BUREAU'S

HIGHER SECONDARY (+2)

BUSINESS STUDIES AND MANAGEMENT

PART - I

(For +2 First Year Commerce)

(Approved by the Council of Higher Secondary Education, Odisha)

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FOREWORD

The Odisha State Bureau of Textbook Preparation and Production, Bhubaneswar has made a pioneer attempt to publish text books for +2 Commerce Stream with an excellent team of teachers in different subjects.

The present book **"Business Studies and Management- Part I"** is meant for Higher Secondary Commerce students. This book has been written by a team of learned academicians namely Dr. Upendra Nath Sahu, Sri Bijoy Kumar Das, Dr. Ajit Kumar Kar and Sri Jyoti Prakash Rath and reviewed by Dr. Dhruba Prasad Pattnaik. I would like to record my sincere gratitude to all of them for accomplishing this maiden venture in time. The main purpose of developing this text book is to provide a thorough exposure to the students of Commerce in this subject. The book, prepared according to the new syllabus prescribed by the CHSE, Odisha, shall cater to the needs of young students.

I believe that the students and teachers of commerce stream shall welcome and appreciate the book. I would also like to welcome constructive suggestions for further improvement of the book.

Geetika Patnaik

(Dr. Geetika Patnaik)

Director

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PREFACE

"Business Studies" has emerged as an important subject for students of Commerce Stream. It is our proud privilege to present the new volume of Business Studies and Management (Part-I) for +2 I[st] year Commerce students of the State as per the new syllabus of Council of Higher Secondary Education(CHSE), Odisha. This paper is considered as foundation paper in Commerce stream on which all other subjects rest. Keeping this in view the panel appointed to frame the syllabus has taken into consideration many new areas of business operations which are relevant to the students at +2 level.

The salient features of this book are simple language, lucid style, comprehensive coverage and latest information on the topics covered. A sincere attempt has been made to present the relevant materials of this book in such a way that it can enable the students to clearly understand all the topics as well as prepare them for answering all possible examination questions. This book is divided into 14 chapters. The objective type, short answer type and essay type questions have been given at the end of each Chapter with answers to objective type questions. We are also confident that this book will prove useful to students and teachers of business studies.

The authors owe personal debt of gratitude to friends, colleagues, eminent scholars and authors on business studies. We are deeply indebted to various authors whose works have been adopted in this book. We take this opportunity to express our grateful thanks to Dr. D. P. Pattnaik for his invaluable assistance in reviewing the text for this book. The present edition of this book would not have seen the light of day but for the direct assistance of Odisha State Bureau of Text Book Preparation and Production, Department of Higher Education, Government of Odisha. We are thankful to all staff members of the Bureau for their active co-operation.

The authors would be very glad to receive continuously constructive criticism and creative feedback from the student readers, esteemed teachers and also from practicing managers and businessmen.

Board of Writers

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CHAPTER-1

NATURE AND PURPOSE OF BUSINESS

STRUCTURE

1.1 INTRODUCTION

Business is a human activity. Human beings keep themselves engaged in some occupations or activities to satisfy their various needs. The needs may be economic or material, social or psychological. Such occupations or activities are called human occupations or human activities. The following are the important characteristics of human activities.

(a) These are undertaken only by human beings.

(b) The activities are undertaken to satisfy human needs or wants.

(c) Human needs may be economic, social and psychological.

(d) The activities continue throughout the life span of a human being.

(e) Human activities are undertaken either for earning money or for getting mental satisfaction.

1.2 KINDS OF HUMAN ACTIVITIES

On the basis of their characteristics, the human activities are broadly grouped into two kinds. They are- (1) Non-economic activities, and (2) Economic activities.

1.2.1 Non-economic activities: Non-economic activities refer to those human activities which are undertaken for not any economic reward i.e. not for earning money but for mental satisfaction. All these activities are performed due to social, religious, cultural, emotional or psychological reasons. The different types of non-economic activities may be undertaken due to love and affection, personal satisfaction, social obligation, religious obligations, patriotism, physical needs etc.

1.2.2 Economic Activities:

Human activities which are performed in exchange for money or money's worth are called economic activities. Economic activities are related to production, distribution, exchange and consumption of goods and services.

1.2.3 Classification of Economic Activities:

Economic activities or occupations of human beings can be classified into three broad categories. These are (i) Business (ii) Profession and (iii) Employment.

(i) **Business:** Business refers to those economic activities, which are connected with the production and exchange of goods and services with the main object of earning profit. People engaged in business earn income in the form of profit. The person who carries on the business is called the 'Businessman' or 'entrepreneur' and the business unit is called the enterprise or the firm.

(ii) **Profession:** Profession is an economic activity or occupation which is concerned with the rendering of specialized personal services to clients in return of a payment called fees. The specialized service is based on professional knowledge, education and training. The persons who are engaged in a profession are called professionals. Chartered Accountancy, Cost Accountancy, medicine, Law, tax consultancy are examples of professions.

The main features of a profession are as follows-

(a) A professional should have specialized knowledge and training prescribed for entering into the profession. For example- CA for Chartered Accountants, LLB for Law, MBBS for medical.

(b) The membership of a particular professional body is compulsory.

(c) Every professional body has a code of conduct which every member must follow.

(d) Professionals charge fees from clients for providing their services.

(e) A professional cannot advertise himself if it is banned by the professional body. Some such professional bodies are :

1. Institute of Chartered Accountants of India- For Accounting Profession.
2. Institute of cost and works Accountants of India- For Cost Accounting profession.
3. Institute of company secretaries of India- For Company Secretary profession.

(iii) Employment or Services: When a person undertakes to render personal service under an agreement, he is said to be in service or employment. The person who renders personal service to others is called 'an employee'. The person or organization which engages others to work is called 'an employer'. The employee is paid remuneration in the form of wages or salary, allowances and other benefits according to the service agreement. The employee acts under the guidance and control of his employer. The employment or service may be in a Government or private organization. Some important features of employment are as under:

1. An employment begins when a person joins in an organization to render personal services.

2. The employer assigns duties to the employee.
3. An employee is not required to make any capital investment. However, in certain cases employees may be allowed to participate in the capital investment later on.
4. The employee will have to follow service rules and regulations prescribed by the employer.
5. There are no standard qualifications for getting employment.
6. Regular remuneration is guaranteed which is certain.
7. The employer laid down norms of behavior to be followed by an employee.

1.3 COMPARISON BETWEEN BUSINESS, PROFESSION AND EMPLOYMENT

Sl. No	Basis of difference	Business	Profession	Employment
1.	Meaning	Production and selling of goods and services.	Rendering of specialized services to the clients.	Rendering personal service under an agreement of employment
2.	Commencement	Starts after completing some legal formalities if required	Starts after getting certificate from the professional body or institution	Starts after service contract with the employer
3.	Qualification	No formal qualification is necessary	Formal qualification is absolutely necessary	Formal qualification may or may not be necessary
4.	Capital requirement	Adequate capital is required	Capital requirement is comparatively less	Capital requirement is not at all necessary

Sl. No	Basis of difference	Business	Profession	Employment
5	Reward	Profit is the reward of Business	The reward of a profession is known as fees	The reward is known as salary or wages
6.	Degree of risk	Degree of risk is absolute because profit is uncertain	It involvers little risk when there is no work	There is no risk at all
7.	Transfer of Interest	Transferable possible from one person to another	Transfer of interest cannot take place	Transfer of interest is not possible
8.	Code of conduct	May or may not follow code of conduct	Code of conduct is essential	There is a contract instead of code of conduct.
9.	Test of Efficiency	Profit earning	Quality of service proved	Dedication to job
10.	Nature	Mostly physical in nature	Mainly mental in nature	Both physical and mental in nature.

1.4 MEANING AND DEFINITIONS OF BUSINESS

The word ‘Buiness’ literally means’State of being busy’. Every human being is busy with some kind of work in order to earn a living. These works are called economic activities or occupation. Business is an occupation in which goods and services are exchanged for money or money’s worth on expectation of profit. In the broader sense of the term, Business is the sum total of all the economic activities which start right from the production of goods and services down to the task of taking them to the consumers. It includes all those activities which are related with the production, purchase and sale or exchange of goods and services with the aim of earning profits. A factory, a shop, a transport company, an insurance company, a bank, a warehouse, an advertising agency are examples of business organizations or business enterprises.

Different authors have defined business differently from time to time. Some important definitions of business are as follows:

1. According to L.H. Haney, “Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods”.

2. According to W.R. Spriegel, “All of the activities included in the production and sale of goods and services may be classified as business activities.

3. According to L.R. Dicksee, “ Business is a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted”.

From the above definitions, it is clear that the term ‘Business’ includes all those activities that are related to the production and distribution of goods and services with a view to earning profit. It also includes all those activities, which indirectly help in production and exchange of goods such as transport, insurance, banking, warehousing etc.

1.4.1 Characteristic or Nature of Business

The important features or characteristics of business are as given below:

1. ***An entrepreneurial activity:*** To set up a business there must initially be an entrepreneurial endeavour and for this there must be someone to take the responsibilities. The person who takes the responsibilities to establish a business is an entrepreneur. He is a person who creates a new business in the face of risk and uncertainly. Such a person is also called a ‘Businessman’.

2. ***Economic activities:*** Business includes only economic activities. It is concerned with all activities from production to distribution of goods and services with the object of earning profit. Any activity without profit motive cannot form business.

3. ***Dealings in goods and services:*** Business deals in goods and services. Goods may be consumers’ goods or producers’ goods. The consumers’ goods are meant for direct consumption like cloth, shoes, foods, tooth brush, tooth paste etc. But the producers' goods are used for further production of goods like machinery, tools, building, raw materials etc. the term services refers to intangible and invisible items such as transportation, insurance, banking, supply of electricity etc.

4. ***Regularity in dealings:*** Business is concerned with dealing in goods and services on regular basis. An isolated transaction cannot constitute business. For example, if a person sells his used motor car and earns a profit, he is not engaged in business. But if he engages himself continuously in buying and selling motor cars, it will become his business.

5. ***Sale or exchange for value:*** Business involves sale or exchange of goods and services for value. Production or purchase for personal consumption or presenting to others as gifts or at free of charge cannot come under business.

6. ***Profit motive:*** The primary objective of a business is to earn profits. Profits are essential for survival, growth and expansion of business. It is the reward of the entrepreneur for undertaking the risk of business.

7. ***Element of risk and uncertainty:*** Business involves an element of risk arising from uncertainty. Generally, the greater the degree of risk, larger the scope of profit in business. The risks and uncertainties arise due to variety of factors like changes in technology, changes in tastes and preference of customers, supply of capital and raw materials, government policies, natural disasters etc.

8. ***Creation of utilities:*** Business creates utilities to facilitate the use of goods according to the needs of the customers. It adds time, place and form utilities to production of goods. For example, storing goods and supplying them according to the need of customers creates time utilities, transporting goods from one place to another leads to place utilities and converting raw materials into finished product creates form utilities.

9. ***Organization:*** Organization is essential for smooth functioning of the business. The entire business activities are to be formed as a unit. It depends upon the size and degree of business operations.

10. ***Finance:*** Business cannot run without finance. The finances are required for providing fixed and working capital. The availability of other factors of production like land, labour and raw materials also depend upon the availability of finance.

11. ***Consumer satisfaction:*** The ultimate aim of business is to supply goods and services to the consumers. The business men always try to satisfy the consumers to maintain the demand of the products. The existence and expansion of business depends upon the likings of the consumers for the products of that business.

12. ***Satisfying social needs:*** Business tries to satisfy social needs because it is a socio-economic institution. It is only the public who needs business. In the same way business also needs public support. So a business must serve public purpose.

13. ***Art as well as Science:*** Business is an art because it requires personal skills and experience. It is also a science because it is based on certain principles and laws.

1.4.2 Objectives of Business

Every business has a set of objectives to be achieved. These objectives clearly indicate the direction in which the business has to move and what is its target. The objectives of business are many and depend upon the nature of the business enterprise. However, the objectives are broadly classified into the following categories.

(1) Economic objectives (2) Social objectives (3) Human objectives (4) National objectives (5) Global objectives and (6) Organic Objectives

1. ***Economic Objectives:***

The primary objectives of business are economic because it includes all economic activities. The important points under economic objectives are as under.

(a) ***Earning adequate profit:*** Profit is the most important objective of a business. Earning adequate profits is a precondition for survival and growth of the business. It is the barometer of efficiency, progress and stability of the business concern. It helps generate sufficient resources to finance further expansion of business. Moreover, profit is the reward of the entrepreneur for undertaking risk of the business.

(b) ***Creation of Customers:*** The primary objective of earning profit depends largely on the creation of new customers and retaining them. A business can create customers by supplying the goods and services which the customers want. Through market research a business can know what th customers want. A business can remain in the field only if there are enough customers to buy the products or services offered by the enterprise.

(c) ***Making innovations:*** Innovation means the discovery of new ways and techniques for economy in production and improvement of products and services. A business can earn profit and create customers only when it produces new and better products and services. Through innovation a business enterprise can increase its image in the mind of the customers. Research and development help business concern to find out new products, a new markets, a new techniques of production and distribution etc.

(d) ***Production of goods:*** Production of goods is another economic objective of a business. An enterprise produces goods according to taste and requirement of the customers. Profit can be earned only when the goods are produced and sold to customers.

(e) ***Growth and expansion:*** The growth and expansion of business activities is also one of the important economic objectives of business. It depends upon the relationship between business and its important constituents such as owners or shareholders, employees, customers, creditors, supplier's and government etc. the business can grow if these interested parties are satisfied. Owner must get adequate return on capital,

Employees should get fair wages and salaries. Customers feel satisfied with timely payment and government with due taxes and duties.

2. ***Social objectives/Social Responsibilities of Business:*** Business is an important part of society. It cannot survive and grow without the support of the society. The business should undertake those activities, which are essential for the betterment of the society.

Business functions under social environment and so has certain social responsibilities. The important social objectives of any business should be as under:

(a) **Supply of goods which the society needs:** Supply of quality goods and services to the society is an important social objective of every business. If the business fulfills this objective, the goodwill and reputation will increase. On the other hand if it fails to supply quality goods and services, it will incur the wrath of the society.

(b) **Avoid unfair trade practices:** The business should avoid anti-social and unfair trade practices like adulteration, hoarding and black marketing. It should not issue misleading advertisements. Moreover it should not over-charge the customers and indulge in profiteering at their cost.

(c) **Providing employment opportunities:** One of the important social objectives of a business is to create and provide employment opportunities to the people in the society. It is the responsibility of management to help increase direct and indirect employment in the area where it is functioning. Even though this objective is in conflict with the economic objective of reducing cost by the process of mechanization, yet there should not be less of jobs to the people in the society.

(d) **Paying fair wages and salaries to employees:** A business has responsibility towards its employees. The objective implies provision of fair wages and other facilities like housing, medical facilities, education, good working condition and opportunity for promotion etc. to the employees.

(e) **Efficient use of resources:** The resources at the disposal of business belong to the society. Therefore, the business should make the best possible and effective use of raw materials, machines, technical knowhow, capital and other resources for the economic development of the society.

(f) **Social welfare:** An important social objective of business is to participate actively in the various social welfare activities in the locality where it functions. The welfare activities are concerned with running of schools, colleges, hospitals, orphanages, old-age homes, charitable institutions, maintaining parks and gardens and so on.

(g) **Prevent pollution:** One of the social objectives of business is to prevent pollution which may be related to air, water or sound pollution etc. In the present society, pollution has become a serious problem with the growth of modern industries. It not only affects the health of human beings but also other living animals. A business enterprise can better serve the society by taking adequate anti pollution measures.

(h) **Maintain ethical norms:** A business is a member of the society. So it has to maintain the ethical and moral norms of the society in which it functions. A business should not indulge in discriminatory practices on the basis of caste, religion, social and economic status.

(i) **Act as a good citizen:** Like a responsible citizen of the country, a business should co-operate with Government in the matter of payment of tax and follow the rules and regulations imposed from time to time by the Government.

(j) ***Minimum wastage:*** All the resources are valuable for the society. A business should conserve these resources and adopt measures for minimum wastages of it. This may lead to optimum utilization of the resources in the society.

(k) **Research:** In the changing technological world, it is essential to use latest scientific devices for production and marketing of goods. One can compete with the changing business world only through R & D programmes.

3. HUMAN OBJECTIVES

Human objectives of a business arise from the expectations of the people working in it. The success of a business depends upon the ability, zeal and co-operation of the persons involved with it. No business can undermine the human factor. So every business has to pay due attention to its human objectives as stated below.

(a) ***Humane treatment:*** Business is run by human beings. They should not be treated like machines. They should not be treated like machines. They are guided by emotions, instincts, peace and happiness in their

(b) ***Job satisfaction:*** The business should take such steps whereby the job would become more interesting and challenging to its employees. To get the best out of them, they should be given a fair deal by the business.

(c) ***Workers' participation in management:*** To motivate and to get best from its workers, they business should allow workers to participate in the decision making process. This participation in management by workers leads to increase the productivity and efficiency of the business.

(d) ***Development of human resources:*** One of the important human objectives of a business is the development of human resources. The success of a business depends more on the quality of human resources than other physical resources like land and building, machines and equipment etc. So, proper training and placement is necessary to increase the skills and abilities of the persons working in the business.

(e) ***Recognition and prestige:*** A business should provide fair dealing to workers, customers, suppliers, investors and Government. The management must create healthy relations with all these constituents of the society. As a result of this, the business will get recognition in the society and command prestige.

4. National Objectives:

National Objectives of a business refer to those objectives which make a business contribute to the national development. Some of the important national objectives of a business are as under:

(a) ***Production according to national priorities:*** Every government fixes national priorities. The business should produce and supply goods and services according to national priorities as these goods and services are quite necessary for the development of the country.

(b) ***Achieve self-reliance:*** A business should come forward to produce and supply all those goods which can increase the export and reduce the import of the country. This will help the nation in earning and saving scarce foreign exchanges.

(c) ***Development of small scale enterprises:*** Business units, large and small should help one another in various ways. Every large business should help in the development of small scale enterprises. The big unit should encourage small units to sell their products to them and sometimes supply inputs to them at a reasonable rate as ancillaries.

(d) ***Development of skilled personnel:*** Every nation requires skilled personnel for its development. So, the business has the responsibility of giving training to the young men as apprentices and increase their skills.

5. Global Objectives:

Earlier India had a very restricted business relationship with other nations. There was a very rigid policy for import and export of goods and services. But, now-a-days due to liberal economic and export import policy, restriction on foreign investments have been largely abolished and duties on imported goods have been substantially reduced. This change has brought about increased competition in the market. To-day because of globalization the entire world has become a big market. Goods produced in one country are readily available in other countries. So, to face the competition in the global market every business has certain objectives in mind, which may be called the global objectives.

6. Organic Objectives:

The term 'Organic' strictly means 'pertaining to or relating to organs of living being'. In broader sense and with reference to business it refers to anything that is intrinsic and structural. Therefore, by organic objectives of business, we mean the bodily or body-related objectives of the business i.e. the internal growth and survival of the business.

A business is established to produce or procure goods, generate services and market them with a view to earning profits. This, in turn requires that the business must survive in the market, and to compete with others, must grow and be strong. It must acquire enough competence to exploit the available opportunities. In this sense, organic objectives are supportive objectives of the economic objectives of the business.

Along with the survival and growth, a business should also aim at creating a respectful position i.e. business personality for itself in the minds of people.

1.5 PROFIT: ITS RELEVANCE TO BUSINESS:

In the words of Peter F. Drucker, "the problem of any business is not the maximization of profit, by the achievement of sufficient profit to cover the risks of economic activity and thus to avoid loss." Maximization of profit should not be the sole aim of business. But yet the business should earn adequate profit due to the following reasons.

(a) ***Measure of efficiency:*** Profit is considered as a measure of efficiency. The efficiency of business is measured by the profit earning capacity. It is the acid test of ability of the business.

(b) ***Survival and growth:*** Profit is essential for survival and growth of any business concern, Profit provides internal source of finance for growth and expansion. External finance is also possible when a business has ability to earn sufficient profit.

(c) ***Risk premium:*** Profit is the risk premium that covers the cost of staying in the business. Adequate profit enables the business to face the challenges of replacement, obsolescence, market risk and uncertainty.

(d) ***Incentive:*** Profit provides sufficient incentive to the businessman to operate business with full enthusiasm. It is a reward for the labour of an entrepreneur.

(e) ***Social welfare:*** Business can spend on social welfare activities if it earns sufficient profit. Otherwise it is not possible to fulfill the obligations towards the society by taking various welfare schemes.

(f) ***Prestige and goodwill:*** A profitable business enterprise is capable to create goodwill and prestige in the society. It can obtain recognition from all section of the community such as customers, suppliers, creditors, investors and general public.

1.6 SCOPE OF BUSINESS:

The scope of business includes all those activities related to production of goods and services and their distribution to the consumers who ultimately require them. The range of activities which a business covers are as follows.

(a) Production:

Production of goods for sale is one of the principal activities of a business. But production of goods by a person for his own consumption is not business. The goods may be produced either for use by the final consumers or to be used by the producers for further production.

(b) Purchase or procurement:

Purchase of either raw-materials or finished products is one of the activities covered under business. A manufacturer purchases raw materials for production while a trader purchases finished goods for sale to the consumers.

(c) Sale or exchange:

Sale is one of the principal activities of a business. A producer sells the goods manufactured by him and a trader sells the goods purchased by him.

(d) Financing:

A business requires finance or money to carry its operations. A businessman may not always be able to provide the fund required for his business. So, he has to raise finance from different sources. However, a business has its inherent capacity to generate finance which it utilizes along with outside sources for its survival and growth. This, therefore, is also another scope of a business, though incidental to the basic scope of production and distribution.

1.7 IMPORTANCE OF BUSINESS :

Business is primarily concerned with production and acquisition of wealth. It is involved with the recurring acts of buying, selling, procuring, collecting, improving, manufacturing and distributing goods and services for the satisfaction of human wants and personal gain of the business men. The efficiency of business determines the prosperity of the nation and standard of living of the society. Business is of much importane due to the following reasons.

(a) Business provides goods and services needed by the community.

(b) Business generates employment, income and purchasing power in the society.

(c) The efficiency of business ensures growth, stability, prosperity and reputation of the nation.

(d) Business leads to productive and efficient utilization of resources.

(e) Business utilizes the effective channels of distribution by which the products are available to customers at the right time, at the right place and in good condition.

(f) Business provides entrepreneurial ability and managerial skills to the society.

(g) Business induces innovation by which quality products are supplied at a cheaper cost.

(h) Business leads to mass production and mass marketing so that the advantages of large scale operations are obtained by the consumers.

(i) Business undertakes various social welfare activities to fulfill its social obligations.

(j) Business creates proper climate for human resource development by providing training to increase the skills of personnel.

(k) Business helps to attain the national aspiration of growth with stability and social justice.

1.8 FUNCTIONS OF BUSINESS:

In order to achieve its objectives, a business has to perform a number of functions. The important functions of a business are:

1. Production Function:

This function is concerned with transformation of inputs into specified outputs as required by the society. The various inputs such as men, money, materials, machines and other facilities are necessary to carry out this production function. The production department is also responsible to perform other related functions like production planning, production engineering, plant layout, plant building, materials handling, purchasing, stores management, quality control, repairs and maintenance etc.

2. Marketing Function:

Marketing is an economic process by which goods and services are transferred from the producers to the ultimate consumers. The marketing function has fpur components which are popularly known as 4p's. They are (i) Product (ii) Price (iii) Physical distribution and (iv) Promotion. The basic marketing functions include selling, buying, grading, transporting, storing, financing, risk bearing and marketing information. Market research plays a very important role in the present competitive world. Marketing department is responsible to carry out all these functions of marketing.

3. Finance Function:

Finance is the life blood of business No business can be successfully run without sufficient finance. The business needs finance (a) to bring it into existence (b) for smooth operation (c) for expansion and growth and (d) for liquidation of the business. Finance function is concerned with financial planning, raising of funds, use and allocation of funds, and financial control etc.

4. Personnel Function:

This function deals with the human side of the business. The personnel function can be defined as the management of people at work. The objective is to attain maximum individual development, desirable work atmosphere and good interpersonal relations. The personnel function is concerned with recruitment, training and development, health and safety, wages and salaries administration, labour relations and personnel resource planning etc. It ensures that the right number of people possessing required skills at the right time are available to perform the various tasks of the business.

5. Office Function:

Office function is mainly concerned with records. The purpose of office function is to collect, generate and communicate information to the executives for decision making and policy formulation. The scope of office function in a modern business is very wide. The responsibility of this function is entrusted to the office manager. The office manager has to perform (a) information function (receiving, collecting, recording, preserving, arranging, analyzing and providing information) (b) operational function (office systems, record management, form design, office stationeries and office control) (c) public relation functions.

Among the functions discussed here, production and marketing are regarded as primary functions, while others as assisting functions. These functions are however, interdependent and inter related. For example: marketing function is value less without production function and the goal of production function cannot be achieved without marketing function. Similarly finance function is important because it is related to all the functions. The integration of all these functions is necessary to achieve the objectives of a business.

1.9 REQUISITES OF SUCCESSFUL BUSINESS:

Modern business is complex, complicated and very elaborate. There are many uncontrollable factors affecting the prospects of business. The competitions among businesses are keen. The demand for goods and services is ever changing. There is always improvement in techniques. The business has to co-ordinate the important functions such as production, marketing, finance and organization. Thus, the successful establishment and operation of a business is not that easy. There are certain requirements for the success of a business which are discussed below.

1. Well-defined objectives:

A clear and definite objective must be laid down for a business. The main and subsidiary objectives must be determined beforehand. The business must be clear as to what type of goods are to be produced or purchased, what to be sold or what services to be rendered. In modern business, effective and efficient management is always “management by objectives”.

2. **Proper planning:**

Planning is deciding what is to be done, how it is to be done, when it is to be done, any by whom it is to be done. It implies thinking about the future, for seeing and fore casting the future events, preparing the programme and guiding the action as per objectives. It is an essential requirement for a successful business.

3. Proper location, layout and size:

The business must be located in a suitable place to attract a large number of customers and factors of production available at reasonable cost. A good layout means proper placement of equipment and optimum use of space. Similarly proper size of business leads to better management.

4. Sound organization:

Sound organization means a good structure, proper allocation of functions, division of labour, delegation of authority, and harmonious relationship among employees etc. The three essentials of an efficient organization are: (a) competent people will to work together. (b) Common goal to be achieved (c) Physical facilities and equipment available for doing the work.

5. Efficient management:

Effective and efficient management aims at guiding, directing, controlling and co-ordinating the activities of a group towards realization of the desired goal. It provides risk bearing abilities and managerial skills. The management must be competent, honest, responsible and tactful.

6. Adequate Finance:

Finance is required for purchase of assets, raw materials, payment of wages and salaries etc. Finance meets both fixed capital and working capital requirements as well as short-term and log-term purposes. Adequate funds should be available for growth and expansion of business. Neither the shortage nor the abundance of capital is needed for the business enterprises.

7. High employee morale:

Success of a business depends on whole-hearted cooperation of the employees. If employees are well treated and offered all facilities to ensure job satisfaction, they develop a deep sense of belongingness to the organization. Their morale will be high, which will lead to high productivity and less supervision and control.

8. Best marketing system:

Marketing is essential for earning profits. There is no use of production of goods unless those are sold in the market. If the distribution or sale of products is not undertaken efficiently, stock of unsold goods will be piled up and production is to be curtailed or stopped. Therefore, a scientific marketing system is necessary to sell the products at a profit.

9. Satisfied Consumers:

Customers are the foundation of a business. They are instrumental for growth and expansion of the business. The motto of the business should be the customers are always right". Satisfied customers are best medium of advertisement. The marketing and distribution system should be so designed that it should attract new customers of the business.

10. Innovation:

Innovation means systematic search for new knowledge. It results from research. Research may be related to products, market, material, method, technique and industrial relations etc. In the changing world it is very difficult to stand in the competitive business without innovation. Thus, innovation is indispensable for survival and growth of the modern business.

11. Risk bearing capacity:

Business is full of risk and uncertainty. Higher the risk, the more the profit a business can earn. The business must have sufficient risk bearing capacity so that it can be in a position to produce right thing, at a right time and by correct method. This capacity enables the business to minimize cost and maximize profit and keep pace with others in changing circumstances.

12. **Reputation:**

To become successful, a business must not indulge in any act which damages its reputation. It can earn good will through honest dealing and good behaviors.

1.10 QUESTIONS

OBJECTIVE AND SHORT ANSWER TYPE QUESTIONS

Q.I. ***Choose the correct alternative from the following:***

(i). Of the following the one that is not an economic activity is-

(a) Production (b) Preaching religion

(c) Selling of goods (d) Doing a job

(ii). Of the following the one which is an economic activity is-

(a) Teaching in a School (b) Playing football with friends

(c) Attending to one's relative who is unwell (d) listening a radio

(iii). The primary aim of business is –

(a) To help its employees (b) To help society

(c) To earn profit (d) To assist management

(iv). Business objectives are categorized as-

(a) Economic, Political and cultural (b) Social, political and Human

(c) Political, Human and Cultural (d) Human, Economic and Social

(v) Business includes only-

(a) Social activities (b) Political activities

(c)Institutional activities (d) Economic activities

(vi). Economic objectives of a business do not include-

(a) Creation of customers (b) Continuous innovations

(c)Generation of employment (d) Best possible use of resources

(vii). Social objectives of a business do not include-

(a) Welfare of the society (b) Best use of economic resources

(c) Creation of customers (d) Profit generation (viii). The activity that requires formal qualification is-

(a) Business (b) Profession

(c) Employment (d) Occupation

(ix) The function that deals with the human-side of the business is known as-

(a) Office function (b) Finance function

(c)Marketing function (d) Personnel function

(x) Innovation implies-

(a) Risk and uncertainty (b) Search for new knowledge

(c) Achieving business activities (d) Good behavior and conduct

2. Fill in the blanks-

(a) The economic activity which does not require capital is called_____________.

(b) _________ requires formal qualification.

(c) _________ activity does not aim at earning money.

(d) A specialized body that controls the medical profession in India is called_____

(e) _________ is the reward of the entrepreneur for undertaking the risk of business.

(f) When a doctor works in a Government Hospital it is called__________.

(g) Only_________ activities form part of business.

(h) In ___________ activity a person can be called a servant.

(i) A profession is related to provide _________ services to the client.

(j) Business means exchange of goods and services for mutual_________.

3. Express in one word or term-

(i) An occupation which is concerned with the rendering of specified personal services to clients in return of payment called fees.

(ii) Transformation of inputs into outputs.

(iii) The function of a business organization dealing with the human side of the business.

(iv) The occupation in which people work for remuneration.

(v) The activity where specialized knowledge is used.

4. Correct the underlined portion in the following sentences.

(a) Those human activities which are undertaken with the object of earning a living are known as Non-economic activities.

(b) The specialized services of doctors, lawyers, architects, chartered accountants etc. are examples of Social Services.

(c) The business function which is concerned with the transformation of inputs into specified outputs is called marketing function.

(d) Business activities take place between members of the family.

(e) Professional activities are primarily physical in nature.

5. *Answer the following questions in not more than three sentences each-*

(i) What do you mean by economic activities?

(ii) Explain the concept of business.

(iii) What do you mean by profession?

(iv) What are non-economic activities?

(v) What is employment?

(v) Why is business considered as an economic activity?

(vii) Why should a business pursue social objectives?

(viii) Give any two examples of employment.

(ix) Give any two examples of profession.

(x) What do you mean by global objectives of business?

6. Answer the following in not more than six sentences each-

(a) Name any six characteristics of business.

(b) What are the economic objectives of business?

(c) Why is profit making essential in business?

(d) Explain the human objectives of business.

(e) Explain economic activities with examples.

LONG ANSWER TYPE OF QUESTION

1. Explain business. Describe the characteristics of business.
2. Explain the different objectives of business.
3. “Profit earning is the sole objective of business”, comment.
4. Distinguish between business, profession and employment.
5. What factors should be taken into account while setting-up of a business?

1.11 ANSWERS TO OBJCTIVE QUESTIONS

1. Correct alternative:

i.(b) ii.(a) iii.(c) iv. (d) v. (d) vi. (c) vii. (a) viii. (b)
ix.(d) x. (b)

2. Fill in the blanks:

(a) Employment (b) Profession (c) Non-economic

(d) Medical Council of India (e) Profit (f) Employment

(g)Economic (h) Employment (i) Specialised (j) Benefits

3 Express in one word:

(i) Profession (ii) Production (iii) Personnel function

(iv) Employment (v) Profession

4.Correct the sentences:

(a) Economic activities (b) Professional Services (c) Production function

(d) Producers and consumers (e) Mental

***

CHAPTER-2

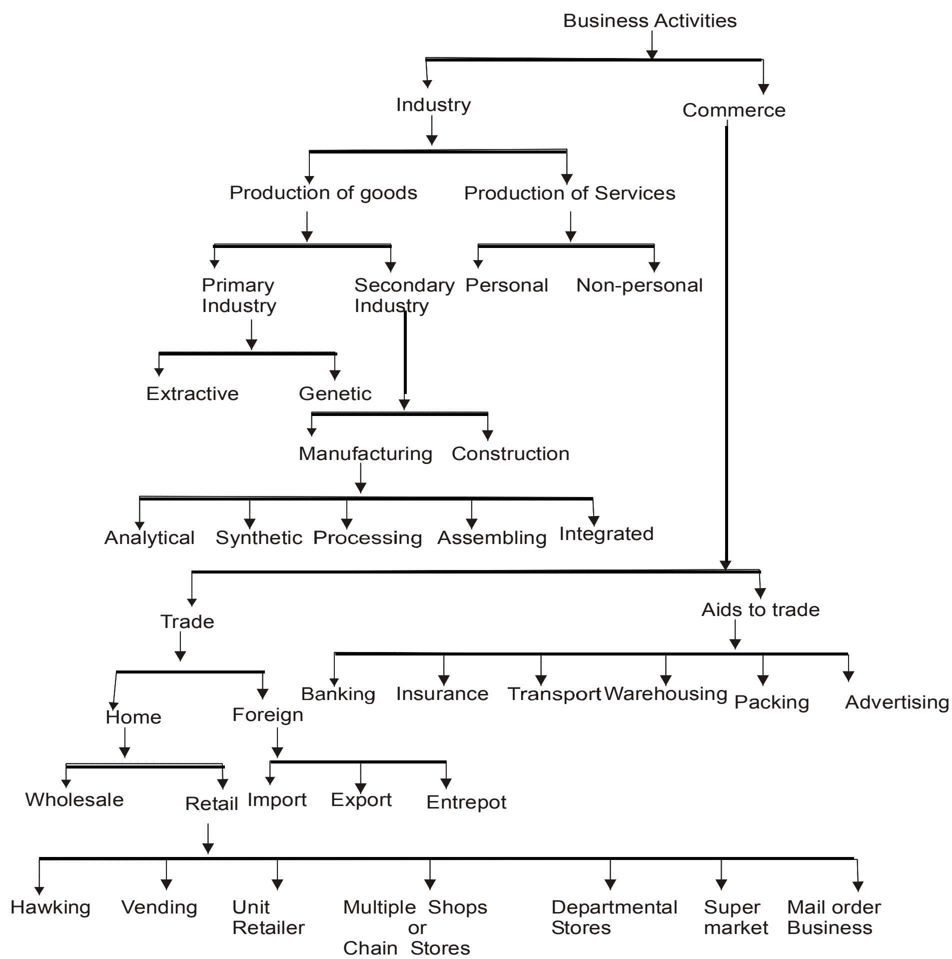
CLASSIFICATION OF BUSINESS ACTIVITIES

STRUCTURE

2.1 INTRODUCTION

Business activities are concerned with the production of goods and services and their distribution to the consumers. There are two broad categories of business activities.

