पुणना International School

Shree Swaminarayan Gurukul, Zundal

Grade – XI

BUSINESS STUDIES

Specimen copy

Year 2021-2022

UNIT - 1

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
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. For example love, sympathy, patriotism.
Examples	People work in factories Cooking food in restaurant. A teacher teaching in a school.	A housewife cooking food for her family. A teacher training his daughter at home.

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

Characteristics of Business:

1. An economic activity: Business in considered as an economic activity because 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. Goods may consist of consumable items.

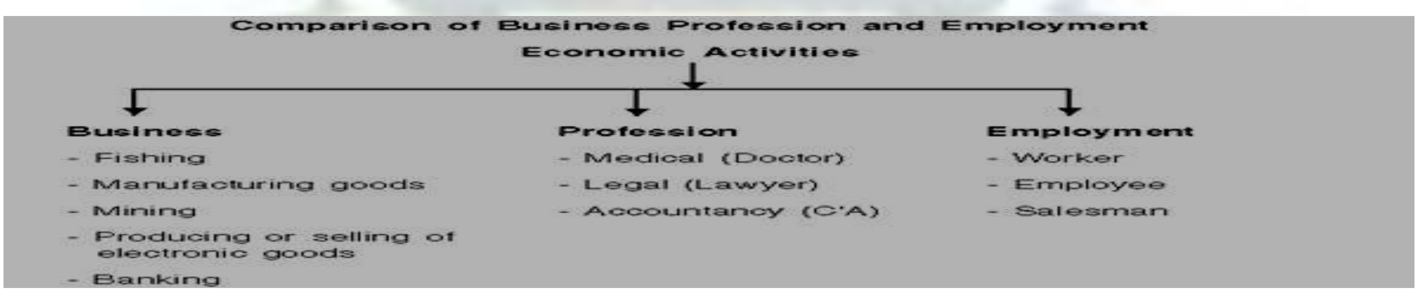
3. Sale or exchange of goods & services - There should be sale or exchange of goods and service between the seller & the buyer.

4. Dealing in goods & services at a regular basis: There should be regularity of dealings or exchange of goods & services. One single transaction of sale or purchase does not constitute business.

5. Profit Earning: The main purpose of business is to earn profit. A business cannot survive without making profits.

6. Uncertainty of return: Every business invests money with the objective of earning profit but the amount of profit earned may vary. Also there is always a possibility of losses.

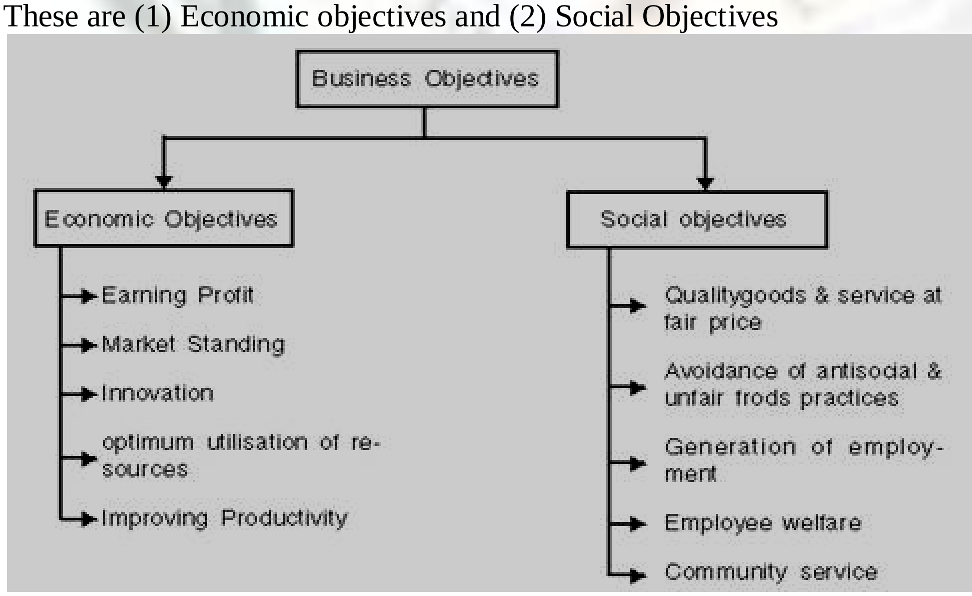
7. Element of risk: All business activities carry some elements of risk because future is uncertain and business has no control over several factors like, strikes, fire, theft, and change in consumer taste etc.



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**
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.
Nature of work	Provision of goods and service to the public.	Personalized services of expert nature.	Work allotted by the employer according to the contract.
Qualification	No minimum qualification is necessary.	Professional Qualification and training required.	Qualification and training as prescribed by the employer.
Capital investment	Capital needed according to its size and capacity.	Limited capital for established	No capital required.
Reward/ Returns	Profits	Professional fee	Salary or wages
Risk	High Risk	Low Risk	No Risk
Code of Conduct	No code of conduct	Professional code of conduct	The terms and conditions of services contract are to be allowed.

Objectives of Business: The objective 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 businessmen 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 service without earning profit. Not only for survival but it is also required for growth and expansion of business.

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

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

(iv)Optimum 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 their resources.

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

2.Social Objectives

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

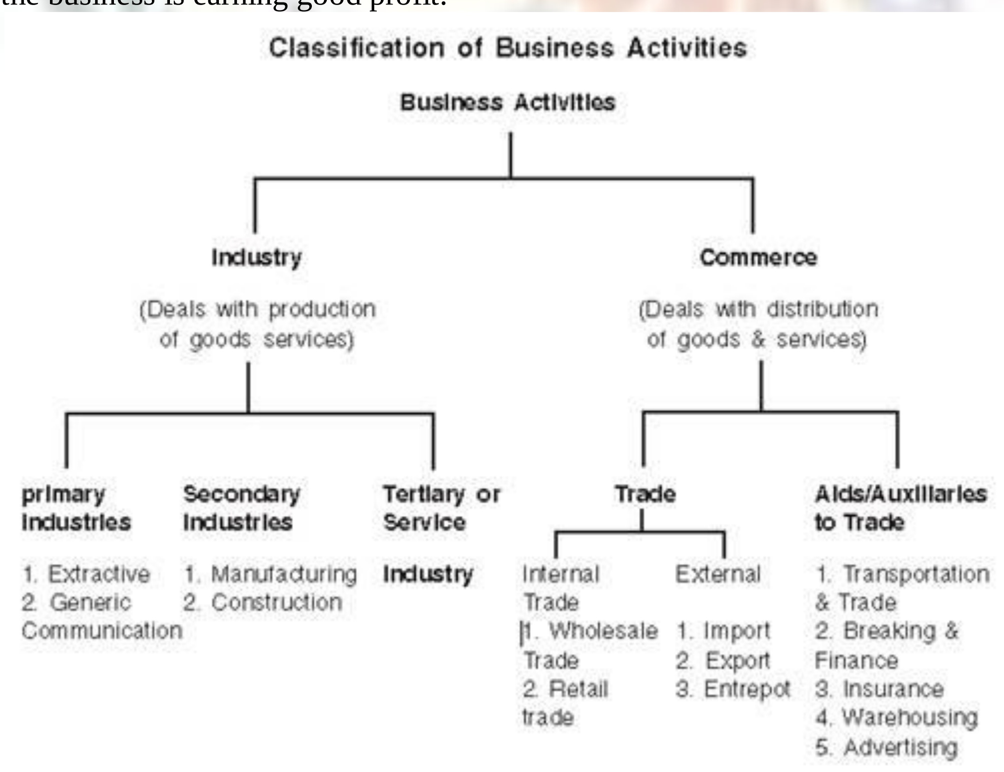
(i) Avoidance of Anti-Social and Unfair trade practices: Anti-Social practices include hoarding, black marketing and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Business should not indulge in such practices.

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

Role of Profit in Business

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

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



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.

Extractive Industry refers to those industries under which something is extracted out of the earth, water or air e.g., coal, iron, gas etc. Farming, mining, lumbering, hunting & fishing come under this category of industry

Genetic Industry refers to those industries under which the breed of animals and vegetables are improved and made more useful e.g., poultry farms, dairy farming, fish hatchery, cattle breeding etc.

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.

Manufacturing: These industries convert raw materials or semi-finished products into finished products e.g., paper from bamboo, sugar from sugar cane. It is further divided into four parts.
(i) Analytic: Different things are manufactured out of one material e.g., petrol, diesel, gasoline out of crude oil.
(ii) Processing: Those industries wherein useful things are manufactured by making the raw material to pass through different production process e.g., steel from iron ore, sugar and paper industries.
(iii) Synthetic: Many raw materials are mixed to produce more useful product e.g., paints, cosmetics, cement.
(iv) Assembling: Where in the parts manufactured by different industries are assembled to produce new and useful product e.g., computers, watches cars, television etc.

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

3 Tertiary or Service Industry: Includes those services which help business to move smoothly e.g. transport, bank, Insurance, storage and Advertising.

COMMERCE:

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

1. Removing the hindrance of person by marking goods available to consumers from the producers. through trade.
2. Transportation removes hindrance of place by moving goods from the place of production to the markets for sale.
3. Storage and warehousing activities remove the hindrance of time by facilitating holding of stock of goods to be sold as and when required.
4. Insurance removes hindrance of risk of loss or damage of goods due to theft, fire, accidents etc.
5. Banking removes hindrance of finance-by providing funds to a businessman for acquiring assets, purchasing raw materials and meeting other expenses.
6. Advertising removes hindrance of information-by informing consumers about the goods and services available in the market.

