PLUS ONE BUSINESS STUDIES

FOCUS AREA NOTES

2020-21

SANIL KUMAR S. (9495055497)
Govt. HSS ASHTAMUDI, KOLLAM.

I. BUSINESS, TRADE AND COMMERCE

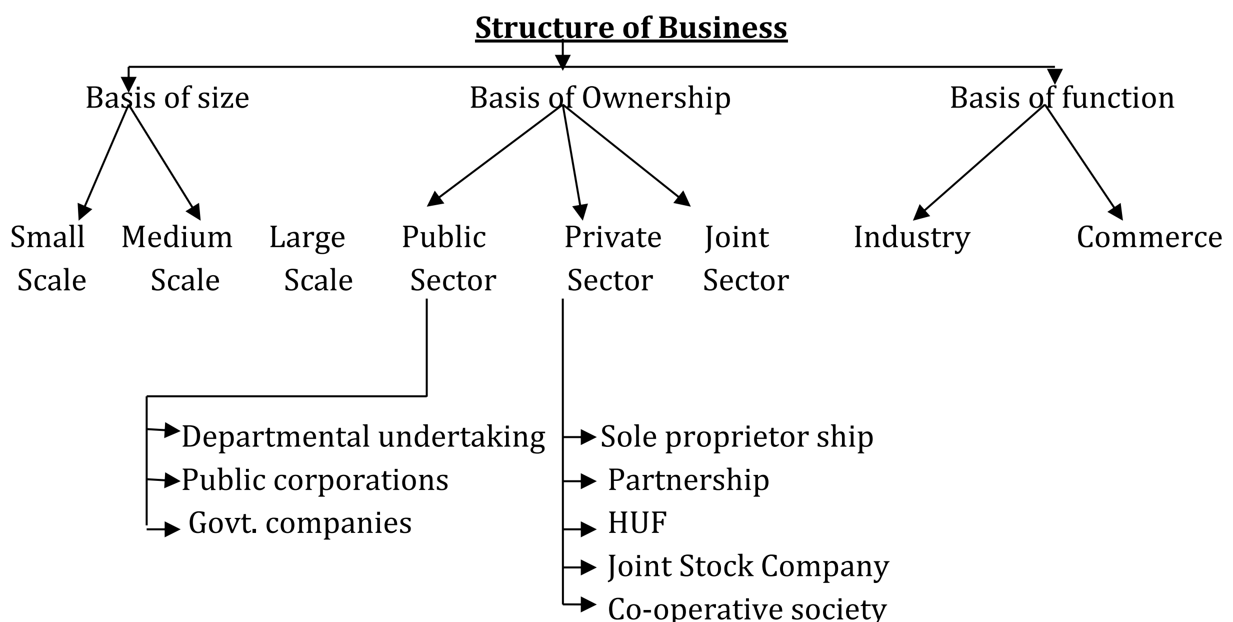
Business: Activities which are related to production or purchase and sale or distribution of goods or service with the main objective of earning profit are comes under business. It should be on a regular basis.
Eg: Manufacturing, mining, farming, trading, fishing etc..

Characteristics of Business/ Features of Business

1. **Economic activity**: All business activities are considered as an economic activity because its main aim is to earn money in the form of profit.
2. **Dealing goods or services**: Business involves transfer or exchange of goods or services for value. Goods may be of consumer goods (for direct use. Eg.clothes, food item …) or capital goods (like machinery, tools…..).
3. **Regularity in dealing:** An isolated transaction cannot make a business unit. When transactions are repeatedly performed, it is considered as business.
4. **Profit earning:** The first and foremost purpose of business is to earn profit. Profit is the return on capital employed.
5. **Sale, transfer or exchange:** Business must involve sale, transfer or exchange of goods and services directly or indirectly.
6. **Uncertainty and business risk:** No one can predict the future of a business with certain. In every business there is a chance of loss or deduction of profit. It is called business risk.

CLASSIFICATION OF BUSINESS ACTIVITIES

Structure of Business

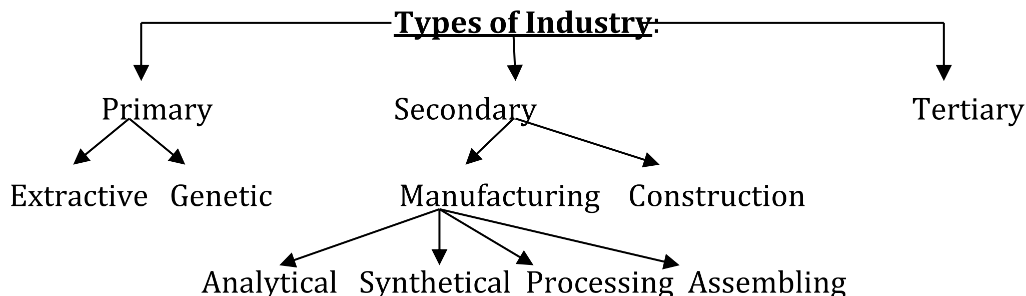


On the basis of Function

It may be classified into two broad categories:

A. Industry B. Commerce

A. Industry: Industry involves production or processing of goods used for consumption or for further production.



a. **Primary Industry**; Primary industries are associated with extraction of natural resources and reproduction of living organisms like plants, animals and birds. It is classified into two:

1. ***Extractive industry***: Which engage in extraction of something from natural sources or from nature. The products extracted are wither directly consumed or are used as raw materials for further production. Eg. Fishing, mining, oil exploration etc.
2. ***Genetic industries***: They are engaged in activities like rearing or breeding of animals, birds and plants. Eg. Agriculture, dairy farming for milk, poultry farming for egg and meat, Floriculture for flowers pisciculture for fish etc.

b. **Secondary Industries**: It deals with materials extracted at the primary stage. These industries either process the material or produce goods. It is further classified in to two;

1. ***Manufacturing industries***: They engage in converting raw materials into finished goods. The products manufactured may either be consumer goods or capital goods. Eg. Producing steal, make furniture, making butter etc.

