is higher than that on saving deposits.
 - E. **Multiple Option** : Deposit Account It is a type of saving Bank A / c in which deposit in excess of a particular limit gets automatically transferred into Fixed Deposit. On the other hand, in case adequate fund is not available in our saving Bank Account so as to honor a

cheque that we have issued the required amount gets automatically transferred from fixed deposit to the saving bank account. Therefore, the account holder has twin benefits from this amount (i) he can earn more interest and (ii) It lowers the risk of dishonoring a cheque.

2. Lending Money With the help of money collected through various types of deposits, commercial banks lend finance to businessman, farmers, and others. The main ways of lending money are as follows:
 - A. **Term Loans** : These loans are provided by the banks to their customers for a fixed period to purchases Machinery, Truck, Scooter, House etc. The borrowers repay there loans in Monthly/ Quarterly/ HalfYearly/ Annual instalments.
 - B. **Bank Overdraft** : The customer who maintains a current account with the bank, takes permission from the bank to withdraw more money than deposited in his account. The extra amount withdrawn is called overdraft. This facility is available to trustworthy customers for a small period. This facility is usually given against the security of some assets or on the personal security of the customer. Interest is charged on the actual amount overdrawn by the customer.
 - C. **Cash Credit** : Under this arrangement, the bank advances cash loan up to a specified limit against current assets and other securities. The bank opens an account in the name of the borrower and allows him to withdraw the borrowed money from time to time subject to the sanctioned limit. Interest is charged on the amount actually withdraw.
 - D. **Discounting of Bill of Exchange** : Under this, a bank gives money to its customers on the security of a bill of exchange before the expiry of the bill in case a customers needs it. For this service bank charges discount for the remaining period of the bill.

Secondary Functions

The secondary functions of commercial banks are as under:

1. Agent Functions

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

- (a) Collecting bills of exchanges, promissory notes and cheques
- (b) Collecting dividends, interest, rent etc.
- (c) Buying and selling shares, debentures and other securities
- (d) Payment of interest, insurance premium, etc
- (e) Transferring funds from one branch to another and from one place to another
- (f) Acting as an agent or representative while dealing with other banks and financial institutions.

A commercial bank performs the above functions on behalf of and as per the instructions of its customers.

2. General Utility Functions

Commercial banks also perform the following miscellaneous functions.

- (a) Providing lockers for safe custody of jewelry and others valuables of customers.
- (b) Giving references about the financial position of customers.
- (c) Providing information to a customer about the credit worthiness of other customers.
- (d) Supplying various types of trade information useful to customers.
- (e) Issuing letter of credit, pay orders, bank draft, credit cards, travelers cheques to customers.
- (f) Underwriting issues of shares and debentures.
- (g) Providing foreign exchange to importers and travelers going abroad.

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

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

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

ELECTRONIC BANKING SERVICES/E-BANKING

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

1. **Electronic Fund Transfer** Under it, a bank transfers wages and salaries directly from the company s account to the accounts of employees of the company. The other examples of EFTs are on line payment of electricity bill, water bill, insurance premium, house tax etc.
2. **Automatic Teller Machines (ATMs)** ATM is an automatic machine with the help of which money can be withdrawn or deposited by inserting the card and typing your personal Identity Number (PIN). This machine operates for all the 24 hours.
3. **Debit Card** A Debit Card is issued to a customers in lieu of his money deposited in the bank. The customers can make immediate payment of goods purchased or services obtained on the basis of his debit card provided the terminal facility is available with the seller.
4. **Credit Card** A bank issues a credit card to those of its customers who enjoy good reputation. This is a sort of overdraft facility. With the help of this card the holder can buy goods or obtain services up to a certain amount even without having sufficient deposit in their bank accounts.

5. **Tele Banking** Under this facility, a customer can get information about the balance in his account or information about the latest transactions on the telephone.
6. **Core Banking Solution / Centralized Banking Solution** In this system a customer by opening a bank account in one branch (which has CBS facility) can operate the same account in all CBS branches of the same bank anywhere across the country. It is immaterial with which branch of the bank the customer deals with when he / she is a CBS branch customer.
7. **National Electronic Fund Transfer : NEFT** refers to a nation wide system that facilitate individuals, firms and companies to electronically transfer funds from any branch to any individual, firm or company having an account with any other bank branch in the country. NEFT settles transactions in batches. The settlement takes place at a particular point of time for example, NEFT settlement takes place 6 times a day during the week days (9.30am, 10.30 am, 12.00 noon, 1.00 pm, 3.00 pm & 4.00 pm) and 3 times during Saturday (9.30 am, 10.30 am and 12.00 noon) Any transaction initiated after a designated settlement time is settled on the next fixed settlement time. I
8. **Real Time Gross Settlement RTGS** refers to a funds transfer system where transfer of funds takes place from one bank to another on a Real time and on Gross basis. Settlement in Real time means transactions are settled as soon as they are processed and are not subject to any waiting period.

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

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

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

Benefits of E-Banking to customer:-

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

Benefits of E-Banking to Banks:-

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

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

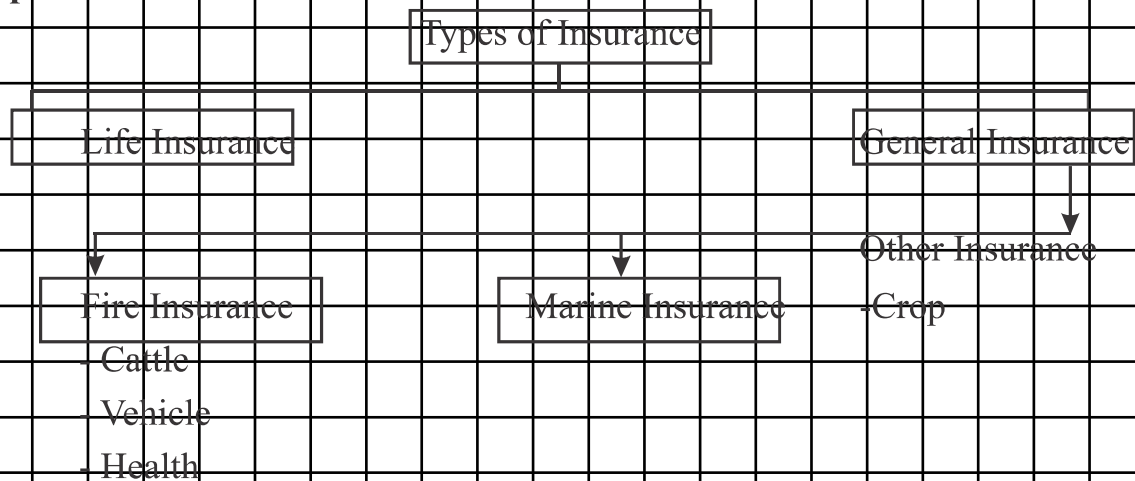
Principles of Insurance : These principles are :

1. **Utmost Good Faith :** Insurance contracts are based upon mutual trust and confidence between the insurer and the insured. It is a condition of every insurance contract that both the parties insurer and the insured must disclose each fact and information related to insurance contract to each other.
2. **Insurable Interest :** It means some pecuniary interest in the subject matter of insurance contract. The insured must have insurable interest in the subject matter of insurance i.e., life or property insured, the insured will have to incur loss due to this damage and insured will be benefitted if full

security is being provided. A businessman has insurable interest in his house, stock, his own life and that of his wife, children etc.

3. **Indemnity:** Principle of indemnity applies to all contracts except the contract of life insurance because estimation regarding loss of life cannot be made. The objective of contract of insurance is to compensate to the insured for the actual loss he has incurred. These contracts provide security from loss and no profit can be made out of these contracts.
4. **Proximate Cause:** The insurance company will compensate for the loss incurred by the insured due to reasons mentioned in insurance policy. But if losses are incurred due to reasons not mentioned in insurance policy than principle of proximate cause or the nearest cause is followed.
5. **Subornation:** This principle applies to all insurance contracts which are contracts of indemnity. As per this principle, when any insurance company compensates the insured for loss of any of his property, then all rights related to that property automatically get transferred to insurance company.
6. **Contribution:** According to this principle if a person has taken more than one insurance policy for the same risk then all the insurers will contribute the amount of loss in proportion to the amount assured by each of them and compensate him for the actual amount of loss because he has no right to recover more than the full amount of his actual loss.
7. **Mitigation:** According to this principle the insured must take reasonable steps to minimize the loss or damage to the insured property otherwise the claim from the insurance company may be lost.

