Focus area notes of Business Studies – Class 11

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Chapter 1
BUSINESS, TRADE AND COMMERCE

CONCEPT OF BUSINESS

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 earning profits.

Characteristics of Business Activities

(i) An economic activity: Business is considered to be an economic activity ,because it is undertaken with the objective of earning money or livelihood.

(ii) Production or procurement of goods and services: 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.

(iii) Sale or exchange of goods and services: Directly or indirectly, business involves transfer or exchange of goods and services for value.

(iv) Dealings in goods and services on a regular basis: Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business.

(v) Profit earning: One of the main purpose of business is to earn income by way of profit.

(vi) Uncertainty of return:No business can predicts its future profit as it is uncertain.

(vii) Element of risk: Risk is the uncertainty associated with an exposure to loss.

CLASSIFICATION OF BUSINESS ACTIVITIES

Business activities may be classified into two broad categories —***industry and commerce.***

Industry is concerned with the production or processing of goods and materials.

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***.

a. Extractive Industries are engaged in the extraction (collection) of useful materials from the earth and sea. Mining, fishing, agriculture, quarrying etc. are the examples for extractive 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: These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals.

(iii) Tertiary industries: These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities. It includes transportation, banking, insurance, warehousing, communication,packaging and advertising.

Commerce

Commerce includes all those activities, which are necessary for facilitating the exchange of goods and services.

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".

Commerce includes two types of activities, viz., (i) T**rade and (ii) Auxiliaries to trade. Or Aids to Trade.**

Functions of Commerce –

1. Removal of Hindrance of Person: It refers to the **lack of contact between the producers and customers.** Here the trader acts as an intermediary among them and customers are able to find out the products which they are wanted from the market.

2. Removal of Hindrance of Place: It is a common problem that the producers and customers are in distant places, hence the commodities should be transferred from the production centre to the hands of customers. This problem can be solved by the system of commerce by means of **transport.**

3. Removal of Hindrance of Risk: Goods and properties of business are subject to various risk such as fire, theft, damage etc., and they have to be protected by **insuring** the goods and properties.

4. Removal of Hindrance of Time: There may be a gap between the production and consumption as the production is carried out in anticipation of future demands. Therefore, it becomes necessary to store the goods until they are sold. This problem can be solved by **warehousing.**

5. Removal of Hindrance of Knowledge: **Advertising** helps in the removal of hindrance of knowledge among the buyers.

6. Removal of Hindrance of Finance: The problem of finance can be handled by **banks,** which form part of commerce. It will also help the businessman in exchange of money between different persons at different places.

Trade

Trade is an essential part of commerce. It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to the consumers or users.

Trade may be classified into two broad categories – **Internal and External.**

Internal, domestic or home trade is concerned with the buying and selling of goods and services within the geographical boundaries of a country.

This may further be divided into **wholesale and retail trade**.

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.

External or Foreign trade consists of the exchange of goods and services between persons or organisations operating in 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. **Entrepôt Trade/ Re-export Trade–** It means importing goods from one country for the purpose of exporting them to some other countries.

Auxiliaries to Trade

Activities which are meant for assisting trade are known as auxiliaries to trade. These activities are generally referred to as services because these are in the nature of facilitating the activities relating to industry and trade. Transport, banking, insurance,warehousing, and advertising are regarded as auxiliaries to trade.

Auxiliaries to trade are briefly discussed below:

(i) Transport and Communication: Production of goods generally takes place in particular locations. For eg., tea is mainly produced in Assam; cotton in Gujarat and Maharashtra; jute in West Bengal and Odisha; sugar in U.P., Bihar and Maharashtra and so on. But these goods are required for consumption in different parts of the country. The obstacle of place is removed by **transport.**

Along with transport facility, there is also a need for communication facilities so that producers, traders and consumers may exchange information with one another. Thus, postal services and telephone facilities may also be regarded as auxiliaries to business activities.

(ii) Banking and Finance: Business activities cannot be undertaken unless funds are available for acquiring assets,purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance.

(iii) Insurance: Business involves various types of risks. I**nsurance** provides protection in all cases.

(iv) Warehousing: Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed.

(v) Advertising: Advertising is one of the most important methods of promoting the sale of products,particularly, consumer goods,Advertising helps in providing information about available goods and services and inducing customers to buy particular items.