   It may be divided into following categories:

a. *Analytical industry*: In it the main products or rawmaterial is divided into various sub products. Eg. Petroleum industry.
b. *Synthetic Industry*: In it one main product is made from various raw materials. Eg. Soap, paint ...
c. *Processing Industry*: In it different stages are involved in transferring raw material in to finished goods. Eg. Textile industry.
d. *Assembling Industry*: In it different parts of the products are purchased from te market and assembled to make a complete product. Eg. Cycle industry.

2. ***Construction industries***; They engaged in construction of dams, bridged, airports etc. The products of these industries are immovable, labour intensive and which are used mostly for public welfare.

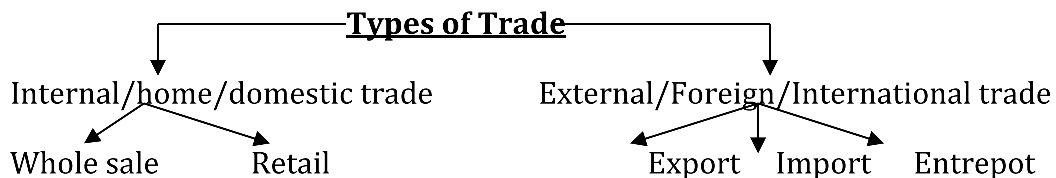
c. **Tertiary industries**; They concern with providing services that support the primary industries and secondary industries. Eg. Transport, banking, insurance etc.

B. Commerce: All activities ensuring the free flow of goods from the producer to the consumer comes under commerce. It is defined as "***those activities involving the removal of hindrances in the process of exchange of goods***" Commerce includes trade and aids to trade.

Commerce = Trade + Aids to trade

Trade: It refers to the sale, exchange or transfer of goods on a continuous and regular basis. A person who engaged trading activities are known as trader.

- The ***hindrance of person*** is removed by trade.



1. **Home trade**: When trade taken place within the boundaries of a country
   a. ***Wholesale trade***: Buying goods in bulk and sell them in the smaller quantities to retailer.
   b. ***Retail trade***: Buying goods in small quantity from wholesaler or producer and sell them to consumers.
2. **Foreign Trade**: When trade taken place beyond the boundaries of a nation is called external trade.
   a. ***Export:*** When goods are sold to a foreign country.
   b. ***Import:*** When goods are purchased from a foreign country
   c. ***Entrepot*** : When goods are imported for export to other countries.

Aids to trade: Activities which assist trade are called aids to trade or auxiliaries to trade. It includes banking, transportation, communication, insurance, advertising, warehousing, packaging etc.

- **Banking Service**: Business activities cannot be undertaken unless funds are available for its various needs. Banking services provides finance facility to business and thus it removes the ***hindrances of finance.***
- **Transport and Communication**: Production of goods generally takes place in particular locations. But these goods are required for consumption in different part of the country. Various modes of transport and communication facilities helps in the movement of goods and removes the ***hindrance of place*** in the exchange of goods.
- **Insurance**: Business involves various types of risks. Insurance provide protection in all these situations. Thus the ***hindrance of risk*** is removed through insurance.
- **Advertising**: It is practically impossible for producers and traders to contact each other and every customer. For sales promotion, information about the product must reach potential buyers. Advertising helps in this situation. The ***hindrance of knowledge*** or information is removed through advertising.
- **Warehousing**: Usually goods are not sold or consumed immediately after production. They are held in stock to be available as and when required. The function of storage is called warehousing and it removes the ***hindrance of time*** in the exchange process.

II. FORMS OF BUSINESS ORGANISATION

There are five forms of business enterprises in the private sector. They are: *Sole proprietorship, Partnership, Hindu Undivided Family Business, Joint Stock Companies and Co-operative Societies.*

SOLE PROPRIETORSHIP:

A business which is owned, managed and controlled by a single person is known as sole proprietorship. The person who owned this type of business is called ***sole trader***. *It is the most common form of business organization.*

Features:

1. **One man ownership and control***:* The proprietor is the sole owner and master of the business. He is the ultimate controller of the firm.
2. **Formation and closure*:*** There are any legal formalities and separate law for governing the activities of the sole trading concern. Closure of the business can also be done easily.
3. **Lack of business continuity**: The sale proprietorship business is owned and controlled by one person, therefore death, insanity, imprisonment will have effect on the business and may even cause closure of the business.
4. **Unlimited liability**: The liability of the sole proprietor is not limited to the capital he has invested in the organization. *In the case of business losses and if the business assets are not sufficient to meet all its liabilities, the proprietor may have to sell his personal property to pay off business liabilities.*
5. **No separate entity for the business**: It has any legal existence separate from its owner.
6. **Profit sharing**: Since there is only one owner in sole proprietorship, all surpluses goes to him. Likewise all losses have to be suffered by him alone.

Merits:

1. **Quick decision making**: Sole trader enjoys considerable degree of freedom in making business decisions.
2. **Secrecy of information**: Sole proprietor enables to keep all the information related to business operations confidential and maintain secrecy.
3. **Direct incentive**: No sharing of profit provides maximum incentive to the sole trader to work hard.
4. **Sense of accomplishment:** There is a personal satisfaction involved in working for oneself.
5. **Ease of formation and closure**: It is easy to start and close the business as per the wish of the owner because there is less legal formalities.

Demerits:

1. **Limited resources**: Resources of a sole proprietor are limited to his personal savings and borrowings from others.
2. **Limited life of business:** Death, insolvency or illness of a proprietor affects the business and can lead to its closure.
3. **Unlimited liability:** If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor.
4. **Limited managerial ability**: The owner has to possess various managerial skills. But it is rare to find an individual who possess all these talents.