They are (1) Industry and (2) Commerce. Industry refers to production of goods and services and commerce is related to distribution of goods and services to the customers. The broad classification of business activities has been presented in the chart.



2. 2 INDUSTRY

Industry is that part of business activities which is concerned with production of goods and services. It is a productive occupation. In a broader sense, it uses the methods of raising, producing, processing or fabrication of products. The goods and services produced by an industry may be either consumers' goods or producers' goods. Consumers' goods are used by the final consumers while producers' goods are used by the businessmen, for further production. The example of consumers' goods are edible oil, cloth, television, radio, foot wears, motor vehicles, refrigerators etc. On the other hand, the example of producers' goods are machines, tools, and equipment, ships, rail engines etc. These goods are also called capital goods.

2.2.1Characteristics of industry

The characteristic features of industry are as follows-

(i) Industries create form utility. Form utility refers to conversion of raw materials into finished products.

(ii) Industry is concerned with the raising, producing, processing or fabrication of goods and services.

(iii) The goods produced by the industry may be consumer goods or capital goods.

(iv) Industry undertakes the production of goods and services for the purpose of sale.

(v) Industry undertakes recurrent or regular production.

(vi) Industry produces with the object of making profit.

(vii) Industry requires capital investment.

(viii) Industry involves an element of risk.

2.2.2 Types of industries

Industries may be classified on the basis of production of goods or production of services. Depending upon the types of goods produced, industry may be sub-divided into primary or secondary industry. Likewise services may be grouped into personal and non-personal. The primary industry may again be divided into (a) Extractive and (b) Genetic industry. Secondary industry can be either (a) manufacturing and (b) construction industry. Thus industry can be classified under five broad heads, such as:

1. Extractive industry
2. Genetic industry
3. Manufacturing industry

4. Construction industry and

5. Service industry (Personal & Non-personal)

1. Extractive Industry

These industries are involved with the extraction of products from nature. They are concerned with production of wealth from soil, air, water and from beneath the surface of the earth. The examples are: mining, agriculture, fishing, lumbering, hunting, fruit gathering etc. the products of extractive industries may also be used as raw materials for manufacturing and construction industries. Moreover, these are used as finished products by consumers.

2. Genetic Industry

Genetic means generation out of the genes of plants and animals. These industries are mainly concerned with breeding of plants or animals, and related to reproduction. Examples of these industries are nurseries raising seedlings and plants, cattle breeding, poultry farming, fish hatchery, or pisciculture goatery, piggery etc.

3. Manufacturing Industry

This industry is mainly engaged in manufacturing of physical goods like consumers' goods, producers' goods or basic and heavy goods. The manufacturing activity actually converts raw materials and semi-finished products into finished products. In this process, these industries create form utility in goods. Most of the products used by the consumers are the outcome of manufacturing industries. Generally, the products of extractive industries are the raw materials of manufacturing industries. For example: conversion of raw cotton into cotton textiles, production of sugar from sugarcane, production of iron and steel from iron ore etc.

Manufacturing industries may be sub-divided into five types. They are (a) Analytical industries (b) Synthetic industries (c) Processing industries (d) Assembling industries and (e) Integrated industries.

(a) **Analytical Industries:** Analytical industries are those which employ analytic processes in the manufacturing of goods. Analytic processes break a basic raw material into two or more products. The best example is oil refineries where the same crude oil is analyzed and separated into different products like petrol, diesel, kerosene, lubricating oil etc.

(b) **Synthetic Industries:** Synthetic industries refer to those manufacturing industries where many raw materials are combined together in production process to make a final product. The examples are: cement industry, soap industry, paper and plastic industry etc. Here the used raw materials lose their identity completely in the final product.

(c) **Processing Industries:** In this industry, the raw materials are processed i.e. passed through different stages of manufacturing to become a finished product. For example, in case of textile industry, the cotton passes through ginning fabricating, weaving and dyeing processes to make cloth. The other examples are sugar, paper, rolling mills, pottery, brick making etc.

(d) **Assembling Industries:** Assembling industries are those where different component parts already manufactured are assembled into final products. The examples of such industries are automobile industry, television industry, computer industry etc. Here the used raw materials do not lose their identity in the final product.

(e) **Integrated Industries:** Integrated industries are those manufacturing industries, where processing and assembling are done under one enterprise. The example are: rubber, iron and steel.

4. Construction Industry

Construction industries are engaged in the creation of infrastructure such as construction of buildings, roads, dams, bridges, canals, railway lines, tunnels, ports etc. The important feature of this industry is that these constructions are erected, built or fabricated at a fixed site. They cannot be brought to the market for sale. Another feature is, these industries use the products of extractive industry like quarries and manufacturing industries like bricks, cement, iron and steel, plastic products, pipelines etc.

5. Service Industries

Unlike other industries discussed above which produce tangible products, the service industries produce only intangible products. The intangible products are those which do not have any physical form and cannot be stored for future consumption. The services produced may be ‘personal’, like services dyers and cleaners, beauticians etc or ‘non-personal’, like banking, advertising, transportation, insurance etc.

2.3 COMMERCE

Commerce broadly refers to interchange of exchange of goods and services with the removal of obstacles between the providers and consumers. In the words of James Stephenson, “Commerce is the sum total of all those processes which are engaged in the removal of the hindrances of persons, place and time in the exchange of commodities.”

According to Prof. E. Thomas, “Commercial operations deal with the buying and selling of goods, the exchange of commodities and the distribution of finished products.”

Features of Commerce

1. Commerce facilitates the distribution of goods from the producers to the consumers.
2. Commerce comprises trade i.e. buying and selling of goods as well as aids to trade i.e. transport, insurance, warehousing, banking and advertising which help buying and selling of goods.
3. Commerce helps remove hindrances of person, place, risk, time, finance and knowledge.
4. Commerce is concerned with marketing aspect of business.
5. Commercial activities have motives of profit.
6. Commerce involves regularity of transactions.

2.3.1 Functions of Commerce

Goods and services are produced for the purpose of consumption. Therefore, these are to be made available from the places of production to the places of consumption.

But there are certain hindrances or obstacles in the distribution of goods from the producers to the consumers. The main function of commerce is to remove these hindrances. The hindrances are the following types viz (i) hindrance of person (ii) hindrance of place (iii) hindrance of risk (iv) hindrance of time (v) hindrance of finance and (vi) hindrance of information or knowledge.

(i) Hindrance of person: Producers cannot always directly sell their products to the millions of consumers as the consumers are scattered throughout the world. This hindrance is called hindrance of persons. The hindrance of persons is removed by the process of trade i.e. buying and selling through middlemen like wholesalers, retailers etc. These middlemen or traders purchase the goods from the producers and sell them to the consumers. Thus, trade which is a part of commerce, plays a major role in establishing contact between producers and consumers.

(ii) Hindrance of place: Producers and consumers may be far away from one another. The goods produced in a place may have less demand in that place but may have demand in a far away place. The barrier can be removed by means of transport. The various means of transport such as roadways, railways, waterways and airways help in the distribution of goods from producers to the consumers.

(iii) Hindrance of risk: When the goods are in the course of transit or when stored in warehouses, they are subject to risk of fire, damages or deterioration etc. These risks are removed by different types of insurance such as fire insurance, cargo insurance, burglary insurance etc. The varieties of insurance policies cover the losses arising from the risks connected with transport and storage of goods. So, in this way, commerce removes the hindrance of risk through insurance.

(iv) Hindrance of time: Goods may be produced at a time when they are not in demand. Thus, the production and consumption of many goods are separated by time. This is called hindrance of time. This hindrance can be overcome through the storage and preservation facilities given by warehouses. So commerce removes the hindrance of time by means of warehousing.

(v) Hindrance of finance: The traders who are engaged in the distribution of goods require finance for their operations. This hindrance of finance is solved by banking. Banks and other financial institutions provide finance for trading operations and remove the hindrance of finance.

(vi) Hindrance of information or knowledge: In the distribution process, it is very difficult for maintenance of direct contact between sellers and buyers. The lack of knowledge about the availability of goods creates hindrance in the mind of prospective consumers. The advertisement and salesmanship provide information about the availability of goods. In this way commerce helps to remove the hindrance of knowledge or information through publicity and advertisement.

2.3.2 COMPONENTS OF COMMERCE:

The components of commerce are classified into two types, i.e. (1) Trade and (2) Aids to trade or Auxiliaries to trade.

1. Trade:

Trade is the main branch of commerce. Trade means exchange of goods and services between the producers and the consumers. This mainly involves buying and selling activity. A producer of goods cannot reach millions of consumers personally to sell his product. Therefore, he takes the help of middlemen like agents, wholesalers and retailers. The hindrance of persons is removed by trade. Traders also help in directing the flow of goods to the most profitable markets. Trade is the final stage of business activities and involves transfer of ownership. Thus, it is the nucleus or central part of commerce. Trade can be divided into two types on the basis of geographical coverage. They are (i) Home trade and (ii) Foreign Trade.

(a) Home Trade or Internal Trade

Home trade (or domestic trade or internal trade) refers to the buying and selling activity within the country. It may be (a) local (b) state or provincial and (c) inter state or national trade. When demand for goods and services is limited to a particular place or locality, it is called local trade. Generally, these goods are of daily use type and perishable in nature like vegetables, milk and bread etc. The state or provincial trade is limited to the boundaries of a state or province. The goods traded within a state are produced according to the needs of the people of a particular region. State governments put some restrictions on the movement of goods. On the other hand, in case of inter-state trade, it is carried on throughout the country without any restriction on the movement of goods. Such goods are usually of durable in nature like iron and steel, textiles, petrol and diesel etc.

Home trade may be further subdivided into two categories, such as (a) wholesale trade, and (b) retail trade. Wholesale trade is the sale of one or a few varieties of goods in comparatively large quantities by the producers to the wholesalers. A wholesaler buys in large quantities but sells in small quantities to the retailers. He serves as a link between producer and retailer. On the other hand, retail trade refers to the selling of goods by the retailer to the consumers. A retailer acts as a link between the wholesaler and the final consumer. The retail trade is conducted in variety of forms such as hawking, vending, unit retailer, multiple shop or chain stores, departmental stores, super bazaar, co-operative stores and mail order business etc.

(b) Foreign Trade or International Trade

Foreign trade (or external trade or international trade) refers to trade between one country and another. Such trade requires permission from the national government. This trade is carried on mostly in larger quantities both by the Government as well as private individual and business houses of two countries. This may be further sub divided into (a) Import trade, involving purchase of foreign goods for use in the domestic market (b) Export trade, involving sale of domestic products to the foreign countries, and (c) Entrepot or Re-export trade which refers to the import of foreign products with a view to exporting them.

2. Aids to Trade

Apart from trade the other component of commerce is known as aids to trade. This includes some ancillary services. These services can be grouped into five heads such as: Transportation and communication, Storage and warehousing, Banking, Insurance, and Advertising. The services rendered by these auxiliaries are described below.

(i) Transport

Transport provides the wheels of commerce. It helps in carrying goods from the producers to the ultimate consumers. It creates place utility by transferring goods from one place to another. The major modes of transport are: land, water and air transport. These transports establish link among all parts of world and facilitate international trade.

(ii) Warehousing

Generally, there is a time gap between the production and consumption of goods. This problem of time is solved by storing the goods in warehouses. It creates time utility and helps in storing goods by the manufacturers, traders and other middle men. It facilitates equal distribution of goods over different periods and helps in stabilizing prices along with protection from damage.

(iii) Banking

Bank provides important auxiliary services for the development of commerce. It provides necessary fixed and working capital for running the trade, gives financial references, realize bills, cheques and hundles and many other services to the businessmen. Thus, the hindrance of finance is solved by banking.

(iv) Insurance

Business is full of risks and insurance provides the best means to reduce the business risks. It makes the business operation very safe and secure by covering the risk for possible losses and damages. Insurance can reduce the risk connected with price, credit, rate of exchange, delivery, dishonesty of employees, accident, fire and other business risks. It covers various types of business risks at a nominal rate of premium.

(v) Advertising

Advertising means conveying information to the prospective consumers about the goods and services being introduced, produced and supplied by the businessmen. It removes the hindrance of knowledge and helps the consumers to make a choice among the varieties of available products. It also educates them about the use which ultimately gives more satisfaction to the consumers. In the present competitive world, advertisement is becoming a necessity and plays a very important role in the promotion of sales.

2.4 DIFFERENCES BETWEEN INDUSTRY AND COMMERCE

1. Meaning	Industry refers to such activities as production conversion, processing or fabrication of products	Commerce includes all those activties which facilitate the exchange of goods and services from the producer to the user
2. Type of utility	Industry creates form utility by changing the raw material into finished product	Commerce provides place and time utility
3. Component	Industry comprises manufacturing of goods and services.	Commerce consists of trade and aids to trade.
4. Demand and supply	Industry represents the supply side of goods and services.	Commerce represents the demand side of goods and services.
5. Place of operation	Industry operates at a fixed place such as factory, mines and forest etc	Commerce involves the movement of goods which operates from place of production to place of consumption.
6. Branch of activity	Industry is the first branch of business activity which is concerned with production	Commerce is the second branch of business activity related with distribution of goods.

2.5 BUSINESS RISK CONCEPT

Every business organization contains various risk elements while doing the business. The term business risk refers to the possibility of losses or inadequate profits due to uncertainties. The uncertainties may arise out of changes in tastes and preferences of consumers, labour unrest or strikes, increased competition, natural disasters, change in government policies, obsolescence etc. Business risk implies uncertainty in profits or danger of loss and the events that could pose a risk due to some unforeseen events in future.

Business risks may be internal risks that arise from the events taking place within the organization or external risks which arise from the events taking place outside the organization. The factors responsible for internal risks may be:

(a) Human factors like labour unrest, strikes etc.

(b) Technological factors such as challenges from emerging technologies.

(c) Physical factors such as failure of machines, theft, fire etc.

(d) Operational factors like cost cutting, advertisement, access to credit etc.

All the above factors can be controlled by the management, were as external risks arise from the factors which cannot be controlled. The factors responsible for external risks may be (i) economic factors e.g. market risks, pricing pressure rising costs (ii) natural factors e.g. floods, earthquakes (iii) political factors e.g., compliances and regulations of the government.

2.5.1Types of Business Risks:

The Business risk may be classified into five types as follows:

1. Strategic Risks: They are the risks associated with the operations of that particular industry. These risks may arise from changes in supply and demand, competitive structures, introduction of new technologies, merger and acquisition of business, alliances and joint ventures etc.

(2) Financial Risks: These are the risk associated with the financial structure and transactions of the particular industry e.g. global financial events, interest rate increase, cash flow shortage, rising costs etc.

(3) Operational Risks: These are the risks associated with the operational and administrative procedures of the particular industry e.g., industrial relations and personnel management issues, breaking down of transportation system, supplier failing to deliver goods etc.

(4) Compliance Risks or Legal Risks: These are associated with the need to comply with the rules and regulations of the government e.g., submission of Tax Returns, contractual breaches employee protection regulations environmental protection regulations etc.

(5) Other Risks: These include risk from the environment. They are the different risks arising from natural disasters, theft, fraud, terrorism, extortion, interruptions of power, water, transport and communications etc.

2.5.2 Causes of Business Risks.

Business risks arise due to a variety of causes, which are classified as follows:

(a) **Natural causes:** Natural causes include natural calamities like flood, earthquake, lightning, heavy rains, drought etc, which are beyond human control. They result in heavy loss of life, property, income.

(b) **Human Causes:** Human causes include unexpected events like carelessness, negligence or dishonesty of employees, stoppage of work due to power failure, strikes, riots, management inefficiency etc.

(c) **Economic Causes:** These include uncertainties caused due to economic fluctuations such as changes in demand for goods, competition, price, collection of dues from customer's change of technology or method of production etc. Financial problems like rise in interest rate and higher taxation etc. also come under economic causes as they raise the cost of operation of business unexpectedly.

(d) **Other Causes:** These are unforeseen events like political disturbances, mechanical failures fluctuation in exchange rates etc which lead to the possibility of business risks.

2.6 QUESTIONS

OBJECTIVE AND SHORT ANSWER TYPE QUESTIONS

1. From the given alternatives, choose the correct ones.

(a) Industry also means-

(i) Purchase and sale of goods

(ii) Exchange of goods for cash

(iii) Extraction of raw materials

(iv) Exchange of goods for goods

(b) **When trade takes place between two countries it is called-**

(i) National trade

(ii) Local trade

(iii) Domestic trade

(iv) International trade

(c) **One of the examples of genetic industry is-**

(i) Car manufacturing

(ii) Power generation

(iii) Coal mining

(iv) Poultry farming

(d) **Hindrance of knowledge in trade is removed with the help of**

(i) Agency

(ii) Insurance

(iii) Advertisement

(iv) Banking

(e) **Which, of the following, is Not considered an aid to trade?**

(i) Transport

(ii) Banking

(iii) Exports

(iv) Insurance

(f) **Components of Commerce are-**

(i) Trade and industry

(ii) Aids to trade and hindrance to trade

(iii) Trade and aids to trade

(iv) Internal trade and external trade

2. Correct the underlined portions in the following sentences

(i) The industries which are concerned with breeding of plants or animals, ' reproductions etc. are known as manufacturing industries.

(ii) The industries which are engaged in producing intangible products are called extractive industries.

(iii) Sale of one or a few varieties of goods in large quantities by the producer to the next middleman is called retail trade.

(iv) Analytical industries refer to those manufacturing industries where many raw materials are combined together in production process to make a final product.

(v) Trade involves manufacturing a finished product from raw material.

3. Fill in the blanks-

(i) ________ means exchange of goods and services between the producers and consumers resulting in a transfer of ownership.

(ii) Mining, agriculture, fishing are examples of ______ industries.

(iii) In________ industries raw materials pass through different stages of manufacturing to become finished products.

(iv) A_______ acts as a link between the wholesaler and the final consumer.

(v) _________ trade involves sale of domestic products to the foreign countries.

4. **Express in one word or phrase-**

(i) Industries concerned with breeding of plants or animals.

(ii) Type of industry engaged in the creation of infrastructure such as buildings, dams etc.

(iii) Type of industries producing intangible products.

(iv) The process of exchange of goods and services.

(v) Buying and selling activities within the country.

5. **Answer the following within three sentences each:**

(i) What do you mean by international trade?

(ii) What do you mean by advertising?

(iii) Name the type of industries where the production process involves in breaking a basic raw material into two or more products.

(iv) What do you mean by Entrepot trade?

(v) Give two examples of capital goods.

6. **Explain the following in not more than six sentences each:**

(a) Trade

(b) Commerce

(c) Wholesale trade

(d) Constructive industry

(e) Extractive industry

(f) Internal trade

(g) Genetic Industry

7. Answer the following questions as directed-

(a) Name any three components of aids to trade

(b) Give any three examples of genetic industry

LONG ANSWER TYPE QUESTIONS:

1. What do you mean by industry? Explain different types of industries.
2. What do you understand by the term commerce? Discuss its nature and scope.
3. Explain the term trade and discuss different types of trade.
4. Write notes on-

   (i) Industry (ii) Trade (iii) Commerce
5. Distringuish between

   (a) Trade and Aids to trade

   (b) Industry and Commerce

2.7 ANSWERS TO OBJECTIVE QUESTIONS

1. (a) -(iii), (b)-(iv), (c)-(iv), (d)-(iii), (e)-(iii), (f)-(iii).
2. (i) Genetic, (ii) Service (iii) Wholesale, (iv) Synthetic (v) Production
3. (i) Sale, (ii) Extractive (iii) Processing, (iv) Retailer, (v) Export
4. (i) Genetic Industries (ii) Construction Industry (iii) Service Industry

   (iv) Marketing (v) Internal trade.

***

CHAPTER-3

SOLE PROPRIETARY CONCERN

STRUCTURE

3.1 MEANING

Sole proprietary concern or sole proprietorship is a business owned by one person. It is the most natural, the oldest, the simplest and one of the most popular forms of business organization. They are found in every country, in every state and in every locality. It is a form of business organization which is established, financed, owned and managed by an individual entrepreneur who bears all the risks and receives the entire gains. A sole proprietary business is a one-man business and the owner is called sole proprietor or individual entrepreneur. When engaged in manufacturing, he may be known as a Sole Manufacturer and when engaged in trading, he may be known as a Sole Trader.

3.2 FEATURES

The main features of a sole proprietary concern are as follows:

1. The sole proprietor alone contributes or arranges capital for his business.

2. Sole Ownership:

Since the arrangement of capital is done by the single person, the business is owned and in most of the cases is managed by himself only. He has no other persons to share the profits of the business.

3. No separate entity:

A sole proprietary concern has no sparate legal existence from that of its owner.

4. Unlimited Liability:

The sole proprietor has unlimited liability. In case of need if his business assets are not sufficient to pay off his business liabilities, his private assets can also be used for the purpose.

5. Individual Risk:

A sole proprietor assumes all the risks involved in the business. As he takes all the risks, he enjoys all the profits and he alone bears all the losses of the business also.

6. Management and control:

Both management and control vest in the hands of the sole proprietor. He plans, organizes, directs, co-ordinates and controls all the affairs of the business by himself.

7. No special law:

The sole proprietary business is not governed by any special law. Only general business laws are applicable to this business. Any person competent to enter into a contract can start sole proprietary business. An insolvent, however, cannot run the business in his name.

3.3 ADVANTAGES OF SOLE PROPRIETARY CONCERN

The sole proprietary concern enjoys several advantages. They are as follows:

1. Easy to start:

It is very easy to start a sole proprietary concern. No legal formalities like registration are necessary to form this type of business. Any person competent to enter into contract can start the business.

2. Incentive for hard work:

Sole proprietary concern is the only form of business organization in which rewards and efforts go hand in hand. A sole proprietor puts in his heart and soul to the business as he knows that he is the sole beneficiary of the business whatever may be the profit that is fully enjoyed by him. This acts as an incentive and becomes the driving force to secure economy and efficiency.

3. Secrecy:

In a sole proprietary concern, the business policies and trade secrets are not disclosed to others. There is no necessity to make public the accounts maintained by him. A sole proprietor can maximize the profits by maintaining top most secrecy of his business operations.

4. Personal Contact:

A sole proprietor comes in personal contact with the customers as well as the employees. By personal contact with customers he is able to ascertain their tastes, aptitude and habits. This helps him to serve them better. The personal relationship with customers and employees helps to increase the turnover and profit of the business.

5. Prompt decisions:

A sole proprietor is the king of his own will. For any decision, he is not required to consult or seek the permission of others. Such freedom allows him to take quick decisions and prompt action which is fundamental to business success.

6. Inexpensive management:

As the sole proprietor himself is the manager, controller and supervisor, the management of business activity is carried out by the owner and his family members in place of paid employees. Hence, the cost of operation is very les.

7. Flexible operation:

As the whole business is run by an individual, the business is highly flexible in character. Flexibility relates to the ability of the firm to change its policies, plans, procedures and activities in response to the changing environment. Being small organization, it is easy to bring the required degree of changes if the situation so demands. A sole proprietor can quickly effect the changes to make business more profitable and efficient.

8. Credit worthiness:

Since the owner is personally liable for all debts of the business it enjoys favourable rating among creditors. Further, a sole proprietor is able to develop goodwill and wide clientele base. This enhances the credit worthiness of the business concern.

9. Self-Confidence:

Since the sole proprietor looks after the total business operations, he develops a good deal of self-confidence. This helps him to take risky business decisions which leads to higher profits.

10. Preferential treatment by Government:

Not only it is free from Government regulations but also it gets subsidies, concessions and other facilities from the government. It enjoys preferential treatment in the matter of loans at concessional rate and liberal repayment schedule.

11. Tax advantage:

A sole proprietary concern is socially useful in many ways. It promotes equitable distribution of wealth and income in the society. It is a good source of self-employment for the millions of unemployed youths. It creates entrepreneurs to develop the economy. It helps to develop self-reliance, self-determination, initiative, high motivation and a respectable social life.

3.4 DISADVANTAGES AND LIMITATIONS

A sole proprietary concern suffers from the following disadvantages.

1. Limited capital:

A sole proprietary concern can raise only very limited amount of capital. The personal savings of the individual is meagre and borrowing on a large scale is not possible, due to insufficient securities. Hence, expansion of business is difficult as it requires large capital.

2. Limited managerial ability:

The managerial ability of the sole proprietor is also limited. He is not expected to possess specialized knowledge in all the functional areas of business. Now, when the business is becoming more and more complex, he has to face many difficulties in taking business decisions due to limited skills and knowledge.

3. Unlimited liability:

A sole proprietor has unlimited liability. He is personally liable for all the liabilities incurred due to his business activities. Therefore, if his business debts are not paid in full out of his business assets the balance of his business debts has to be paid out of his private assets. Thus his personal property is constantly in danger.

4. Unlimited risk:

A sole proprietor takes all business decisions by himself. There is every possibility of taking wrong decisions because of his limited capacity. He alone has to bear all the risks which may cause heavy loss.

5. Uncertain existence:

The existence of sole proprietary concern is always uncertain. The continuity and stability of the business mainly depends on the individual owner. His death or physical incapacity may suddenly bring an end to the business.

6. Unsuitable for big business:

Sole proprietary concern i.e. well suited for small business. It is not suitable for big business and generally large scale manufacturing buying and selling operations cannot be carried out account of small size of the business. Limited capital, limited skill and unlimited liability are the factors responsible for small scale operation.

7. No judicious management:

As the owner has to look after every aspect of business, he cannot pay equal attention to each and every aspect of business. Some important aspects may remain unattended which may affect the business.

8. Suspicion to outsiders:

Secrecy is proved to be harmful from the point of view of outsiders. As the sole proprietor maintains secrecy in accounts the outside world does not know the soundness of the business. Hence, he is likely to lose the business sympathy from other traders.

9. Dependence on employees:

As and when the business expands a sole proprietor has to depends upon the paid employees. The employees can never take the sames interest as the owner himself can take. Sometimes over dependence on employees leads to inefficient management of the business.

3.5 SUITABILITY OF SOLE PROPRIETARY CONCERN:

One man control of business was the best in the world before the industrial revolution. However, after the industrial revolution, it has lost its importance to some extent because of the limited capital and limited skill. However, even in the present days, it is still important under certain circumstances which are as follows:

1. Where there is need for greater personal attention to customers as in jewelleries, tailoring, repairing etc.
2. For professional services such as chartered accountants, Advocates, Architects, Doctors etc.
3. For small business requiring small amount of capital and limited managerial talent as in the case of small scale retail stores.
4. In the case of business producing non-standardized goods like artistic things.
5. Where local needs are required to be satisfied i.e. trading in perishable provisions etc.
6. For personal services like those of Hair Dressers, Beauticians, Dieticians, Repaires etc.
7. Where special regard to the tastes and fashions of the customers are needed like in hotels, dress making etc.
8. Trading in precious metals like gold, pearls, silver etc.

3.6 QUESTIONS

Objective and short answer type Questions:

1. Choose the correct answer from the given alternatives:

(a) A sole proprietorship business is regulated by-

(i) Sole proprietorship Act.

(ii) Partnership Act

(iii) A Special Act

(iv) No Specific Act

(b) Business Secrecy is best protected in –

(i) Partnership organization

(ii) Sole proprietorship organization

(iii) Co-operative organization.

(iv) Company from of organization

(c) Which one, of the following, is NOT a characteristic of sole proprietorship?

(i) Individual initiative

(ii) Unlimited liability

(iii) Limited area of operation

(iv) Separation of ownership from management.

(d) In a sole proprietary business the process of decision making is-

(i) Quick

(ii) Slow

(iii) Lengthy

(iv) Costly

(e) Sole proprietorship business avails-

(i) Diffusion of power

(ii) Delegation of power

(iii) Decentralization of power

(iv) Concentration of power

(f) The oldest form of business organization is-

(i) Partnership

(ii) Sole proprietorship

(iii) Co-operative undertaking

(v) Joint Stock companies

2. Correct the following Sentences correcting the underlined portions.

(i) The sole proprietor has <u>limited</u> liability.

(ii) <u>There is</u> special Act to govern sole proprietary business.

3. Fill in the blanks-

(i) The oldest form of business organization is__________________

(ii) The liability of the sole proprietor is_____________

(iii) Decision making process in sole-trade business is___________

(iv) A sole proprietorship business helps in ____________of wealth.

4. Express in one word/phrase-

(i) The liability of a business man which extends to his private asset in case of insufficient business assets to pay off business liability.

(ii) A form of business which underlines that one man control is the best in the world.

5. **Answer the following questions within three sentences each.**

   (i) What do you mean by unlimited liability?

   (ii) Explain any two advantages of sole proprietorship business.

   (iii) What do you mean by flexibility in operations in the context of a sole trading business?

   (iv) Why is it so that the formation process in case of a sole proprietorship business is easy?

   (vi) Why is a sole proprietary business socially desirable?

LONG ANSWER TYPE QUESTIONS :

1. What do you mean by Sole proprietorship business? Discuss its Characteristics.
2. “One man control is the best in the world”. Comment.
3. Discuss the advantages and disadvantages of Sole proprietorship form of business.
4. Explains Sole proprietorship. Discuss the conditions on which this form of business is suitable.

3.7 ANSWERS TO OBJECTIVE QUESTIONS

1. (a)-(iv), (b)-(ii),(c)-(iv), (d)-(i), (e)-(iv), (f)-(ii)
2. (i) Unlimited, (ii) There is no
3. (i) Sole proprietorship, (ii) Unlimited, (iii) Quick/fast, (iv) easy, (v) dispersal
4. (i) Sole-trade/proprietor, (ii) Sole proprietorship

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CHAPTER- 4

PARTNERSHIP

STRUCTURE

4.1 MEANING AND DEFINITION

Partnership is one of the oldest and simplest forms of business organizations. It has come into existence due to several limitations of the sole proprietary concern. A sole proprietor has limited capital, limited managerial ability and skill. Moreover, the business may require more and more money, men, machines, materials and managerial ability from time to time. All these cannot be pooled by a sole proprietor. Hence, he may have to seek the assistance of others. Such assistance in the matter of business could be taken by forming the partnership firm. Any association of two or more persons who carry on a business jointly with the intention of sharing profits and losses is called “partnership”.

Definition

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

4.2 CHARACTERISTICS OF PARTNERSHIP

The characteristics of a partnership are as follows:

1. An association of two or more persons

There must be an association of two or more persons to constitute a partnership. A single person cannot become a partner with himself. Thus, the minimum number of partners must be two. As per the Indian Partnership Act, the maximum number of partners has been fixed at 10(ten) in case of banking business and 20(twenty) in other businesses. [However, as provided under Companies Act, 2013, there is no ceiling on number of members/partners as to associations or partnership formed by professionals by special Acts. In general partnership, the maximum number can be 100.]

2. Existence of an agreement.

There must be an agreement among the persons. The Indian Partnership Act clearly states that the relationship of dpartners arises from a contract and not from status. A person not capable of entering into contract cannot be considered as a partner. However, in some cases a minor may be admitted in the partnership with limited liability to share the profits only. The agreement among partners may be oral or written.

3. Lawful business

The agreement between the persons must be carry on some business. Therefore, an agreement between persons to carry on some charitable work or to share the income from a property or to divide the goods purchased in bulk cannot be regarded as partnership. The term 'business' includes every trade, occupation and profession. Further the business must be lawful and not illegal, immoral or opposed to public policy.

4. Sharing of profit

The object of partnership is to earn profit and to share it. In the absence of any specific agreement, the partners should share profits and losses in equal proportions. Though sharing of profits is an essential condition, yet it is not a conclusive proof of the existence of partnership between partners. Several persons may be joint owners of some houses and may share income from the house. In this case, they are only co owners and not partners. Similarly, a manager and a lender may have shares in the profits of the firm but they are not regarded as partners.

5. The legal definition states that the business can be carried on by all or any of them acting for all. It is, therefore, obvious that every partner is both an agent as well as a principal. He is an agent of other partners while dealing with the third parties or outsiders in connection with the business. He is also a principal because he is bound by the acts of the other partners in the ordinary course of business.

6. Unlimited liability

Every partner has unlimited liability. The liability of the partners is joint and several. This means that he is jointly and also individually liable for the payment of all debts of the firm. In certain cases, some persons may be admitted into the firm with limited liability, but at least one person must have the unlimited liability, otherwise it will not be deemed to be a partnership firm.

