Class 11 Business Studies Focus Area Notes 2021

Chapter – 1

BUSINESS, TRADE & COMMERCE

Nature and Concept of Business

Concept of Business

The term business is derived from the word 'busy'. Therefore, business means being busy. In specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and / or sale of goods and services with a view to earn profits.

Business is defined as the "repeated buying and selling or manufacturing of goods and services with an intention to earn profit which involves the creation of wealth." Example; A factory, A retail shop, Commission agents, brokers etc.

In every society, people undertake various activities to satisfy their needs. These activities can be classified into two, they are Economic Activities and Non-Economic Activities.

1. **Economic Activities** – These are those activities which are undertaken to earn money or money's worth and related to production and exchange of wealth. Eg; Running a factory, Retail shop, Cultivating land etc. Economic activities may be further divided into three categories, namely business, profession and employment.

2. **Non-economic Activities** – Non-economic activities are those activities which are undertaken not for any reward but for the personal satisfaction. Example; A mother looks after her children, A house-wife cooks food for the family, Visiting Temples etc.

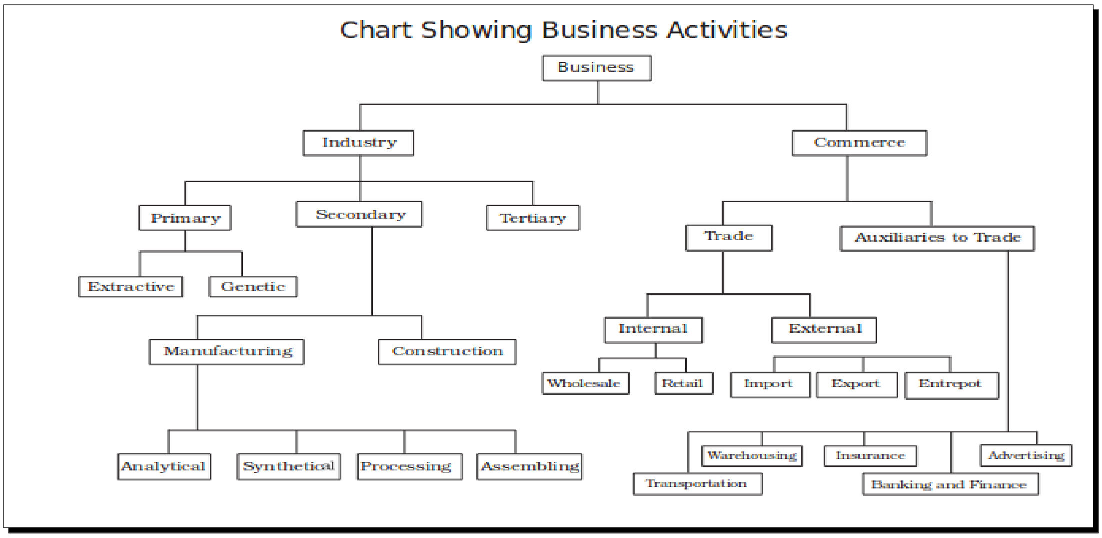
Characteristics of Business:

1. **Economic Activity –** because it is undertaken with the object or earning money or livelihood.
2. **Production or procurement of goods and service –** In order to offer the goods for consumption they must be either produced or procured by the business enterprise. Goods may consist of consumable goods, industrial goods or capital goods. Services include facilities offered to consumers in such as transportation, banking, insurance, electricity etc. (Consumable goods – Pen, soap, sugar etc., Industrial goods – Steel, cement etc., Capital goods – Machinery, furniture etc.)
3. **Sale or exchange of goods and services –** There should be sale or exchange of goods or services between the seller and buyer. If goods are produced for personal use, it cannot be treated as a business. Eg:Cooking food for the family is not a business, but cooking food and selling it to others in a restaurant is a business.
4. **Regular Dealings –** Business involves dealing in goods and services on a regular basis. One single transaction of sale or purchase is not considered as a business. For example, if a person is selling is old car is not considered as a business.
5. **Earning Profit –** It is the main purpose of business. So that the businessmen should take all efforts to increase the profit by increasing sales volume or reducing cost of production.
6. **Uncertainty of Return –** No business can predicts its future profit as it is uncertain. Also there is a possibility of loss being incurred.

7. **Element of Risk –** Every business is subject to risk due to various reasons like change in fashion, technological changes, increasing competition, fire, theft, accidents, natural calamities etc.

Classification of Business

Business activities may be broadly classified into two broad categories – Industry and Commerce.



INDUSTRY

The term industry refers to that part of business which is concerned with the production of goods and material. An industry may be classified into primary industry, secondary industry and tertiary industry.

1. Primary industries are concerned with the extracting, producing and processing of natural resources. It may further be divided into extractive industries and genetic industries.

i. Extractive Industries are engaged in the extraction (collection) of useful materials from the earth and sea. Mining, fishing, quarrying etc. are the examples for extractive industries. The products of these industries are either directly consumed or used as raw materials by other industries.

b. Genetic Industries are engaged in the reproduction or multiplication of plants and animals. E.g. Plant nurseries, Poultry farms, cattle breeding farms etc.

2. Secondary Industries are concerned with the materials which have already been produced at the primary stage, and they are again classified into Manufacturing industries and Construction industries.

a. Manufacturing Industries are engaged with the conversion of raw materials into finished goods. E.g. cotton into textiles, timber into furniture etc. they change the form of goods i.e. raw material into finished goods and thus create form utility. Manufacturing industries usually produce consumer goods such as soap, cloth, tooth paste etc., industrial goods such as steel, cement etc. and Capital goods such as machinery and tools.