PARTNERSHIP:

Partnership is an association of person with the main aim to run a business and share the profits in agreed ratio. *"Partnership is the relation between two or more persons who have agreed to share the profits of a business carried on by all or any of them acting for all"*- **Indian Partnership Act, 1932, Sec4.**

Owners of the partnership business are collectively called a '***Firm'*** and individually called '***Partners***'. The name under which the business is carried on is known as *firm name.*

Features:

1. **Formation**: The partnership form of business is governed by the Indian Partnership Act, 1932. It comes into existence through a legal agreement.
2. **Sharing of profit or loss:** The profit shall be shared among the partners in an agreed ratio, however they also share losses in the same ratio.
3. **Existence of business**: It is formed only for the purpose of carrying on a lawful business.
4. **Mutual agency**: The partnership business may be carried on by all or any one of them acting for all. Thus each partner is principal and so can act in his own right. At the same time he can act on behalf of other partners as their agent.
5. **Number of partners;** The minimum number of partners needed to start a partnership firm is two. According to section 464 of the Companies Act 2013, maximum number of partners in a partnership firm can be 100, subject to the number prescribed by the government. As per Rule 10 of The Companies (miscellaneous) Rules 2014, at present the maximum number of members can be 50.
6. **Unlimited liability:** The liability of partner is unlimited.
7. **Lack of continuity:** The death, retirement, insolvency, insanity of any partner can bring an end to the business.
8. **Registration**: Registration of partnership is not compulsory.

Partnership Deed: Partnership is the result of mutual agreement. The agreement may be oral or written. It is desirable to have a written agreement. Such written agreement is called a Partnership Deed. It contains the terms and conditions relating to partnership and regulations governing the internal management and organization. It should be signed by all the partners and stamped properly.

Contents:

i. Name of the firm
ii. Names and address of partners
iii. Nature of business
iv. Principle place of business
v. Duration of partnership, if any
vi. Amount of capital contributed by each partners
vii. Profit sharing ratio
viii. Amount of salary, if any, payable to partners
ix. Amount of drawings, if any, permissible for each partners
x. Rate of interest on capital or drawings, if any
xi. Provisions regarding admission and retirement of partners
xii. Maintenance of books of accounts and audit
xiii. Arrangement for settlement of debts
xiv. Rights, duties, powers and obligations of all partners
xv. Provision regarding dissolution etc…………

JOINT STOCK COMPANIES:

A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal. The company form of organisation is governed by The Companies Act, 2013. As per section 2(20) of Act 2013, a company means company incorporated under this Act or any other previous company law.

In general company is an association of individuals for common objective. The total capital of a company is known as *share capital* and it is divided into small units called *shares*. The person who hold the shares are known as *shareholders* of the company and they are the real owners of a company. In India companies are formed under Indian *Companies Act of 1956.*

"A company means a Company formed and registered under this act or existing company"-Indian Companies Act, 1956.

"A company is an artificial person created by law having a separate entity with a perpectual succession and a common seal"- L.H.Haney.

Characteristics/Features of a Company:

1. **Separate legal entity:** A company has a separate legal existence apart from its members. It can own property, open a bank account, enter contract with members etc…
2. **An artificial person:** Law has recognized a company as an artificial legal person. As a person, the company can sell and purchase the property belonging to it. A company can sue and be sued like a person.
3. **Perpetual succession**: A company has continuous existence. Its existence is not affected by the death, insanity, insolvency, transfer of shares by the shareholders.
4. **Limited liability:** The liability of shareholders is limited to face value of shares held by them.
5. **Transferability of shares:** Shares of Joint Stock Companies are freely transferable from person to person except in the case of private company.
6. **Separation of ownership from management**: The Board of Directors are entrusted with the task of management not the shareholders. The BOD is elected by shareholders in democratic way (one share one vote).
7. **Common seal:** A company is an artificial person created by Law. All documents and certificates issued by such a company must be authenticated by the company seal. Such a common seal is the official signature of a company.
8. **Compulsory registration:** A company has to be registered under the Companies Act, 2013 or any of the previous company law. It is *mandatory.*
9. **Formation**: The formation of a company is time consuming, expensive and complicated process. It involves the preparation of several documents and legal formalities.

Types of Companies:

A company can be either a private or public company.

Private Company: A private company means a company which:

a. *Restricts* the right of members to transfer its shares.
b. Have a minimum of 2 and a *maximum of 200 members*.
c. *Does not invite public* to subscribe to its share capital; and

It is necessary for a private company to use the word private limited after its name.

Public Company: A public company means a company which is not a private company. As per the Indian Companies Act, a public company is one which:

a. Has a minimum of 7 members and no limit on maximum members.
b. Has no restriction on transfer of shares and
c. Is not prohibited from inviting the public to subscribe to its shares.

A private company which is a subsidiary of a public company is also treated as public company.

Difference between Private Company and Public Company

Basis		Private Company	Public company
1.	Number of Members	Minimum: 2 Maximum: 200	Minimum;7 Maximum: No limit
2.	Number of Directors	Two	Three
3.	Minimum Paid up capital	1 lakh	5 lakh
4.	Invitation to public	Not possible	Possible
5.	Minimum subscription	Not required	Required
6.	Issue of prospectus	No need	Needed
7.	Commencement of business	After its incorporation	After certificate of Commencement.
8.	Share transfer	Restricted	No restriction
9.	Name	Ended with Private Limited/(P)Ltd.	Ended with Limited /Ltd.
10.	Legal formalities	Less	More

CO-OPERATIVE ORGANISATION:

Cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. Co-operative means to work together. This is a form of organization in which people of common interests come together to work to enhance their monetary benefits.

Co-operative organization is a voluntary association of persons for mutual benefit and its aims are accomplished through self help and collective effort. The ***basis*** of co-operation is ***self-help through mutual help*** and the ***motto*** is ***"each for all and all for each".*** It is generally formed and registered under the Co-operative Societies Act, 1912 and in Kerala, Kerala Co-operative Societies Act, 1969.

The process of setting up a cooperative society is simple and at the most what is required is the consent of ***at least ten adult persons***. The capital of a society is raised from its members through issue of shares. The society acquires a distinct legal identity after its registration.