7. No separate entity

A partnership firm has no separate legal entity. The firm and the partners are one and the same. Since the firm is not different from the partners, the death, insolvency or retirement of a partner immediately affects the existence of the firm. However, for the purpose of assessment of income-tax under the Income Tax Act, a partnership firm is considered a separate entity and is assessed separately apart from the partners.

8. Restriction on transfer of share

A share in the partnership is not freely transferable. A partner is not permitted to sell or transfer his share to an outsider without the consent of all partners. He can not introduce any new partner into the firm on his own.

9. Utmost good faith

The existence of utmost good faith is a must for partnership. Every partner must be faithful to each other. The partners must render true accounts and must reveal complete information to one another with respect to the conduct of business. There should be a high degree of mutual trust, mutual confidence and mutual control among the partners.

10. Registration of firm

Registration of a partnership firm is not compulsory under the partnership Act. The only document required is the partnership deed or even an oral agreement among partners to bring the firm into existence.

4.3 IMPORTANCE AND ADVANTAGES OF PARTNERSHIP:

The main advantages of a partnership are as follows:

1. Easy formation

The formation of partnership is easy. A simple agreement, oral or written, between two or more persons is enough to form a partnership. Further, the registration of the firm is also optional and procedures for registration is simple.

2. More capital resources

As partnership is a combination of several persons, compared to sole proprietorship, more amount of capital resources can be mobilized. Partners can contribute additional capital or new partners can be admitted to the firm to get required amount of capital.

3. Combined abilities

A partnership combines abilities and skills of two or more persons and ensures better management of the business. A firm can get the professionally qualified persons who can act as partners and contribute towards the welfare of the business.

4. Flexibility

A partnership firm is an elastic organization. It has flexibility in its operation. It can change its business whenever the partners like. The firm can admit new partners, increase its capital and amend its objects to suit the changing business environment.

5. Division of risk

Under partnership, the risks of business are divided among the partners. Any loss sustained by the firm is borne by all the partners. This encourages partners to undertake risky ventures also.

6. Division of work

In a partnership, the work and responsibility can be distributed among the partners according to their ability, experience and qualification. This leads to efficient management of the business.

7. Prompt decisions

Usually, the number of partners in a firm is not large and they meet frequently. It becomes easier to discuss the problems and take prompt decisions. Further, the decisions will be combined and more dbalanced. The judgment of several persons, combined together, is likely to be valuable for business.

8. Business secrecy

The partnership firms are not required to publish the accounting information to outsiders. Hence, the partners can very well maintain the secrecy of their business.

9. Link between work and reward

There is a link between work and reward to a greater extent in a partnership business. The partners work hard to earn more profits. This is a direct stimulus to the partners to act sincerely.

10. Simple dissolution

The dissolution of a partnership firm is very easy and simple. A notice of 14 days by any partner is sufficient to dissolve the partnership. On such dissolution, the settlement of accounts among partners is also easy.

11. Strong credit position

Unlimited liability of the partners increases the credit worthiness of the firm. The creditors usually sanctioned credit up to the limit of private property and not to the extent of capital contributed by the partners.

12. Personal touch

A partnership can maintain personal touch and contact with the customers to a greater extent than a sole proprietary concern. The partners also maintain cordial relationship with the employees. This improves the efficiency of business.

13. Inexpensive management

The expenses on account of the management of the firm are comparatively less. Some partners undertake several managerial responsibilities. The partnership firm is also not required to maintain a host of books and accounts. This results in less cost spending on the cost of management of the firm.

14. Protection of minority interest

The minority interest of partnership is protected by law. All partners have a right to be consulted in the business affairs. Each partner is assured of a voice in management and unanimous decisions. A dis-satisfied partner may state his objection and withdraw from the firm.

15. Less speculation chances

Each partner keeps a watch over the activities of the firm and of the partners. Thus, the partners cannot indulge themselves in the speculation due to unlimited liabilities.

16. Protection for the minors

Minors can be taken into the partnership firm with limited liability. They can share the benefits of profits only. They may opt to remain in the firm after attaining majority.

17. Encouragement of mutual trust

The existence of partnership rests on mutual trust and goodwill. It encourages the spirit of helpfulness, honesty, sincerity, responsibility, initiative and self reliance among the partners.

18. Less incidence of tax

The burden of taxes on a partnership firm or individual partners is lower as compared to joint stock company.

4.4 LIMITATION AND DISADVANTAGES OF PARTNERSHIP

1. Limited capital

Since the maximum number of partners cannot exceed 20 in ordinary business and 10 in banking business, the amount of capital is limited to the extent of the contribution by the partners. The business which requires huge amount of capital cannot be run by partnership form of organization.

2. Unlimited liability

The liability of partners in the firm is unlimited, joint and several. A partner is liable to the extent of his private property not only for his own mistakes but also for the mistakes of his fellow partners. This discourages many people from becoming partners of a firm.

3. Lack of harmony

There is every possibility of lack of harmony when the number of partners increases. Difference of opinion and dispute may lead to closure of business. The partnership faces loss of mutual trust and confidence due to pe5rsistent quarrel and friction.

4. Instability

A partnership firm lacks continuity of existence. The death, insolvency, insanity or retirement of a partner may put an end to the partnership business.

5. Non transferability of Interest

A partner cannot transfer his interest in the firm to outsiders without the unanimous consent of all other partners. This discourages investment in partnership business.

6. Limited managerial ability

The modern business requires different managerial talents which cannot be provided by the partnership firms. As every partner has equal voice in the management, one cannot expose his managerial abilities fully.

7. No legal entity

The partnership has no separate legal existence from its partners. The partners and the firm are treated as one and the same. Unlike Joint Stock Company the firms can not enjoy independent legal status.

8. Lack of public confidence

A partnership may suffer from lack of public confidence because there is no legal mechanism to enforce the registration and disclosure of business affairs. Due to this the general public is reluctant to deal with partnership firm.

9. Burden of implied authority

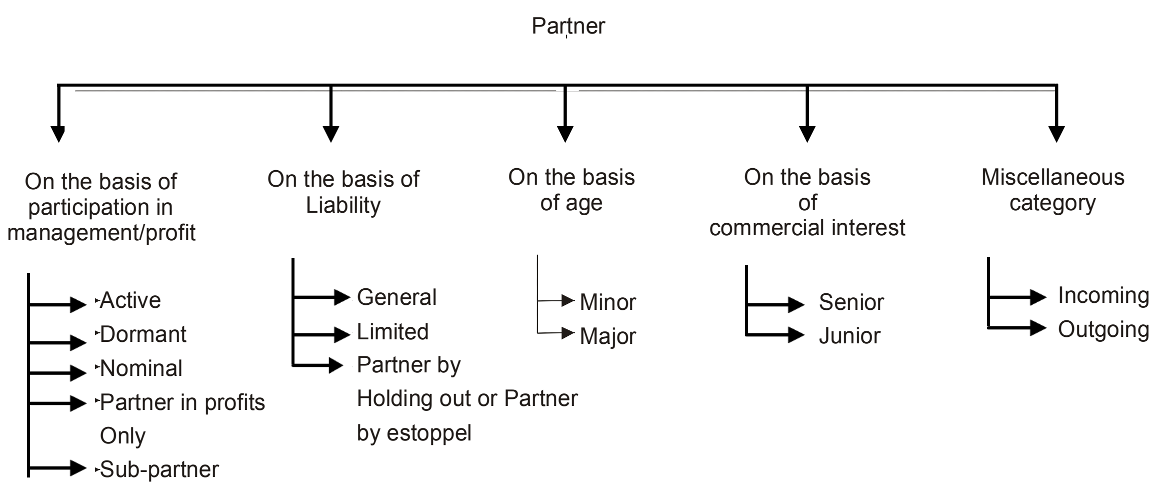
As per partnership agreement every partner is a principal as well as an agent of others. He has implied authority to bind all other partners by his contracts. This provision of implied authority may sometimes create problems for other partners. If any partner commits mistakes due to his ignorance, inefficiency or inability, the loss is to be shared by all.

10. Delay in decision making

Every partner is entitled to take part in managerial decision making. As a result collective decisions lead to delay and misunderstanding. The business cannot be managed smoothly due to delayed decisions arising out of difference of opinion among partners.

4.5 KINDS OF PARTNERS:

There are different kinds of partners in a partnership firm. They can be classified from different stand points, such as on the basis of (a) participation in management (b) liability (c) commercial interest and (d) age. There are also partners who can be grouped under miscellaneous category. The various types of partners are as follows:



1. Active or working partner

A partner who not only invests his capital in the business but also participates actively in the management of the business is called active or working or actual or ostensible partner. He is a full fledged partner of the firm. Being an active partner, he is an agent of other partners in a ordinary course of business. In practice, all the partners do not take active part in the affairs of the firm.

2. Dormant or sleeping partner

A partner who merely contributes capital and shares the profits or losses of the firm, but does not take active part in the management of the partnership business is called dormant or sleeping partner.

There are two types of sleeping partners such as; silent partners and secret partners. Silent partners are those who do not have any voice in the management of the firm. But they share the profits or losses of the firm and bear the burden of its debts. On the other hand, a secret partner is one who does not want to disclose his relationship with the firm to the general public. Unlike a silent partner, the secret partner has a voice in the management but the public does not know it. A Sleeping partner is liable like an active partner for the debts of the firm.

3. Nominal partner

A nominal partner is one who is a partner only in name. He does not contribute capital to the firm. He does not take any active part in the management of the business. He is not allowed to share the profits of the firm. He simply allows his name to be used as a partner and is known to the outside world as a partner. However, he remains liable to the third parties for the debts and liabilities of the firm.

4. Partner in profits only

A person who becomes a partner in a firm on condition that he will share in profits only is called “partner in profits only”. A partner in profits only contributes capital. He shares the profits but not the losses. He has no voice in the management of the firm. However, he is liable to third parties, along with the other partners to an unlimited extent.

5. Sub-partner

When a partner agrees to share his share of profits in a partnership firm with an outsider, such an outsider is called a sub partner. For example, if X who is entitled to 1/3(one third) of the profits of a firm, agrees to transfer ½ of his share of profits in the firm to Y, Y will be regarded as a sub partner. Such a sub partner has no rights against the firm nor he is liable for the debts of the firm.

6. General partner

Limited partnership, a type of partnership, has two classes of members-general partners and limited partners. The partners with unlimited liability are known as general partners. There should be at least one general partner in a limited partnership who continues to have unlimited liability. General partners are personally liable for all the debts and obligations of the firm.

7. Limited partner

A limited partner merely contributes capital and shares in the profits. His liability is limited to the extent of capital contribution. He does not enjoy any right in management. He is like a sleeping partner with limited liability. He cannot bind the firm as an agent.

8. Partner by holding out (holding out partner) or partner by estoppel

If a person, although not a partner of a firm by any means, holds himself out (i.e. represents himself) either through his conduct or by his words in the presence of real partners and third parties as if he is a partner and the partners do not deny it, he is known as a partner by holding out or holding out partner. Such a partner (really not a partner) neither contributes any capital nor takes any part in the management or profit.

Although a holding out partner is not a real partner, yet he is liable to the third parties if they make contract with the firm and extend credits on the faith of his representation and later on suffer loss. He is held liable along with the other partners for the debts of the firm. In such a situation, he is legally estopped from denying his representation. Due to this reason, a holding out partner is also known as a partner by estoppel.

9. Minor partner

As per the Indian Contract Act, a minor, i.e. a person who is below the age of 18, cannot become a partner because he is incompetent to enter into a contract. But according to the Partnership Act, he can be admitted to the benefits of partnership with the consent of all the partners. On his behalf his guardian has to execute an agreement with the other partners. The position of a minor partner may be studied in the following two stages.

(a) Before attaining majority.

Rights

(i) He is entitled to get an agreed share of profits and property of the firm.

(ii) He has a right to have access to any of the accounts of the firm and obtain a copy of the same.

(iii) He has a right to file a suit for his share of profits in case he is not given his due share of profit.

Liabilities

(i) The minor partner's liability is limited only to the extent of his share in the profits and properties of the firm.

(ii) He cannot be declared insolvent. His share in the firm vests with the official receiver if the firm itself is declared insolvent.

(b) On attaining majority

Within six months of attaining majority a minor must give public notice as to whether or not he decides to become a partner. If he fails to give a public notice he is deemed to have become a partner in the firm on the expiry of the said six months. During the period between his attaining majority and notification to the public he is to be regarded as a partner by estoppel.

10. Incoming partner

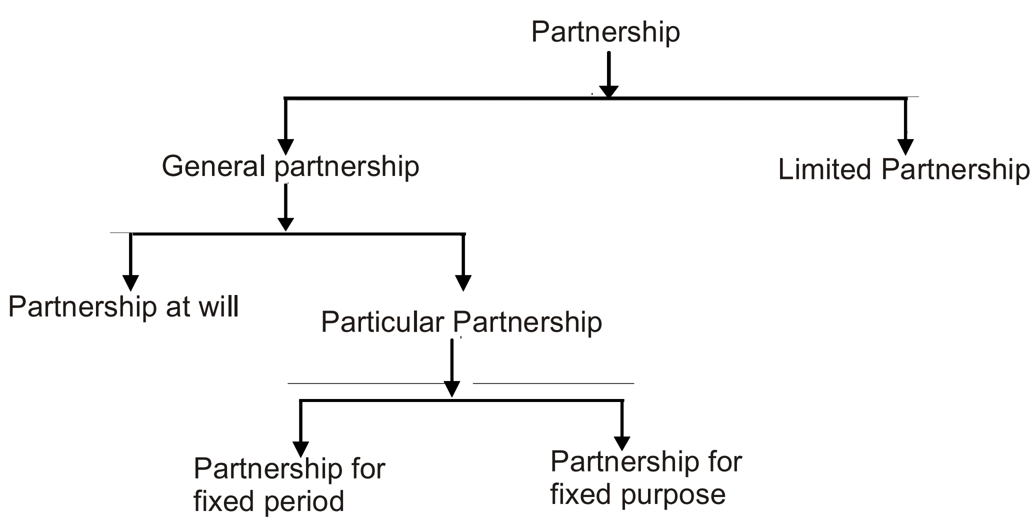
A person joining an existing partnership firm with the consent of all is known as an incoming partner. He is required to pay his share of capital as agreed and also some premium as compensation to the existing partners. He is generally not liable for the debts of the firm incurred before his joining the firm.

11. Outgoing or Reti partner

An outgoing partner is one who retires voluntarily without causing dissolution of the firm. He is liable for all debts and obligations as are incurred before his retirement. He may continue to be liable for the acts of the firm even after his retirement if proper notice of his retirement is not given to the creditors. In this situation, he is regarded as a partner by estoppel.

4.6 KINDS OF PARTNERSHIP

Broadly, there can be two types of partnership: (a) general partnership and (b) limited partnership. General partnership can further be subdivided into (i) partnership at will and (ii) particular partnership. Particular partnership may be either for a fixed period or for a fixed purpose. The various types of partnership are shown in the following chart followed by brief descriptions.



1. General partnership

This kind of partnership is the most common in India. The Indian Partnership Act recognizes only the general partnership. The important features of this partnership are (a) liability of each partner is unlimited (b) all the partners are individually and collectively liable to the outsiders for the debts and obligations of the firm (c) all partners can take part in management, share profit and losses (d) registration of the firm is optional. General partnership may be either partnership at will or particular partnership.

(i) Partnership at will: A partnership is called partnership at will when (a) the partnership is not for a fixed period of time, and (b) no provision is made as to when and how the partnership will come to an end. Such a partnership can be dissolved when all the partners or any one of them at any point of time ex-presses desire to dissolve it.

(ii) Particular partnership: A particular partnership is one which is formed for a particular venture or for a specific period of time. It comes to an end as soon as the venture is completed or the period is over. Such partnership may be formed for construction of dams, roads, extraction of oil etc.

2. Limited partnership

The limited partnerships are not found in India as there is no provision under the partnership Act for such partnership firm. Now such partnerships have been allowed in India. These were introduced in European countries and in the USA. The main features of a limited partnership are as follows:

(a) There must be two classes of partners: general and limited partners.

(b) There must be at least one general partner and atleast one limited partner.

(c) The liability of general partner is unlimited. But the liability of limited partner is limited to the extent of his capital contribution in the firm.

(d) The registration of limited partnership is a must. It is treated as general partnership if it is not registered.

(e) In a limited partnership, only the general partners can take part in the management of the partnership business. The limited partners cannot take part in the management of partnership business.

(f) A limited partner cannot bind the firm by his own acts.

(g) A limited partner cannot withdraw any part of his capital during the continuance of the firm.

(h) On the death, lunacy, retirement or bankruptcy of a limited partner, the firm is not dissolved.

(i) However, a limited partner enjoys certain rights He is entitled to receive a share in the profits of the firm. He can inspect the books of the firm.

Additional advantage of limited partnership:

In addition to the usual advantages of a general partnership there are certain additional advantages of a limited partnership. They are-

(a) The limited partnership helps in obtaining capital from persons who are not willing to assume unlimited liability.

(b) The limited partnership is more stable than a general partnership because its continuity is not affected by the death, bankruptcy or lunacy of the limited partners.

Additional disadvantage of limited partnership:

Besides the disadvantages in a general partnership, a limited partnership suffers from certain additional disadvantages. They are as follows-

(a) Registration a limited partnership is compulsory. Thus, it is subject to legal formalities.

(b) The limited liability of the limited partners reduced the credit worthiness of the firm.

(c) There is every chance of exploitation of limited partners by the general partners because the limited partners have no voice in the management of the partnership business.

(d) The limited partners cannot withdraw their capital during the life time of the firm.

4.7 DISTINCTION BETWEEN GENERAL PARTNERSHIP AND LIMITED PARTNERSHIP DPARTNERSHIP:

Basis	General partnership	Limited partnership
Liability	The liability of the general partners is unlimited.	The liability of the partners is limited to the extent of their capital contribution.
Registration	Not compulsory	Registration is compulsory
Participation in management	All partners are entitled to take part in the management of the firm	The partners are not entitled to take part in the management of the firm.
Representation	All partners are competent to represent the firm and can bind the firm by their actions	The partners cannot bind the firm by their actions.
Stability	The partnership is less stable because the death, lunacy or insolvency of a partner dissolves the firm	The continuity of the partnership is not affected by the death, lunacy and insolvency of a limited partner.
Withdrawal of capital	A Partner can withdraw a part of his capital with the consent of other partners	A limited partner cannot withdraw his capital during the life of the firm.
Credit worthiness	Unlimited liability of general partners increases the credit worthiness	The limited liability of partners decreases the credit worthiness
Cash capital	A general partner is not always required to bring capital in cash	A limited partner must bring capital in the form of cash.

4.8 RIGHTS, DUTIES, LIABILITIES AND IMPLIED AUTHORITIES OF A PARTNER

The rights, duties and liabilities of partners in a firm are generally agreed upon or laid down in the partnership deed. Where the agreement or partnership deed remains silent or fails to make provisions, the mutual rights, duties and liabilities of partners are governed by the following rules of the partnership Act 1932.

4.8.1 RIGHTS OF A PARTNER

1. **Right to take part in management:** Every partner has a right to take part in the conduct and management of the business of the firm.

2. **Right to be consulted:** Every partner has a right to be heard and consulted in all matters affecting the business of the firm. The decisions on the ordinary issues of the business may be taken on the basis of the opinions of majority of partners whereas, for all important matters such as admission of a new partner, change in the nature of business, transfer of partner's share in profits and property, additional capital to be contributed etc. the consent of all the partners is required.

3. **Right to have access to accounts and books:** Every partner has a right to have access, inspect and take a copy of the books of accounts and other related documents of the firm. This right may be exercised by a partner either personally or through an agent with the consent of all the other partners.

4. **Right to share the profits of the firm:** Every partner has a right to share equally the profits and contribute equally to the losses sustained by the firm unless otherwise provided for in the partnership agreement.

5. **Right to get interest on capital:** Unless otherwise agreed upon, a partner is not entitled to any interest on his capital. However, the partnership deed may contain a clause entitling the partners to get interest on capital which is payable only out6 of profits, and not otherwise.

6. **Right to get interest on advances:** In the absence of any specific contract every partner is entitled to receive interest on the amount advanced by him over and above his share capital. The maximum rate of interest may be 6 per cent per annum. The interest on advances is to be treated as an expense and is payable, whether the firm makes profit or not.

7. **Right to be indemnified:** Every partner has a right to be indemnified by the firm for any payment made by him or any loss incurred by him in the ordinary and proper conduct of its business.

8. **Right to the partnership property:** Unless otherwise provided for in the partnership agreement, every partner is entitled to have equal share in the property of the firm.

9. **Right to use the property of firm:** Every partner has the right to use the property of the firm exclusively for business purpose and not for his private purpose.

10. **Right in emergency:** Every partner has a right to act in an appropriate manner in certain emergency circumstances for the purpose of protecting the firm from loss.

11. **Right to act as an agent of the firm:** Every partner has a right to act as an agent of the firm in the ordinary course of business.

12. **Right to prevent the induction of new partner:** Every partner has a right to prevent the induction of a new partner into the firm, unless there is an express contract permitting such induction.

13. **Right to retire:** Every partner has a right to retire in accordance with the agreement or with the consent of all other partners.

14. **Right to carry on competing business;** Every retiring partner has a right to carry on a competing business without using the name of the firm.

15. **Right to continue in the business of the firm:** Every partner has a right to continue in the business of the firm and not to be expelled from the firm unless there is a clause in the agreement.

4.8.2 DUTIES OF PARTNERS

The various duties of a partner may be classified into two categories. They are (i) absolute duties, and (ii) Qualified duties.

(i) Absolute duties:

Absolute duties are those duties which are imposed by law and which cannot be changed by agreement between partners. These duties are mandatory and applicable to all the partners. The various absolute duties of a partner are as follows-

1. **Duty to carry on the business of the firm to the greatest common advantage:** This implies that every partner has a duty to work hard and conduct the business in the best and common interest of the firm.
2. **Duty to be just and faithful to his co-partners:** A contract of partnership is built on mutual trust and confidence. So every partner is bound to be just and faithful to each other in the conduct of the business.
3. **Duty to render true accounts to co-partners:** Every partner must keep and render true accounts of the firm to his co-partners. This implies that every partner must produce documentary evidence in support of the accounts.
4. **Duty to give full information:** Every partner has a duty to communicate all information available to him which may affect the firm or which has a bearing on the firm's business activities.
5. **Duty to indemnify for fraud:** Every partner is bound to indemnify for any loss caused to the firm by his willful negligence or for conducting the business fraudulently.
6. **Duty to not transfer his interest in the firm:** No partner can transfer or assign his partnership interest to any other person except with the consent of all partners.

(ii) **Qualified Duties:**

Qualified duties are those duties which depend upon the agreement between the partners. However, when the partnership agreement is silent on any duties, the duties laid down in the Indian partnership Act are applicable. The various qualified duties are as follows:

1. **Duty to attend diligently to his duties:** Every partner has a duty to attend diligently to his duties in the conduct of the business of the firm to the best of his knowledge and skill.

2. **Duty to not claim any remuneration:** A partner has a duty, not to laim any remuneration for taking part in the conduct of the business of the firm. But it is usual to allow some remuneration to working partners by specific agreement.

3. **Duty to share losses equally:** Unless otherwise agreed upon, every partner has a duty to contribute equally to the losses sustained by the firm.

4. **Duty to use the firm's property exclusively for the firm:** Every partner has a duty to hold and use the partne5rship property exlusively for the firm and for the partnership business.

5. **Duty to not compete with the business of the firm:** Every partner has a duty, not to carry on any business in competition with the business of the firm.

6. **Duty to account for any secret profits derived from the firm:** Every partner has a duty to account for any secret profits made by him in the course of the business of the firm.

7. **Duty to act within his authority:** Every partner is bound to act within the scope of the actual authority and incase he exceeds the authority he shall have to compensate the firm for any loss that may arise.

4.8.3 LIABILITIES OF PARTNERS:

All the partners are liable to one another as per the partnership deed. In addition they are also liable to the outsiders. The following are the liabilities of partners towards third parties.

1. Every partner has unlimited liability regarding the debts of the firm. Therefore, the private assets of the partners are also held liable incase the firm's assets are not sufficient to meet the firms liabilities.

2. The liability of the partners are joint and several. The creditors can recover the amount due to them either from all the partners or from any one of them. Of Course, the partner who is forced to make such payments is entitled to contributions from other o-partners.

3. A new partner, admitted into an existing partnership firm shall not be liable for the debts incurred by the firm before his admission, unless otherwise agreed upon.

4. A retiring partner is not liable for the debts incurred by the firm after his retirement. But he is liable for all the debts incurred by the firm before his retirement.

5. In case of the deceased partner, his estate is liable only for the debts incurred by the firm before his death. His properties are not liable for the debts incurred by the firm after his death.

6. In case of a minor partner admitted to the benefits of the firm, he is not personally liable for the debts of the firm. However, his share in the profits and assets can be held liable.

7. A partner shall be held liable to make good any loss caused to the firm by his willful negligence or fraud in the conduct of the business.

4.8.4 IMPLIED AUTHORITIES OF A PARTNER:

The authority of a partner to act on behalf of the firm may be divided into two categories such as express and implied. An authority given to a partner in writing by the partnership agreement is called express authority. Any authority, which is neither clearly specified in the partnership agreement, nor decided orally by the partners, but provided by the law is considered to be an implied authority. A partner has an implied authority to bind the firm under the following circumstances.

(a) To purchase goods for the firm.

(b) To sell goods for the firm.

(c) To make payments on behalf of the firm.

(d) To receive or accept payments on behalf of the firm.

(e) To appoint employees for the jobs in the firm.

(f) To borrow funds for the firm.

(g) To file a suit or defend the court cases on behalf of the firm.

Limitations of implied authority

Implied authority of a partner does not include the following activities.

(a) A partner cannot delegate his powers to any outside person.

(b) A partner cannot appoint an agent to do any work for the firm.

(c) A partner cannot withdraw a suit or proceedings filed on behalf of the firm.

(d) A partner cannot transfer the fixed assets of the firm.

(e) A partner cannot compromise or relinquish any claim of the firm.

(f) A partner cannot purchase any fixed assets for and on behalf of the firm.

(g) A partner cannot become a partner in any other firm as an agent of the partnership firm.

(h) A partner cannot submit a dispute relating to the business of the firm to arbitration.

(i) A partner cannot open a bank account on behalf of the firm in his own name.

(j) A partner cannot accept any liability in a suit against the firm.

All these limitations are subject to the consent of other partners. Thus, it a partner is empowered by all other partners, he can do anything being prohibited in the above points.

4.9 PARTNERSHIP DEED

A partnership is formed by an agreement between the persons desirous of forming a partnership. The partnership agreement may be either oral or written. In France and Itally, the law requires all partnership agreements must be in writing. On the other hand, in the U.S.A., the U.K. and India, written agreement is not compulsory. But generally, the partners prefer a written agreement to avoid future disputes among them regarding the terms of the agreement.

When the partnership agreement is put in writing, duly stamped and signed by all the partners, the document, containing the agreement is called partnership Deed or the Articles of Partnership. EAh partner should have a copy of the partnership deed. He is bound by the terms and conditions laid down in the partnership deed. The terms and conditions in the deed may differ from firm to firm. But, a partnership deed usually contains the following clauses.

1. The name and address of the firm.
2. The names and addresses of the partners.
3. The nature of business which the firm proposes to undertake.
4. The principal place of business and the branches of the firm.
5. The date of commencement of partnership.
6. The duration of the partnership.
7. The amount of capital to be contributed by each partner and the manner of contribution.
8. The manner in which additional capital is to be introduced by the partners in future.
9. The amount of withdrawal by each partner and the manner of withdrawal.
10. Rate of interest, if any, payable to the partners on their capital or to be paid by the partners on their withdrawals.
11. The rate of interest payable on partners loans if any.

12. The amount of salary, commission or any other remuneration payable to any partner for any extra work done for the firm.
13. The proportion in which profits or losses of the firm are to be shared among the partners.
14. The manner in which the management of business and division of work are distributed among the partners.
15. The rights, duties and liabilities of the partners.
16. The method of keeping accounts and arrangement of their audit.
17. The authority to operate bank account and sign important documents on behalf of other partners.
18. The basis of valuation of goodwill at the time of admission, retirement or death of a partner and at the time of dissolution of the firm.
19. The mode of settlement of accounts on the dissolution of the firm.
20. The methods and circumstances of dissolution of the firm.
21. The arbitration arrangement to settle disputes, if any, among the partne5rs.
22. The expulsion of a partner in case of gross breach of duty or fraud.

The list of clauses in the partnership deed is not exhaustive and final. Any new clause can be inserted or the old clauses can be altered at any time with the consent of all the partners.

4.10 REGISTRATION OF PARTNERSHIP FIRM

The Indian Partnership Act, 1932 provides for the registration of a firm. But, the Act does not make it compulsory for partnerships to be registered, nor does it impose any penalty for non registration. It is left to the discretion of the partnership firm.

Procedure for registration.

The procedure for the registration of a firm is very simple. It can be affected at any time. For getting a firm registered, the partners are required to submit an application along with the prescribed fees to the registrar of firms. The application form should be signed by all the partners or by their duly authorized agents. It should contain the following information.

1. The name of the firm.
2. The principal place of business.
3. The name of other places where the firm carries on business.
4. Date on which each partner joined the firm.
5. Names and permanent addresses of all the partners.
6. Duration of the firm.

After receiving the particulars, if the registrar is satisfied that the provisions of the partnership Act have been duly complied with he shall record an entry in the Register of Firms. The register of firms at the registrar office is open to the public for inspection. Any change in the above particulars after the registration must be brought to the notice of the Registrar of Firms within 14 days of such change.

Consequences of non-registration:

An unregistered firm suffers from the following disabilities.

1. An unregistered firm cannot file a suit in a court of Law against the third parties for the recovery of its debts exceeding Rs.100.
2. An unregistered firm cannot file a suit against any of its partners for the recovery of its debts.
3. A partner of an unregistered firm cannot file a suit in the court of Law against the third parties or against the firm or against his co-partners for the recovery of the claims.

However, non-registration of a firm does not affect the following-

(a) Any person can file a suit against the firm.

(b) An outsider can file a suit against the partners for the laims against the unregistered firm.

(c) The firm can file suit in a court of law (i.e. Small Causes Court) against third parties for recovery of debt of Rs.100 or less.

(d) A firm constituted outside India is also not affected by non-registration.

(e) If a partner has been declared insolvent the official receiver has a right to recover his property from the firm.

(f) The partner can brng a suit for the dissolution of the firm and for the settlement of accounts of the dissolved firm.

Effect of Registration:

A registered firm is under an obligation to bring to the notice of the registrar, th4e information relating to-

1. The alteration in the firm name and principal place of business.
2. The opeing and closing of branches.
3. Changes in the constitution.
4. Dissolution of the firm.
5. Withdrawal of a minor as [artner.

The register of firms is open for inspection and scrutiny on payment of the prescribed fees. Any person is also entitled to get a certified copy on payment of prescribed fees. The certified copy can also be produced as a conclusive proof of any fat against any person signing the statement.

Benefits of Registration:

A registered firm enjoys the following benefits.

1. **Benefits to the firm:** The registration enables the firm to enforce its claim against third parties in a court of law.

2. **Benefits to partners:** The registration enables a partner to enforce his claims both against the third parties and against his co-partners.

3. **Benefits to incoming partners:** an incoming partner can obtain necessary information from office of the registrar which enables him to decide whether to enter into business or not.

4. **Benefits to retiring partners:** A retiring partner can merely give notice to the registrar of firms and escape from the liabilities. He is not required to give notice to the general public and creditors.

5. **Benefits to outsiders:** The registration helps the outsiders to get necessary information from time to time about the constitution and working of th firm and decide about the future dealings with the firm.

4.11 DISSOLUTION

Dissolution may be either dissolution of partnership i.e. the relationship or dissolution of the firm i.e. the business. In case of dissolution of a partnership, one or more partners terminate their connections with the firm and the remaining partners may continue the business with the same firm name under a new agreement. The dissolution of partnership may not bring the business of the firm to an end. This may be called reconstitution of partnership. But6 in case of dissolution of a firm, all the partners terminate the connections with the firm and the business of the firm is brought to an end.

Differences between dissolution of "Partnership" and "Dissolution of Firm":

Basis of difference	Dissolution of partnership	Dissolution of firm
Relation between partners	The existing relationship between the partners changes	The relationship between partners terminate.
Continuity	The business of the firm continues	The business of the firm is discontinued as the firm ceases to exist.
Accounting procedure	The assets are revalued to determine the share of each partner. A revaluation account is prepared.	The firm's assets are realized to make a final settlement of the accounts A realization account is prepared.
Consequences	Results in the reconstitution of the firm	Results in the winding up of the firm.

Circumstances leading to dissolution of Partnership:

The dissolution of a partnership takes place under the following circumstances.

1. On the retirement of any partner or partners.
2. On the death of any partner or partners.
3. On the insolvency of any partner or partners.
4. On the expiry of the agreed period.
5. On the ompletion of a particular venture.
6. O the expulsion of an existing partner or partners.
7. On the transfer of share by any partner or partners.

Circumstance leading to dissolution of Firm:

The dissolution of firm may take place in the following circumstances.

1. **Dissolution by agreement:** A firm may be dissolved with the consent of all the partners or by an agreement between the partners.

2. **Dissolution by notice:** In case of partnership at will, the firm may be dissolved at any time if a partner gives a written notice to all other partners regarding his intention to dissolve it.

3. **Dissolution on the happening of certain events:** A firm may be dissolved on the expiry of the period for which the firm was formed (b) on the completion of the object for which the firm was formed (c) On the death of a partner (d) On the insolvency of a partner.

4. **Compulsory dissolution:** A firm is compulsorily dissolved-

(a) When all partners except one die.

(b) When all partners except one become insolvent.

(c) Retirement of all partners except one.