Types of Manufacturing Industries:

i. Analytical industry – Separates different elements from the same material. Eg: oil refinery.
ii. Synthetical industry – Combines various ingredients into a new product. Eg: Cement.
iii. Processing industry – Go through successive stages for manufacturing a finished product. Eg: sugar, paper etc.
iv. Assembling industry – Assembles different component parts to make a new product. Eg: TV, Car, Mobile Phone, Computer etc.

b. Construction Industries are engaged in the construction of buildings, dams, roads, bridges etc. and they use the products of manufacturing industries and extractive industries.

3. **Tertiary Industries** are providing support services to primary and secondary industries and it form part of commerce. All service activities which are auxiliaries to trade like transport, banking, insurance, warehousing, communication, packaging, advertising etc. fall under this category.

COMMERCE

Commerce is concerned with the buying, selling and distribution of commodities and it is an organized system for the exchange of goods and services in between the businessman and the customers. It is also concerned with the marketing aspects of business, i.e. supply of right type of goods to the right persons, at the right time and at the right price. Thus commerce includes trade and aids to trade.

Definition – Commerce can be defined as the sum total of all those activities which are involved in the removal of hindrances in the process of exchange of goods.

TRADE

Trade means buying and selling of goods, which involves the exchange of commodities for money or money's worth.
Types of Trade:

1. Home Trade - It is also known as domestic trade or internal trade. It means that the buying and selling of goods within the country and both the buyer and seller should belong the same nation. Home trade is of two types:

a. Wholesale Trade - It implies that the buying and selling in large quantities. A wholesaler buys goods directly from the producers and sells them to the retailers.
b. Retail Trade – It involves buying and selling of goods in small quantities. A retail trader buys goods from the wholesalers and sells them to the customers.

2. Foreign Trade – It is also known as External trade or international trade. It involves the buying and selling of goods and services in between the persons belonging to two or more countries. Foreign trade is of the following types:

a. Export Trade – It implies the sale of goods to foreign countries.
b. Import Trade – It refers to the purchase of goods from foreign countries.
c. Entrepot Trade – It means importing goods from one country for the purpose of exporting them to some other countries.

Aids to Trade (Auxiliaries to Trade)

The activities which assist trade are called aids to trade or Auxiliaries to Trade. It includes Transport, Banking, Insurance, Warehousing, Advertising etc. These service enterprises facilitate movements, storage, finance, risk coverage and sales promotion of goods.

1. **Transport and Communication –** Usually production takes place in certain locations and consumption all over the country, for instance tea is produced in Kerala and Assam, Jute in West Bengal, here there is an obstacle or barrier of place. This is removed by transport through various modes such as road, rail or water transport.

   Along with transport there arises the need for communication. This will help producers, traders and consumers in exchange of information. Postal service, telephones and other modern means of communication may be regarded as auxiliaries to business activities.

2. **Banking and Finance –** All business concerns need fund for acquiring assets, raw materials and meeting day today expenses. Finance is the foundation of all business provided by banks. The banks accepts deposits from the public and provide credit facilities for business. They generally lend money by providing overdraft and cash credit facilities, loans and advances and discounting of bills. Besides, they undertake collection of cheques, remittance facilities and various other services to the business community.
3. **Insurance –** In business, there are a lot of chances of risks such as damage to property and human resource (employees), such as fire, earthquake, theft, damage of goods in stock and transit. Insurance has been emerged for the fulfillment of this need. On payment of a nominal amount called premium, the amount of loss or damage is compensated by the insurance company.
4. **Warehousing –** Production is always in anticipation of future demands, so that the products are to be kept in good condition until they are sold. Storage of goods is done by warehouses specially constructed for this purpose. They facilitate the availability of goods when required. Thus warehousing stabilizes prices by equalizing supplies.

5. **Advertising –** It is an important device for promoting sales. It is not an easy task to reach millions of customers; therefore, promoting sales, information about the product must be made available to the potential buyers though advertising. Thus advertising makes possible marketing of goods and services on a large scale.

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Chapter – 2

FORMS OF BUSINESS ORGANIZATION

Forms of Business Organisations (Private Sector Undertakings):

Private business enterprises can broadly divided into two, ie; corporate enterprises and non-corporate enterprises. Joint Stock companies and co-operative organizations form part of corporate organizations. While non-corporate organizations consist of Sole-proprietorship, Joint Hindu Family Business and Partnership firms.

I. Sole Proprietorship

It can be said that a "one man business" as he invests the entire capital, bears all the risks, takes all the advantages and manages the business by himself. It is also called Individual Proprietorship.

Features of Sole Proprietorship Business:

a. Formation and closure is easy – No separate law that governs sole proprietorship.
b. Liability – Unlimited.
c. Sole risk bearer and profit recipient
d. Control – Complete control of business is held with the proprietor himself.
e. No separate entity for the business from the businessman – So that the owner is held liable for all the activities of the business.
f. Lack of business continuity – Since the business and owner are one and the same entity, his death, insanity etc. will affect the existence of the business.

Merits of Sole Proprietorship

a. Quick decision making – No need to consult with others.
b. Confidentiality of information – Secrecy can be maintained.
c. Direct incentive - All the profit goes to the proprietor.
d. Sense of accomplishment – Personal satisfaction by working for himself.
e. Ease of formation and closure – Only minimum legal formalities.