Features:

1. **Voluntary association**: Any one can become a member in a co-operative society according to his own free will and he is free to withdraw his membership at any time.
2. **Open membership:** Membership is open to all irrespective of caste, sex, colour, income or status in the society.
3. **Legal status:** Registration of a cooperative society is compulsory, therefore society has a separate identity from its members.
4. **Limited liability**: The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital.
5. **Control:** In a cooperative society, the power to take decisions lies in the hands of an elected managing committee(in a democratic way, one man one vote)
6. **Service motive**: It emphasis the value of mutual help and welfare.

III. BUSINESS SERVICES

Commercial Banks: They are governed by the Indian Banking Regulation Act, 1949. They are further classified into public sector, private sector and foreign banks.

Types of Commercial Banks:

1. **Public Sector:** They are owned and managed by the government. Now there are 27 public sector banks in India [19 nationalised banks-14 banks nationalized on 19th July,1969 and 6 banks nationalized in 1980(among these New India Bank merged on PNB in 1993), 6 State Bank Group banks, IDBI Bank, Bharathiya Mahila Bank].
Eg. SBI,Canara Bank, Corporation Bank, SBT, IOB, PNB etc….

2. **Private Sector Banks:** They are owned and managed by private parties. The private sector banks consist of 25 old commercial banks and 9 new generation banks(ICICI, HDFC…).
Eg. Federal Banks, ICICI,South Indian Bank, Dhanalekshmi Bank ….

3. **Foreign Banks:** Banks have a place of origin at foreign country but operate with in India are called foreign banks.
Eg.:Citi banks, Standard Chartered Banks, Bank of America, HSBC,….

Functions of Commercial Banks:

A. **To Accept Deposits:** Deposits received from the public constitute the major resource available to a bank. Four types of deposits are usually accepted by banks. They are:

a. **Fixed Deposits:** Under this a fixed amount is deposited for a specific period. Normally it is repayable on the maturity period. It carries a higher rate of interest. Banks issue ***FDR*** (Fixed Deposit Receipts) when they accept fixed deposit. It is also known as '*time deposits*' or '*term deposits'.*

b. **Saving Bank Deposits**: This types of deposits helps in the mobilization of savings of the general public. It carries a lower rate of interest than fixed deposits. There are certain restrictions on operating this account such as keeping a minimum balance in the account, frequency and volume of withdrawals etc.

c. **Current Deposits:** This type of account is usually operated by businessmen. There is no restriction on the frequency and volume of deposits or withdrawals of money. This account carries ***Over Draft (OD)*** facility. This deposit does not generally carry any interest.

d. Recurring Deposits: In this type of account a fixed amount is to be deposited at regular intervals for a fixed period of time. The amount deposited is repaid on the date of maturity together with interest. This is mainly focused to encourage the saving habit of fixed income group.

B. To give Loans and Advances: This is the second important function of commercial banks. Banks usually lend money in the form of cash credit, overdraft, loans and advances and by discounting bills of exchange.

***a.* Cash Credit**: In this the banks open cash credit account in the name of the borrower and permit his to withdraw money up to the sanctioned limit. Interest is to be paid on the amount actually withdrawn by him.

b. **Overdraft (OD):** It is an arrangement where customers are permitted to withdraw cash up to a level over and above their deposits in the account. Interest is to be paid only on the actual amount of OD. Generally OD is granted to businessmen against their current accounts.

c. **Discounting bill of exchange**: In this the banker will credit the amount of the commercial bill in the customer's account after deducting a small amount of discount.

d. **Term loan:** Banks also provide medium term and long term loans to their customers. The amount of loan may vary depending upon the requirements of the borrower.

C. Cheque facility: Bank collects customer's cheque drawn on other bank. There are two types of cheques mainly: (a) ***bearer cheques*** (encashable immediately at bank counters) (b) ***crossed cheques*** (deposited only in the payees account).

D. Remittance of funds: Bank provides the facility of fund transfer from one place to another. The transfer of funds is administered by using bank drafts, pay orders or mail transfers, on nominal commission charges.

E. Other Services: It include various services such as bill payments, locker facilities, underwriting services, payment of insurance premium, collection of dividend, buying and selling of shares on behalf of customers..........

e- Banking (Electronic Banking) :

E-banking is electronic banking or banking *using electronic media*. Thus, e-banking is a service provided by many banks, that allows, *a customer to conduct banking transactions, such as managing savings, checking accounts, applying for loans or paying bills over the internet using a personal computer, mobile telephone or handheld computer (personal digital assistant).*

The ***range of services*** offered by e-banking are: Automated Teller Machines **(ATM)** and Point of Sales **(PoS),** Electronic Data Interchange **(EDI)** and Credit Cards Electronic or Digital cash and Electronic bank transfer **(EFT).** The ***two ways in which EFT*** can be done are: **NEFT** (National Electronic Fund Transfer) and **RTGS** (Real Time Gross Settlement).

Benefits of e-Banking:

There are **various benefits of e-banking provided to customers** which are:

(i) E-banking facilitates digital payments and ***promotes transparency*** in financial statements.

(ii) e-banking provides ***24 hours, 365 days a year services*** to the customers of the bank;

(iii) Customers can make some of the permitted transactions from office or house or while travelling via mobile telephone;

(iv) It inculcates a sense of ***financial discipline*** by recording each and every transaction;

(v) Greater ***customer satisfaction*** by offering unlimited access to the bank, not limited by the walls of the branch and less risk and greater security to the customer as they can avoid travelling with cash.

The banks also stand to gain by e-banking. The benefits are:

(i) e-banking provides ***competitive advantage*** to the bank;

(ii) e-banking provides unlimited network to the bank and is not limited to the number of branches.

(iii) Load on branches can be considerably reduced.

INSURANCE

Insurance is an agreement between the insured and the insurer by which the insurer undertakes to indemnify the loss caused to the insured as a result of the happening of a certain event.

Insurer: The person who undertakes the risk.

Insured: The person whose risk is undertaken.

Policy: The agreement or contract between insured and insurer.

Premium: The amount paid by the insured t the insurer for undertaking the loss.