Commerce includes two types of activities:

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

1. **Internal Trade**: Takes place within a country. Internal Trade is classified into two categories:
(i) Wholesale Trade: Refers to buying and selling of goods in large quantities. A wholesaler buys goods in large quantities from the producers and sell them to other dealers. He serves as a connecting link between the producer and retailer.
(ii) Retail Trade: Refers to buying of goods and services in relatively small quantities & selling them to the ultimate consumers.

2. **External Trade**: Trade between two or more countries. External trade can be classified into three categories:
(i) Import trade: If goods are purchased from another country, if is called import trade.
(ii) Export Trade: If goods are sold to other countries it is called export trade.
(iii) Enterpot: Where goods are imported for export to other countries e.g. Indian firms may import some goods from America and export the service to Nepal .

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.

(vi)Advertising: Advertising brings goods and services to the knowledge of prospective buyers. It is through advertising that the customers come to know about the new products and their utility.

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

Nature of Business Risks

1. Business risks arise due to uncertainties: Lack of knowledge of what is going to happen in future create uncertainties in business. It may be due to natural calamities, change in demand and prices, strikes etc.

2. Risk is an essential part of every business: No business can avoid risk although the amount of risk may vary from business to business. Risk can be minimized but cannot be eliminated.

3. Degree of risk depends mainly upon the nature and size of business:

Level of risk is lower for small scale business while it is higher for large scale organization.

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

Causes of Business Risks

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

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

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

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

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

Starting a Business: Basic Factors

Selecting the line of business: The first thing to be decided by the entrepreneur is the line and type of business to be undertaken.

1. 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.

2. 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.

3. 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.

4. 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.

5. Physical facilities: include machinery equipment building etc. This decision depends upon the size, scale and type of business activities he wants to carry on.

6. Plant layout: Showing the physical arrangement of machines and equipment needed to manufacture a product.

7. Competent and committed Workforce: The entrepreneur must find out the requirement of skilled and unskilled workers and managerial staff to perform various activities.

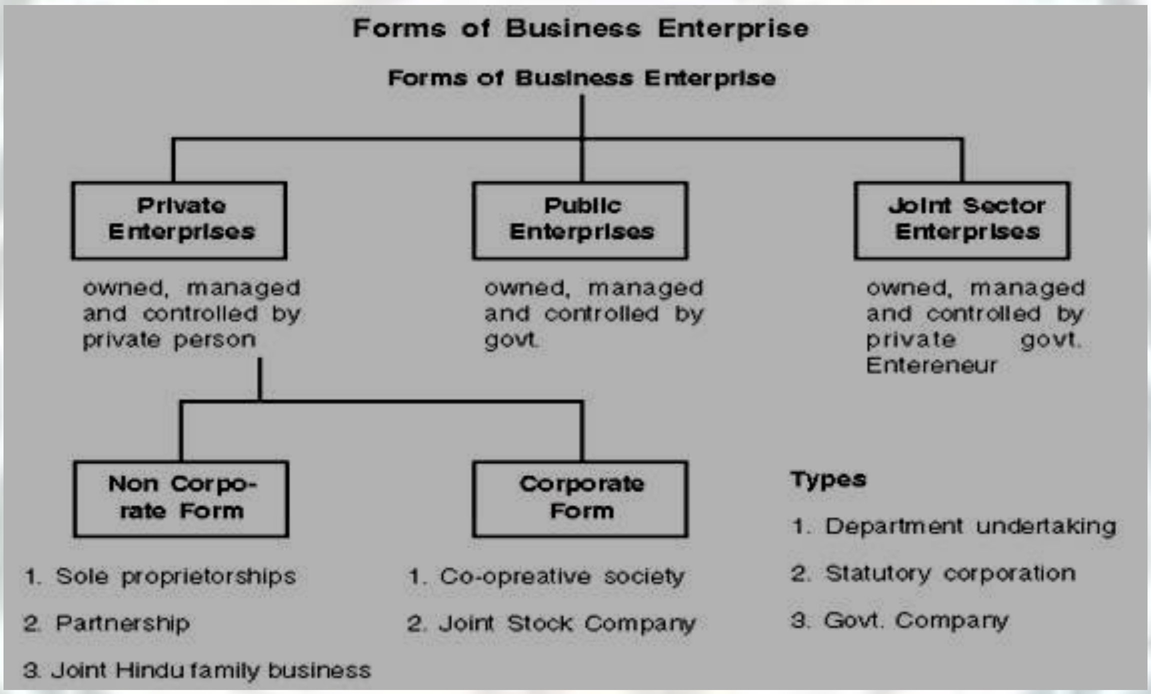
8. Tax planning: The entrepreneur must try to analyze the types of taxes because there are a number of tax laws in the country which affect the functioning of business.

9. 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.

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 profit and bearer of all risks.

It is SUITABLE IN AREAS OF PERSONALISED SERVICE like beauty parlour, hair cutting saloons & small scale activities like retail shops.

Features

1. Single ownership: It is wholly owned by one individual.
2. Control: Sole proprietor has full power of decision making.
3. No separate legal entity: Legally there is no difference between business& businessmen.

4. Unlimited liability: The liability of owner is unlimited. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts
5. No legal formalities: Not required to start, manage and dissolve such business organization.
6. Sole risk bearer and profit recipient: He bears the complete risk and there is no body to share profit/loss with him.

Merits

1. Easy to start and close: It can be easily started and closed without any legal formalities.
2. Quick decision making: As sole trader is not required to consult or inform anybody about his decisions.
3. Sense of accomplishment: There is a sense of personal satisfaction.
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 no body to share profit/loss with him.

LIMITATIONS

1. Limited financial resources: Funds are limited to the owner's personal savings and his borrowing capacity.
2. Limited Managerial ability: Sole trader can't be good in all aspects of business and he can't afford to employ experts also.
3. Unlimited liability: Ofcourse, 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 tradership is suitable-
• Where the personal attention to customer is required as in tailoring, beauty parlour.
• Where goods are unstandardized like artistic jewellery.
• Where modest capital and 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- It prevails in west Bengal and allows both male and female member to co-parcencers.
Mitakshara System- It prevails all over India except West Bengal and allows only male members to be coparceners.

3. Liability - 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 in such cases the next senior male member becomes the Karta.

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

MERITS

1. Effective control- The Karta can promptly take decisions as he has the absolute decision making power.
2. Continued business existence- The death, Lunacy of Karta will not affect the business as next eldest member will then take up the position.
3. Limited liability - The liability of all members except Karta is limited. It gives them a relief.
4. Secrecy - Complete secrecy regarding business decisions can be maintained by Karta.
5. Loyalty and Co-operation: It helps in securing better co-operation and greater loyalty from all the members who run the business.

LIMITATION

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

PARTNERSHIP

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

FEATURES

1. Two or more persons: There must be at least two persons to form a partnership. The maximum no. of persons is 10 in banking business and 20 in non-banking business.
2. Agreement: It is an outcome of an agreement among partners which may be oral or in writing.
3. Lawful business- It can be formed only for the purpose of carrying on some lawful business.
4. Decision making & control - Every partner has a right to participate in management & decision making of the organisations.
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 invested money, shares profit & Loss and 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 Estoppels - 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 of 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 firm. However, a minor can be admitted to the benefits of an existing partnership firm with the mutual consent of all other partners. He cannot be asked to bear the losses.

His liability will be limited to the exilent 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 June period to accomplish a particular project (consolation of building)

B. Classification on the basis of Liability

General partnership-This liability of partners is limited and joint. Registration of firm is optional.
Limited Partnership-The liability of at least one partner is unlimited whereas the other partners may have limited.
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 & obligations of partners.
• Terms governing admission, retirement & expulsion of a partner, preparation on of accounts & their auditing.
• Method of solving dispute

REGISTRATION OF PARTNERSHIP

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

• A partner of an unregistered firm cannot file suit against the firm or the partner.

• The firm cannot file a suit against third party.

• The firm cannot file a case against its partner.

Co-operative Society

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

FEATURES

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

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

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

4. Democratic control: Management & Control lies with the managing committee elected by the members by giving vote. Every member has one vote irrespective of the number of shares held by him.

5. Service motive: The main aim is to serve its members and not to maximize the profit.

6. Bound by govt.'s rules: They have to be tide by the rules and regulations framed by govt. for them.

7. Distribution of surplus: The profit is distributed on the basis of volume of business transacted by a member and not on the basis of capital contribution of members.

MERITS

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

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

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

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

5. Government Support: Govt. provides support by giving loans at lower interest rates, subsidies & by charging less taxes.

6. Social utility: It promotes personal liberty, social justice and mutual cooperation. They help to prevent concentration of economic power in few hands.

LIMITATIONS

1. Shortage of capital - It suffers from shortage of capital as it is usually formed by people with limited means.

2. Inefficient management - Co-operative society is managed by elected members who may not be competent and experienced. Moreover, it can't afford to employ expert and experienced people at high salaries.

3. Lack of motivation - Members are not inclined to put their best efforts as there is no direct link between efforts and reward.

4. Lack of Secrecy - Its affairs are openly discussed in its meeting which makes it difficult to maintain secrecy.

5. Excessive govt. control - it suffers from excessive rules and regulations of the govt. It has to get its accounts audited by the auditor and has to submit a copy of its accounts to registrar.

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

TYPES OF CO-OPERATIVE SOCIETIES

1. Consumers co-operative Society - It formed to protect the interest of consumers.It seeks to eliminate middleman by establishing a direct link with the producers. It purchases goods of daily consumption directly from manufacturer or wholesalers and sells them to the members at reasonable prices.