Types of Insurance



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

Types of Life Insurance Policies.

1. **Whole Life Police** Under this policy the sum insured is not payable earlier than death of the insured. The sum then becomes payable to the heir of the deceased.
2. **Endowment Life Assurance Policy** Under this policy the insurer undertakes to pay the assured or his heirs or nominees a specified sum on the attainment of a particular age or on his death whichever is earlier.
3. **Joint Life Policy** It involves the insurance of two or more lives simultaneously. The policy money is payable upon the death of any one of lives assured and the assured sum will be payable to the survivor or survivors.

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

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

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

Features

1. Utmost Good Faith
2. Contract of Indemnity
3. Insurable interest in the subject matter
4. Subject to the doctrine of causa premima - nearest cause.
5. It is a contract from year to year. It generally comes to an end at the expiry of the year and may be renewed.

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

Other Insurance

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

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

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

1. **Financial Services** They provide postal banking facilities to the general public and mobilize their savings through the following saving schemes like public provident fund (PPF), Kisan Vikas Patra, National Saving Certificate, Recurring Deposit Scheme and Money Order facility.
2. **Mail Services** The mail services offered by post offices include transmission of messages through post cards, Inland letters, envelops etc. transmission of articles through parcel facility, registration facility and speed post to provide security of transmitted letters and articles and insurance facility to provide insurance cover for various risks in the course of transmission by post.

The various mail services all :

1. UPC (under postal certificate) When ordinary letters are posted the post office does not issue any receipt. However, if sender wants to have proof then a certificate can be obtained from the post office on payment of prescribed fee. This paper now serves as evidence of posting the letters.
2. Registered Post Sometimes we want to ensure that our mail is definitely delivered to the addressee otherwise it should come back to us. In such situations the post office offers registered post facility which serves as a proof that mail has been posted.
3. Parcel Transmission of articles from one place to another in the form of parcels is known as parcel post. Postal charges vary according to the weight of the parcels.

Allied Postal Services

1. Greetings Post Greetings can be sent through post offices to people at different places.
2. Media Post Cooperates can advertise their brands through post cards, envelopes etc.
3. Speed Post It allows speedy transmission of articles (within 24 hours) to people in specified cities.
4. e-bill post The post offices collect payment of bills on behalf of BSNL and other organizations.
5. Courier Services Letters, documents, parcels etc. can be sent through the courier service. It being a private service the employees work with more responsibility.

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

The various types of telecom services are

1. Cellular mobile services cordless mobile communication device including voice and non-voice messages, data services and PCO services.

2. Radio Paging Services means of transmitting information to persons even when they are mobile.
3. Fixed Line Services including voice and non-voice messages and data services to establish linkage for long distance traffic.
4. Cable services Linkages and switched services within a licensed area of operation to operate media services which are essentially one way entertainment related services.
5. VSAT Service (Very small Aperture Terminal) is a Satellite based communication service. It offers government and business agencies a highly flexible and reliable communication solution in both urban and rural areas.
6. DTH Services (Direct to Home) a Satellite based media services provided by cellular companies with the help of small dish antenna and a set up box.

1 Marks Questions

- Q.1 What do you mean by Debit Card?
- Q.2 What is Credit Card?
- Q.3 Write the meaning of Tele Banking.
- Q.4 Define Insurance.
- Q.5 Principle of Indemnity is not applicable to which insurance.
- Q.6 Name the type of insurance where in insurable interest need not exist when the policy is taken.
- Q.7 What are the two categories of communication services?
- Q.8 Name two companies that offer DTH service in our country.

3-4 Marks Questions

- Q.9 Write three advantages of insurance.
- Q.10 Explain the scope of Health Insurance.

- Q.11 A contract of insurance is an uberrimae fidei-utmost good faith contract .
Comment.
- Q.12 What insurable interest be present in the following case (1) Life Insurance
(2) Fire Insurance (3) Marine Insurance.
- Q.13 Explain the meaning of Bank Overdraft.
- Q.14 Name the accounts generally opened in the Bank.
- Q.15. Write about Multiple option Deposit Account is 40 words.
- Q. 16 Write note on core Banking.
- Q. 17 Name any four services offered by electronic banking.

Long Answer Question (5-6 Marks)

- Q.18 Describe briefly the various policies issued by life insurance corporation.
- Q.19 A factory owner gets his stock of goods insured but he hide the fact that the electricity board has issued him statutory warning letter to get his factory s Wiring changed later on, the factory catches fire due to short circuit which principle is violated in this case. Explain.
- Q20 Why is insurance said to be mechanism of risk coverage and investment.
- Q21 Write a detailed note on various facilities offered by Indian Postal Department.
- Q22 Briefly discuss the Various type of accounts by which banks attract deposit from the public.
- Q23 Write notes on RTGS system and NEFT.

CHAPTER 5

Emerging Modes of Business

Meaning

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

Scope of e-Business

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

1. **B2B Commerce** : It is that business activity in which two firms or two business units make electronic transaction. For example- one can be a producer firm and other a supplier firm.
2. **B2C Commerce** - Business to customer In this one party is a firm and other party is a customer. On one hand a customer can seek information through Internet about products, place orders, get some items and make payments and on the other hand the firm can make a survey any time to know who is buying, and can also know the satisfaction level of customers. In modern times, call centers can provide these information.
3. **Intra-B Commerce** Within business Commerce - Under it, the parties involved in the electronic transaction are the two departments of samebusiness. For Example through internet it is possible for the marketing department to interact constantly with the production department and get, the customized goods made as per the requirement of customers.
4. **C2C Commerce** - Customer to Customer Commerce - Under it, both the parties involved in electronic transaction are customers. It is required for

the buying and selling of those goods for which there are no established markets. For example-selling old car through internet.

5. **C2B Commerce** - C2B Commerce provides the Consumers with the freedom of shopping at will. Customer can make use of call centers to make toll free calls to make queries and lodge.
6. **B2E Commerce** - Cos are reporting to personnel recruitment, interview and selection and training etc. via B2E Commerce.

Benefits of e-Business

The major benefits of e-Business are as follows:

1. **World wide reach**- Internet gives businessmen an extended market. New customers come in contact with them. This results in increase in sales.
2. **Elimination of Middlement** - Ever since the e-Business came into existence, the wholesalers and retailers have started disappearing. Now, most of the producers have started having direct contact with customers. As a result the consumer get goods on less price.
3. **Easy Distribution Process** - Many types of information and servicer can be received on computer through e-business. This has simplified the system of distribution and has also made it less costly.
4. **Lower Investment required** - In this, you don t require any big showroom or huge investment. All you need is computer and Internet.
5. **Easy to launch new products** - Any company can launch its new product in the market through the medium of E-Business. A complete information about the product is made available on Internet. In this way, the consumer and other businessmen get information about the new product while sitting at home.
6. **Movement towards a paper less Society** - Use of internet has considerably reduced dependence on paper work.

Resources Required for Successful e-Business Implementation

The resources required for the e-Business are :

1. **Computer system** - The presence of computer system is the first requirement of e-Business. The computer can be linked with Internet by just pressing its keys.
2. **Internet connection** - Internet connection is very essential and now a days we can get this facility by sitting at home.
3. **Preparing the web- Page-** web page has the greatest importance in the use of e-Business. It is also known as Home Page. Any product that is to be shown on Internet is displayed on web page.
4. **Effective telecommunication system-** e-business requires on effective telecommunication system in the form of telephone lines etc.