Principles of Insurance:

1. **Principles of utmost good faith**: Contract of insurance is a contract of '***uberrimaefidie',*** ie, a contract which requires utmost good faith in the case of both the parties. It means that both the parties are required to make full disclosure of all the facts.
   An ordinary contract of sale is based on the principle of ***Caveat Emptor*** (let the buyer beware).
2. **Principle of insurable interest**; Insurable interest means monetary interest. A person is said to have insurable interest in the subject matter of insurance if he stands to gain from its existence and will suffer a financial loss with its destruction. Even a non-owner may have insurable interest.
   In the case of life insurance, insurable interest must be present in the person insured at the time of taking the policy. ***In the case of fire insurance***, the insured must have insurable interest at the time of taking the policy and at the time of lodging the claim. ***In the case of other general insurances***, the insurable interest must exist at the time of happening the event.
3. **Principles of indemnity**: It means that in the event of occurrence of loss, the insured will be indemnified to the extent ***of actual value of his loss or the sum of insured whichever is less.*** This principle is ***not applicable in life insurance,*** because the loss due to death of the insured cannot be measured in terms of money and money cannot be substituted as compensation for the loss of life.
4. **Principles of subrogation**: According to the principle, the scrap or remains of the damaged property will become the property of the insurance company after the payment of compensation to the insured. Further, the insurer will be entitled to have all the rights enjoyed by the insured against third parties on the subject matter of insurance.

5. **Principle of Contribution**: Under this principle, if the insured has taken a double insurance, he is eligible to receive a claim only up to the amount of actual loss suffered by him. If the insured claims full amount of loss from one insurer, he is not eligible to get any amount from other insurers. This is ***not applicable in the case of life insurance.***
6. **Principle of mitigation of loss:** According to this principle, the insured should take all reasonable steps to reduce the loss as a man of ordinary prudence would have taken in his own case, if it were not insured.
7. **Principle of causa proxima**: Under this principle, the insurance company will admit the claim, only if it is established that the damage have resulted directly by an event which is covered under insurance.

Double insurance: When the same subject matter is insured with more than one insurer, it is known as double insurance. But the insured cannot recover anything more than the financial value of actual damage suffered due to the mishap (according to principle of indemnity, *it is not applied in life insurance*)

Re-insurance: It is a contract of insurance entered in to by the insurer with another insurer with a view to spread a part or whole of the original risk. In this there is no direct relationship between insured and re-insurer

WAREHOUSING

It is concerned with the establishment, maintenance and management of warehouses for the storage of goods. *It removes the hindrance of time.* Storage enables goods to be made available to the customers whenever and wherever it is demanded.

Types of Warehouses;

1. **Private warehouses:-**owned by large business firms or wholesalers.
2. **Co-operative warehouses**: owned by co-operative undertakings.
3. **Government warehouse**: - owned by government or government agencies.
4. **Public warehouse**: - owned by some agencies and provide space against the payment of some fees. It also known as *duty-paid warehouses.*
5. **Bonded warehouses:** - These warehouses are used to keep the imported goods before the payment of import duties. They are owned by dock authorities or by the private parties. They are under the supervision and control of customs authorities.

IV. EMERGING MODES OF BUSINESS

e-Business: e-Business may be defined as the conduct of industry, trade and commerce using the computer networks. Almost all types of business functions as well as managerial activities can be carried out over computer networks.

E-Commerce: It covers a firm's interactions with its customers and suppliers over the internet. It is only a part of e-Business.

Differences between Traditional and e-Business.

Basis	Traditional Business	e-Business
Formation	Difficult	Easy
Location	Important	Not important
Cost of setting up	High	Low
Personal touch	More	Less
Employees	Semi skilled/unskilled	Technically/Professionally skilled
Transaction Risk	Less	High
Operating cost	High	Low
Opportunity for physical pre-sampling of the products	More	Less
Ease of going global	Less	Much
Response time for meeting customers'/internal requirements	Long	Instant.

Scope of e-Business:(Reference)

Firm's e-business transactions can be seen in the following four ways:

1. **B2B Commerce**: In this commercial transactions take place between different business organizations. It include placing of purchase orders, invoices, quotations... Business to Business(B2B) form major share of total e-commerce volume.
2. **B2C Commerce:** It means Business to Customers transactions. It include selling of goods, call centers, ATM facility....
3. **Intra-B Commerce:** Here the transactions takes place with in the firm. It include use of computer networks in marketing, finance, production, purchase, human resource, Research and Development departments.... It also include interaction of business with its employees ***(B2E).***
4. **C2C Commerce:** It means Customer to Customer. This type of commerce is best suited for dealing in goods for which there is no established market mechanism. The vast space of the internet (eBay.com, olx.com, amazon.com, flipkart) allows persons to globally search for potential buyers.

Outsourcing:

It refers to business organizations concentrate of their core activities and outsource other services to specialized agencies. The services which are commonly outsourced are financial services (it includes preparation of financial plans, issue of shares/debentures, raising funds ….), advertisement services (include designing messages, selecting models, media….), courier services (include mailing letters and parcels….), transportation (providing various transportation facilities), warehousing, after sales services etc.

Need/ Benefits/ Objectives of Outsourcing:

1. **Focusing attention:** Outsourcing helps the business to focus on its core activities and contracting out the rest.
2. **Provide better service**: It helps to provide better services to customers through specialization.
3. **Cost reduction:** Through division of labour and specialization, it helps to reduce the cost too. This happens due to the outsourcing partners as they deliver the same service to a number of organizations.
4. **Growth through alliance:** Through outsourcing firms investment requirements are reduced therefore they can expand rapidly.
5. **Enhance economic development**: Outsource stimulates entrepreneurship, employment and exports.

V.SOCIAL RESPONSIBILITIES OF BUSINESS AND BUSINESS ETHICS

Social Responsibility: It means the obligation of business to act in a manner which will serve the best interest of the society. A business is a social institution; therefore it must have several responsibilities towards various interested groups. They are:

I. **Responsibility towards Owner:** It includes-
   - a. to ensure safety of investment
   - b. to provide fair and regular dividend/ profit.
   - c. to provide correct and regular information about financial position.
   - d. make efforts to increase the value of share etc…..