CHAPTER 2
FORMS OF BUSINESS ORGANISATION

SOLE PROPRIETORSHIP

Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks. A sole proprietor is one who is the only owner of a business.

Features

(i) Formation and closure: There is no separate law that governs sole proprietorship. There is ease in formation as well as closure of business.

(ii) Liability: Sole proprietors have unlimited liability.

(iii) Sole risk bearer and profit recipient: The risk and profit is borne all alone by the sole proprietor.

(iv) Control : Complete control of business is held with the proprietor himself.

(v) No separate entity: In the eyes of the law, no distinction is made between the sole trader and his business, as business does not have an identity separate from the owner.

(vi) 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

(i) Quick decision making: A sole proprietor enjoys considerable degree of freedom in making business decisions.

(ii) Confidentiality of information: Sole decision making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy.

(iii) Direct incentive: A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profit. This provides maximum incentive to the sole trader to work hard.

(iv) Sense of accomplishment: There is a personal satisfaction involved in working for oneself.

v) Ease of formation and closure: There is no separate law that governs sole proprietorship. There is ease in formation as well as closure of business.

Limitations

(i) Limited resources: Capital is limited and the size of business is small.

(ii) Limited life of a business concern: Since the business and owner are one and the same entity, his death, insanity etc. will affect the existence of the business.

(iii) Unlimited liability: Sole proprietors have unlimited liability.

(iv) Limited managerial ability: Sole proprietors have limited managerial ability.

PARTNERSHIP

Partnership is the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.

Features

(i) Formation: The partnership form of business organisation is governed by the Indian Partnership Act, 1932.

(ii) Liability: The partners of a firm have unlimited liability.

(iii) Risk bearing: The partners bear the risks involved in running a business as a team.

(iv) Decision making and control: The partners share amongst themselves the responsibility of decision making and control of day to day activities. Decisions are generally taken with mutual consent.

(v) Continuity: Partnership is characterised by lack of continuity of business since the death, retirement, insolvency or insanity of any partner can bring an end to the business.

(vi) 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,

(vii) Mutual agency:Each partner is an agent of the other partners as well as the firm.

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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

- Name of firm
- Nature of business and location of business
- Duration of business
- Investment made by each partner
- Distribution of profits and losses
- Duties and obligations of the partners
- Salaries and withdrawals of the partners
- Terms governing admission,retirement and expulsion of a partner
- Interest on capital and interest on drawings
- Procedure for dissolution of the firm
- Preparation of accounts and their auditing
- Method of solving disputes.

CO-OPERATIVE SOCIETY

The cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. The cooperative society is compulsorily required to be registered under the Cooperative Societies Act 1912.

Features

(i) Voluntary membership: The membership of a cooperative society is voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire.

(ii) Legal Status : As the registration of a cooperative society is compulsory, it gets separate legal entity and continuous existence.

(***iii) Limited Liability :*** The liability of the members is limited.

(iv) **Control:** In a cooperative society, the power to take decisions lies in the hands of an elected managing committee.

(v) Service motive:The main objective is to render services to its members rather than profit.

JOINT STOCK COMPANY

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.

Features

(i) 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.

(ii) 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.

(iii) Formation: The formation of a company is a time consuming, expensive and complicated process.

(iv) Perpetual succession: A company being a creation of the law, can be brought to an end only by law.

(v) Control: The management and control of the affairs of the company is undertaken by the Board of Directors, which appoints the top management officials for running the business.

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(vi) Liability:The liability of members is limited to the extent of their capital contribution only.
(vii) Common seal: The company being an artificial person cannot sign its name by itself. Therefore, every company is required to have its own seal which acts as official signature of the company.
(viii) Risk bearing: The risk of losses in a company is borne by all the share holders.

Types of Companies

A company can be either a private or a public company.

Private Company

A private company means a company which:
(a) restricts the right of members to transfer its shares;
(b) has a minimum of 2 and a maximum of 200 members, excluding the present and past employees;
(c) does not invite public to subscribe to its securities and. It is necessary for a private company to use the word private limited after its name.