(d) When the business of the firm becomes illegal due to some provisions.

(e) When the number of partners exceeds 20.

5. **Dissolution by court:** On the application by a partner, the court may dissolve a firm on any of the following grounds.

(a) When a partner becomes insane or of unsound mind.

(b) When a partner has become permanently incapable of performing his duties as a partner.

(c) When a partner is guilty of misconduct affecting adversely the activities of firm.

(d) When a partner persistently commits breach of agreement relating to the conduct of business.

(e) When the business of the firm cannot be carried on except at loss.

(f) When a partner transfers his share in the firm to any other person without the consent of the other partners.

(g) When the court considers any other ground tobe just and equitable for the dissolution of the firm.

Settlement of accounts after dissolution

The partnership Act lays down the following rules for the settlement of accounts after dissolution.

1. **Payment for losses:** Losses including the deficiency of capital shall be paid first out of undistributed profits, next out of capital and lastly, if necessary, by the partners individually in proportion to their profit sharing ratio.

2. **Distribution of assets:** The assets of the firm including the amounts contributed by the partners to make up the deficiencies of their capitals, should be used in the following manner.

   (a) First, in paying off the debts of the firm to the third parties.

   (b) Secondly, in paying off the loans from the partners.

   (c) Thirdly, in paying off the capital of the partners.

   (d) Lastly, if there is any surplus, shall be distributed among the partners in proportion to their profit sharing ratio.

3. **Insolvent partner's share of loss or deficiency:** The solvent partners are to make good the deficiency in proportion to their original capital.

4. **Payment of firms' debts and personal debts:** The property of the firm shall be applied in the first instance for the payment of the debts of the firm and then applied for payment of his personal debts. But, the personal property of the partne5rs shall b applied first for the payment of personal debts and if there is any surplus for the payment of firm's debts.

4.12 DISTINCTION BETWEEN SOLE PROPRIETORSHIP AND PARTNERSHIP PARTNERSHIP

Basis	Sole proprietorship	Partnership
Formation	Easier formation process as the decision to start the business by an individual is the basis of its	The basis here is the agreement under the partnership Act. 1932.
Ownership structure	Owned and controlled by an individual	Owned by a maximum number of twenty persons in general business and ten persons in banking business.
Capital requirement	The investment is comparatively less	Larger investment as more number of persons contribute
Management	Vested in the owner as he is the only one to look after the business	All partners can take part but usually partners with efficiency are given the task of management.
Risk	Sole and absolute risk is on the sole owner	The risk is spread over a number of partners. Partners are liable jointly and severally.
Sharing of profit	No sharing of profit	Profit is shared among the partners on the basis of a predetermined profit sharing ratio.
Secrecy	Complete secrecy can be maintained	All the partners share the secrets of business. Hence there is a chance for its leakage to outsides.
Scope of expansion	The scope for its expansion is comparatively less due to the constraint of capital and managerial talent.	Scope is wider here
Stability	The life of the business is coextensive with the life and competency of the sole proprietor. Hence it is less stable.	The life of a firm is comparatively more stable as the firm can continue even ofter the death, insolvency and retirement of a partner.

4.13 QUESTIONS

Objective and short answer type Questions:

1. Choose the correct answer from the given alternatives:

(a) The Indian Partnership Act was passed in the year-

(i) 1912

(ii) 1932

(iii) 1948

(iv) 1956

(b) Registration of partnership is –

(i) Compulsory

(ii) Voluntary

(iii) not allowed at all

(iv) Needed at the time of dissolution

(c) The dissolution of the firm which takes place, when all the partners or all but one partner become insolvent is known as-

(i) Dissolution by agreement

(ii) Dissolution by notice

(iii) Dissolution through court

(iv) Compulsory dissolution

(d) A nominal partner is one who

(i) shares the profits only

(ii) manages the firm only

(iii) lends only his name to the firm

(iv) makes only the contract for the firm.

(e) The test of partnership relation is-

- (i) owner and servant relationship
- (ii) employer and employee relationship
- (iii) principal and agent relationship
- (iv) client and consultant relationship

2. Correct the underlined portions in the following sentences:

- (i) A holding out partner is also known as a partner by default.
- (ii) A partnership can be formed by at least seven persons.
- (iii) A partner who does not take part in the day to day working of the firm is called Nominal partner.
- (iv) Registration of partnership is compulsory
- (v) In a partnership the shares of a partner is easily transferable.

3. Fill in the blanks-

- (i) A partnership has no separate legal ___________
- (ii) The liability of partners in the firm is_____________
- (iii) A minor_________ become a partner.
- (iv) All the partners are individually and ________ liable to the outsiders for the debts and obligations of the firm.
- (v) A partner can bind the firm by his__________

4. Express in one word or phrase-

- (i) The relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.
- (ii) The authority of a partner to bind all other partners by his contracts with others in connection with the business of the firm.

(iii) A partner who contributes capital shares profits or losses but does not take active interest in the management of the business.

(iv) Partner only by name.

(v) Becoming partner either through his conducts or by his words.

5. Answer the following questions within three sentences each.

(i) Who is a minor partner?

(ii) Distinguish between an active and a sleeping partner?

(iii) What is partnership?

(iv) What is partnership deed?

(v) What do you mean by dissolution of partnership?

6. Explain the following in not more than six sentences each-

(i) Sleeping partner

(ii) Partnership deed

(iii) Nominal partner

(iv) Sub partner

7. Answer the following questions in not more than three sentences each-

(i) Who is an active partner?

(ii) Mention any three circumstances that lead to dissolution of partnership.

(iii) Mention any three circumstances where the court many dissolve a partnership firm.

8. Distinguish between-

(i) General partnership and Limited partnership

(ii) Dissolution of partnership and dissolution of firm

(iii) Sleeping partner and nominal partner.

LONG ANSWER TYPE QUESTIONS.

1. Define partnership. What are the essential elements of a partnership?
2. State the advantages of partnership.
3. State the disadvantages of partnership.
4. What is partnership deed? Discuss its contents and necessity.
5. What do you mean by partnership? Discuss different kinds of partners.
6. What do you mean by registration of firm? Describe the effects of non registration of partnership firm.
7. What is meant by dissolution of a firm? State and explain different types of dissolution of firm.
8. Discuss the rights of partners.
9. Write short notes on-
   (i) Holding out partner
   (ii) Particular partnership
   (iii) Minor partner
   (iv) Limited partnership
   (v) Implied authority of partners.

4.14 ANSWERS TO OBJECTIVE QUESTIONS

1. (a)-(ii), (b)-(ii),(c)-(iv), (d)-(iii), (e)-(iii),
2. (i) Partner by estoppels, (ii) two, (iii) dormant/sleeping, (iv) optional, (v) not
3. (i) entity (ii) Unlimited, (iii) cannot, (iv) collectively, (v) contracts
4. (i) Partnership, (ii) Implied authority (iii) Dormant/Sleeping partner (iv) Nominal Partner, (v) partner by estoppel or holding out.

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CHAPTER-5

COMPANY

STRUCTURE

5.1 INTRODUCTION

The sole proprietorship and partnership forms of organisations fail to meet the growing needs of modern business. They suffer from limitations like limited financial resources, unlimited liability, fear of discontinuity, lack of managerial ability etc. To overcome these drawbacks, joint stock company form of organisation came into existence. Now it is the most widely used form of business organisation.

The idea of joint stock company was first developed in Italy during the thirteenth century. Subsequently, it assumed more importance in England. In the U.S.A, they are called 'corporation' and in France 'Societe anonyme'. In India, the first Companies Act was passed in 1850. It was modelled on the pattern of its British counterpart. In 1857, the principle of limited liability was introduced. The comprensive Act was passed in 1956. But now Companies Act, 2013 has come into existence.

5.2 MEANING OF A COMPANY

The term 'Company' is derived from latin word 'Companies' where 'Com' means together and 'Panis' means bread. Thus, it means bread together or to take meal together.

The term 'Company' implies an association of a number of persons formed for some common object or objects. As many persons jointly invested capital(i.e. stocks) in a company, it is called 'Joint Stock Company'. The Companies Act, 2013 does not give any specific meaning or defination except stating that a company means a company incorporated under the Act or under any previous company law. According to Sec3(1)(i), of Companies Act, 1956- Company means a company formed and registered under this Act or an existing company. An existing company means a company formed and registered under any of the previous Companies Acts.

5.3 DEFINATIONS OF A COMPANY :

i) **Prof. L.H Haney :** "A company is a voluntary association of individuals for profits, having a capital divided into transferable shares, the ownership of which is the condition of membership.

ii) **Justice Marshall:** "A corporation is an artificial being, invigible, intangible and existing only in the eyes of the law. Being a mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence".

iii) **Justice Lindley:** "A company is an association of many persons who contribute money or money's worth to a common stock and employ it for some common purpose. The common stock so contributed is denoted in money and is the capital of the Company. The persons who contribute it or to whom it belongs are members. The proportion of capital to which each member is entitled is his share”

Precisely, a company is an association of persons having an independent legal entity with a perpetual sucession, a common seal, a common capital consisting of transferable shares with limited liability of the members.

5.4 CHARACTERISTICS OF A COMPANY

An analysis of the definitions reveals certain important characteristics which distinguish a joint stock company from other forms of business organisations.

(i) Voluntary Association : A company is a voluntary association of persons established for profit motive. There is no compulsion on any person to become a member of the company. Similarly, no member can be compelled to give up his membership.

(ii) Compulsory Registration: The registration of a company is compulsory. Without it a company conn of come into being . It must be registered as per the provisions of the Act.

(iii) Incorporation : The literal meaning of incorporation is to form into a ‘body’.In other words, when the organisation i.e. the company gets incorporated, it becomes an artificial person. It also gets incorported along with its registration. It is created by law. It does not take birth like a natural person. It is an invigible individual having no physical body and soul. It cannot perform physical actions like other natural persons. As a legal person it enjoys most of the privileges of a natural person- it can own property, incur debts, file suits, enter into contracts with others in its own name, can be sued by others etc.

(iv) Separate Legal Entity : A company has existence independent of its members who constitute it. It is a unique feature of it which distinguishes it from sole proprietorship and partnership. As a consequence of separate legal entity, the effects are noticed as follows :

(a) Company can enter into contracts with its members & vice-versa. Thus, a member can be both a debtor and a creditor of the company at the same time.

(b) Members cannot be held liable for the acts of the company.

(c) Members cannot claim ownership rights in company's assets.

(d) Members cannot have insurable interest in the company's properties.

(v) Perpetual Existence : It means the continued existence. The death, insolvency, unsoundness of mind, retirement of members, transfer of shares by members do not affect the existence of company. The maximo "Men may come and men may go but I go on forever" applies to the company. Company can be compared with a flowing river where water (members) keeps on changing continuously, still the identity of the river (company) remains the same. It all the members die, the company continues to exist. Rightly Gower quoted-"even a hydrogen bomb cannot destroy a company".

(vi) Conmon seal : The term 'common seal' means the official signature of the company. Being an artifical person, It cannot put its signature on the documents. Common seal is a device on which the name of the company is engraved which acts as its signature. It is affixed on all important legal documents and contracts. When the seal is affixed two directors must sign it as witnesses.

(vii) Limited Liability : The members of a company cannot be held liable for the debts of the company to an unlimited extent. The liability of every member is limited to the nominal value of shares bought by him or to the amount of gurantee given by him. For example, a member has 100 shares of Rs. 10 each. Here, his liability is limited to Rs 1000. Even if, the assets of the company are insufficient to satisfy fully the claims of creditors, a member is not called to pay any thing more than what is due from him i.e. Rs.1000 in this case. However, in case of an unlimited company which is a rare phenomenon, liability of members is unlimited .

viii) Transferability of Shares : When the capital of a company is divided into small parts, each such part is called a share . The shares of a public company are freely transferable. A shareholder can transfer his shares to any person without the consent of other members. Of course, the Articles of Association puts certain restrictions on transfer in case of public limited company. But it cannot altogether stop it. The Act requires a private company to put restrictions on the transferability of its shares.

(ix) Separation of Ownership and Management: The shareholders are the so called owners of the company. But they have no right to participate in the day-to-day management of the company's business. They elect directors who manage the affairs on behalf of the shareholders. Thus,ownership of the company lies with the shareholders where as management is vested in the hands of board of directors. This gives scope for division of labour and specialisation in company management.

(x) Separate Property : A company, being a legal person, is capable of owning, using & disposing of property in its name. Shareholders do not have insurable interest in company's property. As such, they are not the joint owners of the company's property.

(xi) Diffused Risk of Loss : In sole proprietorship, all the risks are borne by a single person, while a few persons share the risk in case of partnership. In case of Company, the wide membership spreads the risk of loss over a large number of shareholders. Thus, the incidence of risk of loss on each shareholder is minimised.

(xii) Statutory Regulation : A company has to comply with a number of statutory requirements such as :

a) Accounts are to be audited by a Chartered Accountant.

b) A number of returns are to be submitted to Government

c) Company cannot go beyond the powers mentioned in the object clause of Memo.

(xiii) Right of Eminent Domain : It is a special feature of public utility companies like Railway, Electricity and water distribution company. This is a right by which the companies are empowered to acquire private property by paying compensation for their use.

5.5 TYPES OF COMPANIES

Different companies are formed for different purposes. They may be classified on the following bases as under :

On the basis of Formation	Registered Companies Statutory Companies Chartered Companies
On the basis of Liability	Companies limited by shares Companies limited by guarantee Companies with unlimited liability
On the basis of Control/Ownership	Holding Companies Subsidiary Companies Government Companies
On the basis of Public Interest/ Transferability of Shares	Private Companies Public Companies
On the basis of Nationality	Indian Companies Foreign Companies Multinational Companies

5.5.1 On the basis of Formation :

(i) Registered Companies : These companies are formed and registered under the Companies Act of the country. The formation, working and winding up of such companies are governed by the provisions of the Companies Act. Such companies are most common in India.. Hero Moto Corp , Bajaj Co, Reliance Co, Maruti Udyog Ltd are some of the examples. Registrar of Companies is the principal officer of the Central Government who grants registration. The Companies Act,2013(August) is the present Act. Prior to it, the guiding Act was the Companies Act 1956.

(ii) Statutory Companies : Such Companies are incorporated under the Special Act of the Parliament or Legislature. The powers, responsibilities, objects, scope etc of such companies are clearly defined in the Act which creates it. Generally all public utility concerns like railways, electricity, water works etc come under this Act. The RBI, SBI,LIC,IDBI, UTI. The Indian Airlines are some of the examples of statutory companies. Statutory Companies may not use the word 'Ltd'.

iii) Chartered Companies : These companies are created by the Royal Charter or by the special sanction of the kings and queens of the country. Such companies have wide powers. They can be set up only in those countries where there is monarchy.. They are governed by special charter and the Companies Act does not apply to them. Any company breaking any rules laid down in the charter, the king or queen may cancell the charter. During 17th & 18th Century, these companies were quite common in England. The East India Companies were, The Bank of England, The Chartered Bank etc are few examples. These companies are rarely formed these days and specially after independence, these companies are not in existence in India.

5.5.2. On the basis of Liability

i) Company Limited by Shares : In this Company, the liability of each member is limited to the face value of shares held by him. If a member has paid the full amount of shares, then his liability shall be nil. If something remains unpaid the shareholder is liable for that unpaid amount..

For example, suppose x buys 1000 shares of a company of the face value of Rs 10 each. In this Company, his liability is fixed to the tune of Rs 10,000 only(1000 shares@Rs 10 each). Supposing he paid Rs 6000 when called by the company. Now he is liable to pay Rs 4000 only, this being the amount unpaid on his shares. When he has paid the entire amount of Rs 10,000(i.e shares are fully paid), his liability shall be nil.

(ii) Company Limited by Guarantee: Here, the liability of a member is limited to the amount which he has undertaken to contribute in the event of its winding-up. This amount is known as the guarantee and it is specified in the company's constitution known as the Memorandum of Association. The amount guaranteed by the member can be called upon only at the time of winding up of the company. The examples are : The Chambers of Commerce, Trade Associations Stock Exchange, Sports Club etc. Usually such companies are formed not for profit and distribution of dividends. Rather they are formed for the promotion of art, education, science, sports etc. They are few in number in comparison to companies limited by shares.

(iii) Unlimited Companies : Unlimited company is not popular in India because liability of its members is unlimited i.e there is no limit on the liability of members. The members of such companies can be called upon to pay from their personal properties to meet the liabilities of the company. Untill the liabilities of the company are not paid fully, the members remain liable in proportion to their interest in the company. However, the creditors of the company cannot directly sue the members. Only the liquidator, at the time of winding up, can call upon the members to contribute towards the assets of the company. These companies do not exit these days.

5.5.3 On the basis control /ownership.

(i) Holding Company : Holding company is a company which controls a subsidiary company. The 'controlling' implies that, to be a holding company, a company must

(a) Hold more then 50% of the nominal value of the equity share capital of another company, or

(b) Control the majority, compositions of the board of directors of another company.

(ii) Subsidiary Company: A company is known as a subsidiary company when

(a) The composition of its board of directors is controlled by another company.

(b) The other company holds majority of its equity shares (more than 50%)

(c) The other company controls more than half of its voting rights.

(d) it is a subsidiary of another subsidiary company.

(iii) Government Company : Any Company in which atleast 51% of the paid up share capital is held

(a) by the Central Government or

(b) by the State Government or Governments, or

(c) Partly by the Central Goverment and partly by one or more State Governments, and it includes a company which is subsidiary of a Government Company.

A Government company may be a private company or a public company. Such companies are allowed to drop the words 'pvt Ltd' or the word 'Ltd' from its name. The Central Government by notification can restrict or modify the provisions of the companies Act for the Government Companies. The examples of these companies are: The Hindustan Aeronautics Ltd, The Heavy Engineering Corporation Ltd. The Hindustan Antibiotics Ltd. etc.

5.5.4 On the basis of Public Interest / Transferability of Shares

(i) private Company :According to sec. 2(68) of the Companies Act,2013, a private company means a company which by its Articles of Association:

(a) Restricts the right of members to transfer their shares (if there is any);

(b) Limits the number of its members between 2-200 (maximum limit was 50 as per 1956 Act) - such limit excludes past and present emploees of the company;

(c) Prohibits any invitation to the public to subscribe for any shares, debentures and public deposits of the company

(d) Must have a minimum paid-up capital of Rs. 1lakh (which is subject to change).

If at any time, the company violates any of the above conditions, such a company will be considered as a public company with immediate effect. A private company is also called a closely held company' or a 'close corporation'. This company has to add the words 'Private Limited' (Pvt.Ltd) after its name. Examples : Parle Products Pvt.Ltd, V.K. Global Publications Pvt.Ltd.

(ii) Public Company: [sec. 2 (71) of the Companies Act,2013]

A public company means a company which is not a private company. It is known as widely-owned company because it gives scope for investment to a large number of people. A public company means a company which

(a) consists of at least of 7 members and no restriction on maximum number of members

(b) has a minimum paid up capital of Rs.5lakh (subject to change)

(c) is a subsidiary of a company which is not a private company.

(d) does not restrict the right to transfer its share.

(e) does not prohibit any inviation to subscribe for any shares, debentures and public deposits of the company.

(f) must add the words'Limited' after its name: Examples : Bajaj Auto, Hero Motocorp, Infosys.

5.5.5 On the basis of Nationality :

(i) **Indian Companies** : They confine their operation within the boundary of India. and are registered under Indian Companies Act. They may have foreign shareholders. They may be allowed to operate outside the country but subject to certain rules & regulations by the government.

(ii) **Foreign Companies** : Companies incorporated outside India but has a place of business in India through its branches or agencies are known as foreign companies. Such company must exhibit on the outside of every office where it carries on business in India- the name of the company and the country in which it is incorporated in 'English' and in one of the 'local languages'.

(iii) Multinational Companies(MNCs) : They are also called **Trans-national**

Companies. They extend the areas of their operations beyond the country in which they are registered. They are giant companies. For instance, Coca Cola is a company registered in U.S.A and has production and marketing facilities in many countries of the world. Some other popular MNCs include Ponds(USA), Brook Bond(U.K), Suzuki(Japan)

5.5.6 Other Companies

(i) Defunct Company : Besides the above mentioned companies there are certain other companies which are less popular or less talked of. Discussion of these companies are of academic interest. This company has ceased its operation and it is no more doing any business. The Registrar of companies sends a letter by post when he believes that the company is not actively engaged in business. If no reply is received within a month, the Registrar sends the 2nd letter. When 2nd letter remains unanswered then it is notified in the Official Gazette that on the expiry of 3 months from the date of notification, the company's name is proposed to be removed. If satisfactory cause is not shown by the defaulting company, the name of the company will be struck off from the register of companies.

(ii) Illegal Associations : They violate provisions of Sec 464 of the Companies Act, 2013. If there are more than ten partners in a banking association, or more than twenty partners in an association carrying on any other business, such association of partners is deemed to be illegal. Other provisions of sec 464 are : the object of the association is to earn a profit for its members and the association is not registered as a company under the Companies Act or any other law prevailing in the country. There is no question of winding up of an illegal association as it is a non- entity and void ab initio.

(iii) Investment Companies(Sec 185) The principal business of investment company is the acquisition of shares, stock, securities and debentures. This implies that the company concerned is expected to hold shares, securities etc acquired by it for a reasonable time.

(iv) Finance Companies : These are non-banking institutions/ companies which carry on the following activities:

i) Make loans and advances

ii) Acquire shares and securities of government and local authorities.

iii)Carry on insurance business

iv) Manage agency of chits or lotteries. etc.

(v) FERA Companies : They are governed by Foreign Exchange Regulation Act,1973 and include the following:

i) Indian Companies having no foreign interest or less than 40% foreign interest.

II) Indian Companies having more than 40% non-resident interest.

iii) Companies incorporated in a foreign country but are registered in India merely for business operation.

(vi) Not For Profit Companies: A company is said to be 'Not for Profit company' if

i) The aims of the company are to promote commerce, arts, science, religion, charity

ii) Company inteds to utilise its profit for promoting its objectives

iii) The company prohibits the payment of any dividends to its members. According to sec 4, a public company and private company must end with words 'limited' and 'private limited' respectively. The Central Government is empowered to allow such companies without using the limited.

The permission so granted may be revoked by the Central Government at any time.

(vii) One person Company (OPC) : This is a new concept introduced by the Companies Act, 2013. As the name suggests, 'one person company is formed with only one person as its member.

Provisions : Following are the provisions of One Person Company:

i) It is incorporated as a private limited company .

ii) At any point of time it will have only one member.

iii) It needs to have minimum of one director & maximum of fifteen directors.

ix) The words one person company' must be mentioned in brackets below the name of the company.

v) The memorandum of association should indicate the name of other person (nominee) who shall become the member of the company in the event of the subscriber's death or his incapacity.

vi) The annual return of a one person company shall be signed by the company secretary or director of the company.

vii) At least one board meeting must be held in each half of the calendar year and the gap between the two meetings should not be less then 90 days.

viii) Cash flow statement is not a mandatory part of financial statements.

ix) Where a one person company or any of its officer contravenes the provisions, then a fine shall be imposed which may extend to ten thousand rupees and a further fine which may extend to one thousand rupees for each day of default.

(viii). Small Company : This new concept has been introduced in the new companies Act 2013. It has the following salient features

i) It is privately owned and operated

ii) It has a small number of employees and relatively low volume of sales.

iii) It is a company other than a public company which has

a) Minimum paid up capital of Rs 50 lakh and maximum of Rs 5 crore

or

b) Minimum turnover of Rs 2 crore and maximum of Rs 20 crore

iv) The company enjoys relaxation as regards provisions for reporting, board meeting.

v) The status of a company as 'small company' may change from year to year.

(ix) Dormant Company : This concept is also introduced by the Companies Act, 2013. Another name of this company is 'Asset Shielding Concept'. When a company has no significant accounting transaction during a year we call it a Dormant Company. This Company is beneficial to those promotors who want to hold an asset for its use at a later stage. A Dormant Company may be a Public Company or a Private Company or a One Person Company.

(x) Producer Company : It is a company where there are ten or more individuals and each of them is a producer in any two or more producer institutions. The members are to be primary producers i.e. persons engaged in the production of primary produce(horticulture, floriculture, pisciculture, forestry etc.)

The producer company is formed with the following objects:

i) Besides production, it also processes the produces of its members

ii) Manufactures, sale or supply of equipment and consumables to its members.

iii) Provides education to its members

iv) Renders consultancy services for the benefit of members

v) Renders welfare measures for the benefit of the members.

vi) Extends credit facilities and other financial services to its members.

5.6 MERITS OF A COMPANY

A joint stock company enjoys certain special features which make it a unique form of organisation. Few of them are as follows

i) It is the only form of business which is owned by those who are not integral part of it

ii) It is started by those who do not have the usual authority to close it.

iii) The profit of it is shared by those who do not have unlimited liabilities.

Joint Stock Company has gained popularity throughtout the world as a form of business organisation because it is superior to a sole proprietorship and a partnership in the following respects.

1. **Huge Financial Resources :** Due to following reasons a Company can raise huge financial resources :

   a) Its capital is divided into shares of small value so that people of limited means can also buy

   b) A public company has unlimited members

   c) Credit-worthiness of it is higher

   d) It issues different types of securities to attract different types of investors.

2. **Limited liability :** The liability of the shareholders is limited to the face value of the shares held by them. They are not personally liable if the company's assets are not sufficient to meet the company's libilities. Thus, the risk is known and restricted. This from of organisation is a great attraction to persons who do not want to take much risk.

3. **Perpetual Existence :** The existence of a company is not affected by the death, lunacy or in-solvency of its members. Old shareholders may go by selling their shares and new shareholders may come, but the company goes on for ever. Since the law creates it, it can be wound up by law only.

4. **Free Transferability of shares :** The shares of public company are freely transferable. Shareholders get out of the business when they desire. They can sell their shares whenever they need cash or want to buy shares of other profitable company. This free transferability of shares provides liquidity to investment.

5. **Scope for Expansion and Growth :** Due to sufficient capital, better management & limited liability, the joint stock company can undertake business activities on large scale. Large scale business activities result in high profits due to economies of large scale operations. This in turn facilitates the expansion & growth of the company.

6. **Democratic Management :** The management of joint stock company is based on democratic principles. Due to small value of shares, the persons with low income can purchase the shares. to be a proud owner. The shareholders meet every year at the annual general meeting & elect board of directors who manage the company.

So, both from ownership and management point of view, the company form of organisation is democratic.

7. **Efficient Management :** The company has huge financial resources. It can employ expert personnel to manage the business. This improves efficiency and results in specialisation and division of labour.

8. **Greater Public Confidence:** The formation and running of a company is regulated by the provisions of Companies Act. The affairs of the company are not kept secret. The provisions regarding appointment & remuneration of directors, compulsory audit & publication of accounts, protection of minority shareholders etc. have created greater public confidence in a company. This ,in turn, helps a company raise more capital & revenue.

9. **Benefits of Large Scale Operations (Economies) :**A company raises huge capital and can undertake large scale operations. The increase in the size of business operations would result in the economies in production, purchase, selling, management etc. Thus, cost of production will be less and the company achieves higher efficiency as compared to other forms of organisation.

10. **Scattered Risk :** Shares of a company are held by a large number of people. Thus, the risk of loss spreads over a large number of persons. The possibility of hardship on a few persons (as in case of sole trading & partnership) can be avoided in case of failure of the business.

11. **Gradation of risk :** In case of company the shares are divided into equity and various types of preference shares. Different amount of risk is attached with investment in different types of shares. Hence, an investor gets a wide choice of investment avenues.

12. **Corporate Social Responsibility(C.S.R) :** Large companies assume social responsibilities for the benefit of the society. They mobilise the scattered savings of the public and invest in important industries. Because of large scale operations,(a) they provide employment to a large number of people (b) there is

economical use of national resources and (c) goods and services are available at cheaper prices.

[As per the Companies Act,2013, formation of Corporate Social Responsibility Committee has been made mandatory for a company having net worth of Rs 500 crore or more, or turnover of Rs 1000 crore or more or net profit of Rs 5 crore or more during any financial year. Such company shall spend, in every financial year, at least 20 % of the average net profits of the company made during three immediately preceeding financial years, in pursuance of its Corporate Social Responsibility Policy]

13. **Tax Benefits :** Companies pay income tax at a flat rate. So, the tax burden on higher income of company is less in comparison to other forms of business organisation.Companies are allowed tax exemptions, deductions for undertaking their operations in backward areas for setting up export oriented industries etc.

5.7 DEMERITS OR LIMITATIONS OF A COMPANY

Following are the demerits of a company form of enterprise :

1. **Formation Difficult and Expensive :** The formation of a company is not an easy task. Many documents are to be prepared and deposited in the Office of the Registrar along with the prescribed fees. These documents include Memorandum of Association, Articles of Association and Prospectus. The completion of these legal formalities consume much time and money. This discourages the formation of a company.

2. **Oligarchic Management :** Democratic management is considered to be the best management. Management of a company is democratic in theory only. But in actual practice, the management is oligarchic i.e management by a few. It is said that shareholders collectively elect their representatives. In reality most of the shareholders do not know where the head office of the company is and what does or does not do their company. The management is in the hands of few directors who usually become selfish and do things in their own interests. They mislead

shareholders through ‘window dress’ reports. They create groups among the shareholders and manipulate the voting powers of shareholders to remain in office for pretty long period of time. Thus, separation between ownership and management is responsible for oligarchic management.

3) **Lack of Prompt Decision and Action :** The process of decision making in a company is slow as compared to sole-trading and partnership. The defects of democracy are responsible for this. All the important decisions are taken in the meeting of board of directors or the shareholders. Calling such meetings consumes long time. Again, the opinion of directors may not be unanimous and meeting may be adjourned due to lack of quorum. All these lead to unusual and unnecessary delay in arriving at decisions. So much of the precious time of the business is wasted in this way.

4) **Incapable and unscrupulous Management :** Promotors are the ‘Makers’ of a company till the company is formed, all expenses in its formation is borne by the promotors. The prospectus of the company is published by the promotors. The dishonest promotors may defraud the public by giving rosy picture in the prospectus. They misuse the property, goods, capital of the company. Later on the promotors become the directors and falsify company account to cheat the public.

5) **Lack of Personal contact between owners and workers :** It is one of the greatest drawbacks of a company. A company cannot maintain personal touch with its workers, customers, suppliers and others, There may be communication gaps, misunderstanding, disputes which result in waste and inefficiency.

6) **Government Control :** A company has to follow many provisions of government because huge public money is involved to run the business. Many restrictions are imposed for day-to-day running of a company. It has to observe legal rules, send information to government at interval, get its accounts audited, publish annual accounts, hold meeting as per statutory restrictions. A company cannot change its objectives and authorised capital easily. They all reduce the efficiency of company.

Thus, people are discouraged to start new companies.

7. **Lack of Secrecy :** It is mandatory for a public company to publish its accounts annually and deposit important documents in the office of the Registrar. Any body can see these documents by depositing fees. Everything is discussed in the meetings of Board of Directors. Therefore, it is not practical to keep the affairs of the company secret which is possible in case of sole-trading and partnership as few persons are involved in the management.

8. **Monopoly :** Company form of organisation has the tendency of encouraging monopoly. It is large in size. It has huge resources, infrastructure and means of production. Due to this, it makes mass production of goods which reduces cost of production. Small producers like sole trader & partnership cannot compete with the company and are forced to quit the market. Now, the company enjoys monopoly. As there is no competitor, it can increase the price of goods.

9. **Speculation by Directors :** A company provides scope for speculation and the directors derive personal profit out of this. The shares of a company are freely transferable. The price of the share is determined by public confidence in the company and profits declared by it. Directors have complete knowledge about company's affairs. They may manipulate company's accounts to their advantages. For example, when they want to purchse shares, they lower down the rate of dividend. When they want to sell the shares they declare higher dividend. It leads to reckless speculation and not investment. It is harmful to the company.

10. **Conflict of Interest :** A company is bound to suffer when the investment of one group clashes with the interest of other group. For example, sales manager does not sell what is produced by production manager and production manager does not produce what is demanded by sales manager. Similarly there is a conflict of interest between management and workers, preference shareholder and equity shareholder etc.The company is bound to suffer.

11. **Social Abuses :** Following are few social abuses of a company :

i) It gives rise to monopoly

ii) It is instrumental for concentration of wealth in a few hands.

iii) Company uses its economic power to influence politician and Govt officials which leads to corruption.

iv) Big business uses the administrative machinery to maintain its hegemony in society at the cost of common man.

v) They create environmental pollution leading to many health hazards of workers and the society as well.

Conclusion: Considering merits and demerits, we may conclude that the merits outweigh demerits. The fault is not with the system. It is those who are in charge of management and implementation. The society cannot do away with Joint Stock Company. They have been performing well and will continue to play a vital role in the economic development of a country.