II. **Responsibility towards Consumers**: It includes-
   - a. Production and distribution of quality goods at reasonable price.
   - b. avoid unfair trade practices.
   - c. educating the consumer on product uses and its features
   - d. provide right services to consumers
   - e. handling of customers complaints with courtesy and sympathy etc…..

III. **Responsibility towards Employees:** It includes-
   - a. To provide fair compensation and benefits
   - b. to provide good working conditions
   - c. avoiding discrimination among the employees
   - d. to provide welfare schemes like housing, medical facilities etc.
   - e. to provide opportunity for education and self development etc…

IV. **Responsibility towards Government**: It includes-
   - a. to pay tax promptly and regularly
   - b. to co-operate with government in solving national problems such as poverty, unemployment etc..
   - c. to follow the law passed by the government
   - d. to set up new venture in backward areas etc…

V. **Responsibility towards Community**: It includes-
   - a. providing economic stability
   - b. protecting public interests
   - c. protecting the environment
   - d. providing employment to the local people
   - e. ensuring non-discrimination on the basis of sex, religion etc….

Kinds of Social Responsibility:

1. **Economic responsibility:** Produce goods and services that society wants and sell them at a profit.
2. **Legal responsibility**: Operate within the laws of the land.
3. **Ethical responsibility:** It includes the behavior of the firm that is expected by society.
4. **Discretionary responsibility**: It is purely voluntary obligation that an enterprise assumes.

Environmental Protection:

Environment is defined as the totality of man's surroundings. Business environment consists of all those forces in the surroundings of a business enterprise under which business operations are to be carried out.

Pollution means injection of harmful substances into the environment, which causes serious damage to human and other life.

Types of Pollution

A. Air Pollution (result *of a combination of factors which lowers the air quality***)** **B. Water pollution(***result of chemical and waste dumping***)** **c. Land Pollution(** *due to dumping of toxic wastes* ***)*** **d. Noise Pollution.**

(i) Air pollution: Air pollution is the result of a combination of factors which lowers the air quality. It is mainly due to carbon monoxide emitted by automobiles which contributes to air pollution. Similarly, smoke and other chemicals from manufacturing plants pollute the air. Resultant air pollution has created a hole in the ozone layer leading to dangerous warming of the earth.

(ii) Water pollution: Water becomes polluted primarily from chemical and waste dumping. For years, business enterprises have been dumping waste into rivers, streams and lakes with little regard for the consequences. Water pollution has led to the death of several animals and posed a serious threat to human life.

(iii). Land pollution: Dumping of toxic wastes on land causes land pollution. This damages the quality of land making it unfit for agriculture or plantation. Restoring the quality of the land that has already been damaged is a big problem.

(iv). Noise pollution: Noise caused by the running of factories and vehicles is not merely a source of annoyance but is also a serious health hazard. Noise pollution can be responsible for many diseases like loss of hearing, malfunctioning of the heart and mental disorder.

VI. FORMATION OF A COMPANY

There are different stages involving in the formation of a Joint Stock Company. They are : ***Promotion, Incorporation, Subscription of capital and Commencement of business.***

PROMOTION: It is the first stage in the formation of a company. Promotion simply means the sum total of all activities which are necessary for bringing the company in to existence.

Promoter: Promoter is a person who takes initiative to form a new company. He takes all preliminary work for starting a new company. A promoter can be a person, a firm, an association or even a company.

Functions of Promoters:

i. **Identification of business opportunity**: It is the promoter who conceives the idea of setting up a business.

ii. **Feasibility studies:** Promoters undertakes detailed investigation of the profitability and future prospects of the growth of the proposed activity. Therefore, he undertakes detailed feasibility studies such as technical feasibility, financial feasibility, economic feasibility....

iii. **Name approval**: The promoters have to select a name for the company and submit an application to the registrar of companies of the state in which the registered office of the company is to be situated, for its approval. Three names, in order of their priority are given in the application to the Registrar of Companies.

iv. **Preparing preliminary documents**: The promoter will have to prepare the necessary documents which are compulsory for the registration of a company, such as Memorandum of Association, Articles of Association, Prospectus/ Statement in lieu of prospectus, list of directors, a written consent of directors, a statement of authorized capital, a statutory declaration etc…

v. **Fixing up signatories to the Memorandum of Association**: Promoters have to decide about the members who will be signing the Memorandum of Association of the proposed company. Usually the people signing memorandum are also the first Directors of the Company.

vi. **Appointment of Professionals:** Certain professionals such as bankers, auditors, underwriters ......are appointed by the promoters.

DOCUMENTS USED IN THE FORMATION OF A COMPANY:

1. **MEMORANDUM OF ASSOCIATION**: It is the fundamental document or charter of a company. Memorandum of Association is the most important document as it defines the objectives of the company. No company can legally undertake activities that are not contained in its Memorandum of Association. It determines the relationship with outside world ie, shareholders, creditors and all those who have dealings with the company. ***It contains different clauses, they are:***

a. **Name clause:** Under this the name of the company is mentioned, which has already been approved by the Registrar of Companies.

A name is considered undesirable in the following cases:

a. If it is identical with or too closely resembles the name of an existing company.
b. If it is misleading.
c. If it is violate of the provisions of 'The Emblem and Names (Prevention of Improper Use) Act, 1950.

b. **Registered office clause**: Under this clause, the name of the state in which the registered office of the company is situated must be mentioned. The exact address of the registered office must be notified to the Registrar within thirty days of the incorporation of the company.
c. **Object clause:** It is the most important clause of this document. It sets out the object with which a company is formed. A company is not legally entitled to undertake an activity, which is beyond the objects stated in this clause. It is further divided into main objects and other objects.
d. **Liability clause**: This clause limits the liability of the members to the amount unpaid on the shares owned by them.
e. **Capital clause**: This clause specifically stated the maximum capital with which the company is to be incorporated. The authorized share capital of the proposed company along with its division into the number of shares having a fixed face value is specified in this clause.
f. **Subscription clause:** This clause contains the name of the signatories to the memorandum of Association and also gives their consent to purchase qualification shares.