2. Producer's Co-operative Society - The main aim is to help small producers who cannot easily collect various items of production and face some problem in marketing. These societies purchase raw materials, tools, equipments and other items in large quantity and provide these things to their members at reasonable price.

3. Marketing Co-operative Society - It performs various marketing function such as transportation, warehousing, packing, grading, marketing research etc. for the benefit of its members. The production of different members is pooled together and sold by society at good price.

4. Farmer's Co-operative Society - In such societies, small farmers join together and pool their resources for cultivating their land collectively. Such societies provide better quality seeds, fertilizers, machinery and other modern techniques for use in the cultivation of crops. It provides them opportunity of cultivation on large scale.

5. Credit co-operative Society - Such societies protect the members from exploitation by money lenders. They provide loans to their members at easy terms and reasonably low rate of interest.

6. Co-operative Housing Society - The main aim is to provide houses to people with limited means/income at reasonable price.

JOINT STOCK COMPANY

Meaning - Joint stock company is a voluntary association of persons for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership.

FEATURES

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

2. Separate Legal Existence - It is created by law and it is a distinct legal entity independent of its members. It can own property, enter into contracts, can file suits in its own name.

3. Perpetual Existence - Death, insolvency and insanity or change of members 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. Transferability of shares - Shares of public Co. are easily transferable. But there are certain restrictions on transfer of share of private Co. Common Seal- It is the official signature of the company and it is affixed on all important documents of company.

5. 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.
It has minimum 2 and maximum 50 members.	It has minimum 7 and maximum unlimited.
It cannot invite general public to buy its shares and debentures.	It invites general public to buy its shares and debentures.
There are certain restrictions on transfer of its shares.	Its shares are freely transferable.
It can commence business after incorporation.	It can commence business after obtaining certificate of commencement of business.
It has to write Private Ltd. After its name Ex- Tata Sons, Citi Bank, Hyundai Motor India.	It has to write only limited after its name Ex- Reliance Industries Ltd., Wipro Ltd. , Raymond's Ltd.
In its minimum capital required is one lakh.	In its minimum capital required is five lakhs.

FORMATION OF A COMPANY

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

(i) Promotion

(ii) Incorporation

(iii)Capital subscription

(iv) Commencement of business.

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

1. 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 new product or service.

2. Feasibility Studies: After identifying a business opportunity the promoters undertake detailed studies of technical, Financial, Economic feasibility of a business.

3. Name Approval: After selecting the name of company the promotors submit an application to the Registrar of companies for its approval.

4. Fixing up signatories to the Memorandum of Association: Promotors 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.

2. 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 Authorized 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 fee has to be deposited which depends on amount of the authorized capital.

4. Registration: The Registrar verifies all the document submitted. If he is satisfied then he enters the name of the company in his Register.

5. Certificate of Incorporation: After entering the name of the company in the register. The Registrar issues a Certificate of Incorporation. This is called the birth certificate of the company.

III. Capital Subscription:

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

Step required for raising funds from public:

1. SEBI Approval: SEBI regulates the capital market of India. A public company is required to take approval from SEBI.

2. Filing of Prospectus: Prospectus means any documents which invites offers from the public to purchase share and Debenture of the company.

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

4. Minimum subscription: According to the SEBI guide lines minimum subscription is 90% of the issue amount. If minimum subscription is not received then the allotment cannot be made and the application money must be returned to the applicants within 30 days.

5. Application to Stock Exchange: It is necessary for a public company to list their shares in the stock exchange therefore the promoters apply in 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 identicator similar to the name of another exiting company.

2. Situation clauses - This clause contains the name of the state in which the registered office of the company is to be situated.

3. Object clause - This clause defines the objective with which the company is formed. A company is not legally entitled to do any business other than that specified in the object clause.

4. Liability Clauses - This clause limits the liability of the members to the amount unpaid on the shares held by them.

5. Capital clause - This clause specifies the maximum capital which the company will be authorized to raise tough the issue of shares called authorized 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. Rules regarding casting of votes and proxy voting
7. Procedure for selection and removal of directors
8. Dividend declaration and payment related rules
9. Procedure for capital readjustment
10. Procedure regarding winding up of the company.

2. 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.

2. Statement is Lieu of Prospectus:

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

CHOICE OF FORM OF BUSINESS ORGANISATION

The following factors are important for taking decision about form of 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 also expensive with lot of legal formalities.

2. Capital consideration: Business requiring less amount of finance prefer sole proprietorship & partnership form, where as business activities requiring huge financial resonances prefer company form.

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

4. Degree of control desired: A person who desires full and exclusive control over business prefers proprietorship rather than partnership or company because control has to be shared in these cases.

5. Liability or Degree of Risk: Projects which are not very risky can be organized in the form of sole proprietorship partnership whereas the risky ventures should be done in company form of organization because the liability of shareholders is limited.

CHAPTER : 3
PRIVATE, PUBLIC AND GLOBAL ENTERPRISES

PRIVATE SECTOR ENTERPRISES

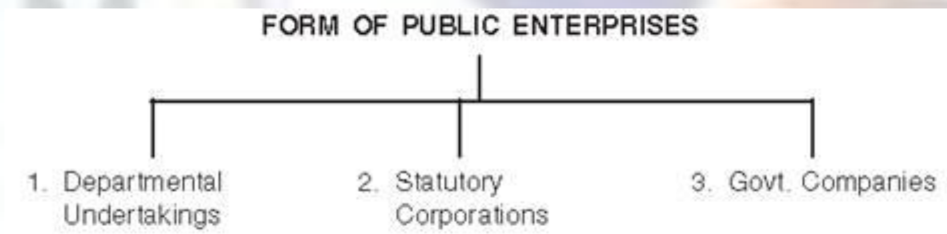
The private sector consists of business owned by individuals or a group of individuals. The varios forms of organisation are- sole proprietorship, partnership, joint hindu family, cooperative and company.

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 economic 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.



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 departments.

FEATURES

1. No Separate Entity: It has no Separate legal entity.
2. Finance: It is financed by annual budget allocation of the govt. and all its earnings go to govt. treasury.
3. Accounting &Audit: The govt. rules relating to audit & accounting are applicable to it.
4. Staffing: Its employees are govt. employees & are recruited & appointed as per govt. rules.
5. Accountability: These are accountable to the concerned ministry.

MERITS

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

DEMERITS

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

SUITABILITY:

(i) Where full Govt. control is needed.
(ii) where secrecy is very important such as defence.

STATUTORY CORPORATIONS

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

Examples: Unit Trust of India, Life Insurance Corporation.

FEATURES

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

MERITS

1. **Internal Autonomy**: It enjoys a good deal of autonomy in its day to day operations and is free from political interference.
2. **Quick decisions**: It can take prompt decisions and quick actions as it is tree 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 corporation is suitable for undertaking requiring monopoly powers e.g. public utilities.

SUITABILITY: It is suitable for organizing public enterprise when,

(i) The enterprise requires special power under an Act.
(ii) The enterprise requires a huge amount of capital investment.

GOVERNMENT COMPANY

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

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

FEATURE

1. It is registered or Incorporated under companies Act1956.
2. It has a separate legal entity.
3. Management is regulated by the provision of companies Act.
4. Employees are recruited and appointed as per the rules and regulations contained in Memorandum and Articles of association.
5. The govt. Co. obtains it funds from govt. shareholdings and other private shareholdings. It can also raise funds from capital market.

MERITS

1. It can be easily formed as per the provision of companies Act. Only an executive decision of govt. is required.
2. It enjoys autonomy in management decisions and flexibility in day to day working.
3. These are able to control the market and curb unhealthy business practices.

LIMITATIONS

1. It suffers from interference from govt. officials, ministers and politicians.
2. It evades constitutional responsibility which a company financed by the govt. should have as it is not directly answerable to parliament.
3. The board usually consists of the politicians and civil servants who are interested more in pleasing their political bosses than in efficient operation of the company.

SUITABILITY:

(i) Where the private sector is also needed along with in govt.
(ii) Where activities related to finance are to be encouraged.

CHANGING ROLE OF PUBLIC SECTOR

Public sector in India was created to achieve two types of objective - (1) to speed up the economic growth of the country and (2) to achieve a more equitable distribution of income and wealth among people. The role and importance of public sector changed with time. Its role over a period of time can be summarized as following:

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

2. Regional balance: Earlier, most of the development was 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 expending exports of the country. Very important role was assigned to public sector but is performance was far from satisfactory which forced govt. to do rethinking on public enterprises.

PUBLIC SECTORY REFORMS

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

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

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

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

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

MULTINATIONAL COMPANIES/GLOBAL ENTERPRISES

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

Examples: PHILIPS, Coca Cola etc.

FEATURES

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

2. International Operations: A MNC has production, marketing and other facilities in several countries.

3. Centralized control: MNCs have headquarters in their home countries from where they exercise control over all branches and subsidiaries. It provides only broad policy framework to them and there is no interference in their day to day operations.

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

5. Advanced technology - These organisation possesses 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. Similarily, Suzuki Motors of Japan and Maruti of Govt. of India come together to form Maruti Udyog.

FEATURES

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

BENEFITS

1. Greater resources and Capacity - In a joint venture the resources and capacity of two or more firms are combined which enables it to grow quickly and efficiently

2. Access to advanced technology - It provides access to advanced techniques of production which increases efficiency and then helps in reduction in cost and improvement in quality of product.

3. Access to New Markets and distribution network - A foreign co. gain access to the vast Indian market by entering into a joint venture with Indian Co. It can also take advantage of the well established distribution system of local firms.