5.8 PRIVILEGES AND EXEMPTIONS ENJOYED BY A PRIVATE COMPANY

A private company enjoys certain statutory privileges and also is exempt from compliance with certain statutory requirements which are denied to a public company. Some of the important ones are enumerated below:

(i) Minimum Number of Members: Only two persons may form a private company. As per the Companies Act, 2013 , only one person can also form a private company, better called as One Person Company.

ii) Commencement of Business : It can commence its business immediately after obtaining the certificate of incorporation. It is not required to obtain the certificate of commencement of business.

iii) Prospectus : A private company need not prepare and file a prospectus or a statement in lieu of prospectus with the Registrar to raise capitals. It is because this company is prohibited from offering its shares to the public.

iv) **Holding of Statutory meeting :** It need not hold a statutory meeting or file a statutory report with the Registrar,.

v) **Minimum Subscription :** It can allot shares without waitingfor the minimum subscription to be received.

vi) **Minimum Number of Directors :** It is allowed to work with only two directors(one director in case of 'one person company')

vii) **Quorum :** Only two members personally present shall form the quorum of its general meeting. ('one person company' is not required to hold any Annual General Meeting.

viii) **Rules Regarding Directors :**

a) Restrictions regarding appointment, re-appointment of directors and the provisions relating to retirement of directors by rotation do not apply to a private company.

b) To increase the number of directors beyond maximum mentioned on the Articles, the approval of the Central Government is not necessary.

c) Two more directors can be appointed by single resolution

d) Director is not required to file his consent to act as such with the Registrar.

e) First director is appointed without any public notification.

f) With a single resolution all the directors can be appointed.

ix) **Managerial Remuneration :** The rule of overall maximum 11% of net profit managerial remuneration does not apply to a private company.

x) **Loans to Directors :** The loan could be advanced to directors without permission from the government.

xi) **Books of Accounts :**The public are not allowed to inspect the copies of the balance sheet and profit and loss account.

xii) **Index of Members :** Private Company need not keep an index of members.

xiii) **Demand for Poll :** In a private company one member present in person or by proxy(if not more than seven such members are personally present) or two members (if more than seven such members are personally present) can demand for a poll.

xiv) Qualification Shares : Provisions for holding qualification shares by directors and fixing the time within which such qualification is to be acquired is not applicable to a private company.

xv) Paid up Capital : A private company can be registered with a paid-up capital of Rs 1 lakh where as a public company requires a minimum paid-up capital of Rs 5 lakh

5.9 DISADVANTAGES OF A PRIVATE COMPANY

A private company suffers from the following disadvantages :

i) **Limited Resources:** A private Company cannot have more than200 members. This puts a limitation on the resources of the company. Its credit standing is lower than a public company.

ii) **Restriction on Transfer of Shares :** It is not easy to transfer the shares by a member unless all members agree to it. So, a shareholder cannot leave the company easily and quickly.

iii) **Poor Protection to Members :** A private company enjoys some privileges and exemptions. Thus it puts minority members on the mercy of majority.

iv) **Real value of Investment not known :** There is no regular dealing in these shares as shares of a private company are not listed in a Stock Exchange. Hence, a member cannot know the real value of his investment.

v) **No Public Confidence :** The affairs of a private company are not known. Further, the company is not subject to strict control under the law. So, it does not enjoy the confidence of the public,

vi) **Proxy :** The member cannot appoint more than one proxy to attend and note in the company meeting.

vii) **Submission of Certificate :** The company has to send certificate to Registrar. stating its annual turnover in the preceeding 3 years never reached rupees one crore or more.

5.10 DISTINCTION BETWEEN PUBLIC COMPANY AND PRIVATE COMPANY

S.L No	Basis of Distinction	Public Company	Private Company
1	**Minimum Number of Members**	The minimum number of persons required to form a public company is seven.	The minimum number of members required to form a private company is only two.
2	**Maximum number of Members**	There is no maximum limit to the membership of public company. Only its authorized capital and shares limit its members.	The maximum limit in this case is two hundred excluding past and present employees.
3	**Use of the words 'Ltd' and 'Pvt Ltd'**	The public company must add the word 'Limited' or its abbreviation 'Ltd' at the end of the name.	This company must add the words 'Private Limited'(Pvt. Ltd) at the end of its name
4	**Restriction on Transfer of Shares**	The right to transfer the shares is not restricted by the Articles.	The right to transfer the shares is restricted by Articles.
5	**Invitation to Public**	It can invite public for issuing its shares or debentures.	It cannot invite public to subscribe for its share and debentures.
6	**Issue of Prospectus**	It must issue prospectus or statement in lieu of prospectus.	It need not issue prospectus and statement in lieu of prospectus.
7	**Issue of share warrants**	It can issue share warrants.	It can not issue share warrants.
8	**Further issue of shares**	The company proposing further issue of shares must offer them first to the existing members.	It need not offer further shares to the existing shareholders.
9	**Minimum number of Directors**	It must have at least three directors.	It must have at least two directors.(One Director is case of One Person Company)
10	**Qualification shares of Directors**	Each director must take a certain minimum shares as prescribed in the Articles.	It does not prescribe any qualification shares for its directors.

11	**Retirement of Directors**	Every year two-thirds of the directors must retire by rotation	Directors need not retire by rotation. There can be permanent life directors.
12	**Statutory Meeting**	It must hold statutory meeting as prescribed by the Act and file with the Registrar a statutory Report.	It need not hold statutory meeting.
13	**Quorum**	There must be atleast five members personally present to constitute a valid general meeting	Atleast two members are to be personally present for a valid quorum.
14	**Restriction on Managerial Remuneration**	Total managerial remuneration cannot exceed 11% of net profit.	This restriction does not apply to a private company.
15	**Right of Giving loan to Directors**	Prior approval of central government is needed to give loans to directors.	Without any approval it can give loans to director
16	**Index of Members**	If the members exceed 50, it is necessary to prepare an index of members.	It is not essential to prepare an index of members
17	**Minimum paid-up Share Capital**	It is Rs 5 lakh.	It is Rs 1 lakh.
18	**Allotment of shares**	It can proceed with allotment of shares only after the minimum subscription is obtained.	There is no condition of minimum subscription before allotment of shares.
19	**Commencement of Business**	It can commence business only after obtaining the 'certificate of commencement of business' from Registrar of Companies.	It can commence business after getting certificate of incorporation
20	**Publication of Annual Accounts**	The Annual Accounts are open to public for inspection. These must be published.	The Annual Accounts are not open to public. These are only filed with the Registrar.

5.11 DISTINCTION BETWEEN COMPANY AND PARTNERSHIP

S.L No	Basis of Distinction	Company	Partnership
1	**Regulating Act**	It is governed by Indian Companies Act, 2013.	It is governed by Indian Partnership Act, 1932.
2.	**Minimum Number of Members**	The minimum number of shareholders is two in a private company and seven in a public company	The minimum number of partners must be two.
3.	**Maximum Number of Members**	The maximum number of members in a private company is 200 and there is no maximum limit on the members of public company. It is, however, limited to the extent of authorised capital & number of shares issued.	The maximum number of partners must be ten in banking and twenty in other businesses.
4	**Registration**	Registration of a company is compulsory.	Registration of partnership is not compulsory. But a registered firm enjoys certain benefits
5.	**Separate Legal Entity**	Since it is incorporated, it has a separate legal existence. A company is separate from the members.	A firm does not enjoy separate legal existence. Partners are collectively termed as a firm and individually as partners.
6	**Nature of Liability**	Liability of its members is limited to the extent of face value of shares held by them.	The liability of partners is unlimited.
7	**Management & Control**	The company is managed & controlled by the representatives of shareholders i.e. Directors.	It is managed & controlled by partners.
8	**Transfer of Interest**	The shareholders of a public company can freely transfer his share. But there is restriction on such transfer in a private company	A partner cannot transfer his shares without the consent of other partners.

9	**Mutual Agency**	There is no agency relationship among the shareholders. They cannot bind each other with their actions.	There exists a mutual agency. Each partner represents the other partners and is bound to others.
10	**Compulsory Audit.**	Audit of a company is compulsory.	Audit of a firm is not compulsory.
11	**Capacity to contract**	A company can enter into a contract with a shareholder.	A firm cannot enter into a contract with a partner.
12.	**Statutory obligations**	It is required to maintain the prescribed books of accounts, audit them periodically and publish them	It is not statutory to maintain books of accounts, audit & publish them.
13	**Distribution of profits**	There is no compulsion to distribute profits. Only when dividends are declared, the members get a share of profit.	The profits are distributed among the partners as per partnership deed.
14	**Dissolution**	A company is created by law. So, it can only be dissolved by law.	A firm can be dissolved at any time by mutual agreement.
15	**Perpetual Existence**	It enjoys perpetual existence. It is not affected by death, or insolvency of shareholders. It is said, even an atom bomb cannot destroy a company.	The continuity is affected by death, sickness, retirement, insolvency of partners.
16	**Financial Resources**	Huge amount of capital is raised through issue of shares.	Capital contribution of partners is limited
17	**Ownership**	A company is its own owner. The Act does not recognize share holders as the real owners although they enjoy the voting rights	A partnership firm is owned by it partners.

5.12 QUESTIONS

OBJECTIVE AND SHORT ANSWER TYPE QUESTIONS

Q.1 Choose the correct answer from the given alternatives.

(a) Joint stock company takes birth on the date of-

(i) Issuing prospectus (iii)Incorporation

(ii) Issuing memo (iv) Issuing Articles

(b) Stability ofexistence' is found in

(i) Company (iii) Sole-trading

(ii) Partnership (iv) Co-operatives

(c) Minimum number of members in a private company is

(i) 7 (iii) 20

(ii) 2 (iv) 50

(d) Maximum number of members in a private company is

(i) 200 (iii) 20

(ii) 50 (iv) 100

(e) A minimum of seven members is required for the formation of a

(i) private company (iii) chartered company

(ii) public company (iv) Co- operative.

(f) The liability of the shareholders is limited to the extent of

(i) Their cash Balance (iii) Amount of Authorised capital of the company.

(ii) Their Bank Balance (iv) Unpaid amount on shares held by them

(G) Shares are not allowed to be transferred in a

(i) Public company (iii) Private company

(ii) Co-operative (iv) Joint venture

(h) The name that is inscribed on the common seal of a company is

(i) Chief Executive officer (iii) Chief manager

(ii) Managing Director (iv) The company

(i) Perpetual succession of a company comes to an end throgh

(i) Death of members (iii) Bankruptcy of member

(ii) Death of Directors (iv) Operation of law

(j) Board of Directors is selected by

(i) Public (iii) Government

(ii) Shareholders (iv) Employees

(k) Minimum number of directors in a public company is

(i) 2 (iii) 4

(ii) 3 (iv) 5

Q.2 Correct the underlined portions in the folowing sentences :

(i) In India, the incorporation of a company is done under Indian Compaies Act, 1965

(ii) The existence of the company is not different from its members .

(iii) Registration of a company is voluntary.

(iv) Statutory companies are registered under a special charter.

(v) The scope of company's business can be seen from prospectus.

(vi) In case of Indian company, the business is situated in India.

Q.3 Fill in the blanks

(i) A company is an artificial person created by __________

(ii) A company incorporated outside India is a _________ company.

(iii) Prospectus is issued by a ________

(iv) A certificate of commencement is not necessary for a _____ company.

(v) Document concerned with the internal management of company is the _____.

(vi) Alteration of Article requires passing of ______ resolution.

(vii) A company has a ___ existence.

Q.4. Express in one word/ term :

(i) A company whose shares cannot be sold to public.

(ii) The term that implies that the life of a company is independent of the life of its members.

(iii) A company in which at least 51% of share capital is held by Govt.

(iv) A company created by a special act of legislature

(v) A company doing business in more than one country

(vi) A document called as the constitution of a company.

Q.5. Answer the following questions in not more than two sentences each.

(i) Define legal entity.

(ii) What is a prospectus ?

(iii) Give two merits of a company.

(iv) State the object clause of Memo.

(v) Difine the concept of limited liability.

Q.6 Answer / explain the following in not more than six sentences each.

(i) Statutory Company

(ii) What is incorporation of a company ?

(iii) Why a company is preferred to other forms of organigation?

(iv) Articles of Association

(v) What is a chartered company ?

LONG ANSWER TYPE QUESTIONS

(1) Distinguish between a company & partnership.

(2) Differentiate between a private company & public company.

(3) Define a joint stock company. State its features.

(4) Write in brief about different types of companies.

(5) Discuss the advantages and dis- advantages of a company.

5.13 ANSWERS TO OBJECTIVE QUESTIONS

1. (a) iii, (b) i, (c) ii, (d) i, (e) ii, (f) iv, (g) iii, (h) iv, (i) iv, (j) ii, (k) ii,
2. (i) 2013, (ii) different, (iii) compulsory (iv) chartered (v) memo (vi) Incorporated
3. (i) Law, (ii) Foreign (iii) Public company (iv) Private company (v) Articles (vi) Special (vii) Perpetual
4. (i) Private Company (ii) Perpetual Succession (iii) Govt. Company (iv) Public ` Corporation (v) MNC (vi) Memo

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CHAPTER-6

FORMATION OF A COMPANY

STRUCTURE

6.1 INTRODUCTION

A company comes into existence when it is registered with the registrar of companies. Before the registration of a company, several formalities have to be observed and elaborate procedures have to be followed. The following steps are to be followed in the formation of a company:

(A) Promotion

(B) Registration and Incorporation

(C) Capital Subscription or raising of share capital

(D) Commencement of Business.

6.2 PROMOTION

6.2.1 Meaning

Promotion is the first stage in the formation of a company. A company owes its origin to the imagination of an individual or a group of individuals. They give serious consideration to the formulation of ideas on which the business in question is to be based. They have to answer several basic questions, such as- type of business to be started; where to be set up; what is the size; how to assemble the necessary factors of production and so on. These persons are the 'promoters' and their activities constitute the 'promotion' of the company.

6.2.2 Definition.

C.W. Gesternberg: "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."

L.H Haney: "Promotion may be defined as the process of organizing and planning the finances of a business enterprise under the corporate form."

In other words, promotion involves identification of a business opportunity, analysis of prospects and taking steps to implement it through the formation of a company.

6.2.3 Stages of Promotion

Promotion of a company involves the following five stages:

(i) **Discovery of Idea:** This is the first stage in the promotion process. At this stage the promoter gets an idea to start some business. There are many ideas that exist in the field of business. The idea may take three forms.

(a) The idea of starting a new company

(b) The idea of expanding an established company

(c) The idea of combining the existing concerns

(ii) **Preliminary Investigation:** After discovering of idea, the promoter will investigate the hidden weakness of the plan. He has to find out viability of the business and the marketability of the products. This requires preliminary investigation & verification of the proposed idea to find out whether the business is profitable or not, the amount of risk involved, amount of capital needed etc. If every thing looks promising, the promoter decides to go ahead with the idea to give it a practical shape.

(iii) **Detailed Investigation:** In this stage, a detailed investigation is made to establish the soundness of the plan. The purpose of detailed investigation is to ensure that the estimated income will be sufficient to meet the estimated expenses and returns to investors for the risks undertaken by them.

The investigation of a business proposition can be made in three stages. They are:

(a) **Stop:** Before finalizing an idea of business, stop for a while, examine, re-examine & further examine about the new idea.

(b) **Look:** Look around the business world, make a study about the competition, size of the market, capital investments & so on.

(c) **Listen:** In this stage, listen what the experts of business say. It refers to the consultation with experts like engineers, technicians, Chartered Accountants & management consultants to advise on the problems of location of plants, production, demand for the new product, management & finance.

If detailed investigation gives a sound picture of the proposed project which is commercially & technologically viable, then the promoters proceed to the next steps of promotion.

(iv) **Assembling:** After detailed investigation, if the promoter is satisfied regarding the practicability and profitability of the proposed concern, he goes ahead with the assembling the business elements. Assembling involves signing of initial agreements, preparation of documents, employing personnels, arranging machinery & equipment, putting together the factors of production, viz, land, labour, capital & organization.

(v) Financing: Finance is said to be the life blood of business. So, it is an important step in promotion. The promoter estimates the capital requirements and modes of procuring capital. Following important managerial decisions are taken at this stage:

(a) Amount of long term capital requirements

(b) Amount of short term capital requirements

(c) Cost of raising capital

(d) Modes of raising capital

(e) Shape of capital structure

(f) Estimated return on investment

(g) Appropriate time for raising fund etc.

The promoter prepares the 'Prospectus' and presents to same to the public for subscription to company's share.

6.3 PROMOTERS

6.3.1 Meaning: A person who takes the necessary steps to carry out the process of formation of a company is called a promoter. He is an entrepreneur who gives birth to a business concern. A promoter may be an individual, a firm or company. He makes the plan, arranges basic infrastructure, incurs initial expenses & manages the formation affairs of the company.A promotor has contractual relationship with the company.

6.3.2 Definition: The Companies Act does not define the term 'Promoter'. It only refers to the liabilities of the promoter. The following are some of the judicial definitions of a promoter.

Justice L.J Bowen: 'The term promoter is not a term of law but of business usually summing up in a single word, a number of business operations familiar to the commercial world by which a company is brought into existence'.

Justia C.J. Cockburn: 'A promoter is one who undertakes to form a company with reference to a given project and to get it going and takes necessary steps to accomplish that purpose'.

Guthmann & Doughall: 'Promoter is the person who assembles the men, the money & the materials into a going concern'

6.3.3 Functions of a Promoter: The various functions perfomed by the promoter include the following.

(i) A promoter discovers the idea of creating an enterprise.

(ii) He makes detailed investigations to find out the weakness & strong points of the idea.

(iii) After being satisfied about feasibility & profitability of the idea, he organizes resources to convert idea into a reality by forming a company. The steps to be taken in this regards include the following:

 (a) Securing the co-operation of the required number of persons willing to associate themselves with the project.

 (b) Appointing legal advisers & experts, bankers, brokers, underwriters.

 (c) Entering into preliminary contracts

 (d) Preparing detailed financial plan

(iv) He selects the first directors and gets their consent.

(vi) He manages to pay preliminary expenses.

(vii) He prepares the draft of Memo & Articles

(viii) He submits these documents along with prescribed fees to the Registrar.

(ix) He undertakes activities related to issue of shares and securities

(x) He is responsible for drafting, printing & publication of prospectus

(xi) He raises finance from different sources

(xii) He complies with all legal formalities to obtain the certificate of commencement of business.

In other words, all necessary functions that need to be performed before the company commences its business are performed by the promoters.

6.3.4 Qualities of a successful Promoter: The functions of a promoter is both important & challenging. To become a successful promoter, one must possess the following qualities:

(i) **Imagination:** Promoter must have fertile imagination which is necessary to have new ideas of forming a business.

(ii) **Courage:** He must have enough courage to suggest the new ideas & be prepared to face the financial & other difficulties involved in business.

(iii) **Initiative:** He must take all initiatives which are necessary for the formation of company.

(iv) **Ability to Organise:** He must have ability to organize the various critical inputs necessary for starting an enterprise.

(v) **Self confidence:** He must have confidence in himself. It is essential to motivate others to be associated in the business.

(vi) **Patience & Perservance:** He must have patience & perservance to execute the plans even in the face of uncertainty & difficulty.

6.3.5 Types of Promoters:

(i) **Professional Promoters:** These promoters are specialists in forming new business ventures. Promotion is their whole time occupation. They promote the company and handover the same to the share holders. For this, they receive remuneration. They are mostly found in western countries.

(ii) **Occasional Promoters:** They are not the professionals. Promotion is not their whole time occupation. When they find commercial possibilities in some ideas, they form a company. They promote their own firms as entrepreneurs. They own & manage the companies promoted by them. In India, most of the business enterprises are promoted by such promoters.

(iii) Financial Promoters: Financial institutions like investment bankers, development companies etc. come under this category. They have financial stability. They form new companies during favorable conditions in the securities market. They make profits out of favorable investment climate. They are not interested in the commercial success of the business.

(iv) Institutional Promoters: These are the specialized institutions which promote new companies for rapid industrialization in the country. They provide necessary technical, managerial and financial assistance for promotion. In India, some of these promoters are- Industrial Development Bank of India (IDBI), Industrial Finance corporation of India (IFCI), Industrial Credit & Investment Corporation of India (ICICI) etc.

(v) Technical Promoters: These promoters are experts in technical field. They are the consultancy firms, industrial engineers, and lawyers etc. They make use of their specialized knowledge & in return they charge fees for that.

(vi) Managing Agents: They act like professional promoters. In the post independence period, they played an active role in the promotion of various companies in the country. From April 1970, managing system was abolished.

(vii) Government: During the period of five- year plans in India, Government emerged as a big promoter. Government initiated a large number of companies in the basic sectors like defence, steel, oil, fertilizers, shipping etc, Few public sectors are possible due to the efforts of Government.

6.4 INCORPORATION/ REGISTRATION OF A COMPANY

It is the second important stage of company formation. Incorporation of a company means its recognition in the eyes of law as a body. A company does not become a separate legal entity unless and until it is incorporated. It acquires artificial personality when it is incorporated. The associations of members are not allowed to use the word company unless they are registered.

Therefore, after doing promotional work and before getting company registered, the following preparatory steps are taken:

6.4.1 Preparatory steps: Before approaching the Registrar for incorporation, the following preliminary activities are undertaken:

(i) The promoters must decide in which state will the headquarters of the company be located.

(ii) To ascertain from the Registrar, whether the name by which the new company is to be started is available or not. The company's name should not be similar to that of an existing company. It is mandatory to send at least three names for approval of any one of them.

(iii) To get a licence under Industries (Development & Regulation Act), 1951, if the proposed business comes within the purview of this act.

(iv) To appoint underwriters, brokers, bankers, solicitors, auditors and signatories to the Memorandum of Association.

(v) To get the important documents like Memo & Articles prepared & printed.

6.4.2 Filing of Important Documents:

After completing the above formalities, the promoter makes an application to the Registrar for incorporation. This application must be accompanied by the following documents:

(i) Memorandum of Association(Memo): It is to be duly stamped, signed & witnessed.

(ii) Articles of Association(Articles) : These are to be properly stamped, duly signed by the signatories to the memo and witnessed. The Articles are optional in case of a public company with limited liability which may adopt Table-A. If a company adopts Table-A, the fact must be specified in memo.

(iii) Written consent of the Directors: A list of persons who have agreed to function as the first directors must be communicated to the Registrar. Such list must show their names including surname or family name, address & occupation etc. Directors have to give written consent who agreed to work in that capacity.

(iv) **Notice of Address of the Registered office of company:** The Address & location of company's registered office must be communicated within 30 days of incorporation.

(v) **Statutory Declaration:** A statutory declaration by an advocate of High Court or Supreme Court or an Attorney of High court or by a secretary or Chartered Accountant that all the requirements of the companies Act relating to the registration of the company have been complied with.

(vi) **Payment of fees:** Along with the above documents a prescribed fees will be deposited.

The Registrar of companies will scrutinise all the documents and if he finds them in order, he will enter the name of the company in the Register of companies and issue a certificates which is known as 'Certificate of Incorporation'. The date mentioned in the certificate is the date from which the company becomes a separate legal entity with a perpetual succession & common seal.

6.5 CAPITAL SUBSCRIPTION

A private company or a public company not having share capital can commerce business immediately after its incorporation. But a public company having share capital cannot commence business unless it raises the required capital & obtains a certificate of commencement of business. The company has to complete the following procedures to obtain necessary capital.

(i) **Compliance of SEBI guidelines:** For the protection of investors, Securities and Exchange Board of India (SEBI) has issued "guidelines for disclosure & investor protection, 2000" These guidelines must be complied with before making public offer for sale of shares & debentures.

(ii) **Issue of Prospectus:** Prospectus is an invitation to the public to invest in the company. The prospectus is based on detailed facts & figures in accordance with the provisions. If the proposed company does not want to procure funds from the general public, then it will submit a "statement in lieu of prospectus" with the Registrar of companies.

(iii) **Minimum subscription:** It referes to the minimum amount of capital that should be subscribed by the public before a public company goes for allotment of shares. According to Companies Act, the minimum subscription should be 90% of the size of issue. It is part of the issued capital which should be collected within 120 days from the date of the issue of prospectus. The amount of minimum subscription is to be stated in the prospectus, otherwise the whole amount of capital will be treated as the amount of minimum subscription. In the opinion of the directors, the minimum subscription is sufficient to meet preliminary expenses, under writing commission, price of property proposed to be purchased etc.

(iv) **Allotment of shares:** It means distribution of shares among the subscribers. Allotment work must be done within a period of 10 days from the last date. When Shares are not allotted to few persons, then their money will be refunded. Letters of allotment are sent to those who are allotted shares and letters of regret are sent to those who are not allotted any shares.

6.6 COMMENCEMENT OF BUSINESS

A private company can commence its business immediately on incorporation. A public company must get a 'certificate of commencement' or 'Trading certificate' to commence its business. The directors are required to submit the following documents with the registrar of companies.

(i) A copy of the prospectus or statement in lieu of prospectus.

(ii) Return of allotment containing the names, addresses, and number of shares allotted to each shareholder.

(iii) The declaration that every director has paid in cash the application and allotment money on the shares in the same proportion as others.

(iv) The declaration that shares payable in cash have been allotted upto the amount of minimum subscription.

(v) The declaration that no money is liable to become refundable to the applicants by reason of failure to apply for or to obtain permission for shares or debentures to be dealt in any stock exchange.

(vi) The statutory declaration by the secretary or one of the directors that all the requirements of the companies Act in respect of commencement of business have been complied with.

The Registrar will scrutinize these documents and if he is satisfied, he will issue the certificate of commencement of business. It is after getting this certificate that the process of the formation of a public company having a share capital is complete. The company is now legally authorized to start its business.

DOCUMENTS USED IN THE FORMATION OF A COMPANY:

In the formation of a Joint Stock Company a number of legal documents are prepared and filed with the Registrar. However, the most important documents connected with the formation of a company are:

(A) Memorandum of Association

(B) Articles of Association

(C) Prospectus or Statement in Lieu of Prospectus

6.7 MEMORANDUM OF ASSOCIATION

It is the principal document of a company. It is of great importance both for the company and for the outside public. It is the foundation on which the super-structure of the company is built. It lays down the constitution of the company. It sets out the limit within which the company may function. It informs the shareholders, creditors and others about the sphere of company's business. Anything done which is not included in the Memorandum is deemed to be void.

6.7.1 Definitions:

(i) Lord Cairns: "The memorandum of Association of a company is its charter and defines the limitations of the powers of a company. It contains the fundamental conditions upon which alone the company is allowed to be incorporated."

(ii) Lord Macmillan. "The purpose of the memorandum is to enable the shareholders, creditors and those who deal with the company to know its permitted range of enterprise".

6.7.2 Characteristics:- On analysis of the definitions we find the following features of the Memorandum:

(i) It is mandatory and the basic charter of a company.

(ii) It is the constitution which sets out company's scope, object and the limits.

(iii) Any act done beyond the scope is considered Ultra vires.

(iv) It is a public document open to inspection.

6.7.3 Importance: The memorandum is the most important document due to the following reasons:

(i) Basis of Incorporation: It is the basic document without which a company cannot be registered.

(ii) Determines the scope: It determines the area of operation within which a company has to operate. Other wise, it will treated as ultra-vires act.

(iii) Jurisdiction of the Registrar: It determines the jurisdiction of the company as well as the Registrar and the court by stating the registered office of the company.

(iv) Important Information about the company: It gives information like name of the company, its address, its share capital.

(v) Liability of shareholders: It says about the liability of members i.e. limited or unlimited.

(vi) Unalterable Document: Without special resolutions and permission from Central Government or The National Company Law Tribunal (NCLT), (previously Company Law Board), the provisions of memorandum cannot be changed.

(vii) Public Document: It tells about company's financial ability, capacity to make contract, its aims, objectives. It is the basis of relationship between the company and outsiders.

(viii) Governs Articles: It governs Articles of Association which is the other important document meant for internal management of the company.

6.7.4 Forms of Memorandum:

Different forms of memorandum have been prescribed for different types of companies. These are as follows:

Table	Applicable To
Table-A:	Company limited by shares
Table-B:	Company limited by guarantee and not having a share capital
Table-C:	Company limited by guarantee and having a share capital
Table-D:	Company with unlimited liability (not having share capital)
Table-E:	Company with unlimited liability (Having share capital)

6.7.5 Contents of Memorandum:

The document contains the following clauses:

1. Name clause.
2. Situation clause
3. Object clause
4. Liability clause
5. Capital clause
6. Association clause

(1) Name clause:

Under this clause, the name of the proposed company is stated. A company can choose any name it likes but subject to the following restrictions.

(i) The word 'limited' in case of a public company limited by shares and the words 'private limited' in case of private company must be written at the end of name of the company. However, if a company is formed not with the object of declaring dividend, but to promote science, culture, art, religion etc, the Central Government may permit the company to drop the word 'limited'.

(ii) The name should not be too identical or similar to the name of any other existing company.

(iii) Words such as Royal, King, Imperial, Emperor, Nation, and such other words which denote patronager or support of the Government should not be used. Besides this the names and emblems of the central & state Governments or country's national flag and emblems of United Nations Organisation, World Health Organization cannot be used as the name, emblem or seal of the company.

The name of the company must appear on the outside of every office or place of business in English or in the regional language. Further, the name of the company must appear on all cheques, bills, letter, notice and other official documents of the company. By passing special resolution a company can change its name.

(2) Situation or Domicile or Registered office clause:

In this clause, the state in which the registered office of the company is to be situated is mentioned. It determines the jurisdiction of the court for legal matters. Again, all communications and notices may be sent at this address. Though not statutory, in practice the address of the registered office is given, along with the name of the state. The 'registered office' is different from the 'head office'of the company. In the head office, substantial business of the company is carried on. If the place of registered office is to be changed from one state to another, a special resolution has to be passed and court's sanction has to be obtained.

(3) Object Clause:

This is the most important clause. The objects with which the company is established have to be clearly stated. As it is difficult to alter the object clause later on, it is necessary that all possible types of business in which a company may engage even in future should be included. Any act outside the object clause is 'ultra vires'.

The following points should be kept in mind while drafting the object clause of a company:

(i) The objects must not be illegal

(ii) They must not be against the provisions of the Companies Acts.

(iii) They must not be against the public policy

(iv) They must be stated clearly and definitely.

This clause is important to shareholders as well as creditors because it enables them to know the purposes for which their money is to be employed.

(4) Liability clause:

This clause states the nature of liability of the members. A company limited by shares or by guarantee must state that liability of its members is limited. A company limited by guarantee may introduce a further clause stating the amount of guarantee under taken by each member towards the liability arising in the event of winding up of the company. The unlimited companies need not include this clause in the memorandum.

(5) Capital clause:

This clause is included only in the case of limited companies having share capital. This clause states the amount of nominal or authorized capital with which the company proposes to be registered and the value of each share into which it is divided. A company in its life time, cannot issue shares beyond its authorized capital. Every person signing the memorandum has to take minimum one share each. An unlimited company is not required to have the capital clause in its memorandum.

(6) Association clause:

It is also known as 'Subscription clause'. Here, signatories to the memorandum make a declaration. There must be at least seven signatories in case of a public company and at least two in case of a private company. They are the first members of a company who make a declaration that they are prepared to be associated with the company as its members. They write their names, addresses, ages, professions and number of shares proposed to be purchased by them. Each signatory has to take minimum one share each. The signature of subscribers are attested by at least one witness each. The addresses & occupations of witnesses are also given.

6.7.6 ALTERATION IN MEMORANDUM OF ASSOCIATION

Memorandum of Association is an unalterable document. A company shall not alter the conditions contained in Memorandum. The Companies Act has prescribed the procedures and the extent of alterations of different clauses.

The modes of changing different clauses of memorandum are as follows:

1. **Name clause:** Due to mistake, if a company is registered with the name of an existing company, the new company can change its name by an ordinary resolution and obtaining the approval of the Central Government, In other cases, by passing a special resolution and obtaining the approval of Central Government, a company can change its name. No approval is needed if the change pertains to only the addition or deletion of the word 'Private' to the name. The change in the name must be communicated to the Registrar who will issue a fresh certificate of incorporation with necessary alteration.

2. **Situation clause:** The registered office of the company can be changed in the following three ways in the circumstances as stated below:

(a) **Change within the city:** Change of registered office of a company from one locality to another in the same city can be done by passing an ordinary resolution and by giving a notice to the Registrar.

(b) **Change within the state:** Where the company changes the registered office from one city to another in the same state, a special resolution is passed. The Registrar is intimated about the change of location.

(c) **Inter state change:** When change of registered office is made from one state to an other state, the following procedure is followed:

(i) A special resolution is passed

(ii) The confirmation of National Company Law Tribunal is obtained

(iii) The above confirmation order and altered copies of memorandum must be filed with the Registrars of both the states.

3. **Object clause:** It is extremely difficult to alter the object clause However, if some alterations are needed, permission by the National Company Law Tribunal must be obtained.

In the Following grounds object clause can be altered:

(i) To carry on its business more economically or efficiently.

(ii) To attain its main purpose by new or improved means

(iii) To enlarge or change area of operations.

(iv) To carry on some other business advantageously in combination with the existing one.

(v) To sell the whole or part of the undertaking of the company.

(vi) To amalgamate with any other company

(viii) To restrict or obandon any of the objects specified in the memorandum.

The procedure to alter the object clause involves the following steps:

(i) A special resolution is passed

(ii) The confirmation of the National Company Law Tribunal (NCLT) must be obtained.

(iii) A certified copy of the order of NCLT together with the revised copy of the Memorandum must be filed with the Registrar.

4. **Liability clause:** The liability of the share holders of a limited company cannot be made unlimited unless it is expressly agreed to by all the members of the company. However, the liability of Directors can be made unlimited by passing a special resolution, if the Articles so permit.

5. **Capital clause:** A company may alter the capital clause if it is authorized by Articles of Association. Other wise, the company has to amend the Articles. The alteration of capital clause may be in any one of the following ways.

(i) Increase in share capital

(ii) Rearrangement of share capital

(iii) Variation of rights of the share holders

(iv) Reduction of share capital.

Increase in share capital and re-arrangement of share capital such as consolidation of shares, sub-division of shares, conversion of shares and cancellation of unissued shares can be effected by an ordinary resolution without the confirmation of the NCLT.

Variation in the rights of any class of shareholder and reduction of share capital can be effected only by a special resolution and with a confirmation of the NCLT.

6. **Subscription clause:** This clause is not subject to alteration.

6.8 ARTICLES OF ASSOCIATION

6.8.1 Meaning and Definition : The document containing articles of association is the second important document prepared by the promoter. This is mandatory under the provisions of companies Act. It contains the rules & regulations relating to the management of its internal affairs. Articles lay down the relations between the company and its members and between the members & members. It is an assisting document to the memorandum. The memorandum fixes the objects of the company and the Articles tell the way of attaining the objects. They deal with the aspects of who should do? What and How?

Definition:

Justice Brown: The articles are the internal regulations of the company and are for the benefit of shareholders".

Justice Charles Worth: " The Articles of Association is a document regulating the rights of members of the company among themselves and the manners in which the business of the company shall be conducted."