Memorandum of Association must be signed by at least seven persons in the case of a public company and two persons in the case of a private company.

2.ARTICLES OF ASSOCIATION: It lays down the rules and regulations for the management of internal affairs of the company. The Articles define the duties, rights and powers of the officers and the Board of Directors. It is considered as the bye-law of the company.

The articles of a company shall be in respective forms as specified in Table F, G, H, I and J in schedule I as may be applicable to such company. However, the companies are free to make their own articles of association.

The Articles generally contains the following matters:

1.Adoption of preliminary contracts. 2. Number and value of shares. 3. Issue of preference shares. 4. Allotment of shares. 5. Transfer and transmission of shares. 6. Voting rights and proxies. 7. Meetings and rules regarding committees. 8. Directors, their appointment and delegations of powers. 9. Nominee directors. 10. Issue of Debentures and stocks. 11. Audit committee. 12. Managing director, Whole-time director, Manager, Secretary. 13. Additional directors. 14. Seal. 15. Remuneration of directors. 16. General meetings. 17. Directors meetings. 18. Borrowing powers. 19. Dividends and reserves. 20. Accounts and audit. 21. Winding up. ......

Differences between Memorandum of Association and Articles of Association

Basis	Memorandum of Association	Articles of Association
Objectives	Memorandum of Association defines the objects for which the company is formed	They are the rules of internal management of the company.
Position	This is the main document of the company and is subordinate to the Companies Act	This is a subsidiary document and it is subordinate to both MoA and CA.
Relationship	It defines the relationship of the company with outsiders.	It defines the relationship of the members and the company.
Validity	Acts beyond the Memorandum of Association are invalid and cannot be ratified even by a unanimous vote of the members.	Acts which are beyond Articles can be ratified by the members, provided they do not violate the Memorandum.
Necessity	Every company has to file a Memorandum of Association.	It is not compulsory for a public ltd. company to file Articles of Association. It may adopt **Table F** of The Companies Act, 2013

3. **PROSPECTUS**: Prospectus is a document issued by public companies inviting the public to subscribe for shares or debentures of the company. A prospectus duly dated and signed by all the directors should be filed with the Registrar of Companies, before it is issued to the public.

Statement in Lieu of Prospectus: *Sometimes pubic company raise required capital privately. For this it does not issue a prospectus but a statement called Statement in Lie of Prospectus must be filed with the Registrar. It contains all the same information as is required to be disclosed in a prospectus.*

A private company does not require a prospectus or statement in lieu of prospectus.

VII. SOURCES OF BUSINESS FINANCE

Finance: Finance is the ***life blood of the business***. The requirements of funds by business to carry out its various activities are called business finance.

Sources of Finance:

A business can raise funds from various sources. Depending on the situation, purpose, cost and risk, a choice may be made about the source to be used. The following are the various sources of finance with their advantages and disadvantages:

1. **Retained Earnings:** It is that portion of net profit retained in the business for future use. It is a source of internal financing or self-financing or ploughing back of profits.

Merits:

- It is a permanent source of fund
- It does not involve any cost
- It has greater flexibility
- It helps to increase the market price of equity shares
- It helps to face the unexpected losses

Demerits:

- It may create dissatisfaction among the existing shareholders
- It is an uncertain source of finance
- There is a chance of misuse/sub-optimal use of funds

2. **Issue of Shares:** The capital obtained by issue of shares is known as share capital, ie, the capital of a company is split into a large number of units, called shares. The Companies Act defines it as "a share in the share capital of a company and included stock" The person who holds a share is called a shareholder or member. Shareholders are the owners of the company.

Kinds of shares*:* A public company can issue two types of shares such as preference shares and equity shares.

a. **Preference shares**: These shares which carry preferential rights such as i***) get a fixed rate of dividend before any dividend is paid to ordinary shareholders and ii) a prior claim in payment of capital on winding up of the company.*** They get only a fixed percentage of dividends even if the company makes good profits and they have vote only on matters affecting their interest like non-payment of dividends etc. Therefore. it has some characteristics of both equity shares and debentures.

The different types of preference shares are discussed below:(Reference)

i) Cumulative preference shares: These shares enjoy a fixed rate of dividend even if the company does not declare dividend. Arrear dividend will accumulate till it is fully paid.

ii) Non-cumulative preference shares; They are get dividend only out of profits of the current year.

iii) Participating preference shares; These shareholders receive the usual dividend at fixed rate and also share the surplus profit of the company.

iv) Non-participating preference shares: They have no right to share surplus profits.

v) Convertible preference shares: These shares are converted in to equity shares after a specified period. It may be partly convertible or fully convertible.

vi) Non-convertible preference shares: They are not converted in to equity shares.

Merits:

- Fixed rate of return and safety of investment.
- They provide long-term capital
- Management and control is not diluted
- It may enable a company to declare higher rates of dividend for equity shareholders.
- Security is not needed

Demerits:

- Fixed dividend is paid
- Shareholders have no control over management
- Rate of dividend is more than the rate of interest of debentures
- No tax saving
- No voting right except under certain conditions
- No assured return for the investors.

b. Equity shares: Shares without any preferential right in payment of dividend or repayment of capital are known as equity shares or ordinary shares. Dividend is paid only after paying dividend on preference shares. On winding up of a company, equity capital is paid only after settling all other claims. But they are the real owners with complete voting right and participate and control the management.

Merits:

- No obligation to pay fixed dividend
- No security is needed
- It use as permanent capital
- They are the real owners of the company
- They have voting right.
- It provides the company sufficient flexibility in the utilization of its profits and funds.

Demerits:

- The cost of equity shares is generally more
- Higher dividend leads to speculation
- Not attract investors who prefer safety and fixed income
- Additional issue dilutes the control of the existing shareholders.
- More legal formalities

3. **Issue of Debentures/Bonds**: When a company wants to raise more funds without increasing its share capital it can issue debentures. It is a document or certificate issued by a company under its seal to acknowledge its debt. Those who invest money in debentures are called debenture holders. They are creditors of the company. So debenture is a creditor ship security. It is repaid after a fixed period. The terms and conditions of issue of debentures are known as ***debenture deed.***

   Public Issue of debentures requires that the issue be rated by a credit rating agency like CRISIL (Credit Rating and Information Services of India Ltd.)