4. Innovation - Foreign partners in joint ventures have the ideas and technology to develop innovative products and services. They have an advantage in highly competitive and demanding markets.

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

6. Well known Brand Names: When one party has well established brands & goodwill, the other party gets its benefits. Products of such brand names can be easily launched in the market.

Public Private Partnership (PPP):

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

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

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 related 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 for the smooth flow of trade and industry. The examples of business services are Banking, insurance, transport, Warehousing ,Advertisement and communication.

NATURE OF BUSINESS SERV1CES:

1. Intangibility: Cannot be seen, touched or smelled. Just can only be felt, yet their benefits can be availed of e.g. Treatment by doctor.

2. Inconsistency: Different customers have different demands & expectation.e.g. Mobile services/Beauty Parlour.

3. In Separability: Production and consumption are performed simultaneously .For e.g. ATM may replace clerk but presence of customer is must.

4. Inventory Loss: Services cannot be stored for future use or performed earlier to be consumed at a later date. e.g. underutilized capacity of hotels and airlines during slack demand cannot be stored for future when there will be a peak demand.

5. Involvement: Participation of the customer in the service delivery is a must e.g. A customer can get the service modified according to specific requirement.

Type of Services:

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

2. Personal Services: Services which are experienced differently by different customers. e.g. tourism, restaurants etc.

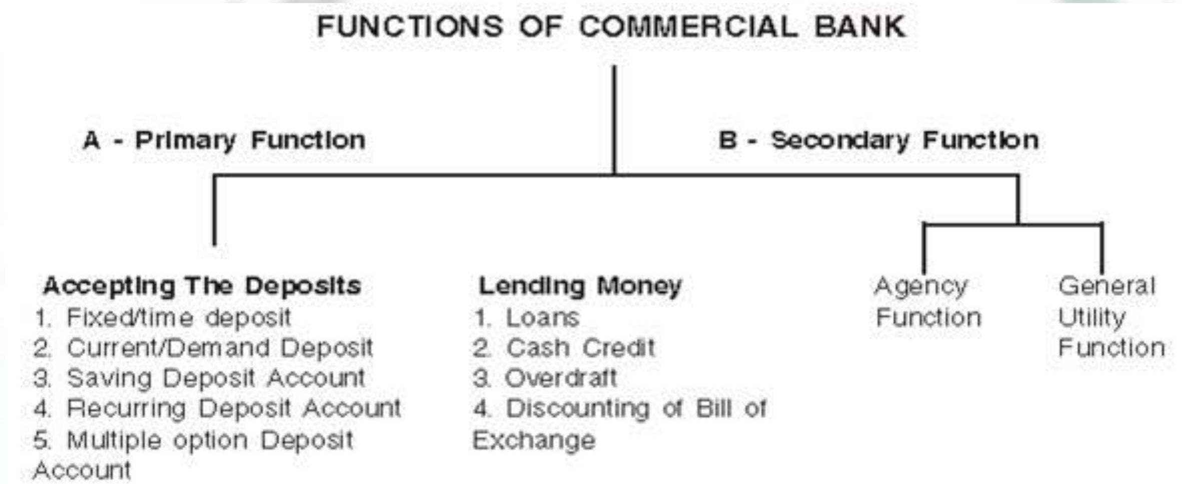
3. Business Services: Services used by business enterprises to conduct their activities smoothly. e.g. Banking, Insurance, communication, Warehousing and transportation.

Banks

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

Meaning of Bank

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



Primary Functions

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

A. Fixed Deposit Account: Money is deposited in the account for a fixed period is called as Fixed Deposit account. 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 account by depositing a small sum of money. He can withdraw money from his account and make additional deposits at will. Account holder also gets interest on his deposit. In this account though the rate of interest is lower than the rate of interest on fixed deposit account.

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

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

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

A. Term Loans: These loans are provided by the banks to their customers for a fixed period to purchases Machinery. Truck. Scooter. House etc. The borrowers repay the loans in Monthly/Quarterly/Half Yearly/Annual installments.

B. Bank Overdraft: The customer who maintains a current account with the bank, takes permission from the bank to withdraw more money than deposited in his account. The extra amount withdrawn is called overdraft. This facility is available to trustworthy customers for a small period. This facility is usually given against the security of some assets or on the personal security of the customer. Interest is charged on the actual amount overdrawn by the customer.

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

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

Secondary Functions

The secondary functions of commercial banks are as under:

(1) Agent Functions

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

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

(II) Collecting dividends, interest etc.

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

(IV) Payment of interest, insurance premium etc.

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

(VI) Acting as an agent of representative while dealing with other banks and financial institutions. A Commercial banks performs the above functions on behalf of and as per the instructions of its customers.

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(2) General Utility Functions:

Commercial banks also perform the following miscellaneous functions:

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

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

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

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

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

(VI) Underwriting issues of shares and debentures.

(VII) Providing foreign exchange to importers and travellers 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 outstation transactions.

ELECTRONIC BANKING SERVICES/E-BANKING

Use of computers and internet in the functioning of the banks is called electronic banking. Because of these services the customers don't need to go to the bank every time for every transaction. 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 online 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 entering personal Identity Number (PIN). This machine operates for all the 24 hours.

3. Debit Card: A Debit Card is issued to 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 account balance or any other information about the latest transactions on the telephone.

6. Core Banking Solution Centralized Banking Solution: In this system 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 nationwide 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 & 4.00pm) and 3 times during Saturday 9.30 am, 10.30 am and 12.00 noon) Any transaction initiated after a designated settlement time is settled on the next fixed settlement time.

8. Real Time Gross Settlement: RTGS refers to a funds transfer system where transfer of funds takes place from one bank to another on a Real-time and on Gross basis. Settlement in Real time means transactions are settled as soon as they are processed and are not subject to any waiting period. Gross settlement means the transaction is settled on one to one basis without bunching or netting with any other transaction. This is the fastest possible money transfer system through the banking channel. The RTGS service for customers is available from 9.00 am to 3.00 pm on weekdays and from 9.00 am to 12.00 noon on Saturdays. The basic difference between RTGS and NEFT is that while RTGS transactions are processed continuously, NEFT settles transactions in batches.

Benefits of E-Banking to customer:

1. E-Banking provides 24 hours a day X 365 days a year services to the customers.

2. Customers can make transactions from office or house or while traveling via mobile telephone.

3. There is greater customer satisfactions through 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 centralized data base.

3. E-Banking provides competitive advantage to the bank, adds value to the banking relationship.

Meaning of insurance:

Insurance is a contract under which one party (Insureror 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 i.e.insurer and the insured must disclose every material fact and information related to insurance contract to each other.

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

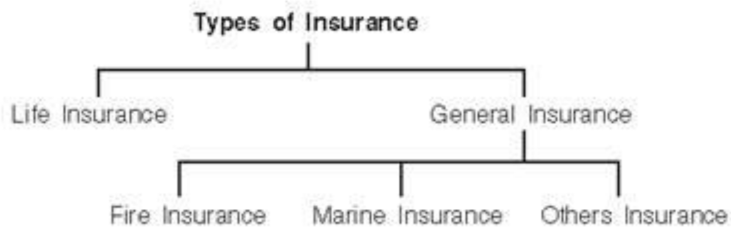
3. Indemnity: Principle of indemnity applies to all contracts except the contract of life insurance because estimation regarding loss of life cannot be made. The objective of contract of insurance is to compensate to the insured for the actual loss he has incurred. These contracts ‘provide security from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

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

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



Concept of Life Insurance:

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

Types of Life Insurance Policies:

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

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

3. Joint Life Policy: It involves the insurance of two or more lives simultaneously. The policy money is payable on the death of any one olives 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 installments 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 assured sum when the child attains a certain age.

Fire Insurance: It provides safety against loss from fire. If property of insured gets damaged due to property as compensation from insurance company. If no such event happens,then no claim shall be given.

Features:

1. Utmost Good Faith

2. Contract of Indemnity

3. Insurable Interest in Subject matter.

4. Subject to the doctrine of causa proxima.

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

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

OTHER INSURANCE

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

Communication: 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. It is an important service that helps in establishing links between businessmen. Organization, suppliers, customers etc. It educates people, widen their knowledge and broaden their outlook. It overcomes the problem of distance between people, businessmen and institutions and thus,it helps in smooth running of business activities. The main services can be classified into postal and telecom.

Postal Services: This service is required by every business to send and receive letters, market reports, parcel, money order etc.on regular. 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), KisanVikasPatra, National Saving Certificate, Recurring Deposit Scheme and Money Order facility.

2. Mail Services :The mail services offered by post offices includes transmission of messages through post cards, Inland letters, envelops etc. The various mail services all:

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

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

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

Allied Postal Services

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

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

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

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

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

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

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

2. Radio Paging Services means of transmitting information to persons even when they are mobile.

3. Fixed Line Services includes 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 oneway entertainment related services.

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

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

Tranportation: Transportation comprises freight services together with supporting and auxiliary services by all the modes of transportation i.e rail, road, air and sea for the movement of goods and international carriage of passengers.

Warehousing: The warehouse was initially viewed as a static unit for keeping and storing goods in a scientific and systematic manner so as to maintain their original quality, value and usefulness.

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 producer firm and other a supplier firm.

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

3. **Intra-B Commerce** Within business Commerce - Under it, the parties involved in the electronic transaction are the two departments of same business. For Example, through internet it is possible for the marketing department to interact constantly with the production department and get the customized goods made as per the requirement of customers.