6.8.2 Features:

(i) Articles are subordinate to the memorandum

(ii) Articles are public documents which is registered with the registrar.

(iii) It contains internal rules of the company.

(iv) It defines the powers, limitation & rights of company officers.

(v) It helps in the management of a company.

(vi) It can be altered to suit the changing requirements.

(vii) It serves as a contract between the company and its members

(viii) It helps in achieving the objectives laid down in the memorandum

6.8.3 Form : The companies Act lays down model forms of Articles for different types of companies, Such as:

(i) Public limited company with share capital

(ii) Company limited by guarantee and not having share capital.

(iii) Company limited by guarantee and having a share capital

(iv) An unlimited company.

The Articles should be (i) printed (ii) divided into paragraphs (iii) numbered consecutively (iv) stamped (v) signed by each signatory to the memorandum with the signatures duly attested.

6.8.4 Contents

Articles generally contain rules, regulations and by-laws framed for the internal administration. Such rules and regulations normally relate to the following aspects:

(a) Matters relating to shareholders:

(i) To what extent 'Table A' is applicable

(ii) Different classes of shares & their rights.

(iii) Procedure for issue of share capital & allotment

(iv) Procedure of issuing share certificates & warrants.

(v) Forfeiture of shares and their re-issue procedure

(vi) Procedure for transfer & transmission of shares

(vii) Conversion of shares into stocks

(viii) Fixation of minimum subscription

(ix) Lien on shares

(x) Payment of commission on shares and debentures to underwriters.

(xi) Re-organisation & consolidation of share capital.

(xii) Rules for adaption of 'Preliminary contracts'

(b) Matters relating to Directors:

(i) Appointment, powers, duties, qualifications and remuneration of directors.

(ii) Calling and conducting the meetings of Board of Directors.

(iii) Election, re- election, retirement & removal of Directors.

(iv) Appointment, powers, duties, qualifications, remuneration etc of managing director, manager & secretary.

(v) Borrowing power of directors.

(c) Other matters:

(i) Definition of important words & phrases.

(ii) Use of common seal of the company.

(iii) Payment of dividends & creation of reserves.

(iv) Issue of bonus shares & rights shares.

(v) Capitalization of profits

(vi) Board meetings and proceedings thereof.

(vii) Arbitration provisions.

(viii) Procedure of winding up of the company.

(ix) Voting rights of members

(x) Method of keeping & writing books of accounts.

6.8.5 Alteration of Articles of Association:

Each company has the right to alter its Articles at any time, For alteration the following steps need to be taken:

(i) A special resolution should be passed.

(ii) A copy of the special resolution should be filed with the Registrar within 30 days of passing the resolution.

(iii) A copy of the amended Articles must be filed with the Registrar within 3 months of passing the special resolution.

However, the alteration of Articles is subject to the following restrictions:

(i) It should not violate the Companies Act.

(ii) The alteration will be subject to the provisions of the memorandum.

(iii) The alteration must not contain anything illegal.

(iv) Approval of the Central Government must be obtained.

(v) The alteration should not adversely affect the minority shareholders.

6.9 DIFFERENCE BETWEEN MEMORANDUM AND ARTICLES OF ASSOCIATION

Basis of Difference	Memorandum	Articles
1. Purpose	It lays down the charter or the constitution of the company	It provides rule & regulations for smooth internal management of the company.
2. Contents	It defines objects & powers of the company	It lays down the ways & means to achieve objects laid down in the memorandum
3. Importance	It is a document of first order and is more vital	It is a document of second order & less important than the memorandum. It is subordinate to the memo.
4. Relationship	It defines and establishes the relationship between the company and outsiders	It defines the relationship between the company and its members.
5. Incorporation	It is a compulsory document. It must be filed with the Registrar before incorporation	Preparation of articles is not compulsory in case of a Public limited company. However, for a private company, it is necessary to have Articles
6. Regulation	The provisions of the memo are governed by the companies Act, 2013	Articles are governed by both the Companies Act & the memorandum
7. Alteration	Memo cannot be altered easily. For alteration of object and situation clauses, prior approval of the court or NCLT or central Government is required	Articles can be altered by passing a special resolution.
8. Doctrine of Ultra vires	Any act done by the company beyond the scope of the memo is ultra vires and illegal. It cannot be ratified by the company	Any act beyond the scope of Articles but within the scope of the memo is not ultra vires but intra vire. It can be ratified by the shareholders later on.

6.10 PROSPECTUS

Prospectus is the third important document in the formation of a company. A public company issues prospectus to obtain money from the public. After obtaining the certificate of incorporation the promoters issue prospectus. Private companies are prohibited from issuing a prospectus.

Definition: Prospectus means “any prospectus, notice, circular, advertisement or other documents inviting offers from the public for the subscription or purchase of any shares or debentures of a company”.

Features:

(i) It is an invitation to the public

(ii) Invitation must be made on behalf of the company

(iii) Invitation must be to subscribe or purchase.

(iv) Invitation must relate to shares or debentures.

6.10.1 Objects of Issue of Prospectus: The objects of issue of prospectus are:

(i) To inform the public about the birth of a company

(ii) To arouse interest in the public to make investment in the proposed company and hence called a silent salesman.

(iii) To create confidence in the public about the company, its directors and its profitability.

(iv) To record officially the terms & conditions of new issues of shares & debentures.

(v) To protect the interest of investors, in the sense that if there is any false statement in the prospectus, the directors are responsible.

6.10.2 Contents of Prospectus: Investor requires necessary information to take a decision about his investment. Hence, it is essential that the prospectus of a company gives a complete picture of company’s structure and its potential. Some of the important particulars, a prospectus must contain, are as follows:

1. Name and address of the company.
2. Main objects of the company.
3. Number and classes of shares.
4. Capital structure of the company
5. Names, addresses, occupations of directors, managers, managing directors, bankers, auditors, solicitors & brokers.
6. Names & address of underwriters, under writing amount, under writing commission, opinion of directors regarding the abilities of under writers.
7. Name & addresses of the vendors and the mode of payment for the purchase price.
8. Remuneration of directors & the promoters.
9. Brokerage and commission
10. Rights of different classes of share holders.
11. Amount of minimum subscription
12. Date of opening of subscription of shares
13. Date of closing of receipts of application.
14. Amount of preliminary expenses incurred
15. Particulars regarding purchase of property.
16. Details of borrowing powers of the company
17. Nature & extent of the interest of the directors and promoters in the promotion of company.
18. Listing of securities on recognized stock exchanges.
19. List of documents open for inspection at the head office of the company.
20. Information about material contracts.

Great care should be taken in preparing the prospectus. A rosy picture of the company can be presented through the prospectus. However, it should never conceal any fact or it should never mislead the public. Every prospectus is to be dated & that date is taken as the date of publication of the prospectus. It must be signed by all the directors or proposed directors. It is filed with the Registrar before it is issued to the public.

6.11 STATEMENT IN LIEU OF PROSPECTUS

A public limited company which can secure capital without public subscription need not issue a prospectus. For registration of the company a statement in lieu of prospectus is to be filed with the Registrar at least three days before first allotment. The contracts are more or less the same that are necessary for a prospectus. It should be signed by all the directors and directors are exposed to similar civil & criminal liability for untrue statement.

6.12 QUESTIONS

OBJECTIVE AND SHORT ANSWER TYPE QUESTION:

Choose the correct alternatives to answer the following questions.

(a) Document inviting the public to invest in the company is

(i) Incorporation certificate (iii) Directors statement

(ii) Prospectus (iv) Certificate of commencement

(b) Document that contains the internal rules of a company is its

(i) Memo

(ii) Articles

(iii) Certificate of incorporation (iv) Prospectus

(c) Document that specifies the rights and objectives of a company is its

(i) Memo

(ii) Articles

(iii)Prospectus

(iv) Certificate of Commencement

(d) Prospectus is usually issued by a

(i) Public company (ii) Public enterprise

(ii)Private company (iv) Chartered company

(e) Person conceiving the idea of forming a company

(i) Managing Director (iii) Promoter

(ii) Chief Executive (iv) Director

(f) The type of relationship that a promoter has with the company is

(i) Contractual (ii) Fiduciary

(ii) Personal (iv) one time

(g) In the absence of Articles, the Table that applies is

(i) A (ii) B

(iii) C (iv) D

Q.2 Express each in one word/term:

(a) An organization in which the members can be a maximum of 200.

(b) Person conceiving the idea of a company

(c) certificate issued after the registration of a company

(d) Certificate required by a public company to start business

(e) Shares, the directors are required to buy to ensure their stake.

Q.3 Correct the under lined portions.

(a) It is necessary for a <u>private company</u> to issue prospectus.

(b) <u>Articles of Association</u> is called the constitution of the company (c) Memo is subordinate to Articles

(d) A company is registered under statutory Act.

(e) A share holder is said to b the father of a company.

Q.4 Fill in the blanks

(a) A company cannot be formed to trade with alien_____

(b) A _____Company can commence its business immediately after incorporation.

(c) Articles are sub-ordinate to_____

(d) Public company not issuing prospectus can issue_____

(e) Minimum subscription is equal to _____% of shares issued.

Q.5 Answer/ Explain the following terms within 2 sentence each.

(a) Who is a promoter?

(b) Explain the term minimum subscription.

(c) State any two objects of prospectus

(d) Write any two effects of incorporation of a company

(e) Object clause of memo.

Q.6. Answer the following within Six Sentence each.

(a) State any six subject matter of Articles of Association.

(b) State the significance of object clause of memo.

(c) Name the various stages of formation of a company.

(d) State any three difference between Articles & memo.

(e) What purposes does a prospectus serve?

LONG ANSWER TYPE QUESTIONS:

1. What is memo? Discus its clauses.
2. Describe the procedure for formation of a company
3. What is memo? How is it different from Articles?
4. What is prospectus? State its contents & importance.
5. What is incorporation of a company? Explain its procedure.

6.13 ANSWER TO OBJECTIVE QUESTIONS:

1. (a) ii, (b) ii, (c) I, (d) I, (e) iii, (f) I, (g) i
2. (a) private company, (b) Promoter, (c) certificate of incorporation (x) certificate of commencement (e) Qualification share
3. (a) Public, (b) Memo, (c) Superior, (d) Companies Act, (e) Promoter
4. (a) Enemy, (b) Private, (c) Memo, (d) Statement is lieu of prospectus (e) 90

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CHAPTER-7

CO-OPERATIVE SOCIETY

STRUCTURE

7.1 Meaning & Definition

7.2 Features

7.3 Types of co-operative societies

7.4 Advantages of co-operative societies

7.5 Limitations/Disadvantages of co-operatives

7.6 Questions

7.7 Answers to objective questions

Throughout the ages the weak people have been dominated by strong people. Money is directly linked with power. This gives rise to a struggle between rich and poor. Rich exploits the poor and the poor wants to be free from the clutches of poverty. From this conflict, co-operative societies have taken birth. It reflects the desire of the poor to stand on their own legs, on their own merit.

7.1 MEANING AND DEFINITION

Co-operation means working collectively. It stands on the principles "self help & mutual help" and "living together & working together/" or "Each for all and all for each". This means a weak and isolated individual with the help and mutual support of other weaker individuals, can stand on his own. Besides, he will help others to stand too.

Co-operative society is a form of organization which emphasizes the idea of a voluntary association of individuals for achievement of common goal. The co-operative organizations follow the universally accepted principles of business, but they prefer serving their members rather than earning profits. To sum-up, cooperative society is not merely a form of organization but a movement for the uplifting of the poor & the weak through mutual help.

Definitions:

Sec-4 of Indian Co-operative Societies Act, 1912:

“It is a society which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles”.

International Labour office defines a co-operative as an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking.”

According to Henry calvert, “ It is a form of organization wherein the persons voluntarily associate together as human beings on the basis of equality for the promotion of economic interest of themselves.”

Sir Horace Plumkett says: “it is an association of individuals to secure a common economic goal by honest means.”

7.2 FEATURES

In a cooperative society, the following features are noticed.

(i) **Voluntary Association:** A co-operative society is established on the principle of voluntary membership. There is no restriction on the entry or exit of members. A person cannot be debared from joining, if he is not otherwise disqualified. The principle followed here is open membership. In otherwards, membership of a society is open to all adults irrespective of caste, class, religion, sex etc. Likewise, a member may withdraw his capital from the society when he leaves it.

(ii) **Service motive:** Service, not profit' is the principle of the society. It is formed with the intention of providing service to its members. It has to earn profit to sustain itself, but profit always comes second. The basic motive is to improve the standard of living of its members & make them self- sufficient.

(iii) **Capital:** The capital of the society is raised from its members by way of share capital. However, the major part of finance is raised by way of loan from the Government, the apex co-operative institutions or by grants & assistance from the Government.

(iv) **Distribution of surplus**: The entire surplus earned by a society is not distributed among the members. Under the present law , at least ¼ of the total profits should be transferred to a reserve fund and another 10% may be spent on the welfare of the community in which it is formed. The rest is distributed in the form of bonus on a certain agreed basis but not on the basis of the capital contributed by the members. Bonus may also be paid on the basis of services rendered by the members to the society. For example, in case of consumer's co-operative society, it is distributed on the basis of purchases made by the members from the society.

(v) **Separate legal Entity :** A co-operative society may or may not be registered. A society may be registered as per the Indian co-operative societies Acts 1912 or as per the State Co-operative societies Acts of different states. The society becomes a separate and independent entity distinct from its members. As such it has a perpetual life. It is not affected by the entry & exit of members. It can sue and be sued. It can own property & dispose off it in its own name. No association can use the word 'Co-operative' with its name unless it is registered under the cooperative societies Act.

(vi) **Democratic Management:** The meetings of the co-operative society is held in the local area where most of the members can attend. Thus, gathering in the meetings is usually good. Again, each member has only one vote. So managing committee is a true representative of the wishes of the members. This reflects the true democratic character of the society.

(vii) One- Man one Vote: Equality is the essence of co-operatives 'One member, one vote' and not one share, one vote' is the basic principle of the co-operatives. Each member has only one vote irrespective of number of shares held by him. There is no proxy method of voting.

(viii) State Control: Every Co-operative society is required to observe prescribed rules & regulation. Government exercises supervision & control over the societies to ensure proper functioning.

(ix) Cash Trading: Normally Co-operatives sell goods on cash basis. It provides protection against bad debts. To help needy members the society may make some exceptions.

(x) Transfer of shares: The shares of the society are not freely transferable. They are not bought or sold in the market. The shares may be transferred in favour of other persons with the consent of office bearers.

(xi) Limited Liability: The liabilities of the members in the society are limited to their shares or the guarantee given by them.

(xii) Unity: Unity is the real strength of co-operatives. Honesty, service, sacrifice, self-help, mutual help create the base of co-operative. For this moral education, training are imparted to the members.

7.3 TYPES OF CO-OPERATIVE SOCIETIES

On the basis of the nature of services rendered by Co-operatives, they may be classified into the following categories:

1. Producers' Co-operatives: These Co-operatives are formed to help & strengthen small producers. The producers' Co-operatives may be of two types:

(a) Industrial service Co-operative: The producers maintain their separate individual entity. The society supplies them with raw materials, tools, equipment etc. The producers sell their output to the society which in turn does the marketing part.

(b) **Production Co-operatives:** The producers produce on behalf of the society as its employees. They are paid wages for their work. Here also, the society supplies raw materials, tools & equipment etc.

2. **Consumers' Co-operatives:** The basic idea of formation of Consumer Co-operatives is to eliminate the middleman from the channel of distribution, So that goods will be available at cheaper prices. It is a voluntary association where membership can be acquired by paying a small fee or buying at least one share. Goods are purchased in bulk at whole sale rates by the societies and sold at market prices. The profit is distributed among the members according to the purchases made from the society.

3. **Marketing Co-operatives:** They are formed by farmers, artisans and small producers engaged in cottage industries. Even though they produce better products at cheaper rate, due to poor marketing network & bargaining power they don't get fair price for the products. Such a society not only help these people to get a reasonable price for their goods but also ensure a ready market for their products on continuous basis. With the formation of such a society, these producers concentrate only on production of goods. The society purchases all products, store them & market them when the market is favourable.

4. **Co-operative Credit Societies:** These are formed with the intention of supplying the need of short terms finances of its members. It provides loans at a low rates of interest. The society may ask for security while granting loans. The share capital consists of the contribution made by the members. Its liability is usually unlimited.

This forces its members to take a keen interest in its working.

These societies are further divided into two types i.e. **agricultural credit societies** and **non-agricultural credit societies**. The agricultural societies are usually found in rural area. They provide agriculture-related loan to members. They can have a maximum of hundred members. The non-agricultural societies are set-up in urban area with a view to combating the exploitation of money lenders. Such Co-operatives are popular.

5. **Farming or Agricultural Co-operatives:** Such a society is an association of farmers. This has got special significance in India because agricultural plots are divided and sub-divided into small plots. This makes mechanized farming impossible. Its aim is more production at less cost. This is done by consolidating the small plots, irrigating the land, using better seeds, fertilizers etc. Such society also removes financial difficulties faced by farmers.

6. **Housing Co-operatives:** They are formed by the people who wish to own a house or a plot for constructing their own houses. These societies are found mostly in urban area where housing problem is acute. These societies are allotted land by local authority at concessional prices. The same is true for allotment of flats/ houses. The society can negotiate with financial institutions for arranging loans for its members.

7.4 ADVANTAGES OF CO-OPERATIVES

1. **Easy formation:** Co-operatives are voluntary associations. So they do not require complicated legal procedures for formation. Any 10 adult persons can establish a society by getting it registered with the Registrar of Co-operative Societies.

2. **Democratic Management:** Each member has only one vote. There is no proxy system of voting. So, the management committee is a true representative of the members. Further, all the meetings are held in the local area where members live. Hence, members in large numbers attend the meetings & ventilate their voices.

3. **Ploughing back of Profits:** According to the Act, at least 25% of the profits must be transferred to a reserve fund. Therefore, the society does not rely on outside financing as its growth & expansion can be carried on by finance from within.

4. **Elimination of Middleman:** It purchases from manufactures directly and sells to the members. This way it eliminates the services of middlemen. Thus, members get quality goods at reasonable Price.

5. **Saving in Expenses:** The society cuts down its administrative expenses, The voluntary services of members may be used for those work for which paid employees would have been used. It also does not advertise & hence, saves money.

6. **Limited Liability:** Like companies, the liability of members in a society is also limited to their capital contribution or guarantee given by them. So, the private property of members are not at stake in case of liquidation.

7. **Continuity:** After registration the society enjoys a separate legal entity. Hence, the life of the society is not affected by death, insolvency of the members. It enjoys continuity of operations.

8. **Mutual Benefit:** Society is formed to provide services at 'no profit, no loss' basis. Members form the society on the basis of mutual help. It promotes a feeling of co-operation, self-lessness among the members.

9. **Reducing Inequalities:** The benefits & profits of the societies go to people of moderate means. This enhances the economic status of poor which reduces the gap between rich & poor.

10. **Tax Advantages:** Its earnings are exempt from income tax. They are also exempted from the payment of stamp duty, registration fees etc.

11. **State Assistance:** Aim of the society is to develop the poorer sections of the society. Government helps the society by offering loan on easy terms, giving them grants & showing liberal attitude towards them.

7.5 LIMITATION AND DISADVANTAGES OF CO-OPERATIVES

1. **Limited capital:** This is the main problem with the Co-operatives. They are formed by people who do not have much to spare, Further , they remain confined to a particular locality. So, they suffer from inadequate capital.

2. **Lack of Managerial Talent:** Co-operatives cannot afford to employ experienced & technically qualified people to manage the affairs of the society. Management is in the hands of office-bearers who are elected by members. They may not be competent, Rather, they may be interested in making money out of the society rather than giving a proper direction to the society.

3. **Plenty of state Regulation:** Government exercises a considerable degree of control on the activities of co-operatives. Because Government has offered various

grants incentives, subsidies to societies. So, it is always anxious to see that movement succeeds. This leads to excessive interference which makes the management inflexible.

4. **Lack of Secrecy:** Secrecy is essential in all types of business. The Society is under the obligation to make full disclosures of their operations to their members. Thus, secrecy cannot be maintained.

5. **Lack of Public Confidence:** It is seen that only some particular individuals become members of the managing committee. They are all politically motivated. Again failure of a member of Co-operative creates disillusionment and indifference in people towards these societies.

6. **Lack of motivation:** Society pays a low rate of dividend to members and less remuneration to managerial personnel. So they are not motivated to work sincerely for the society.

7. **Misuse of Funds:** Ignorance of business principles & misuse of funds may lead to recurring losses. This makes the survival of the society difficult. Society may advance loans to the members without sufficient security. This may result in bad bebt.

8. **No Quick Decisions:** All business decisions are guided by strict government rules & regulations. Hence, quick decision cannot be taken which is essential for every business.

9. **Cash Trading:** Cash trading is both an advantage & disadvantage of the co-operatives. The poor members need goods on credit. Although the society supplies them goods at cheaper rate, lack of credit facility poses problem for them.

7.6 QUESTIONS

OBJECTIVE AND SHORT ANSWER TYPE QUESTIONS:

Q.1 Choose the correct alternatives

(a) The legislation which governs the functioning of Co-operative societies is:

(i) Co-operative Societies Act, 1912

(ii) Co-operative Societies Act, 1956

(iii) Co-operative Societies Act, 1932

(iv) Co-operative Societies Act, 1922

(b) The basic aim of the Co-operative Society is

(i) members' welfare (iii) employment generation

(ii) profit making (iv) more production

(c) Self-help and mutual help is the primary objective of

(i) Company (iii) Co-operative

(ii) Partnership (iv) Public Enterprise

(d) The one which is not a feature of Co-operative society is

(i) Limited liability (iii) Legal Status

(ii) Voluntary membership (iv) Profit maximization

(e) Maximum limit of members in a Co-operative Society is

(i) 10

(ii) 40

(iii) 20

(iv) Not fixed

Q.2. Correct the underlined portions:

(a) The minimum number of persons required to form a Co-operative Society is 7

(b) The principle of One share one vote is followed in Co-operatives

(c) A Co-operative Society has oligarchic management.

(d) In a Co-operative, normally trading is done on Credit basis

(e) Membership of a Co-operative is Compulsory.

Q.3 Fill in the blanks:

(a) Formation of Co-operatives is based on _______motive

(b) Membership of a Co-operative is____

(c) Co-operatives follow one man____vote principle.

(d) Registration of a Co-operative is ___

(e) A Co-operative can be formed by any____ adult persons.

Q.4 Answer the following within two sentences each

(a) State 'One man one vote' principle

(b) What is a housing Co-operative?

(c) State two features of Co-operatives

(d) What are producer's Co-operatives

(e) Give any two disadvantages of Co-operative society.

Q.5 Answer the following in not more than Six sentences each.

(a) Explain 'All for each and each for all".

(b) Explain the principle of self help and mutual help.

(c) What is a consumer co-operative Society?

(d) State the principles of voluntary membership of Co-operative Society.

(e) Out line Marketing Co-operatives.

LONG ANSWER TYPE QUESTIONS:

1. Define Co-operative society and state its features.
2. State the advantage of Co-operatives
3. State the disadvantages of Co-operatives.
4. Discuss various types of Co-operatives.

7.6 ANSWER TO OBJECTIVE QUESTIONS

1. (a) i, (b) i, (c)iii, (d) iv, (e) iv
2. (a) 10, (b) Member, (c) Democratic, (d) Cash, (e) Voluntary
3. (a) Service, (b) Open, (c) One, (d) Optional (e) 10

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CHAPTER- 8

PUBLIC ENTERPRISES

STRUCTURE

8.1 INTRODUCTION AND DEFINITION

Business organisations which are owned and controlled by a government are known as public enterprises. An organisation need not be wholly owned by a government for this purpose. Even when a government holds 51% of the paid-up share-capital of an enterprise, such an enterprise would be known as a public enterprise. In India, the Central Government and the State Governments have control over a variety of business undertakings in the field of basic and heavy industries, defense undertakings, broad-casting corporations, banking, insurance, public utilities etc. Collectively these enterprises are known as ‘Public Sector’, ‘Public Undertakings’, ‘Public Sector Undertakings’, ‘State Enterprises’.

According to A.H. Hanson, “ Public enterprises mean state ownership and operations of industrial, agricultural, financial and commercial undertakings.”

S.S. Khera defines public enterprises as “the industrial, commercial and economic activities carried on by the Central Government or by a State Government or jointly by the Central Government and a State Government and in each case either solely or in association with private enterprise, so long as it is managed by a self-contained management.”

8.2 CHARACTERISTIC FEATURES

(i) **State Ownership:** The public enterprises are owned either by the Central Government or by any State Government or jointly by them. Ownership does not mean 100% of the paid-up capital is contributed by the Government. The state must hold more than 50% of the paid-up capital. Indian Railways owned by the Central Government and Odisha Mining Corporation (OMC) owned by the Odisha Government are some examples of public enterprises.

(ii) **State Control:** Public enterprises are managed and controlled by the Government. Government appoints all or the majority of the directors on its board, Chairman, Managing directors etc.

(iii) **Government Financing:** They are financed by the Government. For its resources, a public enterprise has to rely on the Government. (For appropriating from the budget). As and when such an organisation stands on its own legs it may stop taking help of the Government for funds.

(iv) **Service Motive:** Public enterprises are generally run with a service motive. Of course in modern times, they are expected to make a profit to remain economically viable. Otherwise, they become burden on the economy.

(v) **Public Accountability:** As these are run with public money, they are accountable to the public for their performance. For this purpose, reports about the performance of public enterprises are placed on the floors of the parliament or state legislative assemblies. Their working are scrutinized by the legislature.

(vi **Autonomous or Semi-autonomous Bodies**: They are autonomous or semi-autonomous bodies. In certain cases they work under the control of government departments such as railways and in some cases they are established under special statutes and under Companies Act.

(vii) **Monopolistic Enterprises:** They enjoy monopoly in most of the cases because private sector is not allowed to enter on that line of business. For example, railways, post & telegraph services etc.

8.3 OBJECTIVES OF PUBLIC ENTERPRISES

The need and justification of government participation in commercial and industrial enterprises will be clear by studying the objectives which it intends to achieve. The objectives of public enterprises may be classified into three categories, namely, economic, social and political objectives. The objectives are explained below.

8.3.1 Economic Objectives

(i) **Planned Economic Development:** One of the basic objectives of public enterprises is to develop and strengthen the economy by developing various sectors of the economy in a planned way.

(ii) **Provision of Infrastructure:** Public enterprises are expected to develop and provide infrastructure facilities. State invests in those enterprises which are extremely helpful to private enterprises. The development of railways, roadways, telephone, canals, dams etc are few examples.

(iii) **Sound Industrial Base:** Development of basic industries is very important for any economy. They require huge capital which private investors may not be ready to invest.

(iv) **Regional Development**: Several public enterprises are established in backward areas to reduce regional imbalances in development.

(v) **Source of Income to Government:** Such enterprises are a source of income to government when run on commercial lines. They provide finances to government for social & departmental activities.

8.3.2 Social Objectives

(i) **Creating Employment Opportunities:** Along with increase in population, we are witnessing increasing unemployment in our country. To solve this problem, Government provides employment opportunities to the people by setting up public enterprises. To protect jobs, several sick units in the private sector have been nationalized. For example, National Textile corporation.

(ii) **Control of Monopoly:** Our country aims at having a socialistic pattern of society where disparities in wealth can be reduced. Public enterprises help the government towards this end. Without them, all businesses will be controlled by private business men leading to concentration of economic power.

(iii) **Channelizing public savings:** The process of development requires huge amount of investment which underlines the need of greater public savings. This is done through the nationalized banks and financial institutions managed by the government.

(iv) **Reduction of Economic Disparities:** Large scale participation by the government in business increases national income which goes into the common pool & is available for redistribution and reinvestment.

8.3.3 Political Objectives

Public enterprises are created to achieve certain political objectives. There are two political objectives: National interest and National defence. Public enterprises carry on business activities which are important to national interest as a whole. Similarily they are set up for production of defence equipment. Supply of such equipment cannot be entrusted to private sector due to the need of secrecy . India is committed to socialistic pattern of society. Creation of a new public enterprise is considered to be a step towards socialism.

8.4. ADVANTAGES OF PUBLIC ENTERPRISES

Public enterprises occupy a key position in the Indian economy because of its following contributions:

(i) **Achievement of National Goals:** Public enterprises play an important role for achieving economic, social and political goals of the state. There exists serious gaps in the economy in the field of heavy industry. They are overcome by public enterprises. A large number of projects have been set up in the backward regions. The government launches public enterprises in those areas where huge capital is required because private enterprises are reluctant to start those projects due to long gestation period.

(ii) **Development of Backward Regions:** Public enterprises have been set up in backward areas. This helps in making available water, electricity, transport facilities to such areas. This brings a complete transformation in the socio-economic life of the people in the region. Steel plants of Rourkela is one such example of the development of backward region by the public sector.

(iii) **Generation of Surplus:** They generate internal funds for reinvestment for the economic development of the country. For example, public sectors like banks and financial institutions mobilize scattered savings of the public which helps in the capital formation of the country.

(iv) **Import substitution and Exports:** Public enterprises are engaged in production of capital equipments which were earlier imported from other countries. This helps in the savings of foreign exchange. They also produce goods which are exported to other countries.

(v) **Employment:** Public enterprises provide direct and indirect employment to a large number of workers. It also protects the employment by taking over sick units operating in private sectors.

(vi) **Development of Ancillary Industries:** It is the policy of the government that public enterprises should assist the development of small and medium industries.

Public sectors procure from small scale units which are located near the plants. Thus, the location of public sector attracts the setting up of ancillary units.

(vii) Prevention of concentration of Economic power: Prior to 1956, private enterprises dominated Indian economy. Production, distribution & pricing are their choice. Setting up of public enterprises prevents concentration of economic power in the private hands by putting strong competition.

(viii) Public welfare: It is the principal objective of public sector. Public enterprises help in the establishment of welfare state in the country. They supply goods at cheaper rates. They protect the consumers against exploitation by profit hungry businessmen. They avoid excessive commercialization. They ensure profit with service.

(ix) Fair Deal to worker: For workers, public enterprise is regarded as an ideal employer. Exploitation of workers, job uncertainties & unsatisfactory working conditions are replaced by fair wages, job security & improved working conditions. Legally they are bound to provide dignity and justice to the working class.

(x) Ethical Business Activity: Ethics mean adhering to an ideal standard. By doing business legally, preserving worker's rights, taking proper care of customer, contributing to the welfare of the society- public sector conducts the business in an ethical manner.

8.5 DISADVANTAGES OF PUBLIC ENTERPRISES

Public enterprises suffer from the following drawbacks or short-comings:

(i) Lack of systematic criteria for Investment: Government decisions relating to public enterprises are based on political considerations. As a result, wrong investment decisions are taken.

(ii) Political Interference: There is a lot of political interference in the day-to-day management of the public undertaking. When ruling party changes, the policies of public enterprises also change. Performance of public enterprise may be adversely affected.

(iii) Under utilization of Capacities: Low capacity utilization affects seriously the public sectors. Due to non-availability of requisite inputs-power, materials etc, majority of public enterprises are not achieving the desired level of output. Sometime they operate below 50% level of their capacity. Thus, cost of production per unit goes up.

(iv) Shortage of Devoted Personnel: Employees of public sectors lack devotion and sincerity. They treat themselves as government servants. As their services are secured, they are reluctant to work sincerely.

(v) Lack of Incentives: Incentives motivate worker to do better Workers get fixed salaries. There is no incentive for efficiency.

(vi) Delay: Quick decisions are necessary for success of a business. Public enterprises are restricted by rules & regulations. So, there are delayed decisions which cause losses to public enterprises.

(vii) Problem of Organisation Structure: There are three basic forms of organization for a public enterprise. They are departmental, public corporation & government company. Each one of these suffers from drawbacks. So, it is difficult to choose a form.

(viii) Long Gestation Period: The period between the start of the project and its completion is known as gestation period. Public enterprises suffer from long gestation period. Faulty planning, delay in financing, acquisition of plants, delay in decision making affect adversely the completion of project. Thus, project cost increases, interest burden becomes more, technology becomes out-dated.

(ix) Defective Price Policy: The aim of public sector is to serve the society but not just to earn profit. Pricing policy is governed by social objectives. Prior to 1991, Government decided the price at which goods to be sold.

(x) Inefficient Management: Private sectors hire the services of top professionals & manage their undertakings efficiently. They pay higher salary to attract qualified employees. In public enterprises, civil servants with no knowledge of management are managing the business. They act as per the whims of the government. Thus, public enterprises suffer.

(xi) Lack of co-ordination: Co-ordination among public sector units is vital to achieve greater efficiency. Output of one unit is the input of another. So, operation of one depends on the efficient functioning of others. But such co-ordination is lacking in public sectors.

8.6 FORMS OF PUBLIC ENTERPRISES

Public enterprises are generally organized in three forms as under:

1. Departmental Undertakings.
2. Public Corporations.
3. Government Companies.

Besides these three forms of pure Public Enterprise, there has emerged another form of enterprise that comes under the JOINT SECTOR.

8.6.1 Departmental Undertakings

A departmental undertaking is managed by a particular department of the government under a Ministry. It is the oldest form of state enterprise under a minister. It gets the finance from the Ministry concerned and is managed by the civil servants. Examples of such enterprises- Indian Railways, Post and Telegraphs, Radio & Television network etc.

Features: Important features of departmental undertakings are as follows:

(i) Direct Government Control: The Government exercises direct control over it. Government officers remain in charge of managing it. The minister in charge of the department is considered to be the head of such an organization.

(ii) Financed by Government: Departmental undertakings get allocation from the government budget towards its expenses. All incomes, earned by them, are credited to government treasury.

(iii) Subject to Government Audit: Just as any other government department, the accounts of the undertaking are subject to government audit.

(iv) Immunity from Suits: The undertaking enjoys immunities. No suit can be brought against it without the consent of the government.

(v) Status of Employees: Employees are civil servants. The methods of recruitment and service conditions are the same as for other civil servants of the government.