Limitations of Sole Proprietorship

a. Limited resources – Capital is limited and the size of business is small.
b. Limited life – As the business has no separate legal entity.
c. Unlimited liability – even the personal properties are attached.
d. Limited managerial ability.

II. Partnership

In order to overcome the difficulties of sole proprietorship business, a new form of business organization has been emerged and it is called Partnership Business.

Definition – Section 4 of the Indian Partnership Act 1932 defines partnership as *"the relation between persons who have agreed to share profit of a business carried on by all or any of them acting for all."*

Features of Partnership

a. **Formation -** The formation of partnership is based on the agreement among the partners to run a lawful business and it may be either oral or written. But two people coming together for charitable purpose is not a partnership.
b. **Liability -** The liability of each partner is unlimited i.e. even their personal properties are held liable for the debts of the partnership firm.
c. **Risk bearing –** All the risk of loss is shared by the partners as they are sharing profits of the firm.
d. **Decision making and control –** Decisions are generally taken with mutual consent.
e. **Continuity –** A partnership is purely a personal organization and it has no separate legal existence apart from its members, hence it lacks continuity.
f. **Membership – (2 to 50).** Minimum number of members is 2. According to Section 464 of Companies Act 2013 maximum number of partners can be 100, subject the number prescribed by the government. At present it is limited to 50 by Govt. of India.
g. **Mutual agency –** Each partner is an agent of the other partners as well as the firm.

Partnership Deed

It is the document which contains all the terms and conditions of partnership and it can be altered at any time with the consent of all the partners. This agreement may be either oral or written; however it will be better in writing itself to avoid disputes in future. It is also known as the “Articles of Partnership”.

Contents of Partnership Deed

1. Name of the firm
2. Names and addresses of all partners
3. Nature and place of business
4. Date of Commencement of partnership
5. Duration of partnership, if any
6. Capital contribution by the partners
7. The amount which can be withdrawn by each partner
8. Rules regarding operation of bank accounts
9. Division of profits or losses
10. Interest on capital or drawings, if any
11. Interest on partner’s loan to the firm
12. Salaries, commission, etc. if payable to any partner
13. Details of division of work among the partners
14. The ascertainment of goodwill on admission, retirement and death of a partner.
15. Settlement of accounts in the event of retirement or death of partners.
16. Settlement of accounts on dissolution of the firm
17. Provisions relating to the maintenance and audit of accounts
18. Provisions for arbitration in the event of disputes
19. Provision regarding borrowings of the firm
20. Rights, duties and liabilities of partners

III. Co-operative Societies

The word co-operation implies joint effort; through joint effort we can attain greater success than individual effort. A co-operative society is a voluntary associations of persons constituted for the purpose of protecting their economic and social interest.

The basic principle of co-operative society is “Self help through mutual help” or in other words, “each for all and all for each”.

Features of Co-operative organizations

1. **Voluntary Membership** – Anybody can become a member in a co-operative society at his own wish and there is no compulsion at all.
2. **Legal Status** – As the registration of a cooperative society is compulsory, it gets separate legal entity and continuous existence.
3. **Limited Liability –** The liability of the members is limited.
4. **Control –** Control is vested in the hands of board of directors who are elected by the members under the principle of one man one vote.
5. **Service Motive –** The main objective is to render services to its members rather than profit.

IV. Joint Stock Companies

With the rapid growth of commerce and industry, the size of business began to increase and owing to the need for the establishment of large scale enterprises. In these circumstances the sole traders and partnership found themselves unable to supply all the necessary capital and managerial skill, moreover that they were unable to bear all the risks of that much a large scale business. Therefore a new form of business organization came into existence and that is the Joint Stock Companies.

Definition – A company is a voluntary association of persons having separate legal existence, perpetual succession and a common seal.

As per Companies Act 2013, a company means company incorporated under this Act or any other previous company law.

Previous Company Laws:

1. Act relating to companies in force before the Indian Companies Act 1866
2. The Indian Companies Act 1866
3. The Indian Companies Act 1882
4. The Indian Companies Act 1913
5. The Registration of Transferred Companies Ordinance 1942
6. The Indian Companies Act 1956

Features of a Company

1. **Artificial Person –** A company is created by law and exists independent of its members and it can own properties, borrow funds, enter into contracts in its own name, but it is not a natural person.
2. **Separate Legal Entity** – As the company is a registered body, it is treated as a legal person and its assets and liabilities are separate from those of its owners.
3. **Formation** – Formation of a company is a time consuming and expensive process as it involves the preparation of several documents and the registration is compulsory under Companies Act 2013 or any other previous company laws.
4. **Perpetual Succession** – A company is created by law and hence only the law can bring an end to its existence, i.e. the death, insanity, insolvency or lunacy of members does not affect the life of the company.
5. **Control** – The owners of a company are the members or shareholders, whereas the management and control is vested in the hands of directors elected by the members.
6. **Liability –** The liability of members is limited to the extent of their capital contribution only. The members can be asked to contribute to the loss only if any unpaid amount on shares held by them.
7. **Common Seal –** A company may or may not have a common seal. As it is an artificial person it cannot sign documents for itself. Therefore a common seal is used for its signature.
8. **Risk bearing –** The risk of loss in a company is borne by all the shareholders, so that it will not become a heavy burden to them.