4. **C2C Commerce** - Customer to Customer Commerce - Under it, both the parties involved in electronic transaction are customers. It is required for the buying and selling of those goods for which there are no established markets. For example-selling old car through internet.

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

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

Benefits of e-Business

The major benefits of e-Business are as follows:

1. **Worldwide reach-** Internet gives businessmen an extended market. New customers come in contact with them. This results in increase in sales.
2. **Elimination of Middlemen -** Ever since the e-Business came into existence, the wholesalers and retailers

have started disappearing. Now, most of the producers have started having direct contact with customers. As a result, the consumer get goods on less price.
3. **Easy Distribution Process** - Many types of information and services be received on computer through e-business. This has simplified the system of distribution and has also made it less costly.
4. **Lower Investment required** - In this, you don't require any big showroom or huge investment. You need only computer and Internet.
5. **Easy to launch new products** - Any company can launch its new product in the market through the medium of E-Business. A complete information about the product is made available on Internet. In this way the consumer and other businessmen get information about the new product while sitting at home.
6. **Movement towards a paperless 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 an effective telecommunication system in the form of telephone lines etc.

On Line Transactions

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

Payment Mechanism

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

Security and Safety of e-Transactions

The following methods can be used to ensure security and safety of online transactions.
1. Confirming the details before the delivery of goods - The customer is required to furnish the details such as credit card no., card issuer and card validity online.
2. Anti VirusProgrammes - Installing and timely updating antivirus programmes provides protection to data files, folders and system from virus attacks.
3. Cyber crime cells - Govt. may setup special crime cells to look into the cases of hacking and take necessary action against the hackers.

Outsourcing or Business Process Outsourcing (BPO)

Many activities have to be performed for the successful conduct of business like productions, buying, selling, advertising etc. When the scale of business is small, the businessman used to perform these activities easily. However, with the enlargement of scale of business, this job has become tedious. Therefore, in order to overcome the difficulties connected with the performance of many activities and to get the benefit of specialization, these services are now obtained from outside the organization. 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 organization 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 organization 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 organization in order to run the business successfully and in cost effective manner. Unlike conventional BPO where the focus is on process expertise, in KPO the focus is on knowledge expertise.

Need of KPO

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

Features of KPO

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

Scope of KPO/Services covered KPO

1. Research and Technical analysis.
2. Business and Technical analysis.
3. Business and Market research.
4. Animation and Design.

CHAPTER 6
SOCIAL RESPONSIBILITIES OF BUSINESS AND BUSINESS ETHICS

CONCEPT OF SOCIAI, RESPONSIBILITY : A business is a part of society. So, a business enterprise should do business and earn money in ways that fulfill 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, black marketing, it may not be able to exist for long.

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

4. **Availability of resources with business**: Business has valuable financial and human resources which can be effectively used for solving problems of the society.

5. **Better environment for doing business**: It is the social responsibility of business enterprise to provide better Quality of life and standard of living to 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 fulfill social responsibility because of lack of public confidence & cooperation.

SOCIAL RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

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

1. Responsibility towards shareholders:
(i) To ensure a fair and regular return on the investment of shareholders.
(ii) To ensure the safety of their investment
(iii) To strengthen financial position of the company.
(iv) To safeguard the assets of the business.
(v) To protect the interest of all types of investors in the business.

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

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

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

5. Responsibility towards community -
(i) To make available opportunities for employment,

(ii) To avoid polluting the environment,
(iii) To up lift the weaker sections of society

BUSINESS AND ENVIRONMENTAL PROTECTION:

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

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

Causes of Pollution: Many industrial organizations 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 aquatic 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 EOR POLLUTION CONTROL

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

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

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

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

ROLE OF BUSINESS ENVIRONMENTAL PROTECTION:

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

BUSINESS ETHICS: Refers to the moral values or standards or norms which govern the activities of a businessman. Ethics define what is right and what is wrong. By ethic we mean the business practices which are desirable from the point of view of Society. The purpose of business ethics is to guide the managers and employees in performing their job. Example of business ethics are charging fair price from customers, giving fair treatment to workers, earning reasonable profits and paying taxes tithe government honestly.

ELEMENTS OF BUSINESS ETHICS

1. Top management commitment - The CEO and higher level managers must be committed to ethical norms of behavior. This would set an example for all employers and encourage them to follow ethical practice.

2. Publication of code - Code of ethics is a formal written document of the principles, values and standards that guide a firms actions. It may cover areas like honesty, quality, safety, health care etc.

3. Establishment of compliance mechanism: A suitable mechanism should be developed to comply with the ethical standards of the enterprise. The mechanism should be properly communicated to all in the organization.

4. Employee involvement: It is the employees of the lower levels who implement ethical principal so they must be involved in the process of developing ethical code.

5. Measuring results: Although it is difficult to measure the ethical results but it must be verified and audited that have for work is being carried according to ethical standards.

UNIT - 2

CHAPTER - 7
SOURCES OF BUSINESS FINANCE

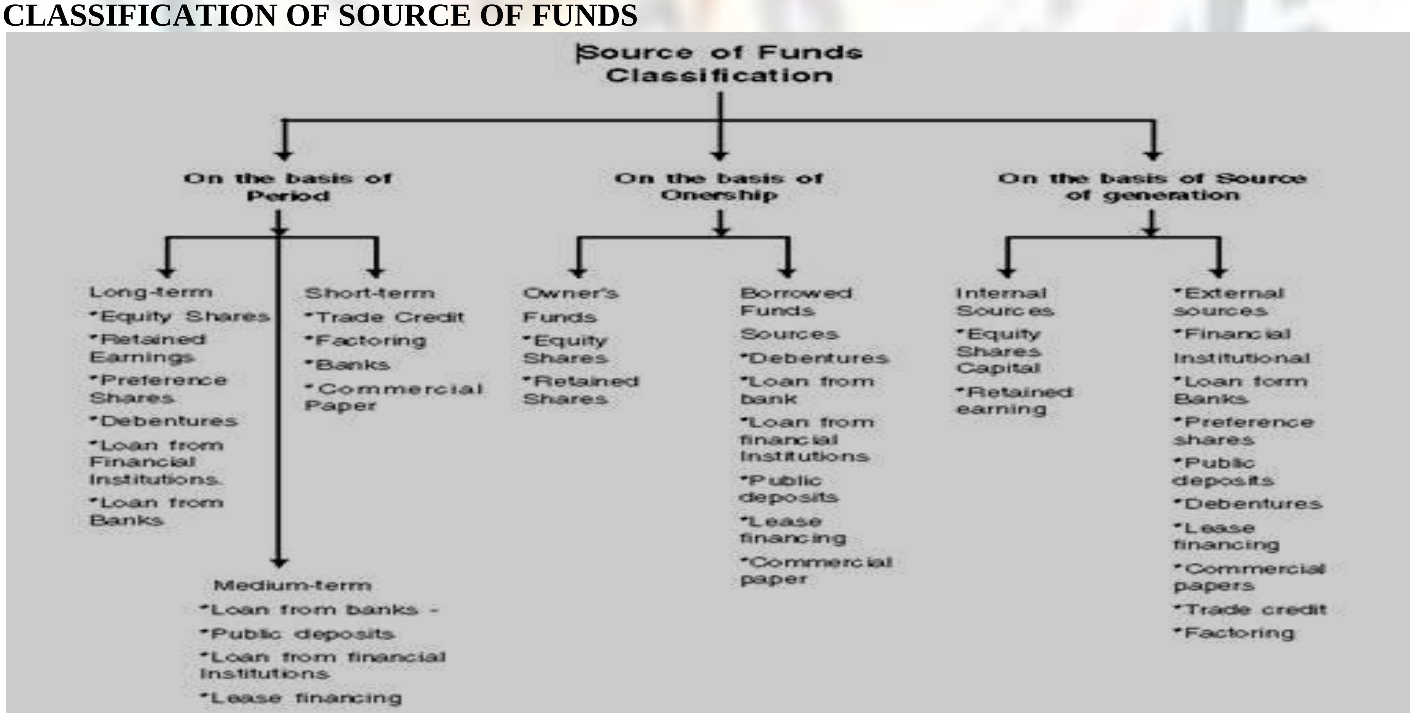
CONCEPT OF BUSINESS FINANCE:

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 cannot function unless adequate funds are made available to it.

NEED OF BUSINESS FINANCE:

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

CLASSIFICATION OF SOURCE OF FUNDS



METHODS OF RAISING FINANCE:

Issue of Share: The capital obtained by issue of shares is known as share capital. The capital of a company is divided into small units called share. If acompany 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.

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

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

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

Types of preference shares:
1. Cumulative preference shares.
2. Non cumulative preference shares.
3. Participating preference shares.
4. Non participating preference shares.
5. Convertible preference shares.
6. Non Convertible preference shares.

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

LIMITATIONS /DEMERITS:
1. Costly sources of funds: Rate of preference dividend is greater than rate of interest on debenture, for a company it is costly source of funds than Debentures.

2. No tax saving: Preference dividend is not deductible from profit for income tax. Therefore, there is no tax saving.
3. Not suitable for risk takers - Preference shares are not suitable for those who are willing to take risk for higher return.
4. As dividend on these shares is to be paid only when the company earns profit, so investors may not be very attractive to these.

Difference between Equity Shares and Preference Shares

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

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

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

MERITS OF DEBENTURES:
1. Investment is Safe: Debentures are preferred by those investor who do not want to take risk and interested in fixed income.
2. Control: Debenture holder do not have voting right. No control over the managment.
3. Less Costly: Debentures are less costly as compared to cost of preference shares.
4. Tax Saving: Interest on Debentures is a tax deductable expense. Therefore, there is a tax saving.