On Line Transactions

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

Payment Mechanism

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

1. **Cash on delivery (COD)** - Cash payment can be made at the time of physical delivery of goods.
2. **Net-banking transfer** - The customer can make electronic transfer of funds (EFT) to account of online vendor over the internet.
3. **Credit or Debit cards** - The customer can make payment for online transaction through debit or credit card by giving the number and name of bank of card.

Security and Safety of e-Transactions

The following methods can be used to ensure security and safety of online transactions.

1. Confirming the details before the delivery of goods - The customer is required to furnish the details such as credit card no., card issuer and card validity online.
2. Anti Virus Programmes - Installing and timely updating anti virus programmes provides protection to data files, folders and system from virus attacks.
3. Cyber crime cells - Govt. may set up special crime cells to look into the cases of hacking and take necessary action against the hackers.

Outsourcing or Business Process Outsourcing (BPO)

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

Example: B.P.O.

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

Need for BPO

BPO is essential for following reasons :

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

obtaining services from outside is felt.

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

Scope of BPO

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

1. **Financial Services** - These services means those outside services which help the company in some way or other in the management of finance.
2. **Advertising services** - Advertisement is very necessary for increasing sales. If this service is obtained from outside agency, it will cost less and the quality of advertisement will also be good.
3. **Courier services** - These services means delivering goods, documents, parcels from company to customers and vice-versa.
4. **Customer support service** - These services means delivering goods to customers and to give after sale services also. Generally, the manufacturers of TV, Fridge, AC etc. use these services.

KPO (Knowledge Process Outsourcing)

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

Need of KPO

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

FEATURES OF KPO

1. It is the upward shift of BPO.
2. It focuses on knowledge expertise instead of process expertise.
3. It provides all non-core activities.
4. It has no pre-determined process to reach a conclusion.
5. It offers an alternative career path for the educated.

Scope of KPO/ Services Covered index KPO

1. Research and Technical Analysis.
2. Business and Technical Analysis.
3. Business and market research.
4. Animation and Design.

Questions

1. What is electronics business?
2. What is KPO?
3. What is EFT?
4. Explain briefly the need of outsourcing services.
5. Write about advertising services and courier services.
6. Name the essential resources required for e-business.
7. Define online transaction.
8. Distinguish between BPO and KPO.

CHAPTER 6

Social Responsibilities of Business and Business Ethics

CONCEPT OF SOCIAL RESPONSIBILITY

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

Arguments in favour of Social Responsibility :

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

1. **justification for Existence and Growth :-** Business is the creation of society therefore it should respond according to the demands of the society. To survive and grow in society for long run the business must provide continuous services to the society.
2. **Long term Interest of the firm :** A firm can improve its image and builds goodwill in the long run when its highest goal is to serve the society . If it indulges in unfair Trade Practices e.g., adulteration, hoarding, blackmarketing it may not be able to exist for long.
3. **Avoidance of government regulations :** Business can avoid the problem of government regulations by voluntarily assuming social responsibilities.
4. **Availability of resources with business :-** Business has valuable financial and human resources which can be effectively used for solving problems of the society.
5. **Better environment for doing business :** Social responsibility creates better environment for business operations as it improves

Quality of life and standard of living of people. So, business will get better community to conduct business.

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

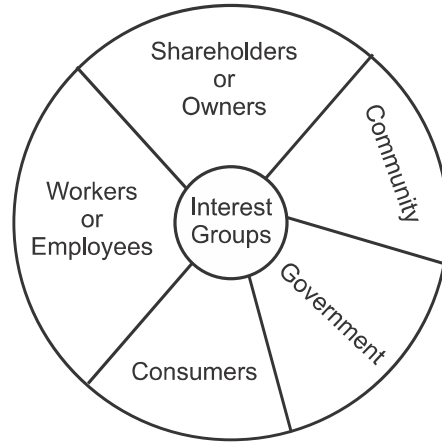
Arguments Against Social Responsibility : major arguments against social responsibility are :

1. **Profit Motive** - A business is an economic entity that is guided by profit motive. It should not waste its energies and resources in fulfilling social responsibility.
2. **Burden on consumers** - Involvement of business in social responsibilities involve a lot of expenditure which will ultimately be borne by the customers.
3. **Lack of Social Skills** - The business firms and managers have the skills to handle business operation. They are not expert to tackle the social problems like poverty, over population etc. Therefore, social problems must be tackled by social experts.
4. **Lack of public support** - Generally public does not like business involvement in social problems. Therefore, business cannot fulfil social responsibility because of lack of public confidence & cooperation.

SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

Business has Interaction with several interest groups such as shareholders, workers, consumers, government and community Business is responsible to all these groups.

DIAGRAM



1. Responsibility towards share holders :-
 - i) To ensure a fair and regular return on the investment of shareholders.
 - ii) To ensure the safety of their investment
 - iii) To strengthen financial position of the company.
 - iv) To safeguard the assets of the business.
 - v) To protect the interest of all types of investors in the business.
2. Responsibility Towards workers :-
 - i) Providing fair compensation and benefits.
 - ii) Providing good and safe Working conditions.
 - iii) To develop a sense of belongingness.
3. Responsibility toward consumers :-
 - i) To supply right quality of goods & services at reasonable prices.
 - ii) To ensure regular and adequate supply of products.
 - iii) To inform them about new products and new uses of existing products.
 - iv) To handle the customers grievance promptly.

4. Responsibility Towards Government -
 - i) To pay taxes honestly
 - ii) To observe rules laid down by the government.
 - iii) to avoid corrupting government employees.
5. Responsibility towards community -
 - i) To make available opportunities for employment.
 - ii) To avoid polluting the environment.
 - iii) To uplift the weaker sections of society

BUSINESS AND ENVIRONMENTAL PROTECTION :-

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

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

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

1. **Air Pollution** - Due to smoke, chemical emitted by factories, vehicle. It has created a hole in the ozone layer leading to global warming.
2. **Water pollution** - Due to chemicals and waste dumped into the rivers, streams & lakes. It has led to the death of several animals and posed a serious problem to human life.
3. **Land Pollution** - Due to dumping of garbage and toxic wastes which affect the fertility of land and makes it unfit for agriculture.

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

NEED FOR POLLUTION CONTROL :-

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

ROLE OF BUSINESS ENVIRONMENTAL PROTECTION :

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

BUSINESS ETHICS:

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

ELEMENTS OF BUSINESS ETHICS

1. **Top management commitment** - The CEO and higher level managers must be committed to ethical norms of behaviour. This would set an example for all employees and encourage them to follow ethical practice.
2. **Publication of Code** - Code of ethics is a formal written document of the principles, values and standards that guide a firm's actions. It may cover areas like honesty, Quality, safety, health care etc.
3. **Establishment of Compliance Mechanism** - A suitable mechanism should be developed to comply with the ethical standards of the enterprise, This mechanism should be properly communicated to all in the organisation.
4. **Employees Involvement** - It is the employees at the lower levels who implement ethical principles, so they must be involved in the process of developing ethical code.
5. **Measuring Results** - Although it is difficult to measure the ethical results but it must be verified and audited that how far work is being carried according to ethical standards.