Types of Companies

Companies are classified as:

a. Private Companies.
b. Public Companies
c. One Person Companies.

a. Private Company

A private company is defined as a company by its Articles of Association, restricts the right to transfer the shares, has a minimum of 2 and maximum of 200 members excluding the present and past employees, does not invite public to subscribe to its securities and it is necessary to use the word private limited after its name.

b. Public Company

As per Companies Act, 2013, a *Public Company is a company which is not a private company*. In other words it has no restriction on the right of members to transfer the shares, has a minimum of 7 members and no limit on maximum members and permits to make any invitation to public to subscribe to its shares and debentures.

However, a private company which is the subsidiary of a public company is treated as a public company.

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Chapter – 4

SERVICE SECTOR AND BUSINESS

Business Services

BANKING

According to the Banking Regulations Act 1949, banking means "**accepting for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise and may be withdrawn by cheque, draft or otherwise**".

Types of Banks

1. Commercial Banks
2. Co-operative Banks
3. Specialized Banks
4. Central Bank

1. Commercial Banks – These are the institutions dealing in money and credit. They are governed by Indian Banking Regulation Act 1949.

Types of Commercial Banks:- Commercial banks are classified on the basis of their ownership.

a. **Public Sector Banks:** They are the banks which are owned and managed by the government with a view to channelize bank credit in line with national priorities. Government of India nationalized fourteen commercial banks in 1969 and another six commercial banks in 1980.

b. **Private Sector Banks:** They are owned and managed by private parties. Even though they are governed by the RBI, they are free to evolve their own policy decisions regarding the banking operations. About to be 34 private sector banks are their in India like IDBI, ICICI, Federal Bank, Catholic Syriyan Bank, Dhanalkshmi Bank etc. and ICICI Bank is the largest private sector bank in India.

2. **Cooperative Banks –** Banks organized based on cooperative principles. They are governed by the provision of State Cooperative Societies Act. It is an important source for rural credit.
3. **Specialized Banks –** Organized to render specific services to the public. Eg., Foreign Exchange Banks, Industrial Banks, Export-Import (EXIM) Banks etc.
4. **Central bank –** This is also known as bankers' bank, which controls and regulates the operations of all commercial banks in the country. It acts as banker to the government and controls the currency and credit policy of the country. The Reserve Bank of India is the central bank of our country established in 1935.

Functions of Commercial Banks:

PRIMARY FUNCTIONS –

a. **Accepting Deposits:** It accepts deposits from the public in the form Fixed Deposits, Savings Bank Deposits, Current Deposits, Recurring Deposits etc.

b. **Lending of Funds:** Lending of money is the main business of commercial banks and the interest charged on such advances is the main source of income. It may be in the form of cash credit, overdraft, discounting of bills, term loans etc.

SECONDARY FUNCTIONS – It include agency services and general utility services. Agency services are offered to the customers and general utility services to the public.

a. **Cheque facility** - Collection of cheques is an important service provided by the bank to its customers. It may be crossed cheques (encashed through account only) and bearer cheques (encashable at the bank counters).
b. **Remittance of funds** – Transfer of funds from one account to another is made possible by issuing demand drafs (DD).
c. **Allied services (Personal Services) –** It include Payment of insurance premium, telephone charges etc. and the collection of dividend, interest etc.

E – Banking – Electronic banking or internet banking means that, any user can get connected to the bank's website to perform banking operations and services with help of a computer or mobile phone.

E-Banking Services

a. Automated Teller Machine (ATM)
b. Electronic Funds Transfer (EFT)
c. Point of Sale (Pos)
d. Electronic Data Interchange (EDI) – Business documents like invoices, shipping bills etc. can be sent to the parties in electronic format.
e. Credit Cards

Benefits of E-Banking

a. Any time service – Providing round the clock service.
b. Any where banking is possible (either at home, or office)
c. Creates financial discipline.
d. Less risk and greater security (risk of handling cash may be eliminated)
e. Work load on branches reduced.

INSURANCE

Insurance can be defined as a contract in writing whereby one party, called the **insurer** agrees in consideration of either a single or a periodical payment called the **premium** to indemnify another party called the **insured** against loss or damage resulting on the happening of a specified event or events.

The document containing the terms of contract of insurance is known as the **Policy.** Insurance is a method of averaging risks. Everyone contributes a small amount in order to pay out the affected who loses heavily.

Principles of Insurance

1. **Utmost Good Faith –** While entering into a contract of insurance, all the material facts are to be disclosed, otherwise it will become void.

2. **Insurable Interest –** The insured must have an interest on the subject matter of insurance, otherwise the contract of insurance become void. E.g. a person who has advanced money on the security of a house, has an insurable interest on that house.

3. **Indemnity –** All insurance except life insurance and personal accident insurance are based on the principle of indemnity. Here the insured is entitled to get only the actual amount of loss suffered by him and it will not be a source of profit.

4. **Causa Proxima (Proximate Cause) –** It means the nearest cause. It says that an insured can recover the loss only when it is caused by any of the risk insured against.

5. **Subrogation –** This principle states that, after the payment of loss to the insured on the property, the whole right of such property is entitled with the insurer. This right is exercised by the insurer to earn any compensation for the damages on the property either from the party who were responsible for such damages or by the sale of such property to some others. This is because the insured should not make profit by selling the damaged property.