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

Difference between Shares and Debentures

	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 shareholder.	Creditor
5.	Types	There are two types of shares	More than two types
6.	Security	Not secured by any charge	Secured and generally carry a charge on the assets of the company

Retained Earnings: A portion of company's net profit after tax and dividend, Which is not distributed but are retained for reinvestment purpose, is called retained earnings. 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 Rs. 50,00,000) **Less: Interest on debentures(10% of 20,00,000)**	10,00,000 2,00,000
Net profit before tax(PBT) **Less: Tax provision @ 40%**	8,00,000 3,20,000
Net profit after Tax(PAT) **Less: pre dividend(9% of 10,00,000)**	4,80,000 80,000
Net profit after tax and predividend **Less: Equity Dividend**	4,00,000 2,00,000
Retained Earnings	2,00,000

MERITS

1. No costs: No costs in the form of interest, dividend, advertisement and prospects, to be incurred by the company to get it.
2. No charges on assets: The company does not have to mortgage its assets.
3. Growth and expansion: Growth and expansion of business is possible by reinvesting the retained profits.

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 cannot exceed 25% of share capital and reserves.

MERITS:

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

LIMITATIONS:

1. For Short Term Finance: The maturity period is short. The company cannot 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: This is the easier source of funds as there in no need to issue prospectus for raising funds.

LIMITATIONS/DEMERITS

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

FINANCIAL INSTITUTION:

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

MERITS:

1. Long term Finance: Financial Institution provide long term finance which is not provided by Commercial Bank.
2. Managerial Advice: They provide financial, managerial and technical advice to business firm.
3. Easy installments: Loan can be made in easy installments. It does not prove to be much of a burden on business.
4. Easy availibility: The funds are made available even during periods of depression.

LIMITATIONS/ DEMERITS:

1. More time Consuming: The procedure for granting loan is time consuming due to rigid criteria and many formalities.
2. Restrictions: Financial Institution place restrictions on the company's board of Directors.

INTERNATIONAL SOURCE OF BUSINESS FINANCE:

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

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

3. INTERNATIONAL CAPITAL MERKET:

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

Feature of GDR:

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

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

Feature of ADR:

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

Difference between ADR and GDR

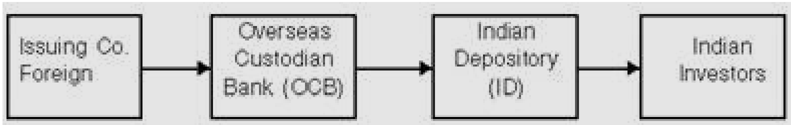
	Basis	**ADR**	**GDR**
1.	Listing	Only in American Stock Exchange	Anywhere in the world less liquid
2.	Liquidity	More liquid	Less Liquid
3.	Share holder	Only American Citizens	All over the world citizens.

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

Indian Depository Receipts (IDRS)

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

Issue Procedure of IDRS



1. Firstly, a Foreign Co. hands over the shares to OCB (it requires approval from Finance Ministry to act as a custodian)
2. The OCB request ID to issue shares in the form of IDR.
3. The ID converts the issue which are in foreign currency into IDR and into indian rupee.
4. Lastly the ID issues them to intending investors.

Features of IDRs
1. IDRs are issued by any foreign company
2. The IDRs can be listed on any Indian stock exchange.
3. A single IDR can represent more than one share, such as one IDR = 10shares.
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 lCDS
1. Three Months Deposits - These deposits are most popular type of ICDS.These deposits are generally considered by borrowers to solve problems of short term capital adequacy. The annual rate of interest for these deposits is around 12%.
2. Six months Deposits - It is usually made first class borrowers. The annual rate of interest for these deposits is around 15%
3. Call deposits - This deposit can be withdrawn by the lender on a day’s notice. The annual rate of interest on call deposits is around 10%

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

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, khadi and Village Industries. Modern small Industries - Small scale industries and Power looms.

According to The Micro,Small and Medium Enterprise Development (MSMED) Act, 2006, a small scale enterprise defined as one where the investment in Plant and Machinery is more than Rs. 25 lakhs 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:

Category	Manufacturing Unit	Service Providers
Micro Enterprise	Less than Rs. 25 Lakhs	Less than Rs. 10 Lakhs
Small Enterprise	Between Rs. 25 Lakhs to Rs. 5 Crore	Between Rs. 10 Lakhs to Rs. 2 Crore
Medium Enterprise	Between Rs. 5 Crore to Rs. 10 Crore	Between Rs. 2 Crore to Rs. 5 Crore

ROLE OF SMALL SCALE INDUSTRIES IN SOCIO ECONOMIC DEVELOPMENT OF INDIA

1. Employment: Small scale Industries are second largest employers of human resources after Agriculture. It has 95% of the industrial unit in the country. These enterprises are labour intensive and labour is available in abundants amount is rural areas of India.

2. Variety of product: Small scale Industries produce an enormous Variety of goods e.g. readymade garments, stationery, soaps, Leather’s goods Plastic and rubber goods.

3. Export: The share of product from SSI is 45% of total export from India. So it earn valuable foreign exchange and solve the problem of balance of payment.

4. Balance regional development: SSI can be set anywhere in the country. They use local resources, less capital and simple technology.

5. Complementary to large scale Industries: SSI. supply various types of components, spare parts, tools etc, which are required by large scale enterprises.

6. Low cost of production: SSI also enjoy the advantage of low cost of production because they used local resources in their product.

7. Quick and timely decision Due to the small size of the organization quick and timely decisions can be taken without consulting many people.

8. Development of entrepreneurship: SSI 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. SSI improves 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: SSI use local resources e.g. coir, wood and other products.

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

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

Problem of Small Scale Industries:

1. **Finance:** Non-availability of sufficient funds in order to carry out business operations is an important problem faced by small scale industries. Bank sit at 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 under utilization of plant capacity.

3. **Marketing:** Small scale units generally face difficulties in marketing of their products and services as they are hardly any funds for Advertising or sales promotion. They depend on intermediaries who exploit them.

4. **Technology:** Majority of small scale enterprises are using old techniques of production because they cannot afford new techniques, machines and equipment necessary for modernising product. As a result, their cost of production increases.

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

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

GOVERNMENT ASSISTANCE TO SMALL INDUSTRIES AND SMALL BUSINESS UNITS

(A). INSTITUTIONAL SUPPORT:

I. National Small Industries Corporation (NSIC)

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

Main functions of NSIC:

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

II. District Industries Center (DIC)

The concept of DIC came during 1977, when Government 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 license from Electricity board, water supply board etc.

Govt. Incentives to hilly backward and Rural Areas

1. **Power:** Some states supply power at a confessional rate of 50%.

2. **Tax holidays:** Exemption from payment of tax for 5 years.

3. **Land and Water:** Availability of land at confessional 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 offer data confessional rates.

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

III. National Bank for Agriculture and Rural Development (NABARD)
IV. The Rural Small Business Development Centre (RSBDC)
V. Small Industries Development Bank of India (SIDBI)
VI. The National Commission for Enterprises in the Unorganised Sector (NCEUS)
VII. Rural and women Enterpreneurship Development (RWED)
VIII. World Association for Small and Medium Enterprise(WASME)
IX. Scheme of Fund for Re-generation of Traditional Industries (SFURTI)

Chapter 9
INTERNAL TRADE

1. Internal Trade When buying and selling of goods and services takes place within the geographical limits of a country. It is known as internal trade.

The main features of internal trade are
(i) The buying and selling of goods and services takes place within a country.
(ii) The payment are made and received in the home country only.
(iii) There are no or very few formalities to be completed by the traders.

2. Types of Internal Trade Internal trade can be classified into two categories.

(i**) Wholesale Trade** It refers to the trade in which goods are sold in large quantities. The person who carries on wholesale trade is known as wholesaler.

A wholesaler provides many valuable services to the manufacturer as well as the retailer.

(a) **Services to Manufacturer**

- Facilitating large scale production
- Bearing risk
- Financial assistance
- Expert advice
- Help in marketing function
- Facilitate production continuity
- Storage

(b) **Services to Retailer**

- Availability of goods
- Marketing support
- Grant of credit
- Specialised knowledge
- Risk sharing

(ii) **Retail Trade** Retail trade refers to sale of goods in small lots to the final consumers. A retailer buys goods from a wholesaler and sells them to the consumer.

(a) **Services to Consumers**

- Ready or quick supply
- Wide variety
- Guiding consumers
- Demonstration and after sale services
- Home delivery

- Convenient location
- Credit facility

(b) **Services to Wholesaler and Manufacturer**

- Ready market
- Providing information
- Risk bearing
- Distribution of goods to distant places

3. **Classification of Retailers**

Retailers can be classified on the following basis
(i) Size
(ii) Product mix
(iii) Pricing
(iv) Service level
(v) Form of ownership

4. **Types of Retail Trade** Keeping in mind all the above criteria, that is size product mix, pricing and service level, the retail trade can be classified in to the following categories
(i) Itinerants retailers
(ii) Fixed shop retailers

5**. Itinerants** Itinerants refers to retailers who have no fixed place of sale. They move from one place to another in search of customers.

6. **Types of Itinerants**

(i) **Hawkers and Peddlers** Hawkers and Peddlers moves from street to street in search of customers.
The main features of hawkers and peddlers are
(a) They sell a variety of goods such as fruits, vegetables, toys etc.
(b) They deal with non-branded and local items.
(c) They supply the goods at the door step of the customer.