QUESTIONS (ONE MARK)

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

3/4 MARKS QUESTIONS

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

5/6 MARKS QUESTIONS

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

CHAPTER 7

Sources of Business Finance

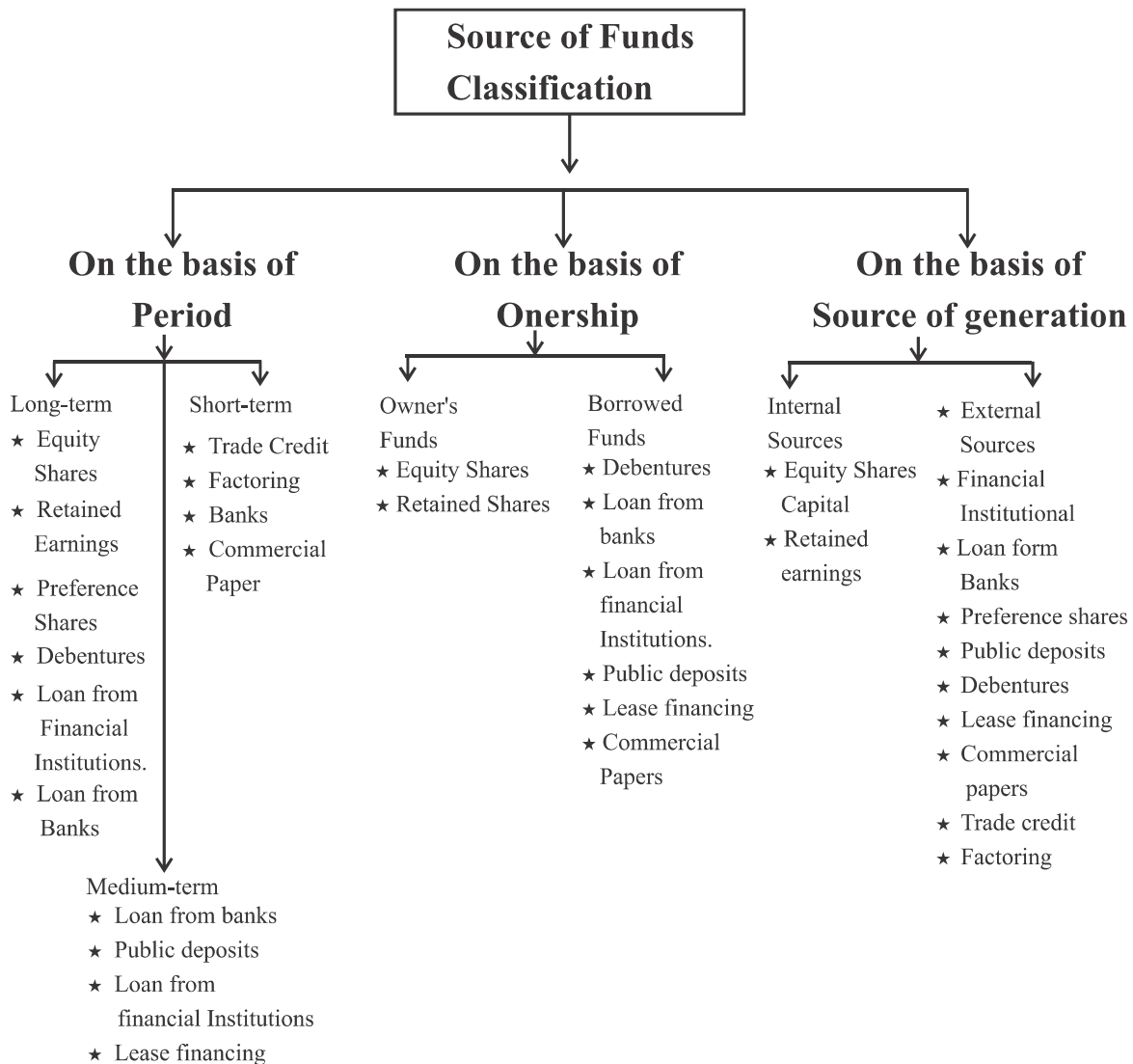
CONCEPT OF BUSINESS FINANCE:- The term finance means money or fund. The requirements of funds by business to carry out its various activities is called business finance.

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

NEED OF BUSINESS FINANCE :-

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

CLASSIFICATION OF SOURCE OF FUNDS



METHODS OF RAISING FINANCE :-

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

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

ADVANTAGES / MERITS :-

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

LIMITATIONS / DEMERITS :-

1. Risk : Equity shareholder bear higher risk because payment of equity dividend is not compulsory.
2. I-liger Cost : Cost of equity shares is greater than the cost of preference share.
3. Delays : Issue of Equity shares is time consuming.
4. Issue depends on Share Market Conditions z Equity Shareholders are the primary risk bearer therefore the demand of equity shares are in the boom time.

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

Types of preference shares :-

1. Cumulative preference shares.
2. Non cumulative preference shares.
3. Participating preference shares.

4. Non participating preference shares.
5. Convertible preference shares.
6. Non Convertible preference shares.

MERITS OF PREFERENCE SHARES :-

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

LIMITATIONS / DEMERITS :

1. **Costly sources of funds :** Rate of preference dividend is greater than rate of interest on debenture, for a company it is costly source of funds than Debentures.
2. **No tax saving :** Preference dividend is not deductible from profit for income tax. Therefore there is no tax saving.
3. **Burden on the company :** In the year of losses dividend has to be paid.

DIFFERENCE BETWEEN EQUITY SHARES AND PREFERENCE SHARES

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

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

Type of Debentures :-

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

MERITS OF DEBENTURES :

1. Investment is Safe : Debentures are preferred by those investor Who do not Want to take risk and are interested in fixed income
2. Control : Debenture holder do not have voting right.

3. Less Costly 1 Debentures are less costly as compared to cost of preference shares.
4. Tax Saving : Interest on Debentures is a tax deductible expense. Therefore, there is a tax saving.

LIMITATION OF DEBENTURES :-

1. Fixed Obligation : There is a greater risk when there is no earning because interest on debentures has to be paid if the company suffers losses.
2. Charge on assets : Th company has to mortgage its assets to issue Debentures.
3. Reduction in Credibility : With the new issue of debentures the company s capability to further borrow funds reduces.

DIFFERENCE BETWEEN SHARES AND DEBENTURES

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

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

For example :

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

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

MERITS

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

DEMERITS

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

PUBLIC DEPOSITS :

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

MERITS :-

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

LIMITATIONS :-

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

COMMERCIAL BANKS :

Commercial Banks give loan and advances to business in the form of cash credit, overdraft loans and discounting of Bill. Rate of interest on loan is fixed.

MERITS

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

LIMITATIONS / DEMERITS

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

FINANCIAL INSTITUTION :

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

MERITS :

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

LIMITATIONS / DEMERITS :- .

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

INTERNATIONAL SOURCE OF BUSINESS FINANCE :

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

3. INTERNATIONAL CAPITAL MERKET :

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

I. Feature of GDR :-

1. GDR can be listed and traded on a stock exchange of any foreign country other than America.
2. It is negotiable instrument.
3. A holder of GDR can convert it into the shares.
4. Holder get dividends.
5. Holder does not have voting rights.
6. Many Indian companies such as Reliance, Wipro and ICICI have issue GDR.

II. ADR : The depository receipt issued by a company in USA are known as ADRs

Feature of ADR :-

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

DIFFERENCE BETWEEN ADR & GDR

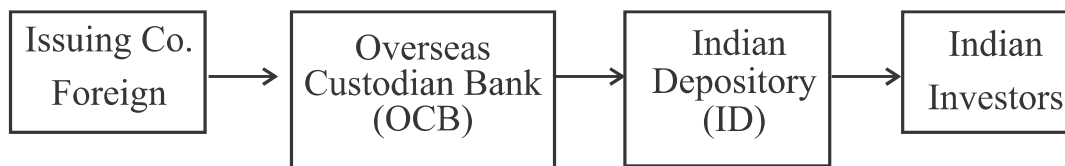
	Basis	ADR	GDR
1.	Listing	Only in American Stock Exchange	Anywhere in the World
2.	Liquidity	More liquid	Less liquid.
3.	Share Holder	Only American Citizens	All over the World Citizens.

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

Indian Depository Receipts (IDRS)

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

Issue Procedure of IDRS



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

2. The OCB request ID to issue shares in the form of IDR.
3. The ID converts the issue which are in foreign currency into IDR and into indian rupee.
4. Lastly the ID issues them to intending investors.

Features of IDRS

1. IDRS are issued by any foreign company
2. The IDRS can be listed on any Indian stock exchange.
3. A single IDR can represent more than one share, such as one IDR = 10 shares.
4. The holders of IDR have no right to vote in the company.
5. The IDRS are in rupee denomination.