Privileges of a private limited company

1. Easy formation – only two members are required.
2. No need to issue prospectus.
3. Allotment of shares can be down without receiving the minimum subscription.
4. It can start the business as soon as it is incorporated.
5. Need to have only two directors minimum. (Maximum number of directors is 15 in private and public companies).
6. Not required to keep an index of members.

Public Company

A public company means a company which is not a private company. As per The 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 securities; and
(c) is not prohibited from inviting the public to subscribe to its securities.

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

Difference between a Public Company and Private Company

Basis	Public company	Private company
Members	Minimum – 7 Maximum – Unlimited	Minimum – 2 Maximum – 200
Minimum number of directors	Three	Two
Index of members	Compulsory	Not Compulsory
Transfer of shares	No restriction	Restriction on transfer
Invitation to public to subscribe to shares	Can invite	Cannot invite

Chapter –3
BUSINESS SERVICES

Commercial Banks

Commercial banks are institutions dealing in money. These are governed by Indian Banking Regulation Act 1949 and according to it banking means accepting deposits of money from the public for the purpose of lending or investment.

Functions of Commercial Banks

The important functions are:

(i) Acceptance of deposits: It accepts deposits from the public in the form Fixed Deposits, Savings Bank Deposits, Current Deposits, Recurring Deposits etc.

(ii) 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.

(iii) Cheque facility: Banks render a very important service to their customers by collecting their cheques drawn on other banks. The cheque is the most developed credit instrument, a unique feature and function of banks for the withdrawal of deposits.

(iv) Remittance of funds: Another salient function of commercial banks is of providing the facility of fund transfer from one place to another, on account of the interconnectivity of branches.

(v) Allied services: In addition to above functions, banks also provide allied services such as bill payments,locker facilities, underwriting services. They also perform other services like buying and selling of shares and debentures on instructions and other personal services like payment of insurance premium, collection of dividend 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. E-banking facilitates digital payments and promotes transparency in financial statements.
b. e-banking provides 24 hours, 365 days a year services to the customers of the bank;
c. Any where banking is possible (either at home, or office)
d. It Creates financial discipline.
e. It helps to reduce work load on branches.

INSURANCE

It is a contract or agreement under which one party agrees in return for a consideration to pay an agreed amount of money to another party to make a loss, damage or injury to something of value in which the insured has a pecuniary interest as a result of some uncertain event.

The agreement/contract is put in writing and is known as **'policy'.** The person whose risk is insured is called **'insured'** and the firm which insures the risk of loss is known **as insurer/ assurance underwriter.**

Fundamental principle of Insurance

(i) Utmost good faith: A contract of insurance is a contract of uberrimae fidei i.e., a contract found on utmost good faith. Both the insurer and the insured should display good faith towards each other in regard to the contract.

(ii) Insurable Interest: The insured must have an insurable interest in the subject matter of insurance.

(iii) 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.

(iv) Proximate Cause: According to this principle, an insurance policy is designed to provide compensation only for such losses as are caused by the perils which are stated in the policy.

(v) Subrogation: It refers to the right of the insurer to stand in the place of the insured, after settlement of a claim, as far as the right of insured in respect of recovery from an alternative source is involved. This is because the insured should not make profit by selling the damaged property.

(vi) Contribution: As per this principle, it is the right of an insurer who has paid claim under an insurance, to call upon other liable insurers to contribute for the loss of payment.

(vii) Mitigation: This principle states that it is the duty of the insured to take reasonable steps to minimise the loss or damage to the insured property.

Warehousing

A warehouse is an establishment for the storage and accumulation of goods.

Types of Warehouses

(i) Private warehouses:

Private warehouses are operated, owned or leased by a company handling their own goods.

(ii) **Public warehouses:**

Public warehouses can be used for storage of goods by traders, manufacturers or any member of the public after the payment of a storage fee or charges. These warehouses provide other facilities also, like transportation by rail and road. They are responsible for the safety of the goods. They have to obtain a license and their working is subject to some government regulations.

(iii) **Bonded warehouses:**

Bonded warehouses are licensed by the government to accept imported goods prior to payment of tax and customs duty. These are goods which are imported from other countries. Importers are not permitted to remove goods from the docks or the airport till customs duty is paid. These warehouses have facilities for branding, packaging, grading and blending.

(iv) **Government Warehouses** –These warehouses are fully owned and managed by the government. E.g. Central and State Warehouses, FCI, STC etc.