(ii**) Periodic Market Trader** These traders sell their goods on fixed days in different market places. Their weekly market are fixed
The main features of periodic market traders
(a) They sell their goods in the weekly market.
(b) They deal in low price and low quality goods.
(c) These traders also set up shops on the occasion of Diwali, Christmas, etc.

(iii) **Street Traders** These retailers display their articles on busy street corners, pavements, bus stands etc.
The main features of street traders are
(a) They generally operate near public places such as railway stations.
(b) They deal in a variety of goods such as towels, things of daily use mirrors etc.

(iv) **Cheap Jacks** They display their goods in hired shops or intents for a temporary period in different localities.
The main features of cheap jacks are
(a) They hire small shops.
(b) They shift from locality depending upon the prospectus of business.
(c) They deal in low price, household articles.

7**. Fixed Retailers** The retailer having a fixed place of sale are known as fixed shop retailers.
Fixed shop retailers can be further classified into two categories
(i) Small scale fixed retail shops
(ii) Large scale fixed retail shops

8. **Small Scale Fixed Retailer**
(i) **General Stores** General stores are small shops located in residential areas.
The main features of general stores are
(a) They have a large variety in each line of product.
(b) They provides free home delivery, credit facility.

(ii) Single Line Stores Single line stores are small shops which deal with one line of products.
The main features of single line stores are
(a) These stores deal with one line of products.
(b) These stores deal in a variety of goods in that line of product.

(iii) **Specialty Stores** These stores deal in a particular type of product under one product line only.
The main features of specialty stores are
(a) These stores are specialized in one product only.
(b) They keep all the brands of that product.

(iv) **Street Shops** These shops are situated at street crossings, They are also known as street stalls
The main features of street shops are
(a) These shops have a limited space.
(b) These retailers display their goods on tables, stands etc.

(v) **Second Hand Goods Shops** These shops deal with second-hand goods or used articles such as books.
The main features of second- hand good shop
(a) These shops sell used goods.
(b) The goods are generally priced low because these are used goods.

(vi**) Seconds Shops** There are the shops to sell goods which are not produced according to the required specification.
The main features of second-hand goods shop
(a) These shops deal in the products which have some manufacturing defect.
(b) Goods are sold at a heavily discounted price.

9. **Large Scale Retailers** Large scale retailers deal in a large stock of goods and purchase goods in bulk.
Features of large scale retailers are.
(i) They require a huge investment.
(ii) They have large size show rooms to sell goods.

The most common forms or types of large scale retailers are
(a) Departmental stores
(b) Multiple shops or chain stores
(c) Mail order retailing
(d) Consumer co-operative stores
(e) Super markets
(f) Franchise

10. **Departmental Stores** A departmental store is a large retail showroom having a number of departments under one roof each department specialised in one line of product.

(i) Advantages
(a) Convenient shopping
(b) Central location
(c) Economies of scale
(d) Elimination of middleman

(ii) Limitations
(a) High operating cost
(b) Lack of personal attention
(c) High price
(d) Not located in residential colonies
(e) Huge capital

11. **Multiple Shops** Multiple shops refer to a number of identical retail shops located in different parts of the city.

(i) Advantages
(a) Economies of scale
(b) Standardised products
(c) Public confidence
(d) Division of risk
(e) No, bad debts

(ii) Limitations
(a) Limited variety
(b) Lack of personal touch
(c) Inflexibility
(d) Divided attention
(e) No facilities

12. **Mail Order Retailing** In mail order retailing seller contact the potential buyers through advertisements and mail publicity

(i) Advantages
(a) Limited capital
(b) Convenience
(c) Wider market

(d) No, bad debts
(e) Elimination of middleman

(ii) Limitations
(a) No personal contact
(b) No personal inspection
(c) Limited variety
(d) Postal delay
(e) Heavy advertising cost

13. **Consumer Co-operative Store** It can be defined as "A voluntary association of persons based on co-operative principles by buying in common and selling in common".

(i) Advantages
(a) Reasonable prices
(b) Low operating cost
(c) Cash sales
(d) Economies of scale
(e) Benefits from government

(ii) Limitations
(a) Limited capital
(b) Inefficient management
(c) Lack of incentives
(d) Lack of storage facilities

14**. Super Markets** Super market are organised by co-operative societies as well as by private traders.

(i) Advantages
(a) Wide choice
(b) Low price
(c) No, bad debts
(d) Convenience in shopping

(ii) Limitations
(a) No credit
(b) Lack of personal touch
(c) High cost
(d) Miss handling of goods
(e) Limited scope

15. **Vending Machines** A vending machine is a new form of direct retailing. It is a machine operated by coins or tokens. The buyer inserts a coin or token in the machine and receive a specific quantity of product from the machine.

(i) Advantages
(a) Buying round the clock is possible.

(b) The customer gets fresh supply of goods.
(c) No, requirement of salesman.

(ii) Limitations
(a) Initial investment to install the machine is quite high.
(b) Machine requires regular repair and maintenance.
(c) Coins of exact shape and size are required to operate the machine.

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 all 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 aPro-forma Invoice. It gives the particulars as regards quantity, quality, price and expenses incurred on the goods consigned. In case of consignment, consignee is an agent of consigner who is supposed to sell goods on behalf of consigner and this statement/proforma invoice is only for his information. It is also known as interim invoice.

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

4. **Credit Note** - It refers to a letter or note which is sent by the seller to the buyer stating that his account has been credited by the mentioned amount on account of acceptance of his claim about the goods returned by him.

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

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

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

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

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

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

ROLE OF CHAMBERS OF COMMERCE AND INDUSTRY IN PROMOTION OF INTERNAL TRADE

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

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

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

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. Merchandise 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 country to produce and sell goods under their trademarks patents or copy light in lieu of some fee is called licensing Pepsi and Coca-Cola are produced & sold all over the world by local companies in foreign countries under licensing system. Franchising is similar to licensing, but it is used in connection with the provision of services. McDonalds operates fast food restaurants all over the world through the system of franchising.

4. Foreign investment is another important form of international business. It can be of two types: direct and portfolio investments. Direct investment takes place when a company directly invests in properties such as plant& machinery in foreign countries with a view-to undertake production and marketing of goods and services in those countries. It provides the investor a controlling interest in a foreign country. Under portfolio investment, a company makes investment by acquiring shares or providing loans to a foreign company & earns income by way of dividends or interest on toad. In this investor does not get directly involved in production or marketing of goods.

Benefits of International Business

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

Benefits to Nations:

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

2. It leads to specialization 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 makes firms more competitive, and diversified.

Difference Between Domestic and International Business

Basis	**Domestic Business**	**International Business**
1. Nationality of buyers and sellers	Both buyers and sellers belong to same country.	Buyers & Sellers and belong to different countries.
2. Mobility of sectors ofproduction	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 market are relative more homogenous in nature.	International market lacks homogenity due to differences in languages, prefences customs etc. across market.
4. Currency used	Home currency is used in 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 and 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 specification sit 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.

(a) Merits

There is almost no investment risk involved as there is hardly any investment in the foreign country.
Contract manufacturing gives the advantage to international firms to get the goods manufactured at a lower cost.
Local manufacturers also get the benefits to be involved with international business and start exporting.

(b) Demerits

Local firms might not follow and provide the same quality standards. causing problems to international rums.
The local manufacturer loses his control as goods are manufactured strictly according to the terms and specifications of international firms.
The local manufacturer is not free to sell the goods according to his will.

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.

(a) Benefits

Established brand
Quality product
Advertisement
Financing
Training
Technological upgradation
Uniform control system
Better start
Expansion
Enhancing the goodwill
Direct feedback

IV. JOINT VENTURE

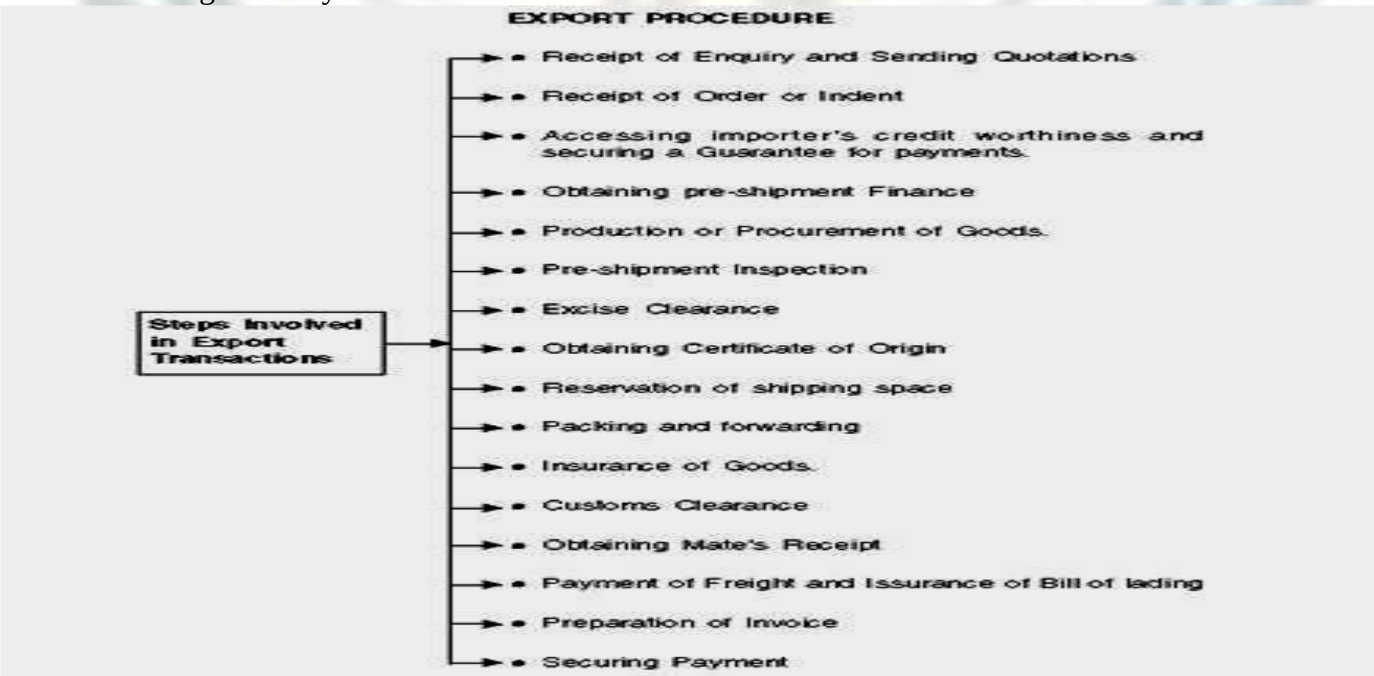
Joint venture means establishing a firm that is jointly owned by two or more independent firms. It can be brought into existence in three major ways.
(i) Foreign investor buying an interest in a local company.
(ii) Local firm acquiring an interest in an existing foreign firm.
(iii) Both the foreign and local entrepreneurs jointly forming a new enterprise.