6. **Contribution –** This principle applies only when the same subject matter is insured with different insurers, here the actual amount of loss is divided among various insurers. In this case the contribution of each insurer can be calculated by the following equation:

   Liability of one insurer = Sum insured with that insurer / Total sum insured X Loss

   e.g. A house is insured against fire for Rs.50000 with A Co. and for Rs.25000 with B company. There is an actual loss of Rs.15000. Here the insured can recover the loss from both the companies as follows:

   Liability of A Co. = 50000 / 75000 X 15000 = 10000
   Liability of B Co. = 25000 / 75000 X 15000 = 5000
   Total 25000
   =====

7. **Mitigation of Loss –** It is the duty of the insured to take preventive measures to minimize the loss of the property. If any expenses are incurred by him for such activities, he is entitled to get that much of amount along with the compensation from the insurance company.

WAREHOUSING

As the production is carried out on the anticipation of future demand, the finished goods are to be stored until it is being utilized in a good condition in a well equipped godown. *"A warehouse is an establishment for the storage and accumulation of goods"*

Types of Warehouses

1. **Private Warehouses –** These are owned by large business houses to store their own stock.
2. **Public Warehouses -** They are also known as duty-paid warehouses. They are owned and managed by some agencies whose main occupation is to provide storage space against the payment of certain fees. They have to obtain a license and their working is subject to some government regulations.
3. **Bonded Warehouses –** It may be owned by dock authorities or private individuals under the strict supervision of customs authorities. They are licensed by the government to accept imported goods for storage before the payment of customs duty by the importers of such goods. It is the duty of the owner of the warehouse to collect the customs duty of the goods removed from the warehouse by the importer. Goods stored in such a warehouse is said to be 'in a bond' and therefore the warehouse is known as "Bonded Warehouses".
4. **Government Warehouses –** They are owned by Government . E.g. Central and State Warehouses, FCI, STC etc.
5. **Co-operative Warehouses –** They are owned by co-operative undertakings such as National Co-operative Development Corporation, Co-operative Marketing Federations etc.

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Chapter – 5

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 like production, inventory management, product development, accounting and finance, human resource management etc. can be carried out over computer networks.

E-Commerce: Commercial transactions conducted electronically on the internet is called 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
1. Ease of Formation	Difficult	Simple
2. Physical presence	Required	Not required
3. Location requirement	Important	Not important
4. Cost of setting up	High	Low

5. Operating cost	High	Low
6. Contact with suppliers and customers	Indirect through intermediaries	Direct
7. Business process and length of cycle	Long time	Shorter
8. Interpersonal touch	More	Less
9. Ease of going global	Less	More
10. Employees	Semi-skilled or unskilled	Technically and professionally qualified
11. Transaction risk	Low due to face to face contact	High due to lack of personal contact

Outsourcing

It means source from outside. In other words outsourcing refers to hiring out non-core activities of business to third party specialists to take advantage of their experience, expertise and efficiency in performing such activities.

The term outsourcing is popularly known as **BPO** (Business Process Outsourcing and the idea behind this concept is that a business can concentrate in its core areas and leaving other activities as BPOs.

Eg: 1. Canteen in a business organization to a hotel.
2. Transportation of raw materials in a factory to a transport agency.
3. Selection of employees to a recruitment agency etc.

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Chapter – 6

SOCIAL RESPONSIBILITIES OF BUSINESS & BUSINESS ETHICS

Social Responsibility

It is very clear that no business can be survived without the support of the society, as it is run by the people, through the people and for the people. Because of the same reason it has certain responsibilities towards the society.

Social responsibility refers to the obligations of the businessmen which are desirable in terms of the objectives and values of our society.

Kinds of Social Responsibility

1. **Economic responsibility –** Since the business is an economic entity, it has to produce goods and services that society wants and sells them at a profit.
2. **Legal responsibility –** Business enterprises have the responsibility to operate within the laws of the country.

3. **Ethical responsibility –** It refers to the moral principles to be followed by the businessmen in relation to the society. Eg: Protecting religious sentiments and dignity of people while advertising a product.
4. **Discretionary responsibility –** This is voluntary obligation of a business enterprise. Eg; giving charity to an educational institution, helping people in natural calamities etc.

Social Responsibility towards different Interest Groups

As a socio-economic institution business is always in touch with various groups such as owners, employees, customers, suppliers etc. and it has to discharge certain responsibilities as follows:

1. **Owners:**
   a. Safety of investment.
   b. Adequate return on investment.
   c. Accurate financial information should be provided.
2. **Employees:**
   a. Fair wages
   b. Job security
   c. Promotion opportunities
   d. Welfare measures
   e. Better working conditions
   f. Participation in management
3. **Consumers:**
   a. Regular supply of commodities.
   b. Better quality
   c. Reasonable Price
   d. Avoidance of unfair trade practices.

4. **Suppliers:**
   a. Better relationship
   b. Prompt payment.
5. **Government and Community**:
   a. Lawful business.
   b. Prompt payment of tax.
   c. Help the government in socio-economic development (employment opportunities, literacy, poverty etc.)
   d. Optimum use of natural resources.
   e. Concentrate in safety and welfare of the people.
   f. Control pollution as far as possible.

Business & Environmental Protection

The health and well being of people depends on the quality of environment in which they live and work. Rapid industrialization and growing traffic have caused a great damage to the environment.

Pollution is the injection of harmful substances into the environment largely because of industrial production. It changes the physical, chemical and biological characteristics of air, water and land.

Causes and Types of Environment Pollution:

1. **Air Pollution:** It is the contamination of air by the accumulation of harmful or toxic substances which will create serious health problems to living organisms, monuments etc.