(v) **Co-operative Warehouses** – They are owned by co-operative undertakings. Some marketing cooperative societies or agricultural cooperative societies have set up their own warehouses for members.

Chapter –4
EMERGING MODES OF BUSINESS

Concept of E-Business

E-Business:e-business may be defined as the conduct of industry, trade and commerce using the computer networks. The network you are most familiar with as a student or consumer is the internet.

BENEFITS OF e-BUSINESS

(i) Ease of formation and lower investment requirement.
(ii) Convenience.
(iii) Speed.
(iv) Global reach/access.
(v) Movement towards a paperless society

Differences between Traditional and e-Business.

Basis of distinction	Traditional Business	e-Business
Ease of Formation	Difficult	Simple
Physical presence	Required	Not required
Location requirement	Important	Not important
Cost of setting up High Low	High	Low
Operating cost	High	Low
Nature of contact with the suppliers and the customers	Indirect through intermediaries	Direct
Nature of internal communication	Hierarchical	Non-hierarchical
Response time for meeting customers ' / internal requirements	Long	Instantaneous
Shape of the organisational structure	Vertical / tall	Horizontal / flat
Business process and length of cycle	Long time	Shorter
Opportunity for inter personal touch	Much more	Less
Opportunity for physical pre - sampling of the products	Much more	Less .
Nature of human capital	Semi-skilled or unskilled	Technically and professionally qualified
Transaction risk	Low due to face to face contact	High due to lack of personal contact

OUTSOURCING : CONCEPT

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.

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Chapter – 5
SOCIAL RESPONSIBILITIES OF BUSINESS & BUSINESS ETHICS

CONCEPT OF SOCIAL RESPONSIBILITY

Social responsibility of business refers to its obligation to take those decisions and perform those actions which are desirable in terms of the objectives and values of our society.

Arguments for social responsibility

1. (i) Justification for existence and growth: Business exists for providing goods and services to satisfy human needs.
2. Long term interest of the firm –A firm and its image stands to gain maximum profits in the long run when it has its highest goal as 'service to society'.
3. Avoidance of government regulations – Businessman should voluntarily assume social responsibilities, so that they can avoid government regulations. Eg: Environmental pollution.
4. Maintenance of society – If the people feel that they are not getting their due from the business, they will not support such business organisations.
5. Availability of resources with business – Available resources with the business such as managerial talent and financial resource can be utilized to solve the problems of the society when it is needed.
6. Converting problems into opportunities – Business is always looking for converting risky situations to opportunities, this quality can be utilized for solving the problems in the society.
7. Better environment for doing business – A society with fewer problems and complaints provides better environment for the business.
8. Holding business responsible for social problems - Some of the social problems such as pollution, unsafe work environment, discrimination in employment etc. Are created by business enterprises themselves, so that it is their moral obligation to solve them.

Arguments against social responsibility

1. Violation of objective – According to this argument, business exists only for profit maximisation. If the business organizations are engaged in social activities their profit will be reduced. It will affect the success of the business.
2. Burden on consumers – It is an argument that the cost of social responsibility will be shifted to the consumers by charging higher prices.
3. Lack of social skill – All social problems cannot be solved the way business problems are solved. It is an argument that the business people have no skill to take up social work as they are always engaged in business activities.
4.Lack of broad public support:
Here the argument is that the public in general does not like business involvement or interference in social programmes. Therefore, business cannot operate successfully because of lack of public confidence and cooperation in solving social problems.

Reality of Social Responsibility

1. Threat of public regulation– When business enterprises act in a socially irresponsible manner, government will act by regulating them for safeguarding public interest.
2. Pressure of labour movement – Labour movement has become very powerful now-a- days, so that the businessmen are forced to protect the interest of the workers.
3.Impact of consumer consciousness:– Business enterprises have started customer oriented policies as they are aware about their rights and privileges.
4.Development of social standard for business – Newly developed social standards consider only legitimate economic activities along with serving the society. Then only the business can survive and grow.
5. Development of business education – Because of development of business education, people are aware of the social purpose of business.

6. Relationship between social interest and business interest – Businessmen have realized that social interest and business interest are not contradictory, but they are complementary to each other.
7. Development of professional managerial class – Professional management education has created a class of professional managers who have got a positive attitude towards the social responsibility as compared to the earlier class of owner managers.