(a) Merits
Reduces competition
Reduces risk
Protection for small companies
Advance technology
Reduction in cost
Better competence
Large capital

(b) Demerits
Problem in sharing capital
Legal restrictions
Conflicts
Mergers and monopolies
Lack of co-ordination

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 stablished firm in the foreign country.



1. An exporter receives an enquiry from the prospective buyers seeking information regarding price, quality & other terms conditions for export of goods. The exporter sends a quotation known as pro forma invoice as reply.

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

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

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

• To obtain import export code (IEC) number from Directorate General foreign Trade (DGFT) or Regional Import Export Licensing Authority (RIELA).

• Register with appropriate export promotion council.

• To get registered with Export Credit and Guarantee corporation(ECGC) in order to safeguard against risk of non-payments.

5. After obtaining the export license the exporter approaches his banker in order to obtain pre-shipment finance for carrying out production.

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

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

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

9. In order to obtain Tariff concessions or other exemptions the importer may ask the exporter to send certificate of origin.

10. The exporter applies to the shipping company for provision of shipping space. He has to provide complete information regarding the goods to be exported, probable date of shipment and port of destination. The shipping company issues a shipping order. Which is an instruction to the captain of the ship, after accepting application for shipping.

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

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

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

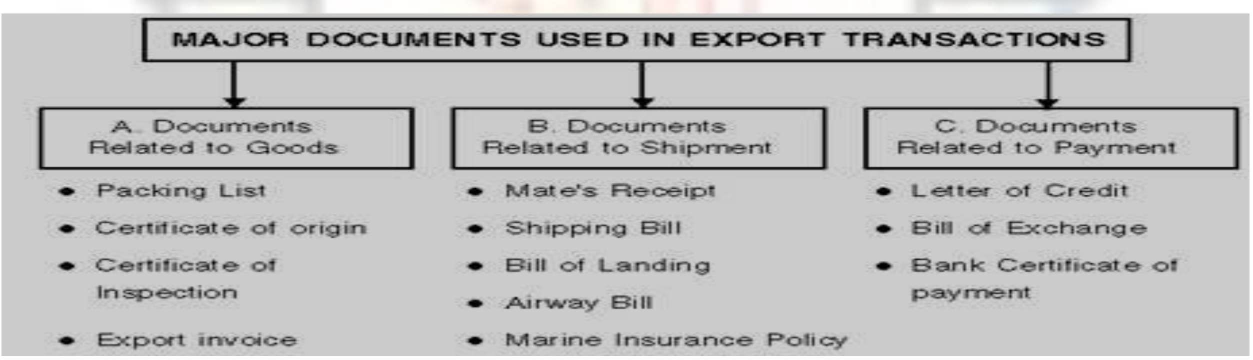
On submitting the above documents, the super intended of the concerned port trust is approached for obtaining the carting order which is the instruction to the staff at the gate of the port to permit the entry of cargo inside the dock.

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 mates 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 deli very 8: payments etc.

2. Certificate of Inspection: For ensuring quality the government has made inspection of certain goods compulsory by some authorised agency like export Inspection council of India (EICI) etc. After inspecting the goods, the agency issues a certificate of inspection that the consignment has been inspected as required under the export (Quality Control & Inspection) Act, 1963.

3. Packing List: This document is in the form of a statement regarding the number of cases or packs & the details of the goods contained in these packs. It provides complete details regarding the goods exported & the form in which they are being sent.

4. Certificate of Origin: This certificate specifies the country in which the goods are being manufactured. This certificate enables the importer to claim tariff concessions or other exemptions. This certificate is also required in case when there is a ban on imports of some goods from certain countries.

B. Documents Related to Shipment:

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

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

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

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

5. Marine Insurance Policy: It is a document containing contract between the exporter & the Insurance Company to indemnify the insured against the loss incurred by the insured in respect of goods exposed to the perils of the sea transit in consideration of a payment called premium.

C. Document related to payment:

1. Letter to credit: It is a guarantee letter issued by the importer bank stating that it will honour the export bills to the bank of the exporter up to a certain amount.

2. **Bill of Exchange**: In export & import transaction, exporter draws the bill on the importer asking him to pay a specified amount to a certain person or the bearer of the instrument. The documents required by the importer for claiming title of exported goods are passed on to him only when the importer accepts this bill.

3. Bank Certificate of Payment: It is a certificate that the necessary documents relating to the particular export consignment have been negotiated & payment has been received in accordance with the exchange control regulations.

IMPORT PROCEDURE

1. The first step involved in importing goods is to gather information about the countries & firms which export the product required by the exporter. It can be gathered from trade directories, trade associations & organizations. 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 & forward sit 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 carried 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&F agent for fulfilling these formalities.

First of all, the importer obtains a delivery order which is also known as endorsement for delivery. This order enables the importer to take the delivery of goods after paying the freight charges. Besides freight charges, importer also has to pay dock dues for obtaining port trust dues receipts for which he submits two copies of a duly filled in form know as application to import to the Landing & Shipping Dues Office. After paying dock dues the importer get back one copy of applications a receipt which is referred as port trust dues receipts. Finally, the importer fills in a form known as bill of entry for assessment of customs import duty. An examiner examines the imported goods & gives his report on the bill of entry. This bill is then presented to the port authority which on receiving necessary charges, issues the release order.

Documents used in an Import Transaction

1. Proforma Invoice: A pro forma invoice is a document that contains details as to the quality, grade, design, size, weight & price of the export product & the terms & conditions on which their export will take place.

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

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

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

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

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

7. Bills of exchange: Explained earlier.

FOREIGN TRADE PROMOTION MEASURES & SCHEMES

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

2. Export manufacturing under BOND Scheme: Under this facility firm can produce goods without payment of exercise and other duties. The firm can avail this facility after giving an undertaking (i.e. bond) that they are manufacturing goods for export purposes.

3. Exemption from payment of sales Taxes: Goods meant for export purpose are not subject to sales tax. Income derived from export operations had been exempt from payment of income tax for a long period, but now this exemption in only available to 100%. Export oriented units and units setup in Export Processing Zones/Special Economic Zones for selected years.

4. Advance License Scheme: It is a scheme under which an exporter is allowed duty free required for the manufacture of export goods. The firms exporting intermittently can also obtain these licenses against specific export orders.

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

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

ORGANISATIONAL SUPPORT

World Trade Organization (WTO)

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

Objectives of WTO
1. To reduce the trade tariffs and barriers imported by different countries in the smooth flow of international trade.
2. To improve the standard of living, create employment, increase income and effective demand and facilitate higher production and trade.
3. To maintain sustainable development by optionally using world's resources.
4. To promote an integrated, more viable and durable trading system among nations.

Role/Functions of WTO
1. To remove barriers of International trade.
2. To Act as a dispute settlement body by settling trade related disputes among member nations.
3. To ensure that all the rules and regulations prescribed in the Act are duly followed by the member countries for settling of their disputes.
4. Laying Down a commonly accepted code of conduct for international trade aiming at reducing tariff and non-tariff barriers in international trade.
5. To consult other agencies to bring better understanding cooperation in global economic policy making.
6. Providing technical assistance and guidance related to management of foreign trade and fiscal policy to its member nations.
7. Taking special steps for the development of the poorest nations.
8. Reviewing trade related economic policies of member countries with the help of its Trade Policy Review Body.
9. Co-operating with IMF and World bank and its associates for establishing co-ordination in global trade

policy making.
10. Acting as forum for trade liberalization.

Problems of International Trade
The main problems of international trade are:
1. Language difference: When a trader of one country deals with the trader of another country it becomes difficult for both them to understand each other because of their Language difference.
2. More Risk: The quantum of risk is higher in foreign trade as compared to internet trade.
3. **Government Control for import and export** procedure various licenses are taken and various pieces of information are to be submitted. Moreover, the procedure of import and export is quite complex.
4. Difference in laws: the rules related to export and import are different in each country. So, there is always some doubt in the mind of a trader regarding payment and other terms of business.
5. Difficulty in payment: Each country has a different currency. Due to this, businessman face a lot of problem while paying and receiving money.
6. Lack of information on about foreign trader: It is difficult to find out details about financial position and business dealings of any businessman sitting at some far off place.