Types of debentures:(Reference)

i. Simple or naked or unsecured debentures; Issued without a charge on the assets of the company.
ii. Secured or mortgage debentures; Issued with a charge on some or whole assets of the company.
iii. Bearer debentures: Debentures issued without the name of the owner is bearer debentures. It can freely transferable by mere delivery.
iv. Registered debentures; The name and address of registered debenture holders are entered in the register of debenture holders. These cannot be freely transferable.
v. Convertible debentures: They are converted in to equity shares after a specified period.
vi. Non-convertible debentures; They are not converted in to shares.
vii. First and Second debentures: Debentures that are repaid before other debentures are repaid are known as first debentures. The second debentures are those which are paid after the first debentures have been paid back.

ZID (Zero Interest Debentures): *They are normally issued at a discount. This debenture does not carry interest. The difference between face value of the debenture and its purchase price is the return to the investor.*

Merits:

- Control of management is not affected
- Interest paid is a tax deductible expense
- It can be redeemed at any time
- Debenture holders get fixed rate of interest
- It provides greater security to investors.
- It is suitable for the firms which have stable sales and earnings.

Demerits:

- Through the issue of debentures, companies' borrowing capacity will be reduced.
- Fixed rate of return is a burden on the company
- Debenture holders' do not enjoy any voting right.
- It is repaid after a specific period even if the company face financial difficulty...

Difference between Shares and Debentures(Reference)

No.	Basis	Shares	Debentures
1.	Nature	Ownership capital	Borrowed capital
2.	Status	Holder of shares is an owner	Holder of a debenture is a creditor
3.	Voting rights	Enjoy voting right	Does not enjoy voting right
4.	Return	Dividend	Interest
5.	Control	Control over the management	No control over the management
6.	Redemption	At the time of winding up	Redeemed after a certain period
7.	Payment of interest/dividend	Dividend may fluctuate	Fixed rate of interest
8.	Priority for repayment	No priority	Priority for repayment against shares
9.	Guarantee of return	No guarantee	Guarantee for interest whether there is profit/loss
10.	Security	Not issued on the basis of security	Issued on the basis of security

VIII. INTERNAL TRADE

RETAIL TRADE: Purchase and sale of goods in relatively small quantities, generally to the ultimate consumers is referred as retail trade. Those dealing in retail trade are called retailers. Normally he deals wide varieties of goods.

TYPES OF RETAILERS: There are two categories of retailers. They are ***itinerant traders and fixed shop retailers.***

FIXED SHOP RETAILERS: They carry on business in a fixed building either owned or rented.

Characteristics: a. large investment b. dealing different types of goods c. greater credibility… They are further classified into ***small scale retailers and large retailers.***

Large retailers: It may be defined as retail trade involving operations on a large scale and sale of goods in small quantities. These are different forms in which large scale retailing may be organizes. The most common forms are:

i. Departmental Stores: It is a large scale retail organization consisting of many departments each dealing in one item, under one roof and management. Its aim is to satisfy every customers need under one roof. It is said that one can buy 'needle to an aeroplane'/'all shopping at one roof' from it. They are generally organized as Joint Stock Companies.

Eg: Akberally(Mumbai),Kamalaya Store(Kolkatta), Spencer (Chennai)……

Features:

a. It is a large scale retail organization

b. A number of retail shops in the same building

c. A wide variety of products are arranged in separate departments

d. It is located in a central place of a big city.

e. management, control and sales arte centralized.

f. provide various facilities like rest room, restaurant, travel…..

ii. **Multiple Shops or Chain Stores**: It is a system of branch shops operated under a centralized management and dealing in similar line of goods. Each branch operated under the same name and management. Eg. Bata Shoe company, Maveli stores etc.

Advantages: Enjoy economies of large scale buying, no risk of bad debts(only cash sales), quick turnover, economy in advertisement, better location, business risk can be minimized, low cost of operation, uniform display, public confidence, no-over stocking of goods, it helps for elimination of middlemen…..

Disadvantages: Limited choice, No credit facilities, No personal contacts, lack of initiative, risk due to change in fashion, taste……..

DIFFERENCE BETWEEN DEPARTMENTAL STORE AND MULTIPLE SHOPS (Reference)

Basis	Departmental Store	Multiple Shop
1.Location	In big cities	In residential areas
2.Type of goods	All kinds of goods	Limited line of goods
3.Proximity to customers	Not consider	Consider
4.Cash/Credit basis	Offer credit sales	Only cash basis
5.Buying and Selling	Decentralized buying and centralized selling	Centralized buying and decentralized selling
6.Investment	More capital	Comparatively less capital
7.Mutual transfer of goods	Not possible	Possible
8.Overhead expenses	Large	Limited
9. Uniformity in prices	Different	Same price
10.Prices	High price	Low prices
11.Supplier	Deal with various suppliers	Only one
12.Services	Provide various services	No such services
13.Type of Customers	Attract higher income groups	Attract all classes of customers
14.Risk	Greater risk	Low risk

3. Super Market (Super Bazaar): It is a large scale retail store selling a wide variety of consumer goods. They deal in food and non-food items. The most distinctive feature of super bazaar is the absence of salesmen. They are also called 'self-service stores'.

Features:

a. They are located in the main shopping centre of an area
b. They sell goods on cash basis only
c. They deal in wide variety of goods
d. They operate on the self-service principle.
e. The prices of the products are generally lower.

Vending Machines: They are the newest revolution in marketing methods. Coin operated vending machines are providing useful in selling several products such as soft drinks, milk, newspaper… It is useful for selling pre-packed brands of low prices products which have high turnover and which are uniform in size and weight. However, the initial cost of a vending machine and its regular maintenance expenditure is very high, also consumers cannot feel or see the product before buying.

BEST WISHES

SANIL KUMAR S., GHSS ASHTAMUDI, KOLLAM.