Kinds of Social Responsibility

1. **Economic responsibility** –A business enterprise is basically an economic entity and, therefore, its primary social responsibility is economic i.e., produce goods and services that society wants and sell them at a profit.
2. **Legal responsibility** –Every business has a responsibility to operate within the laws of the land. Since these laws are meant for the good of the society, a law abiding enterprise is a socially responsible enterprise as well.
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 refers to purely voluntary obligation that an enterprise assumes, for instance, providing charitable contributions to educational institutions or helping the affected people during floods or earthquakes. It is the responsibility of the company management to safeguard the capital investment by avoiding speculative activity and undertaking only healthy business ventures which give good returns on investment.

Social Responsibility towards different Interest Groups

1. Owners:

a. provide a fair return to the shareholders or owners on their capital investment.
b. it ensure the safety of investment.
c. it provide accurate financial information .

2. Employees:

a. It provides for fair wages
b. It ensures Job security
c. Promotion opportunities
d. Welfare measures
e. It provides 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.

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.

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 becomes polluted primarily from chemical and waste dumping. 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:

Dumping of toxic wastes on land causes land pollution. This damages the quality of land making it unfit for agriculture or plantation. It may be due to the dumping of non-degradable waste material into the land from industrial units, hospitals, hotels, dwelling units etc.

4.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.. Industrial units, Auto mobiles etc. are the major sound pollutants.

Chapter.6
Formation of a Company

Formation of a company involves :
1. Promotion
2. Incorporation
3. Subscription of Capital

Promotion of a Company

Promotion is the first stage in the formation of a company. It involves conceiving a business idea and taking an initiative to form a company .

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 a Promoter

(i) Identification of business opportunity: The first and foremost activity of a promoter is to identify a business opportunity. It may be about a new line of business or the expansion of an existing business.

(ii) Feasibility studies: The promoters undertake detailed feasibility studies to investigate all aspects of the business they intend to start. 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: Every business activity requires funds. The promoters have to estimate the fund requirements for the identified business opportunity.

(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.

(iii) Name approval:the promoters have to select a name for it 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.

(iv) 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. Their written consent to act as Directors and to take up the qualification shares in the company is necessary.

(v) Appointment of professionals: Certain professionals such as mercantile bankers, auditors etc., are appointed by the promoters to assist them in the preparation of necessary documents which are required to be with the Registrar of Companies.

(vi) Preparation of necessary documents: The promoter takes up steps to prepare certain legal documents, which have to be submitted under the law, to the Registrar of the Companies for getting the company registered.

Memorandum of Association

Memorandum of Association is the most important document as it defines the objectives of the company. It establishes the relation between company and 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)

(i) The name clause: This clause contains the name of the company with which the company will be known, which has already been approved by the Registrar of Companies. 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.

(ii) Registered office clause: This clause contains the name of the state, in which the registered office of the company is proposed to be situated. The exact address of the registered office is not required at this stage but the same must be notified to the Registrar within thirty days of the incorporation of the company.

(iii) Objects clause : This is probably the most important clause of the memorandum. It defines the purpose for which the company is formed. A company is not legally entitled to undertake an activity, which is beyond the objects stated in this clause. The main objects for which the company is formed are listed in this sub-clause.

(iv) Liability clause: This clause limits the liability of the members to the amount unpaid on the shares owned by them.

(v) Capital clause: This clause specifies the maximum capital which the company will be authorised to raise through the issue of shares.

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

Articles of Association:

Articles of Association are the rules regarding internal management of a company. These rules are subsidiary to the Memorandum of Association and hence, should not contradict or exceed anything stated in the Memorandum of Association.

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.

Difference between Memorandum of Association and Articles of Association

Basis of Difference	Memorandum of Association	Articles of Association
Objectives	Memorandum of Association defines the objects for which the company is formed.	Articles of Association are rules of internal management of the company. They indicate how the objectives of the company are to be achieved.
Position	This is the main document of the company and is subordinate to the Companies Act.	This is a subsidiary document and is subordinate to both the Memorandum of Association and the Companies Act.
Relationship	Memorandum of Association defines the relationship of the company with outsiders.	Articles define the relationship of the 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

Prospectus

It is an invitation to the public to apply for securities (shares, debentures etc.) of the company or to make deposits in the company.