Advantages of IDR

1. It provides an additional investment opportunity to Indian Investors for overseas investment.
2. It satisfies the capital need of foreign companies.
3. It provides listing facility to foreign companies to list on Indian Equity Market.
4. It reduces the risk of Indian Investors who Want to take their money abroad.

Inter-Corporate Deposits (ICD)

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

Type of ICDS

1. Three Months Deposits - These deposits are most popular type of ICDS. These deposits are generally considered by borrowers to solve problems of short term capital adequacy. The annual rate of interest for these deposits is around 12%.
2. Six months Deposits - It is usually made first class borrowers. The annual rate of interest for these deposits is around 15%
3. Call deposits - This deposit can be withdrawn by the lender on a day s notice. The annual rate of interest on call deposits is around 10%

Features of ICDS

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

QUESTIONS :

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

8. What is the difference between share and debenture.
9. What do you understand by GDR.
10. Explain the right of equity share holder.
11. Explain the main merits and demerits of debenture.
12. What is the difference between ADR and GDRs.
13. Public Deposits as a source of finance is better than raising funds
Comments.
14. What are the feature of equity share. What are the advantage of issuing equity share to raise term finance debenture.
15. Write Short Notes on :
 - (a) IDR
 - (b) ICD

CHAPTER 8

Small Business

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

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

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

Type of Industries	Investment Limit Rs.	Features
1. Small scale Industries	One Crore	For specific production it is 5 Crore (71 product)
2. Ancillary small Industrial Unit	One crore parent unit	50% of output supplied to the
3. Export Oriented Units (EOU s)	One crore	It export more than 50% of its production. It can sell 25% in domestic market.
4. Tiny Industrial Unit	25 Lakhs	Investment Limit in plant and Machinery is not more than 25 lakh.

5.	Women Enterprises	Any of the above	Owned and managed by woman and have capital not less than 51%
6.	Mirco Business Enterprises	One lakh	Those whose Investement in plant and Machinery does not exceed Rs. 1 lakh
7.	Village Industries	Investment Worker per head Rs. 50,000/-	Location in Rural Areas Produces any goods without the use of power
8.	Cottage Industries	Not defined by Capital Investment	Normally use family labour. Use Simple machine, use small capital.

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

1. **Employment :** Small scale Industries are second largest employers of human resources after Agriculture. It has 95% of the industrial unit in the country.
2. **Variety of product :** Small scale Industries produce an enormous Variety of goods e.g. readymade garments, stationery, soaps, Leather s goods, Plastic and rubber goods.
3. **Export :** The share of product from SSI is 45% of total export from India. So it earn valuable foreign exchange and solve the problem of balance of payment.
4. **Balance regional development :** S.S.I can be set any where in the country. They use local resources. Less capital and simple technology.
5. **Complementary to large scale Industries :** S.S.I. supply various types of components, spare parts, tools. Which are required by large scale

enterprises.

6. Low cost of production : S.S.I. also enjoy the advantage of low cost of production because they used local resources in their product.
7. Quick and timely decisions 2 Due to the small size of the organisation, quick and timely decisions can be taken without consulting many people.
8. Development of entrepreneurship : S.S.I. provide opportunity of young men and women to start their own business.

ROLE OF SMALL BUSINESS IN RURAL INDIA

1. Provides Employment in Rural Areas : - Cottage and rural industries provide employment opportunities in the rural areas as these are labour oriented enterprises. In Indian rural areas ample labour is available
2. Improve Economic Condition : Small business provide multiple source of income to the rural households. S.S.I improve economic conditions and standard of living of people living in those Areas.
3. Prevent migration ' Development of rural and village industries can also prevent migration of the rural population to urban areas in search of employment.
4. Utilisation of Local Resources : S.S.I. use local resources e.g. coir, wood and other products.
5. Equitable distribution of national Income : Small Scale Industries and cottage Industries ensure equitable distribution of national income. This helps to reduce the gap between rich and the poor in the country
6. Balanced Regional development- These enterprises are often dependent on local source of production. This way, industries do not just limit themselves to a particular place but diversify. This helps in balanced regional development.

Problem of Small Scale Industries:

1. **Finance:** Non-availability of sufficient funds in order to carry out business operations is an important problem faced by small scale industries. Banks hesitate to grant financial help to these units.
2. **Raw Material & Power :** Small scale units are unable to buy raw materials in bulk due to lack of funds and storage facilities. Shortage of power is another factor which leads to underutilisation of plant capacity.
3. **Marketing:** Small scale units generally face difficulties in marketing of their products and services as they are hardly any funds for Advertising or sales promotion. As a result, their product do not have a brand name or loyalty.
4. **Technology:** Majority of small scale enterprises are using old techniques of production because they cannot afford new techniques, machines and equipments necessary for modernising product.
5. **Competition:** Main problems faced by small scale firms because of globalisation, liberalisation and privatisation.
6. Other problems:
 - Lack of Managerial Efficiency.
 - Lack of Demand of Produced Goods.
 - Labour Problems.
 - Burden of Local Taxes.
 - Poor Product Quality.

GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS

(A). INSTITUTIONAL SUPPORT :

I. National small Industries Corporation (NSC)

This was set up in 1955 to promote, aid and foster the growth of small scale units in India. main constraint faced by entrepreneurs in shortage of funds to purchase

machinery and equipment. Non availability of finance, deprives many new entrepreneurs from availing opportunities. NSIC was established to cater to this need of entrepreneur.

Main functions of NSIC :

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

II. District Industries Center (DIC)

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

Functions of District Industries Center

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

Govt. Incentives to hilly backward and Rural Areas

1. **Power :** Some states supply power at a concessional rate of 50%.
2. **Tax holidays :** Exemption from payment of tax for 5 years.
3. **Land and Water:** Availability of land at concessional rate. Water is supplied on no profit no loss basis.
4. **Octroi :** Most of the states have abolished octroi.
5. **Protective Measures :-** The government reserved 800 items for exclusive production by the small scale Industries and give priority in allocation of raw materials and machines.
6. **Marketing Assistance :** - Government tries to solve their marketing problem by improving information and in order to provide guarantee for sale of goods.
7. **Finance:** Subsidy of 10-15% for building capital asset. Loans are offered at concessional rates.
8. **Sales Tax:** In all Union Territories, small industries are exempted from sales tax while some states give exemption of 5 years.

QUESTIONS :-

1. What do you mean by Small Business?
2. Give full form of NSIC
3. What is a Women Enterprise?
4. How much Small Industries contribute to total export from India?
5. Explain any three types of Small Scale Industries in India.
6. Explain four important problems of Small Business in India.
7. What are the incentives given by Govt. to Industries set up in hilly, backward & rural areas.
8. Explain the role of small scale Industries in the development of Rural Area.
9. What measures has the government taken to solve the problem of finance and marketing in the small scale sector.
10. Write short note on :-
 - I. NSIC
 - II. DIC

CHAPTER 9

Internal Trade

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

- i) Wholesale trade
- ii) Retail trade

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

SERVICES OF WHOLESALER TO MANUFACTURERS.

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

SERVICES OF WHOLESALERS TO RETAILERS

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

RETAIL TRADE :

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

SERVICES OF RETAILERS TO MANUFACTURERS AND WHOLESALER :-

- i. Retailers help manufacturers & wholesalers in the distribution of their goods & services to the ultimate consumers.
2. Retailers help manufacturers & wholesalers in promoting their goods & services.
3. Retailers undertake personal selling efforts and thus, help manufacturers and wholesalers in the process of actualising the sale of the products.
4. Retailers collect and provide market information about the tastes, preferences and attitudes of consumers to the producers.

5. Retailers make manufacturer and wholesaler free from the burden of making individual sales and thus help them to operate on large scale production.

SERVICES OF RETAILERS TO CONSUMERS :-

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

TYPES OF RETAILING TRADE

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

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

Following are the characteristics of itinerant retailers.