Merits

A departmental organization has certain benefits which are typical of the organization:

(i) Accountability to Parliament: A departmental undertaking's activities can be discussed in the parliament. Annual Reports relating to its performance and activities are also placed in the parliament for its approval. Thus, public dissatisfaction relating to its performance can be reflected through legislators.

(ii) Easy Formation: It is easy to set-up a departmental undertaking. No registration is needed for its formation. They are established by the administrative decision of the government.

(iii) Source of Income to Government: Such undertakings are a source of income to government when run on commercial lines. They provide finance to government to take up other social activities.

(iv) Helpful in Executing Government Plans & Policies: It is possible to implement government policies and programmes in a better manner through such undertakings.

(v) Secrecy: Some projects like defence need complete secrecy in their operation. Government can avoid disclosure on the plea of public interest.

(vi) No Misuse of Funds: The risk of misuse of public fund is minimized due to strict budget, accounting & audit controls. All transactions are to be approved by concerned ministry in advance.

(vii) Useful for Specific Industries: Motives of such undertakings are not to earn profits rather to provide services at cheap rates. It is suitable for industries like defence, atomic power and industries where gestation period is longer.

Demerits

A departmental undertaking suffers from the following dis-advantages:

(i) In- efficient Management: A departmental undertaking is managed by government officials and civil servants. The major portion of their time is spent in preparing answers to parliamentary enquiries. They do not have professional training & expertise is management. This results in in-efficient management.

(ii) Red Tapism: It is typical of all government establishment including departmental undertakings. Rules, regulations and procedures are so rigidly followed that the management is discouraged to take quick & independent decisions.

(iii) No Motivation: Here, there is little incentive for hard work and efficiency. Promotions are based on seniority. Losses are borne by the government and tax payers. So, the employees become casual.

(iv) Excesive Political Interference: It is headed by a minister and is under direct control of the government. This results in excessive political interference in the day- to-day management of the undertaking. This impairs the commercial freedom of the enterprises.

(v) Lack of Profit Motive: Profit-making is not considered as the primary objective of departmental undertaking. This leads to general slackness of efforts everywhere.

(vi) Excessive Parliamentary Control: Such undertakings are answerable to parliament. Their workings are scrutinized and questioned in the parliament. This causes delay in making vital decisions.

(vii) Inflexible Operation: Government rules and regulations are inflexible and rigid. Officials prefer to perform duties according to rules & regulations. Hence, it is very difficult to bring about the modification, innovation which are essential for the growth of an enterprise.

8.6.2 PUBLIC CORPORATION

A public corporation comes into existence after a special act is passed in the Parliament or a State Legislature in this regard. The powers and duties of a public corporation are defined in the act. Such a corporation enjoys comlete autonomy in management. In the words of the late president Roosevelt of USA, ‘ A pulic corporation is an organization that is clothed with the powers of the government, but is possessed of the flexibility and initiative of public enterprise.” It is an independent body combining the virtues of public and private enterprises. The examples of such corporations are the Life Insurance Corporation of India, the Reserve Bank of India, the Industrial Development Bank of India, State Bank of India, Air India etc.

Features

(i) **Formation:** A public corporation comes into existence after the Act is passed in the central or state legislature. Its powers and duties are mentioned in the Act.

(ii) **Government Ownership:** It is wholly owned by the Central and/or State Government. No private individual is permitted to buy any of its shares.

(iii) **Legal Entity:** Public corporations have separate legal entity. It enjoys perpetual existence. A corporation can sue and be sued without any prior approval of the government. It can own property in its own name.

(iv) **Management:** Like a company, public corporation is managed by a Board of Directors or a Governing Body. The members of the board are appointed by the government and they are selected from all walks of life. Normally, the Chairman is appointed by the government.

(v) **Service Motive:** Its main purpose is to render service to the public. It does not aim at earning huge profits at the cost of public welfare. However, it is expected to operate in a business- like manner.

(vi) **Self-financing:** It enjoys financial autonomy. Government contributes the initial capital and grant loans from time to time. But it is expected to be self-reliant in its finances. It can borrow from the public and is empowered to plough back its earnings.

(vii) Employees: Employees are appointed and remunerated according to the service conditions laid down by the corporation. Not necessarily they are civil servants.

(viii) Accounting System: It is not subject to budgetary, accounting and audit regulations applicable to government departments.

(ix) Accountability: Public corporation is fully accountable to the parliament or state legislature. Its annual report is submitted to and discussed in the parliament. Its accounts are audited by the Comptroller and Auditor General of India.

Merits: As is apparent from the features, a corporation enjoys substantial advantages over other forms of public enterprises:

(i) Flexibility: Flexibility is necessary for successful running of a business. Corporation is free to adopt to changing circumstances. It can experiment in new lines of activity.

(ii) Least Government Interference: Interference in the day- to-day affairs of a public corporation by political people is very little as it is an autonomous body. This leads to high morale among the executives and other employees.

(iii) Internal Autonomy: Corporations have internal autonomy. They can devise their own policies and programmes. They can also set their own goals and can decide the way of implementation.

(iv) Quick Decisions: There is no interference of government. So, for efficient and effective working of the corporation, the management can take quick decisions. It is free from red-tapism.

(v) Service Motive: A corporation works with service motive. Profit earning is only a secondary factor. It provides essential services at reasonable price and also create employment opportunities.

(vi) Better Management: Directors and executives of a corporation are experts in their respective fields. Employees are paid handsome salary. Thus, efficient management is possible.

(vii) **Run on Business Lines:** As it enjoys internal autonomy, it can be run in a business- like manner. It earns profits like private concern. This helps it to finance its schemes and & undertake expansion plans.

(viii) **Economies of Large Scale Operation:** A statutory corporation is usually large in size. It can easily avail economy of large scale operation. Large scale operation results in reduction in cost of production and higher profitability. As changes in government do not affect its stability, it can take long term decisions.

(ix) **Builds Public Image:** Corporation are accountable to Legislature. All activities are scrutinized & controlled by parliamentary committee. This enhances the image of corporation.

Demerits

A public corporation suffers from certain demerits inherent in its constitution.

(i) **Difficult to form:** A public corporation can be formed only after an Act is passed in the legislature. This is a time consuming process.

(ii) **Difficult to change the Constitution:** It is difficult to bring a change in the constitution of a corporation. A lot of procedural formalities are required to bring changes and get the changes approved by the legislature.

(iii) **Red Tapism:** Being a government- owned organization, it suffers from the dis-advantage of red-tapism at all levels. Prompt decisions may not be taken where they are called for.

(iv) **Monopoly:** A corporation is formed for performing service. This may become its monopoly. There is a chance that it may become complacent in its activities. As such it may supply goods to the consumers of inferior quality or charge them higher price.

(v) **Misuse of financial Autonomy:** Some times, public corporations misuse the public money by investing large capital resources in the unprofitable projects. This happens because the corporations are given greater freedom of management of public funds.

(vi) **Restricted Autonomy:** Public corporations enjoy internal automy in theory only and not in practice. Government interference is there. Most of the decisions are required to be taken in consultation with the concerned ministry.

(vii) **Absence of Profit Motive**: Aim of the corporaton is not to make profit but to serve the public. So, the corporations are not run on business lines. They cannot face competition.

(viii) **Lack of Personal Touch:** Employees and top executives of a corporation are salaried people. Due to frequent interference in the day- to-day activities, they lack personal initiative to do something new. They prefer to do their duties in a routine manner without bothering for the success of the corporation.

8.6.3 Government Company

A company owned by Central and/ or State Government is called a Government Company. Management of these companies is under the control of the government. Subsidiary companies of Government Companies are also known as Government Companies.

According to Indian Companies Act, a Government Company is a company in which at least 51% of the paid up share capital is held by –

(a) the Central Government, or

(b) any State Government, or

(c) Partly Central Government and partly by one or more State Governments.

A Government company may be either a public company in which both government and private investors hold shares or a private company which is wholly owned by the government. In India, most of the Government Companies are private limited companies where entire share capital is held by the government. Some of the examples of Government companies are – Hindustan Machine Tools Limited, Indian Oil Corporation, Steel Authority of India Ltd, State Trading Corporation of India, Hindustan Cables Ltd, Bharat Heavy Electricals Ltd & so on.

Features

(i) Formation: A Government company is formed under the provisions of Companies Act. No special statute is required to form it. It is created by executive decision of the government.

(ii) Ownership: A Government company may be wholly or partly owned by government. Where it is partly owned, the share of the government is at least 51% of total share capital.

(iii) Employees: The recruitments, appointments and training of employees are regulated by the Articles of Associations. Ordinarily its employees are not civil servants.

(iv) Separate Legal Entity: As a body corporate it has a separate legal entity. It can sue or be sued on its own name. It can acquire property and make contracts. It enjoys perpetual existence.

(v) Management: It is managed by Board of Directors nominated by the government and elected by the share- holders. The management is guided by Articles & Memo of the company.

(vi) Accountability: It is accountable to the ministry concerned. Annual report on its working is presented to the parliament or legislature.

(vii) Financial Autonomy: Government company enjoys financial independence. It can use the revenue derived from the sale of goods. It can also borrow from financial institutions & public.

(viii) Independent Accounting & Auditing system: It is not subject to budgetary, accounting & audit controls as applicable to government departments. Its auditors are appointed by the government and they are chartered accountants.

Merits

A Government company has following advantages:

(i) **Easy to Form:** It is formed by complying with the provisions of the Companies Act. The government has the authority to exclude or modify certain provisions. No special Act is required to bring it into existence.

(ii) **Flexibility:** Flexibility is the greatest advantage of Government Company. The Articles and the Memo can be drawn up and altered without a lengthy procedure that is prevalent is case of public corporation.

(iii) **Autonomy:** The autonomy of management is greater in Government Company when compared to public corporations. Such companies depend on the government for initial investment. They can plan their own capital structure. The profits earned by them can be used or further investments.

(iv) **More Business Like:** Government company is run in a business- like manner. Continuous comparison is made between private companies and government companies engaged in similar business. So, the managers of Government companies attempt to run their business efficiently. Its policies are not service-oriented but profit oriented.

(v) **Accountability:** The members of the parliament or of state legislatures have a right to discuss the operating results of Government companies. This forces the managers of a Government company to remain alert and strive for better working results.

(vi) **Developing Basic Industries:** Heavy investments are needed in basic and heavy industries. Private entrepreneurs may not be in a situation to invest such huge amount. This task may be taken up by the Government by organising Joint stock companies.

(vii) **Efficient Management**: It offers high salaries and better conditions of service to its officers. It is the only form of organization in which the government can make use of managerial skills, know how, expertise of the private sector. All these make the management efficienct and disciplined.

(viii) **Customer Satisfaction:** A Government company is operated on commercial principles. Management is fully aware of the needs of the customers. They always try to satisfy the customers.

(ix) **Easy Takeover:** A Government company can easily takeover a running private concern by acquiring majority of interest in the equity of a company. For example, company like ESSO was nationalized in this way.

(x) **Easy Transfer of Ownership:** It is easy to dispose of a Government company. Once the price at which the shares are to be transferred is decided, transfer of ownership becomes easy by selling the shares to the private party. For instance,IDCL cement of Odisha Government was sold to ACC Ltd., a private sector company.

(xi) **Quick Decisions:** The directors are not bound by certain rigid rules & regulations. In the absence of unnecessary formalities and red tapism,decisions are taken quickly.

Demerits

Government companies have following shortcomings:

(i) **Autonomy in Theory:** In theory, it is said that a Government company is autonomous in nature. In practice, there is a lot of interference in the day-to-day affairs by politicians, ministers, government officials. They have to get permission from government departments regarding loans, capital and managerial appointments.

(ii) **Inefficient Management:** The directors and chief executives are appointed by the government. The board may consist of politicians and civil servants. Generally, such people lack the professionalism. They are interested more in pleasing their political bosses. All these make the management inefficient.

(iii) **Fear of Public Accountability:** The top management may not take initiative in entering into new areas of activities since they have a fear of public accountability.

(iv) **Evasion of Constitutional Responsibility:** A Government company evades its constitutional responsibility to the parliament. All decisions are under government control. Annual general meeting, election of directors, audit become a farce. Government can exempt a Governemnt company from certain provisions. In the creation of this company, the parliament is not taken into confidence. Its accounts need not be audited by CAG of India.

8.7 COMPARISON OF THREE FORMS OF PUBLIC ENTERPRISES.

Sl No	Basis	Departmental Undertaking	Public Corporation	Government Company
1.	**Formation**	It is created by an executive order of the Govt. and is attached to a particular ministry.	It is created by a special Act of parliament or legislature	It is created by registration under the Companies Act.
2.	**Legal Entity**	It has no separate legal entity	It has separate legal entity	It has separate legal entity
3.	**Management**	It is managed by Govt. officials of the concerned ministry	It is managed by Board of Directors nominated by the Govt.	It is managed by Board of Directors majority of whom are nominated by Govt.
4.	**Capital**	100% capital is provided by Govt budget	Initial capital is fully provided by the Govt.	At least 51% of the paid up capital is provided by the Govt.
5.	**Borrowing powers**	It has no direct power to borrow	It has power to borrow from Govt & Public.	It has power to borrow from Govt & Public
6.	**Employees**	Employees are civil servants i.e. all Govt employees	They are not civil servants. They are appointed by the corporation	They are not civil servants. They are appointed by the company.

7.	**Flexibility**	It does not enjoy flexibility in its working as it is subject to rigid rules of Govt.	It enjoys flexibility as it is not subject to budget, audit or Govt	It enjoys flexibility as it can frame its own rules & regulations.
8.	**Autonomy**	It does not enjoy operational autonomy	It enjoys considerable degree of autonomy	It enjoys limited autonomy.
9.	**Accountability**	It is accountable to Govt	It is accountable to parliament & legislature	It is accountable to Govt.
10.	**Surplus**	Its surplus profit is deposited is Govt treasury	Its surplus is reinvested is business	It surplus is reinvested in business.
11.	**Suitability**	It is suitable for strategic industries like defence, railways, atomic energy etc.	Commercial enterprises of great significance like LIC, RBI, IDBI	It is suitable for industrial & commercial enterprises with private participation like maruti Udyog ltd, HMT etc.

8.8 JOINT SECTOR

8.8.1 Concept

The concept of joint sector implies the participation of both the government and the private sectors is industry. It is a form of partnership between the private sector and the government. Both public sector and private sector have shortcomings of their own. Hence, the Industrial Licensing policy Inquiry committee recommended the conversion of a few private sector undertaking into joint sector enterprises to control monopoly, concentration of economic power and other malpractices of business. Cochin Refineries, Gujrat State Fertilisers Company are the examples of Joint Sector Enterprises.

8.8.2 FEATURES

The main features of joint sector enterprises are as follows:

(i) **Joint ownership:** They are owned both by Govt. and private entrepreneurs.

(ii) **Joint Management:** They are mainly managed by private entrepreneurs.

(iii) **Joint Financing:** They are financed jointly by private entrepreneurs and Govt. The proportion of capital to be contributed is decided by mutual consent.

(iv) **Socio-Economic Objectives:** Such enterprises are guided by both the profit and social objectives.

(v) **Joint Accountability:** They are accountable both to the private entrepreneurs and the Govt.

8.8.3 ADVANTAGES

The following are the advantages of joint sector enterprises:

(i) **Public welfare:** Private enterprises aim at the profit. The objectives of joint sector enterprises are not to maximize profits. Joint sector enterprises behave in a fair manner towards consumers, employees and the society in general.

(ii) **Check on monopoly:** By becoming a partner of private entrepreneur, the Govt. ensures that private monopolies are not built up.

(iii) Mobilisation of Financial Resources: Joint sector enterprises help in mobilizing resources from private enterprises and the general public. Further, this is likely to check the savings moving to unproductive channels.

(iv) Mobilisation of Managerial Skill: Both public & private enterprenuers work in partnership. So, joint sector is able to tap the scarce managerial skills from all sources.

(v) Increased industrial Growth: Joint sector is condusive to the growth of large industries. This will contribute to larger industrial growth in the country.

8.4 LIMITATIONS

The growth of joint sector is restricted by certain limitations. They are as follows:

(i) Doubtful Co-operation: The success of joint sector depends on the co-operation of private businessmen & government. Many a times, there will be a conflict of interests and it may be difficult to find a way out of such a dead lock.

(ii) Parity in the share of Management and Control: Joint sector should not only be kept limited to joint capital contribution. The success of this sector will be possible only when the management and control is shared by the government, public and private entrepreneurs proportionately without affecting the quality of management.

(iii) Freedom in day-to-day Management: There is absence of freedom in the matter of day-to-day management in joint sectors. Government should lay down the broad policy to ensure safety of funds and the co-operation between the Board and Management.

8.9 PRIVATE ENTERPRISES/PRIVATE SECTOR

Meaning: Private enterprise is one which is owned, managed and controlled by private entrepreneurs. There is no interference from any state government or central government from the point view of ownership. For example, business houses managed by TATA such as, TATA Power, TATA motors, TATA steel; business houses managed by Birlas such as Ultra Tech Cement, Idea Cellular; business houses managed by Ambanies such as Reliance Industries, Relianance Capital.

Feature: The main features of private enterprises are as follows:

(i) **Private ownership:** They are owned by private entrepreneurs. There is no state or central government interference from the point of view of ownership.

(ii) **Private Management:** They are managed by the owners. Professionals can be employed for efficient management of enterprises. In case of companies the board of directors nominated by shareholders take care of the business.

(iii) **Private Financing:** They are financed by the private entrepreneurs.

(iv) **Profit motive:** They are guided by profit objectives. Success of such enterprises is measured through the amount of profit earned. However, private entrepreneurs give importance to social responsibilities these days.

(v) **Private Accountability:** Those who manage the business are accountable to the owner for the performance of such enterprises.

(vi) **Less Political Interference:** Such business houses do not relish political interference in any form.

8.10 DIFFERENCE BETWEEN PUBLIC AND PRIVATE ENTERPRISES

Sl. No	Basis	Public Enterprises	Private Enterprises
1	**Objective**	To render services to the Public	To earn maximum profit
2	**Management**	Lies in the hands of Board of Directors having more Govt. representatives	Lies in the hands of Board of Directors having more private professionals.
3	**Capital**	Contributed by the Govt.	Contributed by owner or investors
4	**Flexibility**	Due to Govt. interference there is less freedom in operation	There is more freedom in operation.
5	**Accountability**	Accountable to public through parliament	Accountable to owner & not to the public
6	**Employees**	Follow Govt. rules regarding selection, recruitment and remuneration of their employees	Follow their own rules

8.11 QUESTIONS

OBJECTIVE AND SHORT ANSWER TYPE QUESTIONS

Q.1 Choose the correct alternative from the following:

(a) Of the following, the one which is not a form of private enterprise is

(i) Sole Proprietorship (iii) Partnership

(ii) Departmental undertaking (iv) Company

(b) Indian Railways is an example of

(i) Public corporation (iii) Govt. company.

(ii) Departmental undertaking (iv) PPP Project

(c) A public enterprise is owned & controlled by

(i) Its shareholders (iii) Govt

(ii) Individuals (iv) NGO

(d) Public Enterprises are accountable to

(i) Legislature (iii) Community

(ii) Individuals (iv) None

(e) Govt Companies are registered under

(i) Companies Act (iii) Royal Charter

(ii) Special Act of Parliament (iv) Presidential Proclaimation

Q.2 Express each in one word/term:

(a) A business under-taking owned and controlled by the state.

(b) A body corporate set up under a special statue passed in the legislature.

(c) A company in which Govt. holds at least 51% of paid-up capital.

(d) The sector of business where both private & public enterprises are partners.

(e) Under-takings that provide necessary services to the society.

Q.3 Correct the underlined portions in the following sentences.

(a) LIC of India is an example of Govt company.

(b) AIIMS of Bhubaneswar comes under Public Enterprise.

(c) The Indian Railways is a PPP Undertaking

(d) The three major forms of public enterprises are (i) Joint stock company.

ii) Public Corporation iii) Govt. Company

(e) In a Govt. company the Govt holds 50% or more of its paid up share capital

Q.4 Fill in the blanks.

(a) A Govt. company is registered under__________Act.

(b) Basic aim of Public enterprises is to___________.

(c) A Govt. company can raise upto ___________% share capital from private shareholders

(d) FCI is an example of _________

(e) A joint stock company is a ___________ sector organization.

Q.5 Answer the following within two sentences each.

(a) What is a Govt. company?

(b) Mention any two limitations of Departmental Undertaking.

(c) Name any two forms of Public Sector Enterprises.

(d) Define a Public corporation.

(e) State any two limitations of Govt. company.

Q.6. Answer the following questions within six sentences each:

(a) State the features of a Govt. company.

(b) Outline the features of a Public Enterprise.

(c) What are the limitations of Departmental Undertakings?

(d) Write a note on Public Corporation.

(e) State the features of Public enterprise.

LONG ANSWER TYPE QUESTIONS

1. "Public Sector Enterprises play a vital role in the economic development of a country." Justify.
2. Distinguish between private sector & Govt. sector.
3. State the merits & limitations of Public Corporations.
4. State the features & merits of Departmental Undertakings.
5. Make a comparative study among the different forms of public enterprises.

8.12 ANSWER TO OBJECTIVE QUESTIONS

1. (a) ii, (b) ii, (c) iii, (d) i, (e) i
2. (a) Public Enterpirse, (b) Public corporation, (c) Govt. company (d) Joint sector (e) Public utilities.
3. (a) Public corporation (b) Statutory company (c) Departmental undertaking, (d) Departmental Undertaking (e) 51%
4. (a) Companies, (b) Render service, (c) 49 , (d) Public corporation, (e) Private.

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CHAPTER-9

GLOBAL ENTERPRISES, JOINT VENTURE AND PPP

STRUCTURE

9.1 GLOBAL ENTERPRISES

9.1.1 Meaning of Global Enterprise:

A global enterprise is an enterprise or company which is involved in trade relations with other countries. They sell the same products or services in every market using the same image and maintaining the characteristics that their company's products are popular of. For instance, a global software company sells the same operating system in all countries. Mc Donald is an example of global enterprise. A company becomes a global enterprise when it integrates all of its units and focuses its marketing strategy on world wide scale.

In the last 20 years, global enterprises have played an important role in the Indian company. They are gigantic corporations having operations in a number of countries. They are characterized by their huge size, large number of products, advanced technology, marketing strategies and network of operations all over the world. Their branches are also called Majority Owner Foreign Affiliates (MOFA). They do not aim at maximizing profits from one or two products but instead spread their branches all over. Statistics say that top 200 global enterprises control over a quarter of the world economy. They are able to sell any product in different countries.

9.1.2 FEATURES

Global Enterprises have unique features which distinguish them from to other enterprises. These are as follows:

(i) **Huge capital Resources:** Global enterprises possess huge financial resource. They have the ability of raising funds from different sources. They may issue equity shares, debentures or bonds to the public. Due to creditworthiness, they easily borrow from financial institutions and international banks. Even investors & banks of the host countries express willingness to invest in such enterprises. Due to sound financial position, they survive under difficult circumstances.

(ii) **Foreign collaboration:** Global enterprises enter into agreements with domestic companies pertaining to sale of technology, patents, production of goods, use of brand names etc. Big domestic companies who want to diversify and expand their operation, seek collaborations with global enterprises.

(iii) **Modern Technology:** They possess modern, superior technology in their methods of production. They conform to international standards and quality specification. Such that they make optimum use of local resources, raw materials. This leads to industrial progress of the host countries.

(iv) **Innovation:** Such big enterprises can afford to highly sophisticated research and developments of their own, Due to high quality researches, new and innovative products are developed or modification made in the existing products.

(v) **Marketing strategies:** Global enterprises use aggressive marketing strategies to increase sales in a short period. They possess more reliable, up-to-date and adequate information about the market changes. Due to this, advertising & sale promotion technique of such enterprises are more effective as they have created a place for themselves in the global market.

(vi) **Territorial Expansion:** Operations of global enterprises go beyond the physical boundaries of their own countries. Their international image enables them to become international brands. They operate in host countries through subsidiaries, branches & affiliates.

(vii) **Centralized control:** The head office of global enterprises is located in their home country. This head office exercises control over all branches and subsidiaries. However, there is no interference in day- to-day operations.

9.1.3 MULTINATIONAL CORPORATIONS VRS GLOABAL ENTERPRISES

Normally, we use the terms like multinational corporations (MNCs) and Global Enterprises inter-changeably as they have most of the characteristics common. However, for the sake of conceptual clarity, a comparison has been made between them.

(i) A Multinational Corporation has location in multiple countries, But each location functions in its own way as a separate entity.

A global enterprise also has locations in multiple countries. But they believe in creating one company culture with one set of processes. This facilitates a more efficient & effective single global organization.

(ii) An MNC has decentralized operations with little communication amongst the divisions.

A global enterprise integrates all its units and focuses its marketing strategy on world wide scale.

(iii) In case of MNCs, local community affects their marketing strategy. MNCs have to produce different products in different countries respecting the demand & tastes of the home population. So, marketing strategies of MNCs differ from one country to other.

However, global enterprises sell the same products throughout the globe following uniform marketing strategies.

iv) MNCs usually pay local workers a lower salary rate than global enterprises.

9.2 JOINT VENTURE

9.2.1 Meaning: When two or more persons agree to join together for a short while for a common purpose and mutual benefit, it gives rise to a Joint Venture. Suppose A & B jointly undertake the construction of a building. They agree to share the cost in agreed proportion and share the profits/losses accordingly. As soon as construction of the building is over, the business association of A & B will come to an end. This is a case of joint venture.

Thus, joint venture is usually a temporary partnership without the use of a firm name. The scope of a joint venture is limited to a particular business plan in which the person concerned agree to contribute capital & to share profits or losses. The parties in a joint venture are known as co-ventures and their liability is limited to the adventure concerned.

The reasons behind the joint venture often include business expansion, development of new products or moving into new markets. In India, joint venture companies are the best way of doing business. There are no separate laws for these joint ventures.

9.2.2 Characteristics:

1. It is an agreement between two or more persons.
2. It is a temporary partnership and it comes to an end after completion of a particular venture.
3. As it is for a specific purpose, it is called particular partnership.
4. Such a partnership is without the use of a firm name.
5. Aim of a joint venture is to make profit and distribute that profit among Co-venturers
6. It can take up any type of business.

9.2.3 Formation:

A joint venture can be formed in any of the following ways:

1. Two parties incorporate a new company. Business of one party is transferred to the new company. In consideration, shares in the new company are issued to the party. The other party subscribes for the shares in cash.
2. Two parties may subscribe to the shares of a joint venture company in agreed proportion in cash and start a new company.
3. The promoter share holder of an existing Indian company and another party may collaborate to jointly carry on the business of that company.

A joint venture must be based on a memorandum of understanding (MOU) signed by both the parties. The terms should be thoroughly discussed and negotiated to avoid any legal complications at a later stage. Such terms must take into account the cultural and legal background of the parties. The joint venture agreement should state that all necessary government approvals and licences will be obtained within the specified period.

9.2.4 Benefits

1. **Adequate Financial Resources:** As more persons get together for a venture, it gets adequate financial resources to undertake bigger projects. The new business pools in financial and human resources to face market challenges and take advantage of new opportunities.
2. **Access to New markets:** When a business enters into a joint venture with a partner from another country, it opens up a vast growing market. When the products of a company have reached saturation point in the home market, after joint venture agreements the products are sold easily in new markets.
3. **Improved Technology:** Technology adds to efficiency and effectiveness which leads to reduction in cost. To have an easy access to advanced technology, most businesses prefer to enter into joint venture. Use of superior technology helps a business to produce quality products, Further, it saves time, energy and investment also as they don't have to develop their own technology.
4. **Innovation:** Essence of joint venture type of business lies in the production of new and innovative products. Creativity is encouraged in joint venture.
5. **Sharing of Risk:** Risk in case of joint venture business is shared by all co-venturers in the predetermined ratio.
6. **Experience:** Persons having different skills & experiences come together to do costly & profitable projects.

9.3 PUBLIC PRIVATE PARTNERSHIP (PPP)

9.3.1 MEANING

Public Private Partnership (PPP) refers to the involvement of private sector in the government projects with the object of public benefit. It is built on the expertise of each. Resources, risks and return are jointly shared between the government and the private sector. The main thrust of a public private partnership arrangement is the sharing of risks jointly. The equity share of the private partner is less than 60%.

Traditionally, the public sector provided the infrastructural facilities like construction of roads, buildings, ports and made delivery of public services like health, sanitation etc. Through PPP arrangement, long-term partnership is made between public and private sectors for financing, designing, implementing and providing the above services.

PPP arrangement gained momentum from 1990 both in developing and developed countries. Usually, PPP can be made in projects like-construction & renovations, production of gas and oil, construction & improvements of ports etc.

9.3.2 FEATURES OF PUBLIC PRIVATE PARTNERSHIP

The main features of PPP are as under:

(i) **Joint sharing of Risk:** Under PPP arrangement, projects are built through joint sharing of resources, risks and returns.

(ii) **Optimum use of Resources:** In this arrangement, investments and rewards are jointly shared. So, in these projects, resources are put into optimum use bringing economy & efficiency.

(iii) **Government Projects:** PPP is an agreement between private sector and government. Thus, the government starts those projects which may not be successful but necessary for growth of economy of a country.

(iv) **Faster Implementation of the project:** In PPP, the private sector invests not only funds but also its expertise. Obviously, they will be interested to recover benefits from these projects at the earliest. Thus, they ensure faster implementation of the project.

(v) **Overall Development:** Private sector aims at maximizing profit whereas the public sector is more interested in dong public services. When both join hands, overall economic development can be possible.

(vi) **Public interest:** PPP mode motivates the government and private parties to work on those projects which are in the interest of public. They may not be profitable projects. Such projects may require huge capital & skilled manpower. And joining hands with the private sector, the government can undertake these projects efficiently and effectively.

(vii) Accountability: PPP projects are related to high priority government projects. Government is bound to implement it with the help of skill & money of private sector. However, the government is ultimately responsible in respect of quality and cost of services.

9.3.3 Forms of PPP

PPP projects are undertaken in the following forms:

(i) Management contracts: Here, a private sector, with expertise in management, undertakes the responsibility of creating public assets and delivery of public service. Traditionally, these are the obligations of the government.

(ii) Build-operate-Transfer (BOT): As the name suggests, here private sector builds, makes the project operational and finally transferes it to the public authority.

(iii) Build-Lease-Transfer (BLT): In this mode, Private enterprises build a project and give it on lease basis to the public authority for some fee. After specific period, private enterprises transfer such a project to the public authority.

(iv) Design-Build-Operate-Transfer(DBOT): It is otherwise known as **Turnkey Arrangement.** Private sector is involved with the project from beginning to end. It designs, builds and makes the project operational. Thereafter, it transfers the project to the government after a predetermined period.

9.3.4 Merits of PPP

Our country, India, is a welfare state. It believes in providing services to the society at any cost. It assumes the responsibility of providing basic facilities, infrastructure and other amenities to its people. Few facts make the hands of the government tight and put a lot of pressure on it. They are: (i) rise in public debt, (ii) population explosion and (iii) public demand for better services. With this back-ground, PPP arrangement is an innovative idea. This brings the private & the government together where they share their resources and skill/ expertise. So that the government can overcome the problems.

In a nut shell, the following advantages of PPP mode are noted below:

(i) Government gets an easy access to private sector finance for its optimum utilization.

(ii) Private sectors run on business lines. To achieve the aim of profit maximization, they have to upgrade their skill, technology and managerial talent. By PPP arrangement, the government gets an access to them.

(iii) Presence of the government makes every thing transparent which builds up confidence in the minds of the public.

(iv) As such projects are run jointly. They enjoy the benefit of large scale operation & better management. This helps in reduction of cost of production.

9.3.5 Limitations

PPP projects suffer from following limitations:

(i) PPP is a long-term partnership. Usually it covers a period of 15-30 years. An agreement extending such a long period faces uncertainties. A lot of changes may take place in between which compels the original contract to get modified.

(ii) Success of PPP arrangement depends on continuous monitoring. Thus, Private sector has a greater role to play. If not, such business cannot achieve its objectives.

9.4 QUESTIONS

Objectives and short Answer Type Questions

Q.1 Choose the correct alternative

a. PPP is designed as:

(i) Private sector (ii) Joint sector

(iii) Public sector

(iv) Non- Public and non- Private sector

(b) PPP stands for:

(i) Public private partnership (iii) Public Private Project

(ii) Public Private Process (iv) Public Private Plan (c) In a PPP arrangement, the equity shares of a private partner is less than

(i) 60% (iii) 70%

(ii) 80% (iv) 90%

Q.2 Rectify the underlined portions in the following sentences.

(a) The full form of BOT is Build- <u>owned</u>-Transfer.

(b) PPP is a <u>non- public</u> sector design.

(c) Joint Venture is a <u>permanent</u> partnership.

(d) Joint venture is a partnership <u>with</u> a firm name.

(e) The parties in a joint venture are called <u>shareholders.</u>

(f) Global enterprises sell different products in <u>different</u> markets of the globe.

(g) Branches of global enterprises are called majority owned <u>financial</u> affiliates.

Q.3 Fill up the blanks

(a) The full form of BLT is Build Lease ___________

(b) The full form of BOT is Build ___________ Transfer

(c) In PPP, the equity share of private partner remains less than ___________%.

(d) Joint Venture is a ___________ partnership.

Q.4. Express each one word/Term

(a) Two or more persons joining hands for a short while to accmplished a common business purpose.

(b) A partnership between public sector and private sector organisations.

Q.5 Answer the following questions within two sentences each:

(a) Name any two forms of PPP in full.

(b) State any one problem of PPP Project.

(c) What is public private partnership?

(d) Name any two characteristics of joint venture.

(e) State any one benefit of joint venture.

(f) What is a global enterprise?

(g) State any two difference between MNCs and global enterprises.

LONG ANSWER TYPE QUESTIONS:

1. What is PPP ? Explain its characteristics.
2. Enumerate the advantages & limitations of PPP.
3. What is a joint venture? Explain its features.
4. Outline the benefits of joint venture type of business.
5. State the features of global enterprises.
6. Make a comparison between global enterprise and multinational corporation.