A prospectus is ‘any document described or issued as a prospectus including any notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any securities of, a body corporate’.

Chapter –7
Sources of Business Finance

Sources of Finance

The requirements of funds by business to carry out its various activities is called business finance. 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.

Retained Earnings

A company generally does not distribute all its earnings amongst the shareholders as dividends. A portion of the net earnings may be retained in the business for use in the future. This is known as retained earnings. It is a source of internal financing or self- financing or 'ploughing back of profits'.The profit available for ploughing back in an organisation depends on many factors like net profits, dividend policy and age of the organisation.

Merits

1. It is more dependable than external sources.
2. No dividend is to be paid.
3. No cost of raising funds such as prospectus, advertisement etc.
4. No sharing of ownership and control.
5. No security is needed.
6. It makes companies financially strong.

Limitations

1. It may result in over capitalization.
2. It may create dissatisfaction among the share holders.
3. Not dependable in the year of inadequate profit.
4. Ignores opportunity cost.

Issue of Shares

The capital obtained by issue of shares is known as share capital. The capital of a company is divided into small units called shares. Each share has its nominal value. The person holding the share is known as shareholder.

There are two types of shares normally issued by a company. These are **equity shares and preference shares.** The money raised by issue of equity shares is called equity share capital, while the money raised by issue of preference shares is called preference share capital.

Equity Shares

Equity shares is the most important source of raising long term capital by a company. Equity shares represent the ownership of a company and thus the capital raised by issue of such shares is known as ownership capital or owner's funds. Equity share capital is a prerequisite to the creation of a company. Equity shareholders do not get a fixed dividend but are paid on the basis of earnings by the company. They are referred to as 'residual owners'

Merits

1. Suitable for risk takers.
2. No obligation for dividend.
3. Permanent capital.
4. Provides creditworthiness to the company.
5. No charge against assets.
6. They have voting rights

Limitations

1. Fluctuation in dividend based on profit.
2. Cost of raising equity capital is very high.
3. Dilution in control for existing share holders when the company makes fresh issues.
4. Complex legal formalities .

Preference Shares

The capital raised by issue of preference shares is called preference share capital. The preference shareholders enjoy a preferential position over equity shareholders in two ways:(i) receiving a fixed rate of dividend, and (ii) receiving their capital after the claims of the company's creditors have been settled, at the time of liquidation.

Preference shareholders generally do not enjoy any voting rights.

Merits

1. Fixed rate of return is guaranteed.
2. Preference in repayment of capital on winding up
3. No dilution in control
4. Trading on equity
5. No charge over the assets.
6. Economical

Demerits

1. Not suitable for high risk takers
2. Dilutes claim on assets
3. High rate of dividend
4. It may not attract many investors
5. No tax benefits

Types of Preference Shares

1. Cumulative Preference Shares
2. Non-cumulative Preference shares
3. Participating Preference Shares
4. Non-participating Preference Shares
5. Convertible Preference Shares
6. Non-convertible Preference Shares

DEBENTURES

Debentures are an important instrument for raising long term debt capital. A company can raise funds through issue of debentures, which bear a fixed rate of interest. The debenture issued by a company is an acknowledgement that the company has borrowed a certain amount of money,which it promises to repay at a future date.

Merits

1. Fixed income at lesser risk
2. No participation in profit
3. No dilution in control
4. Suitable during stable earnings
5. Less costly

Limitations

1. Permanent burden
2. Repayment difficulty
3. Reduces borrowing capacity

Types of Debentures

1. Secured or Mortgage Debentures
2. Simple or Naked or Unsecured Debentures
3. Registered Debentures
4. Bearer Debentures
5. Convertible Debentures (CD)
6. Non – Convertible Debentures (NCD)
7. First Debentures
8. Second Debentures

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Chapter – 8
Internal Trade

Internal Trade

Buying and selling of goods and services within the boundaries of a nation are referred to as internal trade.

RETAIL TRADE

Retail trade is the final stage in the distribution of goods. It involves buying and selling of goods in small quantities. A retail trade is a business enterprise that is engaged in the sale of goods and services directly to the ultimate consumers.