2. **Water Pollution:** Water is said to be polluted when it is changed in the quality as a result of waste disposal and other human activities, so that it become less suitable for drinking.
3. **Land Pollution / Soil Pollution:** It may be due to the dumping of non-degradable waste material into the land from industrial units, hospitals, hotels, dwelling units etc. This damages the quality of soil making it unfit for cultivation.
4. **Noise / Sound Pollution:** It may cause damages to the human body and mind, the smooth functioning of hospitals, educational institutions etc. Industrial units, Automobiles etc. are the major sound pollutants.

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Chapter – 7

Formation of a Company

Formation of a company involves the following stages:

1. Promotion
2. Incorporation
3. Subscription of Capital

A private company has to complete only the first two stages, while a public company must undergo all the three stages.

I. Promotion

It refers to the sum total of activities by which a business enterprise is brought into existence, or in other words the business operations by which a company is established. Promotion is the discovery of business opportunities and the subsequent organization of funds, property and management ability into business concern for the purpose of making profit there from.

Promoter

The persons who perform the work of promotion and bring an enterprise into existence are known as promoters. A promoter is an entrepreneur or businessman who gives birth to a business concern and a promoter may be an individual, a firm or a company.

Functions of Promoters

1. **Identification of business opportunity –** Here the promoters have to discover a business idea. It may be about a new line of business or the expansion of an existing business.

2. **Feasibility studies –** It involves the evaluation and analysis of the potential of the proposed project. Promoters may conduct the following types of feasibility studies:

   a. Technical feasibility – Here the promoters have to ensure the project is technically possible such as availability of raw materials, infrastructure, adequate technology etc.
   b. Financial feasibility – If the project requires large funds which cannot be raised within the available means, it is better to stop that project.

c. Economic feasibility – Even if the project is technically and financially viable, it may have poor profitability, so that the promoters have to take expert advice.

Only when the above feasibility studies give positive results, the promoters can launch the new project.

3. **Name approval –** They have to select a name for the company and it should not be identical or same to an existing company. If it is satisfied by the Registrar of Companies, it will approved.
4. **Fixing up of signatories to the Memorandum of Association –** Here the promoters have to fix the members who are willing to sign the MoA and obtain their written consent to act as directors and to take the qualification shares.
5. **Appointment of professionals –** The promoters are entitled to appoint professionals like mercantile bankers, auditors etc. to assist them in the formalities of registration of the company.
6. **Preparing necessary documents –** The promoters are bound to prepare necessary documents for registration such as Memorandum of Association, Articles of Association, Prospectus or Statement in lieu of prospectus, list of directors etc.

Documents Required to be Submitted for Registration of Companies

1. Memorandum of Association (MoA)
2. Articles of Association (AoA)
3. Consent of Proposed Directors
4. Agreements if any
5. Statutory Declaration
6. Payment of Fees

1. Memorandum of Association -

It is the most important document of a company. It defines the objects and powers of a company and the company's relationship with the outside world. While preparing the Memorandum of Association, great care should be taken, because the company cannot go beyond the limits laid down in it as it is the charter or magna carta of the company.

Contents of Memorandum (Clauses of MoA)

1) **Name Clause –** It contains the name of the company. A company can have any name subject to the following conditions: -
   a. The name must not be identical to the name of an existing company.
   b. The name should not give an impression that the company has a connection with the government or national heroes.
   c. The name should end with the word "Limited" or " Pvt. Limited" as the case may be.

2) **Domicile Clause or Situation Clause –** It contains the place or State where in the company's registered office is situated. Exact address is not required at the time of registration but it should be informed to the Registrar within 30 days.

3) **Objects Clause –** It defines the purpose for which the company is formed. i.e. the aim of the company be disclosed in the object clause.
4) **Liability Clause –** This clause limits the liability of members to the amount unpaid on the shares owned by them. Eg: Face value of a share is Rs.10, on which Rs.6 paid, the liability of the shareholder is limited to the balance amount of Rs.4 only.

5) **Capital Clause –** This clause states the maximum capital (authorized capital) with which the company is to be incorporated along with its division, ie: 1 lakh shares of Rs.10 each comprises a total capital of Rs.10 lakhs.
6) **Association Clause –** It is in the form of a declaration stating the willingness of the members to associate in order to form a company and to take shares in the company. It must be signed by at least 7 persons in case of a public company and by at least 2 in case of a private company.

2. Articles of Association - It is the byelaw of a company. It contains the rules and regulations for the internal management of the company. It is subsidiary to MoA and hence it should not contradict with anything stated in MoA.

A public company may have its own AoA or may adopt Table F,G,H,I or J. These Tables are model AoA given in Companies Act 2013 for different types of companies such as Company Limited by shares (Table F), Company Limited by Guarantee (Table G) etc. which contains the rules and regulations regarding internal management of a company.

3. Consent of Proposed Directors - A written consent of proposed directors is also required to confirm that they agree to act as directors and to undertake qualification shares.

4. Agreement – Agreement with any individual for appointing him as Managing Director or whole time director or manager is another document to be submitted to the Registrar.

5. Statutory Declaration – It should be submitted to the Registrar stating that all legal formalities have been complied with. It must be signed by any one of the following: an advocate of high court or supreme court, a chartered accountant, a director of the company, manager or secretary of the company.

6. Payment of Fee – Along with all the above documents, necessary fee has to be paid for registration based on the authorized capital of the company.