1. They are small traders having limited resources.
2. they generally deals in consumer products of daily use.

3. They emphasize on providing greater customer services.
4. They do not have any fixed place to operate from.

TYPES OF ITINERANT RETAILERS

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

II. FIXED SHOP RETAILERS

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

1. As compare to itinerant traders, fixed shop retailers have greater resources.
2. They deals in durable as well as non-durable goods.

3. There are different size groups of fixed shop retailers varying from very small to very large.
4. They provide greater services to the customers such as home delivery, repairs, credit facilities etc.

TYPES OF FIXED SHOP RETAILERS :

Fixed shop retailers can be classified into two types

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

FIXED SHOP SMALL RETAILERS :

It include following

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

FIXED SHOP LARGE STORE OR LARGE RETAILERS

Fixed shop large stores include following retailers

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

Following are the features of a departmental store :-

- i) They are located at a central place so that maximum customers could reach there.
- ii) They provide all facilities such as restaurant, travel and information bureau, telephone booth, restrooms etc.
- iii) These stores are very large in size and so they are generally formed as a joint stock company managed by a board of directors.
- iv) All the purchases in a departmental store are made by the purchase department of the store centrally
- v) A departmental store combines both the functions of retailing as well as Warehousing,

Advantages of Departmental Stores.

1. They attract large number of customers as they are located at central places.
2. They provide great convenience to customers as they can purchase number of goods at one place.
3. They provide attractive services to customers like home delivery of goods, credit facilities, restrooms etc.
4. They are able to undertake various promotional activities which help people to know about the products.

5. They are organized at a very large scale and thus, benefits of large-scale operations are available to them.

Limitations of Departmental Store.

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

Chain Stores or Multiple Shops.

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

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

Advantages of Chain Stores.

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

Limitations of Chain Stores.

1. Chain stores sell goods produced in their organisation only and so they offer limited choice of goods.
2. Personnel managing the chain store have to obey the instructions of the head office. Thus, they do not take their own initiatives to satisfy the customers.
3. If the demand for the goods handled by multiple shop changes, it may lead to heavy losses as large amount of stock remains unsold at the central office.

Mail Order Houses

The retail outlets that sell their goods through mail are referred to as mail order houses. There is no personal contact between the buyers and the sellers in this type of trading. The trader contacts the customer through

advertisement in newspaper or magazines, circulars, catalogues and price List is sent to them by post. All the information about product such as price, features, delivery terms, terms of payment etc are described in the advertisement. The customers may be asked to make full payment in advance or goods may be sent by VPP (Value Payable Post), under which goods are delivered to the customer only when he makes full payment for the same. The goods may be sent through a bank which deliver them to the customer only when he makes full payment.

Advantages of Mail Order Houses :

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

Limitation of Mail Order houses

1. There is no personal contact between the buyers and the sellers. The buyers are not in a position to examine the products before buying.
2. They rely heavily on advertisement and other promotional activities which increases their cost of product.
3. In mail order selling after sales services are absent.
4. They do not provide credit facilities to the buyers.
5. Their success depends heavily on the efficiency of postal services.
6. Receipt and execution of order through mail may take too much time which delay delivery.

Vending Machines.

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

Main Documents Used In Internal Trade

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

1. **Invoice** - In case of credit purchases, a statement is supplied by the seller of goods in which he gives particulars of goods purchased by buyer such as quantity, quality, rate, total value, sales tax, trade discount, etc. It is also called a Bill or Memo. Buyer gets information about the amount he has to pay to the seller from Invoice only
2. **Pro-Forma Invoice** - The statement (or forwarding letter) containing the details of goods consigned from consigner to consignee is known as a Pro-forma Invoice. It gives the particulars as regards quantity, quality, price and expenses incurred on the goods consigned. In case of consignment, consignee is an agent of consigner who is supposed to sell goods on behalf of consigner and this statement/proforma invoice is only for his information. It is also known as interim invoice.
3. **Debit Note** - It refers to a letter or note which is sent by the buyer to the seller stating that his (seller's) amount has been debited by the amount mentioned in note on account of goods returned herewith. It states the

quantity, rate, value and the reasons for the return of goods.

4. **Credit Note** - It refers to a letter or note which is sent by the seller to the buyer stating that his account has been credited by the mentioned amount on account of acceptance of his claim about the goods returned by him.
5. **Lorry Receipt** - It refers to a receipt issued by the Transport Company for goods accepted by it for sending from one place to another. It is also known as Transport Receipt (TR) and Bilty.
6. **Railway Receipt** - It refers to a receipt issued by the Railways for goods accepted for sending from one station to another.

Terms of Trade

The following are the main terms used in the trade.

1. **Cash on delivery (COD)** : It refers to a type of transaction in which payment for goods or services is made at the time of delivery. If the buyer is unable to make payment when the goods or services are delivered, then it will be returned to the seller.
2. **Free on Board or Free on Rail (FoB or FOR)** : It refers to a contract between the seller and the buyer in which all the expenses up to the point of delivery to a carrier (it may be a ship, rail, lorry, etc.) are to be borne by seller.
3. **Cost, Insurance and Freight (CIF)** : It is the price of goods which includes not only the cost of goods but also the insurance and freight charges payable on goods.
4. **E&OE (Errors and Omissions Excepted)** : It refers to that term which is used in trade documents to say that mistakes and things that have been forgotten should be taken into account. This term is used in an attempt to reduce legal liability for incorrect or incomplete information supplied in a document such as price list, invoice, cash memo, quotaion etc.

Role of Chambers of Commerce and Industry in Promotion of Internal Trade

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

Following are the important functions of chamber of Commerce and Industry:

1. Conducting research and collecting statistics and other information about business and economy.
2. Providing technical, legal and other useful information and advice to the members.
3. Publishing books, magazines and journals of business interest.
4. Making arrangement for education and training of members. Some chambers even conduct commercial examinations and award diplomas.
5. Arranging industrial exhibitions, trade fairs, etc. in order to promote trade.
6. Advising the govt. in matters concerning industrial and economic development of the region.
7. Issuing certificate of origin to exporters.
8. Representation of business interest and grievances before the govt.
9. Providing a forum for discussing the common problems of business community.
10. Acting as arbitrators for solving problems and disputes among the members.

Very Short Answer Type Questions (carrying 1 mark each)

1. Define Trade.
2. List the two broad categories of trade.
3. Which shops deal in specific live in products?
4. Give an example of chain store.
5. How does mail order house provide convenience to customer?
6. What are Vending Machines?
7. Write the full form of ATM.
8. Give the full form of CIL.
9. Write the meaning of Debit Note.
10. What is Proforma Invoice?
11. What do you understand by E.&O.E.?

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

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

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

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

CHAPTER 10

International Business

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

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

Concept of International Business

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

1. Merchandise exports and imports. Merchandises exports means sending tangible goods abroad and merchandise imports means bringing tangible goods from abroad.

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

Benefits of International Business

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

Benefits to Nations :

1. It helps a country to earn foreign exchange which can be used for importing various goods from abroad.

2. It leads to specialisation of a nation in the production of those goods which can be produced by it in the most effective and economical manner.
3. It helps a nation in improving its growth prospects and also create opportunities for employment.
4. It make it possible for people to consume goods and services produced in other countries which help in increasing their standard of living.

Benefits to Firms :-

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

Difference between Domestic & International Business.

Basis	Domestic Business	International Business
1. Nationality of buyers & Sellers	Both Buyers & Sellers belong to same country	buyers & Sellers belong to different countries.
2. Mobility of sectors of production	The factors of production Like capital, Labour and raw material can move freely within the country	There are restrictions on free mobility of factors of production across countries

3.	Customer heterogeneity across market	Domestic markets are relative more homogeneous in nature	international markets lack homogeneity due to differences, in languages, preferences customs etc across markets.
4.	Currency used	Currency of home country is used business	Currency used in business in transactions is that of more than one country.
5.	Political System	It has to face the political system and risk of only one country	it is subjected to political system & risk of different countries.

Mode of Entry into International Business

I. Exporting and Importing

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

II. Contract Manufacturing

When a firm enters into a contract with one or a few local manufacturers in foreign countries to get certain goods produced as per its specifications it is called contract manufacturing. It is also known as outsourcing and it can take place in following forms.