Functions of Retailer

A retailer performs different functions in the distribution of goods and services. He/she purchases a variety of products from the wholesale distributors and others, arranges for proper storage of goods, sells the goods in small quantities, bears business risks, grades the products, collects market information, extends credit to the buyers and promotes the sale of products through displays, participation in various schemes, etc.
or example, near railway stations and bus stands, and sell consumer items of common use, such as stationery items, eatables, ready- made garments, newspapers and magazines.

Fixed Shop Retailers

This is the most common type of retailing in the market place. These are retail shops who maintain permanent establishment to sell their merchandise. They, therefore, do not move from place to place to serve their customers.

Types

The fixed-shop retailers can be classified into two distinct types on the basis of the size of their operations. These are:
(a) small shop-keepers, and (b) large retailers.
Fixed Shop Small Retailers
(A) General stores:

General stores are most commonly found in a local market and residential areas. These shops carry stock of a variety of products required to satisfy the day-to-day needs of the consumers residing in nearby localities. Such stores remain open for long hours at convenient timings and often provide credit facilities to some of their regular customers.

Features:

(i) They stock variety of goods for day to day requirement.
(ii) Open for long hours based on the convenience of consumers.
(iii) Provide credit facilities to regular customers.
(iv) Located near residential area.
(v) Provide service like home delivery etc.

(B) Speciality Shops-

The speciality shops are generally located in a central place where a large number of customers can be attracted, and they provide a wide choice to the customers in the selection of goods. They are specialized in a single product of a certain line. Also known as Single Line Stores. E.g. kids wear shop, computer shop etc.

Features:

Specialize in one product only. Eg: Kids wears, Men's wear, Book shop, electronics etc.
Located in central places.
Keep all brands of a particular product.

(C) Street stall holders:

These small vendors are commonly found at street crossings or other places where flow of traffic is heavy. They attract floating customers and deal mainly in goods of cheap variety like hosiery products, toys, cigarettes, soft drinks, etc. They get their supplies from local suppliers as well as wholesalers.

Features:

(i) Deal in cheaper goods. Eg: toys, soft drinks, hosiery items etc.
(ii) They mainly attract floating customers.
(iii) The stall is housed in very small area.
(iv) Found in high customer traffic area.

(D) Second-hand goods shop:

These shops deal in second-hand or used goods, like books,clothes, auto mobiles, furniture and other household goods.

Features:

(a) Usually found in busy streets.
(b) Helpful for low income group.
(c) They often sell antique items and rare object of historical value.

Fixed shop — Large stores

1. Departmental stores

A departmental store is a large establishment offering a wide variety of products classified into well- defined departments, aimed at satisfying practically every customer's need under one roof and one management. Each department deals in separate line of goods. Departmental store sells everything from 'a pin to elephant'.

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.
. Automatic mutual advertisement.
.Lack of personal attention.

2.**Chain Stores or Multiple Shops:**

Chain stores or multiple shops are networks of retail shops that are owned and operated by manufacturers or intermediaries. Under this type of arrangement, a number of shops with similar appearance are established in localities, spread over different parts of the country. These different shops normally deal in standardised and branded consumer products, which have rapid sales turnover.

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.

Super Markets

A super market is a large retailing business unit selling wide variety of consumer goods on the basis of low price appeal, wide variety and assortment, self-service and heavy emphasis on merchandising appeal. The goods traded are generally food products and other low priced, branded and widely used consumer products such as grocery, utensils, clothes, electronic appliances, household goods, and medicines. Super markets are generally situated at the main shopping centres. Goods are kept on racks with clearly labelled price and quality tags in such stores. The customers move into the store to pick up goods of their requirements, bring them to the cash counter, make payment and take home the delivery. Hence they are also called **'Self Service Stores'.**

Features

(i) A super market generally carries a complete line of food items and groceries, in addition to non-food convenience goods.
(ii) The buyers can purchase different products as per their requirements under one roof in such markets.
(iii) A super market operates on the principle of self-service.
(iv) The prices of the products are generally lower than other types of retail stores.
(v) The goods are sold on cash basis only.
(vi) The super markets are generally located at central locations.

Vending Machines

Vending machines are the newest revolution in marketing methods. Coin operated vending machines are proving useful in selling several products such as hot beverages,platform tickets, milk, soft drinks, chocolates, 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.

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