Differences between Memorandum and Articles of Association

Basis	**MoA**	**AoA**
Objectives	Defines the objects for which the company is formed	Rules of internal management and it indicates how the objectives of company are to be achieved
Position	Main document of the company and it subordinates to the Companies Act	Subsidiary document and it subordinates to MoA
Relationship	Defines the relationship of company with outsiders	Defines the relationship of members and the company
Validity	Acts beyond the MoA are invalid	Acts which are beyond AoA can be ratified by the members without violating MoA
Necessity	Every company has to file a MoA	It is not necessary for a public ltd. company to file Articles, but it can adopt Table F of the Companies Act 2013

Prospectus

It is a document, notice, circular or advertisement inviting offers for subscription or purchase of any shares or debentures of a company from the public. A public limited company limited by shares must issue a prospectus if it intends to issue the shares to the public and a copy of the same should be filed with the Registrar.

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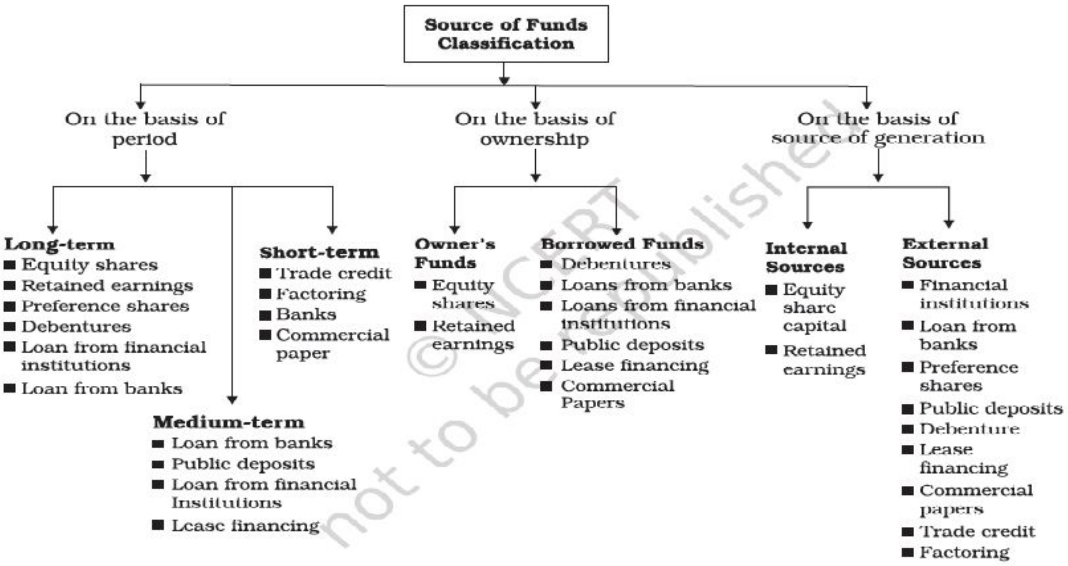
Chapter – 8

Sources of Business Finance

Business finance refers to the money and credit invested or employed in the business firm. It is concerned with the acquisition and utilization of capital in meeting the financial needs and overall objectives of a business enterprise. Finance is very important to the business as it is the lifeblood of an organization. Without adequate amount of finance an enterprise cannot function smoothly.

Classification of sources of funds:



Retained Earnings or Ploughing Back of Profits - Usually a part of the profits is transferred to the reserves every year and it can be retained or reinvested in the business for its modernization, expansion etc. Reinvestment of undistributed profits is a very good source of business finance.

Issue of Shares

The capital of a company is divided into a large number of equal parts or units. Each such unit is called a share. In other words <u>share is the share in the share capital of a company</u>. The aggregate value of shares is known as share capital.

Those who subscribe to the share capital become the members of the company and are called share holders and they are getting the status of owners in the company. Hence shares are also described as ownership securities. Two types of shares are issued by companies to raise its capital such as Equity shares and Preference Shares.

a. **Equity Shares (Ordinary shares) –** Equity shares are those shares which do not carry any special or preferential rights in payment of dividend or repayment of capital. Equity share holders are the risk bearers as well as the real owners as they are entitled to receive any money only after the payment of all other debts. The amount raised by the issue of equity shares is known as equity share capital.

b. **Preference Shares –** A preference share is one which carries certain preferential rights with regard to the payment of dividend at a fixed rate during the continuance of the company and repayment of capital on the winding up of the company. The capital raised by issue of preference shares is called preference share capital.

Privileges of a Preference Shareholder

i. Right to get the dividend first at a fixed rate, before it is given to the equity shareholders.

ii. Right to get the repayment of capital on winding up, before it is paid to the equity shareholders.

Issue of Debentures

In simple meaning debenture is a written document of debt. In other words, it is a written acknowledgement of debt by a company which contains the provisions regarding payment of interest and repayment of principal amount.

A company can issue debentures, if permitted by its Memorandum of Association and Articles of Association to invite the general public to contribute to its loan capital in the same manner as it invites the share capital. A person who holds the debenture is called Debenture holder and he has the status of a creditor of the company.

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Chapter – 10

Internal Trade

TRADE

Trade means buying and selling of goods, which involves the exchange of commodities for money or money's worth. On the basis of scale of operation, internal trade can be divided into Wholesale trade and Retail trade.