- a) Production of components like automobile components to be used later for making final product like car.
- b) Assembling of components into final products such as assembling of tyres, seat etc in a scooter.

- c) Complete manufacture of products such as garments.

III. Licensing and Franchising :-

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

IV. JOINT VENTURE

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

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

V. WHOLLY OWNED SUBSIDIARIES

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

EXPORT PROCEDURE

1. An exporter receives an enquiry from the prospective buyers seeking information regarding price, quality & other terms conditions for export of goods. The exporter sends a quotation known as proforma invoice as reply.
2. If the buyer is satisfied with the export price & other terms & conditions, he places the order or indent for the goods.
3. After receiving the order or indent, the exporter undertakes an enquiry regarding the credit worthiness of importer to assess the risk of non- payment by the importer.
4. According to custom laws the exporter or the export firm must have export license before proceeding with exports. The following procedure is followed for obtaining the export license. To open account in any authorised bank.
 - To obtain import export code (IEC) number from Directorate General foreign Trade (DGFT) or Regional Import Export Licensing Authority (RIELA).
 - Register with appropriate export promotion council.
 - To get registered with Export Credit and Guarantee corporation (ECGC) in order to safeguard against risk of non-payments.
5. After obtaining the export license the exporter approaches his banker in order to obtain preshipment finance for carrying out production.
6. Exporter, after obtaining the preshipment finance from the bank, proceeds to get the goods ready as per the orders of the importer.
7. Government of India ensures that only good quality products are exported from India. The exporter has to submit the preshipment inspection report along with other documents at the time of export.
8. According to Central Excise Tariff Act, excise duty on the material

used in manufacturing goods is to be paid. For this purpose exporter apply to the concerned Excise Commissioner in the region with an invoice.

9. In order to obtain Tariff concessions or other exemptions the importer may ask the exporter to send certificate of origin.
10. The exporter applies to the shipping company for provision of shipping space. He has to provide complete information regarding the goods to be exported, probable date of shipment & port of destination. The shipping company issues a shipping order. Which is an instruction to the captain of the ship, after accepting application for shipping.
11. The goods are packed & marked with necessary details like name & address of the importer, gross & net weight, port of shipment & destination etc. After this the exporter makes arrangement for the transportation of goods to the port.
12. In order to protect the goods against the risk of loss or damage due to the perils of the sea transit the exporter gets the goods insured with an insurance company.
13. Before loading the goods on the ship they have to be cleared by the customer. For this purpose the exporter prepares the shipping bill & submits five copies of the shipping bill along with following documents to the Customs Appraiser at the customs house!
 - (i) Certificate of origin
 - (ii) Commercial Invoice
 - (iii) Export Order
 - (iv) Letter of credit
 - (v) Certificate of Inspection, Where necessary.

(vi) Marine Insurance Policy.

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

14. After the goods have been loaded on board of the ship the captain or the mate of the ship issues mate's receipt to the port superintendent which contains information regarding vessel, berth, description of packages, date of shipments marks, condition of the cargo at the time of receipt on board the ship etc.
15. The clearing & forwarding agent (C&F agent) hands over the mate's receipt to the shipping company for calculating freight. On receiving the freight the shipping company issues a bill of lading.
16. The exporter prepares an invoice for the dispatched goods. Invoice contains information regarding the quantity of goods sent & the amount to be paid by the importer. It is duly attested by the customs.
17. After shipment of goods the importer is informed about it by the exporter. Various documents like certified copy of invoice, bill of lading packing list, Insurance policy, certificate of origin & letter of credit are sent by the exporter through his bank. These documents are required by the importer for getting the goods cleared from customs.

DOCUMENTS USED IN EXPORT TRANSACTIONS

A. Documents related to goods :-

1. **Export Invoice :-** It is a seller's bill information about goods like quantity, number of packages, marks on packing, name of ship, port of destination, terms of delivery & payments etc.
2. **Certificate of Inspection :-** For ensuring quality the government has made inspection of certain goods compulsory by some authorised

agency like export Inspection council of India (EICI) etc. After inspecting the goods, the agency issues a certificate of inspection that the consignment has been inspected as required under the export (Quality Control & Inspection) Act, 1963.

3. **Packing List :-** This document is in the form of a statement regarding the number of cases or packs & the details of the goods contained in these packs. It provides complete details regarding the goods exported & the form in which they are being sent.
4. **Certificate of Origin :-** This certificate specifies the country in which the goods are being manufactured. This certificate enables the importer to claim tariff concessions or other exemptions. This certificate is also required in case when there is a ban on imports of some goods from certain countries.

B. Documents Related to Shipment :-

1. **Shipping Bill :-** It is the main document on the basis of which permission is granted for the export of goods by the custom office. It contains full details regarding the goods being exported name of the vessel, exporter's name & address, country of final destination etc.
2. **Mate's Receipt :-** This receipt is issued by the captain or mate of the ship to the exporter after the goods are loaded on board of the ship. It contains name of the vessel, description of packages, marks, conditions of the cargo at the time of receipt on board the ship etc.
3. **Bill of lading :-** It is a document issued by the shipping company. It acts as an evidence regarding the acceptance of shipping company to carry the goods to the port of destination. It is also referred to as document of title to the goods & is freely transferable by endorsement

& delivery.

4. **Airway Bill :** Similar to a shipping bill, an airway bill is a document issued by the airline company on receiving the goods on board, its aircraft and at the same time giving its acceptance to carry them to the port of destination.
5. **Marine Insurance Policy :** It is a document containing contract between the exporter & the Insurance Company to indemnify the insured against the loss incurred by the insured in respect of goods exposed to the perils of the sea transit in consideration of a payment called premium.

C. Document related to payment :-

1. **Letter to credit :-** It is a guarantee letter issued by the importer bank stating that it will honour the export bills to the bank of the exporter up to a certain amount.
2. **Bill of Exchange :** In export & import transaction, exporter draws the bill on the importer asking him to pay a specified amount to a certain person or the bearer of the instrument. The documents required by the importer for claiming title of exported goods are passed on to him only when the importer accepts this bill.
3. **Bank Certificate of Payment :-** It is a certificate that the necessary documents relating to the particular export consignment have been negotiated & payment has been received in accordance with the exchange control regulations.

IMPORT PROCEDURE

1. The first step involved in importing goods is to gather information about the countries & firms which export the product required by the

exporter. It can be gathered from trade directories, trade associations & organisations. The exporter prepares a quotation also known as Performa Invoice & sends it to the importer.

2. The Importer Consults the export import (EXIM) Policy in force, in order to know whether the goods that he/she wants to import are subjected to import licensing or not. If License is required then it is to be obtained.
3. In case of an import transaction the supplier resides in a foreign country hence he demands payment in foreign currency. This involves exchange of Indian Currency into foreign currency. The Exchange Control Department of the Reserve Bank of India (RBI) regulates foreign exchange transactions in India. As per rules, every importer has to secure the sanction of foreign exchange.
4. The importer places an import order or indent with the exporter for the supply of specified goods. The order contains information regarding price, quality, quantity, size & grade of goods instruction regarding packing, delivery shipping, mode of payment etc.
5. When the payment terms are agreed between the importer & the overseas supplier, the importer obtains the letter of credit from its banker & forwards it to the overseas supplier.
6. The importer arranges for the funds in advance to pay the exporter on arrival of goods at the port this enables the importer to avoid huge penalties on the imported goods lying uncleared at the port for want of payments.
7. The overseas supplier after loading the goods on the ship dispatches the Shipment Advice to the importer. It provides information

regarding, shipment of goods like invoice number, bill of lading / airway bill, name of ship with date description of goods & quantity etc.

8. After shipping the goods, the overseas supplier hands over the various documents like commercial invoice, bill of lading, insurance policy certificate of origin to his banker for their onward transmission to the importer when he accepts the bill of exchange drawn by the supplier. The acceptance of bill of exchange by the importer for the purpose of getting delivery of the document is known as retirement of import documents.
9. When the goods arrive in the importer's country, the person in charge of the carrier informs the officer in charge at the dock or the airport about it. The person in charge of the ship or airway provides the document called import general manifest for unloading of cargo.
10. Imported goods are subjected to customs clearance which is a very lengthy process & involves a lot of formalities. The importer usually appoints a c & agent for fulfilling these formalities.

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

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

Finally the importer fills in a form known as bill of entry for

assessment of customs import duty. An examiner examines the imported goods & gives his report on the bill of entry. This bill is then presented to the port authority which on receiving necessary charges, issues the release order.

Documents used in an Import Transaction

1. **Proforma Invoice :-** A proforma invoice is a document that contains details as to the quality, grade, design, size, weight & price of the export product & the terms & conditions on which their export will take place.
2. **Import order or Indent :** It is a document in which the importer orders for supply of requisite goods to the supplier. The order containing the information such as quantity & quality of goods such as quantity & quality of goods price, method of forwarding the goods, nature of packing, mode of payment etc.
3. **Shipment advice :-** The exporter sends shipment advice to the importer for informing him that the shipment of goods has been made. It contains invoice number bill of lading / airways bill number & date, name of the vessel with date, the port of export, description of goods & quantity & the date of sailing of the vessel.
4. **Bill of lading :-** It is prepared & signed by the master of the ship acknowledging the receipt of goods on board. It contains terms & conditions on which the goods are to be taken to the port of destination.
5. **Bill of entry :-** It is a form supplied by the customs office to the importer who filled it at the time of receiving the goods. It has to be in triplicate & is to be submitted to the customs office. It contains information such as name & address of the importer, name of the ship, number of packages,

marks on the packages, description of goods, quantity & value of goods, name & address of the exporter, port of destinations & customs duty payable.

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

7. **Bill of exchange :-** Explained earlier.

Foreign Trade Promotion Measures & Schemes.

1. **Duty drawback scheme :-** Goods meant for export are not subjected to payment of various excise and custom duties. Any such duties paid are refunded to exporters on production of proof of exports of these goods to the concerned authorities. Such refunds are called duty drawback.

2. **Export Manufacturing under bond scheme :-** Under this facility firms can produce goods without payment of excise and other duties. The firms can avail this facility after giving an undertaking (i.e. bond) that they are manufacturing goods for export purposes.

3. **Exemption from payment of sales taxes :-** Goods meant for export purpose are not subject to sales tax. Income derived from export operations had been exempt from payment of Income tax for a long period but now this exemption is only available to 100% Export oriented units and units set up in Export Processing Zones / special economic zones for selected years.

4. **Advance Licence Scheme :-** It is a scheme under which an exporter is

allowed duty free supply of domestic as well as imported inputs required for the manufacture of export goods. The firms exporting intermittently can also obtain these licences against specific export orders.

5. **Export Processing Zones :-** They are industrial estates, which form enclaves from the Domestic Tariff Areas. These are usually situated near seaports or airports. They are intended to provide an internationally competitive duty free environment for export production at low cost.

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

ORGANISATIONAL SUPPORT

World Trade Organisation :

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

Role/Functions of WTO

1. To remove barriers of International trade.
2. To Act as a dispute settlement body by settling trade related disputes among member nations
3. To ensure that all the rules regulations prescribed in the Act are duly followed by the member countries for the settlement of their disputes.
4. Laying down a commonly accepted code of conduct for international trade aiming at reducing tariff and non-tariff barriers in international trade.

5. To consult other agencies to bring better understanding/cooperation in global economic policy making.
6. Providing technical assistance and guidance related to management of foreign trade and fiscal policy to its member nations.
7. Taking special steps for the development of poorest nations.
8. Reviewing trade related economic policies of member countries with the help of its Trade Policy Review Body.
9. Co-operating with IMF and World Bank and its associates for establishing co-ordination in global trade policy making.
10. Acting as forum for trade liberalisation.

PROBLEMS OF INTERNATIONAL TRADE

The main problems in International Trade are :

1. **Language difference** When a trader of one country deals with the trader of another country, it becomes difficult for both of them to understand each others because of their different languages.
2. **More Risk** The quantum of risk is higher in foreign trade as compared to that in the internal trade.
3. **Government Control** for import and export procedure various licences are taken and various piece of information are to be submitted. Moreover the whole procedure of import export is quite complex.
4. **Difference in Laws** The rules related to export-import are different in each country. So, there is always some doubt in the mind of a trader regarding payment and other terms of business.
5. **Difficulty in payment** - Each country has a different currency. Due to this, businessman face a lot of problems while paying and receiving money.
6. **Lack of Information about Foreign Trader** It is difficult to find out

details about financial position and business dealings of any businessman sitting at some far off place.

Very Short Answer Type Questions (carrying 1 mark each)

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

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

1. Give difference between Internal and International trade.
2. What is joint Venture?
3. Briefly explain the scope of International trade.
4. What are main functions of WTO.
5. What is Bill of Lading? How is it different from Bill of Entry.

Long Answer Questions

1. Explain the benefits of International Trade to Nation and to firms.
2. Explain documents used in Export Procedure.
3. Explain Import Procedure.
4. Explain the following
 - (a) Trade Enquiry
 - (b) Letter of Credit
 - (c) WTO
 - (d) Export Licence.

MODEL QUESTIONS PAPER-I

Time : 3 hrs.

M.M. : 90

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

20. Commerce is the sum of those processes which are engaged in the removal of hindrances of person, Place and time . In the light of this statement explain the hindrances which are solved by the effective commerce. 5
21. Explain the principle documents used in exporting. 5
22. Define partnership deed and write its main contents. 5
23. Write about the major reform brought in by the govt. in the public sector in the Industrial policy of 1991. 5
24. What is the difference between GDR and ADR. 5
25. Public Deposits as a source of finance is better than raising loans comment. 6

Or

Discuss the importance of Preference and Equity shares as sources of long term finance. 6

26. Explain the main types of Itinerant Retailers. 6

Or

Explain the advantages of consumer cooperative store.

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

Or

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

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

Or

What do you mean by services? Explain their characteristics.

MODEL QUESTIONS PAPER-II

Time : 3 hrs.

M.M. : 90

1. Insurance is essential for business. Why? 1
2. What is EFT. 1
3. Write the full form of CII. 1
4. Name the type of manufacturing industry in which one material is separated into several useful products. 1
5. Name the form of business organisation which is found only in India. 1
6. What is the maximum no. of partners in a partnership firm carrying on banking business. 1
7. Explain the meaning of unlimited liability. 1
8. Write one function of NSIC. 1
9. Write the meaning of tiny Sector. 1
10. Name the type of public Enterprise which is established by a special Act of parliament. 1
11. Explain the nature of Business Finance. 3
12. Explain the meaning of Memorandum of understanding. 3
13. Explain the role of Karta in joint Hindu Family Business. 3
14. What is Joint Venture? Give its two limitations. 3
15. Business is an economic activity Do you agree? Why? 3
16. Profit maximisation cannot be the sole objective of business Comment. 4
17. Write about four features of multinational company. 4
18. What is e-banking? What are its advantages. 4
19. Explain the four features of small scale industries. 4
20. Write a note on various telecom services available for enhancing business. 5

21. State and explain types of outsourcing of services. 5
22. Explain licensing and Franchising. How they differ? 5
23. Make difference between departmental and multiple shops. 5
24. Explain any Five types of preference shares. 5
25. Define Retained earning. Write merits of retained earning. 6

Or

What are the difference between share and Debenture.

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

Or

Give advantages and limitation of mail order business.

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

Or

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

28. What do you understand by Joint stock company? Explain its Five Features. 6

Or

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

- i) Beauty Parlour
- ii) Hotel
- iii) Bakery Shop
- iv) Shopping Mall
- v) Small retail outlet
- vi) Chartered Accountancy Firm.

SUGGESTED LIST OF PROJECTS

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