Retail Trade - It involves buying and selling of goods in small quantities. A retail trader buys goods from the wholesalers and sells them to the customers. In other words, retail trade includes all activities directly related to sale of goods or services to ultimate consumers for consumption.

Types of Retail Trade

1. **Itinerant Traders** - These types of traders are having no fixed place of business, they may include vendors like hawkers, street traders etc.
2. **Fixed shop retailers** – They maintain permanent shops or stores to sell their goods.

Fixed Shop Retailers

These retailers are those who carry on business by maintaining a fixed place of business to sell their goods. They do not move from one place to another. Depending upon the size of operations, they can be of two types, such as Small scale Retailers and Large scale retailers.

Large Scale Retailers – Large scale retailing may be defined as retail trade involving operations on a large scale and sale of goods in small quantities. They are of different types:-

a. **Departmental Stores**– A departmental store is a large scale retail shop selling a wide variety of goods in different departments under one roof and one management. Each department deals in separate line of goods like stationery, books, furniture, clothing, footwear etc.

Features

- They provide **additional facilities** like restaurant, telephone booth, rest room, play area etc.
- Usually located in central place of a big city.
- It is a large scale retail organization, generally formed as joint stock companies.
- Elimination of middlemen – They are making their purchases directly from the producers.
- Centralized purchases and decentralized selling.

b. **Multiple Shops or Chain Stores -** It is a system of branch shops operated under a centralized management and dealing in similar line of goods. Branches of the shop are located throughout the nation under the same name and management and they specialize in one or two lines of goods.

Multiple shops are organized by the manufacturers to eliminate middlemen. In a multiple shop there is uniformity in advertisement, window display and interior display of goods etc. e.g. Bata shoe company, Bombay Dyeing Show Rooms, Big Bazar, Coffee Day, Raymonds, KFC etc.

Advantages

- Economies of large scale buying – Centralized purchase attracts higher discount, low transportation cost, common advertisement etc.
- Elimination of middlemen – Direct bulk purchase from producers.
- No bad debts – They follow cash and carry system.
- Diffusion of risk – Loss in one shop may be compensated by the profits in other shops.
- Low cost – Low cost of operation because of economies of scale.
- Flexibility – Unprofitable branches can be shifted to somewhere else.

Limitations

- Limited choice – as they deal in one or two lines of goods.
- Lack of initiative and motivation – Due to centralized control, there is only less chance for initiatives from the part of the branch managers.
- No personal contact due to large scale operations.
- Risk due to change in taste and fashion lead to great loss.

c. Super Bazaar (Super Market) – It is also a large scale retail store selling a wide variety of consumer goods. The most distinctive feature is the absence of salesmen and shop assistants to help the customers in selecting the goods. Hence they are also called 'Self Service Stores'.

Various products are arranged in well marked divisions or departments on open shelves. They are neatly packed and the weight, price, quality etc. are marked on the packets. Customers pick the required products and place them on baskets or wheeled trolleys etc. and are placed at the counter where the goods are billed and payment is made.

Features:

- Wide variety – Buyers can purchase a wide variety of products under one roof.
- Self service – Super markets functions on the principle of self service which results in lower operating cost.
- Low price – Because of bulk purchase and lower operating cost, they can sell their products at low price than other retail shops.
- Cash basis – This feature helps them to eliminate bad debts.
- Centrally located – Generally located at central place of a city.

d. Vending Machine - These are coin operated machines found very suitable in selling products like hot beverages, platform tickets, soft drinks, newspaper etc. ATM (Automated Teller Machine) is also a vending machine in banking business.

They are suitable for selling pre-packed items of low priced products, with uniform size and weight. Initial cost of the machine, maintenance charges etc. are high. Another drawback is that the consumers cannot see the product before buying. No return of goods is possible.

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Prepared by: **Ajith Kanthi @ Ajith P P** Wayanad Kerala Ph: 9446162771

BUSINESS STUDIES

Sl No	Name of Chapter	Focus Area
1	**Business, Trade and Commerce**	1. Concept of Business 2. Characteristics of Business Activities 3. Classification of Business Activities 4. Industry and its Categories 5. Commerce 5.1 Trade and Auxiliaries to Trade
2	**Forms of Business Organisation**	1. Sole Proprietorship – Features, Merits and demerits 2. Partnership - Features 3. Partnership Deed and its Contents 4. Cooperative Societies - Features 5. Joint Stock Company – Features 6. Public Company and Private Company
3	**Business Services**	1. Commercial Banks and its Functions 2. e-Banking 3. Insurance - Principles 4 Warehousing - Types
4	**Emerging Modes of Business**	1. Concept of e-Business 2. Difference between e-business and traditional business 3. Concept of Outsourcing
5	**Social Responsibility of Business and Business Ethics**	1. Concept of Social Responsibility 2. Kinds of Social Responsibility 3. Social Responsibility towards different Interest Groups 4. Environmental Protection- Types of Pollution
6	**Formation of a Company**	1. Functions of a Promoter 2. Memorandum of Association and its Contents 3. Articles of Association 4. Differences between Memorandum of Association and Articles of Association 5. Prospectus
7	**Sources of Business Finance**	1. Sources of Finance 1.1 Retained Earnings 1.2 Issue of Shares - Equity shares - Preference Shares 1.3 Debentures
8	**Internal Trade**	1. Retail Trade 2. Fixed Shop Retailers 3. Large Retailers 3.1 Departmental Stores and its Features 3.2 Multiple shops – Merits and Limitations 3.3 Super Markets – Features 4. Vending machines