9.5 ANSWER TO OBJECTIVE QUESTION

1. (a) iii; (b) i; (c) i
2. (a) operate; (b) Joint; (c) Temporary (d) Without (e) Co-venturers (f) same (g) Foreign
3. (a) Build, Lease, Transfer (b) Build, Operate, Transfer (c) 60. (d) Temporary
4. (i) Joint Venture (ii) PPP.

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CHAPTER-10
INTERNAL TRADE: WHOLESALER

STRUCTURE

10.1 INTRODUCTION

After the products are manufactured and become ready for the market, the producer determines the methods and routes to take the products to the market i.e. to the ultimate consumers and industrial users. This process involves establishing distribution strategies which include designing the channel of distribution and physical movement of goods from the place of the producer to the middlemen or channel members and finally to the ultimate consumers.

A channel of distribution for a product refers to the course from the time the product moves out of the factory till it reaches the consumers.

The channel of distribution may be direct channel or indirect channel. A direct channel is one where the producer takes his products directly to the consumer without any marketing intermediaries or middlemen. On the other hand the indirect channel consists of varying number of levels and various types of intermediaries or middlemen. When the term middlemen is used it refers to agents, wholesalers, retailers etc. A middleman is an independent business concern that operates as a link between producers and ultimate consumers or industrial users.

10.2 MEANING OF WHOLESALER

Wholesaler is an important intermediary in the channel of distribution. Wholesaling involves the buying or handling of merchandise and its subsequent resale to organizational users retailers but not the sale of significant volume to final consumers. The term wholesaler applies to all merchants or traders who purchase or sell in large quantities. A wholesaler may be merchant wholesaler who takes title to the goods and resell them in small lots to the retailers. An agent wholesaler receives commission for his selling efforts and does not hold title to the goods.

10.3 CHARACTERISTICS OF WHOLESALER

a) A wholesaler is an important link between the producer and retailer.

b) He buys goods in bulk quantity from the producer for resale.

c) He may also by goods from the agent of a producer.

d) A wholesaler may or may not assume title to the goods. When he takes title to the goods he is known as merchant wholesaler and the wholesaler who resells the goods without having title of the goods is called agent wholesaler.

e) A wholesaler generally deals in one or two items of products.

f) He does not usually sell to the ultimate consumer in significant manner. In other words baring a few all the wholesalers sell their procured goods to retailers.

10.4 FUNCTIONS OF WHOLESALER

A wholesaler performs many important functions. The various functions which a typical wholesaler undertakes are as follows.

1. **Assembling of merchandise:** The wholesaler collects different varieties of goods from different producers and assembles them so as to build a deep assortment. This assembling act of the wholesaler in one or few lines of products helps his customers with a wide option.

2. **Breaking the bulk :** The wholesaler purchases in bulk quantity form the producer. Then he breaks the bulk into smaller lots as per the requirement of his customers mostly the retailers.

3. **Storage:** Wholesaler have their own storage facilities. The goods they purchase from the producers in bulk quantity are kept in their store for resell. The storage facility provided by the wholesaler relieves both the producer and retailers from the botheration of the storage arrangement. By doing this the wholesalers add time utility to the products.

4. **Transportation** : The wholesaler makes transportation arrangement for the physical movement of the goods from the producers place to the wholesaler store and again from the wholesaler to the retailers.

5. **Risk bearing** : The merchant wholesalers take title to the goods. Risk always follows the title or ownership. The wholesaler's bulk purchase with large investment involves risk due to the uncertainties and competitive pressure of modern business. The changes in prices and demands, bad debts, spoilage and pilferage, obsolescence due to long storage duration are some of the factors which enhance the risk .

6. **Financing**: The wholesalers finance their suppliers by ordering early and making advance payments to them.

7. **Market information:** wholesalers give information to suppliers and customers about competitors.

8. **Management services and advice:** Wholesalers often help retailers train their salesmen and other employees improve store layout and displays and set up accounting and inventory control systems.

9. **Sales promotion:** The wholesalers undertake advantages and other sales promotion activities to increase the demand for goods produced.

10.5 TYPES OF WHOLESALERS

The wholesalers may be classified in various ways such as

1. On the basis of area served
2. On the basis of method of operation/activity
3. On the basis of breadth of their product mix/spealisation

1. On the basis of territory or area served

(a) Local Wholesalers: They deliver their purchasers to the local retailers and specialize in the distribution of both branded and unbranded products.

(b) Provincial and state wholesalers: They sell to the retailers of a particular state. They are also known on **Sectional wholesalers**.

(c) National wholesalers: They are located at certain strategic places and distribute goods all over the country with their wide network of distribution. The operating expenses increase to a greater extent than the other types of wholesalers.

2. On the basis of method of operation/activity.

(a) Full function or full service wholesalers: These types of wholesalers are also known as **pure wholesaler** or **merchant wholesaler**. Merchant wholesalers perform many functions for their customers. When they perform a full range of wholesaling functions, they are termed as **service wholesalers**.

(b) Limited function wholesalers: There are wholesalers who perform only a few of the functions normally associated with wholesaling operations. They are known as limited function wholesalers. Their main types are:

I. Truck jobbers- They perform selling and delivery function along with collection in one operation. They carry only a limited range of stock. They mainly call on retailers and deal mostly in perishable and semi perishable goods like milk, bread, snacks etc.

II. **Rack Jobbers**:- They are wholesalers who market specialized lines of products. They deal mostly in non- food items, toiletries, house wares etc. to grocers and drug retailers and supermarkets. They send delivery trucks to stores where the delivery people set up trays, toys, paper packs etc. and other POP (Point of purchase) materials. Merchandise is generally supplied on consignment basis.

III. **Cash and carry wholesalers**- They are wholesalers who operate like service wholesaler except that customer must pay cash. They carry a limited line of fast moving goods and sell to small retailers for cash. These wholesalers require retailers to come to the wholesalers and pick their own orders, pay cash and carry away their own purchasers.

IV. **Drop shippers**- They do not physically handle the goods they sell but leave the storage and transportation function to the manufacturers whom they represent. On receiving an order they select a manufacturer who ships the merchandise directly to the customer. The drop shipper assumes title and risk from the time the order is accepted to its delivery to the customer. The bills are made in the name of these wholesalers which they ultimately recover from the retailers. They usually operate in bulk industries like coal, lumber, heavy equipment etc.

3. On the basis of breadth of their product mix/specilalisation

(a) **General merchandise wholesaler** :They sell a number of unrelated or loosely related lines of merchandise of such types as hardware, furniture, household appliances, farm goods and even food products. Their customers are general stores.

(b) **General line wholesalers:** They carry a narrower line of merchandise than general merchandise wholesalers. They usually carry a complete stock and depth in a particular major line of products. They usually deal in products such as groceries, drugs, electrical appliances, jewelery, soaps etc.

(c) **Specialty wholesalers:** They handle only specialized goods such as canned foods, coffee, spices etc. They also perform such functions as promotion activities as erecting special displays, handling, demonstrating and distributing samples.

10.6 QUESTIONS

Objective and short answer type questions

(1) Choose the right answer from the given alternatives:

(a) A type of wholesalers who send delivery truck to stores and whose people set up point at purchase materials in the store are known as :

i. Rack Jobbers

ii. Truck Jobbers

iii. Drop Shippers

iv. Cash and carry wholesaler

(b) Drop shippers are wholesalers who

(i) Deal in fast moving goods

(ii) Do not physically handle the goods they sell

(iii) Perform a selling and delivery function along with collection

(iv) Set up POP materials in the store

(c) Wholesalers who deal in a number of unrelated or loosely related lines of merchandise are known as

(i) Specialty wholesalers

(ii) General merchandise wholesalers

(iii) General line wholesalers

(iv) Truck jobbers

(d) The provincial wholesalers generally operate

(i) In a particular state

(ii) At different places all over the country

(iii) At a particular place

(iv) At different places of a city

(e) Wholesalers are the direct link between

(i) Retailers and consumers

(ii) Producers and consumers

(iii) Producers and retailers

(iv) Retailers and retailers

(2) Express each in one word/ term

a) A course or route a product takes on its journey from the producer to the ultimate consumers.

b) A channel in which products directly move to the consumer without any marketing intermediary.

c) A middleman who does not sell in significant manner to the ultimate consumers.

(3) Correct the underlined portions in the sentences.

a) A <u>provincial</u> wholesaler operates all over the country.

b) A <u>drop shipper</u> usually operates in FMCG goods.

c) The term <u>wholesaler</u> usually applies to all merchants or traders who purchase and sell in small quantities to the ultimate consumers.

(4) Fill in the blanks

a) A ____________ channel is one where the producer sells directly to the ultimate consumers

b) _________ wholesalers distribute goods all over the country

c) ___________send delivery trucks to the store where the delivery people set up POP materials like toys, paperbacks its in the store.

d) ______________ wholesalers sell to small retailers for cash

e) _______________ wholesalers handle only specialty goods.

(5) Answer each within two sentences.

a) What do you mean by breaking the bulk?

b) Who is cash and carry wholesaler?

c) What do you mean by assembling of merchandise ?

d) What do you mean by limited function wholesaler?

e) Who is a local wholesaler?

(6) Answer within six sentences each

a) Explain any three characters of a wholesaler

b) Explain different types of wholesalers on the basis of area served

c) Mention and explain any three limited function wholesalers

LONG ANSWER TYPE QUESTIONS

1. Define a wholesaler. Discuss the characteristic feature of a wholesaler.

2. Discuss the functions of a wholesaler

3. Explain the meaning of wholesaler. Draw out a classification of wholesalers.

4. Differentiate between limited function wholesaler and full service wholesaler .explain different types of limited function wholesaler.

10.7 ANSWERS TO OBJECTIVE QUESTIONS

Q1. a (i), b(ii), c(ii), d (i), e (iii)

Q2. (a) Channel of distribution (b) direct channel (c) wholesaler

Q3 (a) National (b) Cash and carry wholesaler (c) Retailer

Q4. (a) Direct (b) National (c) Rack jobbers (d) Cash and carry (e) Specialty

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CHAPTER-11

INTERNAL TRADE: RETAILER

11.1 MEANING OF RETAILOR

The word ‘Retail’ is derived from a French word with prefix ‘re’ and verb ‘tailer’ meaning to cut again. Evidently retail trade is one that cuts off smaller portions from larger lots of goods. Retailing consists of all activities directly related to the sale of goods and services to the ultimate consumer for personal, non-business use. A retailer is an important link in the channel of distribution. A retailer is in direct touch with the ultimate consumers. When we shop for groceries, clothes, books and many other products and services, we are involved in retailing. It includes the direct-to-customer sales activities of the producer whether through his own stores, by house-to-house canvassing or by mail order business. It is immaterial who does the selling but to be classified as retailing, selling activities must be direct to the ultimate consumer. The retailers are found in every nook and corner of the country, may be it a remote village or a metropolitan city.

11.2 CHARACTERISTICS OF A RETAILER

1. **Maintains a suitable product assortment :-** A retailer collects different varieties of goods and form a wide assortment of products keeping his target market or customers requirements in mind.
2. **Proximity to customers:** A retailer being the last intermediary in the channel of distribution comes in close and intimate contact with the customers.
3. **Better knowledge of merchandise:** A retailer usually possess a better knowledge of the merchandise he deals in and the latest trend in the market.
4. **Buying and selling:** A retailer buys from the wholesaler or producer and sells to the final consumer. Thus, he is in a better position to understand the market as well as his consumers and gains expertise in both buying and selling.
5. **Cash and credit transactions**: The retailer generally buys goods from the wholesalers on credit terms and sells to the consumer mostly on cash basis.
6. **After-sales-service:** A retailer provides after-sales-service in consumer durable goods.
7. **Deals in small quantities-** A retailer breaks the bulk and sells in small lots to the final consumers as per their needs.
8. **Less capital requirement:** A retailing business generally needs less capital for its business operation as compared to wholesalers or producers.

9. **Opens for long hours:** Several formats of retailing usually remain open for long hours to serve their customers.

10. **Display of goods:** A retailer displays the goods in a planned and orderly manner for better display and appeal to the consumers.

11.3 FUNCTIONS OF A RETAILER

1. **Anticipating and understanding customers' needs and wants:** The first and foremost function of a retailer is to anticipate and understand its customers, their needs and wants. It is only then other functions of retailer can be performed in a manner satisfactory to the customers.

2. **Providing an assortment or service to the customers:** Assortment means a group of different varieties of product of varying quality, varying prices and designs which a retailer keeps as its product mix. This is done to meet the different choices of various types of customers.

3. **Breaking bulk:** A retailer buys in bulk quantity from the producers or wholesalers. He then breaks them and sells to the final consumers in smaller lots as per their needs.

4. **Providing services:** A retailer provides various services to its customers. The services include credit and hire purchase facility, home delivery, product guarantee, after sales services, scientific product display for better view and selection by the customers etc.

5. **Holding Inventory:** A major function of retailers is to keep inventory, so that customers can buy the products when they want. Thus, the customers' money is not blocked up in large inventory and can be put to some other use.

6. **Providing Information:** Since a retailer is the final interface to consumer, he is in a perfect position to understand the pulse of the market. His assessment of the customers reaction and market position acts as a feed back information to the producers for strategy formulation and taking remedial measures.

7. **Creating time and place utility:** A retailer provides time and place utility by storing the products in off season and by transporting them to the places where they are needed by the consumer.

8. **Risk taking:** He undertakes the risk by guaranteeing the goods he sells to the consumers. He also bears all the trade risks which may occur due to spoilage of goods, deterioration of quality, price and demand fluctuation.

9. **Grading and packaging:** A retailer sometimes performs grading and packaging functions by dividing and sub-dividing the goods into suitable packets according to the requirements of the customers.

10. **Financing:** A retailer sometimes provides financial help to the customers in the form of credit sales to them.

11. **Sales promotion:** A retailer undertakes promotional efforts for increasing the sell of his merchandise. He provides discount, gifts and many such measures to induce the customer to buy more. Window display of goods and attractive store layout also draw the customers into the store which may result in increasing the volume of sales.

11.4 TYPES OF RETAIL STORES:

Retailers

- Store based or Fixed shop Retailing
  - Department store
  - Super markets
  - Discount houses
  - Chain Stores or Multiple Shops
  - Independent retailers
- Non-Store based Retailing
  - Itinerant
  - Mail order Business
  - E-Retailing or E-Marketing
  - Telemarketing
  - Automatic Vending
  - Net-Work Marketing

STORE BASED RETAILING

11.4.1 Department Stores: A department store or departmental store is a large scale retail store which carries a wide variety of shopping and specialty goods including apparel, cosmetics, foot wear, accessories, house wares and sometimes furniture. A department store is quite large in size with average area varying from 25,000 to 40,000 sq.ft. purchases are generally made within each department dealing in individual specialized items, Each department is treated as a separate buying centre to achieve economies in sales promotion, buying, service and control. Central management is responsible for the overall advertising programme, credit policies, store expansion, customer service and so on. Shoppers' stop, Lifestyle, West-side, Kamalalaya, Jankidas, Spencers are some of the well known department stores in India.

Features

1. **Large Size:** A departmental store is a large scale retail organization
2. **Variety of products:** A departmental store handles a wide variety of shopping and speciality goods which may include women's ready-to-wear, men's and boys' wear, appliances, cosmetics, home furnishing etc.
3. **Specialization:** Such type of retail store is organized into separate departments for purposes of sales promotion, accounting control and store operation for individual production lines.
4. **Large capital Investment:** A departmental store requires huge capital investment. The large capital investment is necessary due to its size, services and wide variety of merchandise.
5. **Service Facilities:** A department store provides various types of services to its customers.
6. **Attractive Appearance:** A department store is different from other types of retailing in terms of its attractive physical setting and pleasing ambience. The expensive and luxurious appearance is the hall mark of a department store.

7. **Location:** A department store is usually located in a central place and posh locality which is the hub of business activities of a city.

Merits of Department Store:

1. **Economies & large scale operation:** Large department stores buy in large quantities and receive special concession or discount.
2. **Capability of procuring quality goods:** Department stores are in a position to pay cash on all or most of their purchases and this gives them an additional advantage of picking of quality goods at cheaper rates and at the same time stocking the latest style and fads.
3. **Shopping experience:** A department store is organized into separate departments for separate category of products under one roof. A customer can get all his requirements order one roof and enjoys shopping in a conducive and luxurious shopping environment.
4. **Central Location:** A department store is generally located at the Central Business District (CBD) in the city. This adds to its image and draws people from different parts of the city to the central place for shopping.
5. **Services to customers:** A department store offers a number of services to its customers like home delivery, rest room, recreation, crèches etc.
6. **Managerial efficiency:** A department store employs managers with professional competence and experience. It helps the organization to operate in an efficient manner.

Demerits

1. **High cost of operations:** The cost of doing business is very high due to heavy overhead expenses.
2. **High prices:** The department store usually charges high prices due to its high cost of operation and premium quality of merchandise. The poor and price sensitive people keep themselves away from such stores and may purchase from less costly shops.

3. **Huge investment:** It requires high investment to start and maintain a department store.
4. **High risk:** A department store faces high risk due to changes in taste, fashion and price fluctuations etc.
5. **Lack of personal contact:** The owner and management cannot maintain personal contact with the customers.
6. **Serves high income groups:** These types of store usually serve people of high income.

11.4.2 SUPERMARKET

Super markets are large, departmentalized self service retailers that specialize in food and some non-food items. A super market not only carries national and local brands but also keeps its own private labels. This helps in offering choice to the customers at reasonable prices. It operates on a self service basis. Customers pick up the selected goods without the assistance of salesmen.

Characteristic features of super market

1. **Location:** They are usually located in or near primary or secondary shopping area with sufficient parking facilities.
2. **Merchandise:** The supermarket generally deals with a wide variety of merchandise mostly in food items and some non-food items.
3. **Method of operation:** They normally operate as cash and carry store. The customers pick up their selected items without the assistance of salesman since supermarkets operate on self service basis.
4. **Sales appeal:** The supermarkets make their appeal or draw the attention of their customers on the basis of low price, wider selection of merchandise, nationally advertised brands and convenient parking.
5. **Low cost of operation**: The supermarkets operate on self-service basis and provide a minimum number of customer services. This no-frill operation results in cost-cutting and low cost of operation.

6. **Mass display of goods:** They display mass displays of merchandise.

Merits of Supermarkets

1. **Low price**: The customers get goods at standard and low prices. The supermarkets can provide goods at low price due to their lower operating cost.
2. **Wide assortment of merchandise**: The supermarkets provide a wide varieties of products to their customers. The customers can have wider choice.
3. **Convenience in shopping:** Since supermarkets sell a wide variety of food and non-food items under one roof, the customers get all the requirements of their shopping list in one place. They can inspect, compare and select the goods of their choice as the supermarkets operate on a self service basis.
4. **Cash Sales:** They operate on a cash and carry basis thus reducing the chance of bad debts and loss to a great extent.
5. **Economies of large scale:** The large scale of buying and selling operation due its size helps the supermarkets to get benefits of discount and cost savings in areas of transportation, material handling etc.

Demerits of Supermarkets

A Supermarket has the following demerits:

1. **No personal attention:** The supermarkets operate on a self service basis without the assistance of the salesmen. The customers are deprived of the expertise of salesmen and their advice while taking their buying decision.
2. **Lack of credit facility:** The supermarkets do not offer credit facility as it operates on cash and carry basis.
3. **Heavy administrative expenditure**: The large size and huge inventory of a wide variety of merchandise call for heavy overhead expenses. The stores maintenance, advertising and sales promotion expenses, etc add to the overhead expenses.
4. **Wastage:** Careless handing of goods by the customers inside the supermarket results in wastage. This may cause a great loss to the supermarket.

5. **Huge Investments:** The Infrastructure need of a supermarket calls for large investment. A large building, wide merchandise mix, furniture and fixture and a central location and such other requirements call for a heavy initial investment.

11.4.3 DISCOUNT STORES:

A discount store is a retailer that competes on the basis of Low prices, high turnover and high volume. Retail stores that sell products at prices lower than those asked by traditional retail outlets are defined as discount stores. They are self service and general merchandising stores. They carry a wide assortment of products of well-known brands of hardwares appliances, house wares, home furnishing, sporting goods, clothing, toys etc. They compete on low price basis and operate on a relatively low mark-up and a minimum number of customer service. Discounters can be classified into the following types.

(i) **Full line discount stores**: They offer consumers very limited service but carry a much broader assortment of branded goods such as housewares, toys, automotive parts etc. Full line discounters are also called mass merchandisers. Wal-mart is the largest full line discount store in the world.

(ii) **Specialty Discount Stores:** These are single line stores, dealing in a particular line of product. They offer a nearly complete section of single live merchandise, say sporting goods or housewares or toys etc. They are often termed as category killers because of their heavy dominance on a narrow merchandise segment. In other words a category killer is a sepecialty discount store which spcialises in a particular line product with all its varieties, size, price range, models etc.

(iii) **Ware-house Membership clubs**: They sell a limited selection of brand name, appliances, household items and groceries. Selling is done in bulk from warehouse outlets on a cash and carry basis to members only. Individual members of warehouse clubs are charged low or no membership fees. Small shop owners and large affluent households become members in such club which enable them to purchase the goods at a discount price.

(iv) **Off-Price Retailers:** They sell at prices much lower than the traditional department store prices. Usually excessive stock items, unsold end of season output, second hand goods are the main merchandise of off-price retailers.

11.4.4 CHAIN STORES/MULTIPLE SHOPS

Chain stores are owned and operated as a group by a single organization. A retail chain consists of two or even a series of retail shops under a common ownership. The major characteristics of a retail chain are the degree of centralized decision making in merchandise selection, purchasing, training, recruitment of staff and promotion. These formats of retailing are very common in food and non-food retail sector. Multiple shops operate in different parts of a big city or in different towns and cities of the country which deal in similar line of product at uniform price. Bata shoes Mafathlal, DCM., Usha Machines Raymonds are some examples of multiple shop.

CHARACTERISTICS OF CHAIN STORES/MULTIPLE SHOPS

1. **Centralised Control :** All shops are managed and controlled from the head office i.e. all policies are decided by the head office and carried out by the shops.
2. **Uniform display:** There is uniformity in decoration layout, window display of products of all the multiple shops.
3. **Decentralized location:** Multiple shops are set up in different parts of a big city or in different cities or towns of a country.
4. **Uniform prices:** The Multiple shops usually sell their goods at uniform prices as pricing policy is determined at the Head office.
5. **Centralized supply:** The Head office decides the supply of various merchandise to different multiple shops.
6. **Standardized products:** The products of the multiple shops are standardized because of uniform purchase policy decided at the head office.
7. **Location**: Multiple shops are located in almost all the important urban areas.

MERITS OF MULTIPLE SHOPS/ CHAIN STORE:

1. **Low or Ex-factory prices:** Goods are manufactured on a large scale and are disposed to consumers through their own retail organizations as a result of which the prices charged to consumers are reduced to a considerable extent as middlemen's charges are eliminated.

2. **Facility of expert advice:** Services of experts employed at the Head office can be utilized by shops at any place and at any time.

3. **Low cost of operations:** Absence of middlemen, minimum customer services, common advertising for all shops, cash sales etc enable the multiple shops to carry on their operation at low cost.

4. **Centralized control:** The common ownership and centralized control help in bringing uniformity in its policy formulation and bring a great deal of co-ordination in its functioning.

5. **Diffusion of risk:** The centralized control and monitoring system of multiple shop format of retailing helps in sharing the risk factor. The unsold stock in one shop can be profitably utilized in other shops where there is a demand. The loss in one unit can be absorbed or compensated by the profits of other units. As a result the organization can achieve overall financial stability.

6. **No bad debt:** The sales in multiple shops are mostly on cash basis. This method of operation eliminates the problem of bad debts.

7. **Extension of positive image:** The goodwill generated by one shop of the chain is extended to other shops either in the same city or adjacent towns or cities.

8. **Direct feedback:** The producer sells their products directly to the consumers without any middlemen in between them. This helps the producer to get a first hand information about the consumers behaviour towards their product and other aspects of marketing efforts. The direct feedback so received by the producers help them in taking corrective measures.

9. **Uniform product quality:** The centralized purchase and distribution of products to different multiple shops ensure uniformity in the quality, design and price of the products.

10. **Locational advantage:** The Multiple shops are usually set up in primary business centres of the cities or major residential areas. Due to this the customers can get the better locational advantage.

DEMERITS OF MULTIPLE SHOPS/CHAIN STORE

1. **Limited choice:** The customers get little choice due to the limited line of product dealt by the multiples shops.

2. **Lack of customer services: Customer** do not get services such as free home delivery, parking, credit and other such services.

3. **Operational inflexibility:** The local or shop level personnel do not have the authority to take decisions on different issues which are location specific. This sometimes causes loss of business to the shops as the local managers cannot deviate from the policies and instructions determined at the Head office.

4. **Problem of adaptation:** Multiple shops operate at different places. All the places of business operations are not equal in respect of customers' choice geographical conditions, local administration etc.

   The products sold at the multiple shops are uniform and standardized across the spectrum of its business. They do not take into account the local needs. This lack of adaptation sometimes affects the business prospect adversely.

5. **Huge capital requirement:** A large amount of capital is required to set up the multiple shops at several places.

11.4.5 SMALL SCALE /INDEPENDENT TRADERS

An independent retailer owns one retail unit. The independent owning retail format is the predominant form of retailing prevalent in India. They are popularly known as Kirana store or MOM and POP store.

CHARACTERISTICS OF INDEPENDENT RETAILER

1. **SCALE OF BUSINESS:** They carry on business on a small scale.
2. **Location:** Usually independent stores are located near residential areas. Hence, they are called neighbourhood stores.
3. **Capital requirement:** The capital requirement is comparatively low since the scale of business is small.
4. **Product assortment:-** They usually deal with a wide assortment of day to day use product as per the need of their target market on catchment area i.e. the neighbourhood residential area.
5. **Contact:** A high level of personal contact with the customers is the hall mark of such type of business.
6. **Stock holding:** They usually hold small quantity of stock.

The independent retailers can be of several types. Some of the important types of such retailers are as follows:

(i) **General stores**: These are small independent retail stores owned by individuals. They keep all types of products usually required by people for their day to day regular use. They maintain a low volume of stock since the final consumers buy from such stores in small lots. They may sell goods on credit to their customers.

(ii) **Single line stores:** These stores generally deal in a particular line of product such as readymade garments, medicines, shoes, books, electrical appliance etc.

(iii) **Temporary shops:** Some independent petty retailers set up temporary stalls mostly in busy street intersection near railway station or in bus terminals etc. They generally sell low priced items such as pens, pencils, toys etc. These are also known as **Street Traders**

(iv) **Second- hand goods shop**: These shops deal in second hand or used goods like, books, clothes, furniture etc.

MERITS OF INDEPENDENT RETAILERS

1. **Personal contact:** The seller and buyer enter into a high level of personal contact. The close interaction becomes possible because of the frequency of purchase and proximity of the residence of the buyers.

2. **Flexibility:** The independent retailers keep a low volume of stock. When there is a change in the demand or change in the customers' preference they can change their product mix and bring the latest one as per the demand without much difficulty or loss.

3. **Ease of commencement of business:** Independent retailers can start business at any time. They need not undergo any statutory or bureaucratic formalities as is the case in Joint stock company, cooperative and partnership form of business. They are free to set up their store.

DEMERITS OF INDEPENDENT RETAILER

1. **Lack of specialist advice**: An independent retailer is a generalist. Since the business is small, he cannot recruit people with professional expertise. This deprives him sometimes to get specialist support for decision making.

2. **High cost of promotion:** A single store cannot afford to spend a lot of money in advertising and other tools of promotion.

3. **Lack of capital:** Shortage of capital is a constraint for independent small scale retailer. This creates problem for further growth and expansion.

4. **Inertia-** Inertia means a state of rest or stagnation. An independent retailer sometimes do not want to take risk and extra effort for the growth or expansion of the business. This prevents further growth of the business.

NON-STORE RETAILING

11.4.6 ITINERANT/ MOBILE RETAILERS

Itinerant retailers are those who keep on moving from one place to another for selling their goods. They do not have any fixed business premises. Such selling requires travel and personal contact. The house-to-house selling attracts the consumers because it offers the ease and convenience of buying at home. They usually deal in low unit value products.

CHARACTERISTICS OF ITINERANT RETAILERS

1. They do not have any fixed shop of their own.
2. They move from one place to another for selling their products
3. The cost of operation is very low.
4. They do not have any fixed hours or days of work.
5. They move from door to door to sell their products.

TYPES OF ITINERANT RETAILERS

1. **Hawkers:** They carry their goods usually on bicycles and hand carts. They sell articles like vegetables, fruits, eggs, bangles, plastic and aluminium utensils etc.

2. **Pedlars:** They carry their goods either on heads or backs. They move around the residential area for the sell of their goods. The customers get the advantage of obtaining their required goods at their door step.

3. **Cheap Jacks:** They do not stick to one place of business. They set up their shops in a particular locality for a temporary period. After some time they move on to another place in search of better business prospect.

11.4.7 MAIL ORDER BUSINESS

Business done by mail or by post where orders are placed by post and goods are either received by V.P.P. (Value Payable Post) or by registered parcel is known as Mail order business. This is a type of retail institution which invites orders for goods by mail without any salesman. It is usually known as shopping by post. Thus, in mail order selling, a consumer may buy out a catalogue, select an item of his choice from the catalogue and mail in an order to the seller. He may use an order form either mentioned in the catalogue or received from the seller. Usually, approach to the customer is made through printed leaflets, cards and catalogues etc giving all necessary particulars for the goods dealt in. After receipt of order, goods are properly packed and dispatched to the customer through post office in the form of V.P.P. The buyer receives the goods after paying the price. The amount so received is remitted to the seller of the goods. Leading mail order houses like Sears, Roebuck and co and Motgomery wards co. in America, established as early as in 1870 were the pioneers in such type of retailing.

Characteristics of Mail order Business

1. Sellers communicate about the products through newspaper, advertisement, leaflets, catalogues etc.
2. Customers place orders after going through the catalogue and other promotion materials. They get all relevant information like price, models, methods of using the products etc from the promotion materials.
3. Absence of salesman and personal selling approach.
4. Absence of a physical store.
5. Goods are sold at relatively low price.
6. Orders are received by the seller by mail or post and the goods are delivered to the buyer in the form of value payable post (VPP)
7. Payments for goods is received through post office

Articles suitable for Mail Order Business:

All articles/ goods are not suitable for mail order business. The goods which can be suitably dealt in mail order business form and retailing should have the following characterstics.

1. Goods should be standardized.
2. Goods should be durable.
3. Goods should be available in large quantity.
4. Goods should be capable of being packed and despatched at reasonable cost.
5. They should be capable of easy description and attractive pictorial presentation.
6. Their prices should be within the purchasing power of the bulk of the population.

7. They should be branded and graded.
8. The goods should not be bulky, perishable and fragile.

Merits of Mail Order Business

1. Establishment costs are less. The seller does not have to maintain a sales counter or engage salesmen.
2. There is no need to maintain large stock.
3. It can command wide market.. People from remotest corners of the country can be the customers of the mail order business.
4. The customers get the product in their houses and are saved from the trouble and expense of travelling to the market or retailer's place. For this reason mail order retailing has been described by some as **'arm chair shopping'**.
5. There is no chance of bad debts as mail order business dispatch products to the customers on sale or return basis.
6. The consumer can go through the catalogue at leisure and place his order at convenience.
7. There is no middlemen in mail order business.

Demerits of Mail Order Business:

1. Expenditure on advertising and publicity is high.
2. There is no scope for interpersonal contact between the seller and the buyer as the buying and selling are done through post office.
3. Selling is reduced to a one-way traffic and the seller is unable to get a feed back from the buyer and can't meet the objection that may be raised by the customers.
4. Illiterate people cannot take advantage of mail order business as they cannot read the product description and other relevant information mentioned in the leaflets or catalogues etc.

5. This type of business is not suitable for bulky and perishable products.
6. Sometimes goods may not reach the customers due to postal delay.
7. Some dishonest traders may cheat the customers by giving less qualitative products or products not conforming to the specifications mentioned in the order. In the absence of interpersonal communication while selling, the customers may find it difficult to return the products and getting products of their choice.
8. Buyers have no opportunity to inspect the product before ordering.

Conditions for success of Mail Order Business : There are certain pre-requisities or conditions for the success of mail order retailing. These are as follows:

1. Delivery should be prompt and quality above suspicion.
2. The prices of goods sold against mail orders should be lower than those of similar goods sold by stores.
3. The catalogue, leaflet and other printed materials should contain all relevant information. They should also be attractive and meaningful.
4. There should be an efficient postal system.
5. Branded and good quality goods should be traded in mail order retailing.

11.4.8 E- RETAILING

Online retailing or E-retailing or E-marketing is a promising and emerging format of retailing. The advent of IT has brought around a revolutionary innovation in the retail business. E-retailing (Electronic retailing) is a type of shopping available to consumers with personal computer (PC) and access to the internet. It just requires turning on a computer, surfing retail websites, selecting and ordering products on line with the click of a mouse. Thus, it is marketing through digital or electronic process. This type of shopping is not only convenient but also less costly. It offers multiple benefits to customers, for example, shopping within the comforts of one's drawing room or bed room, choosing from a wide selection of merchandise comparing prices across websites, and getting the products delivered at eh doorsteps.

In spite of a great deal of advantages and growth potential, online retailing suffers from certain misgivings and limitations. Inability to touch and feel products before purchasing, uncertainty about product quality, lack of trust on safety and security of online transactions and the desire to bargain for better prices are some of the limitations of on-line retailing.

11.4.9 TELEMARKETING:

Telemarketing is the use of the telephone to sell directly to consumers. It consists of outbound salescalls usually unsolicited and in bound calls that is orders through toll-free numbers. In this format of retailing infomercials (commercials containing information about the products) are telecast detailing every aspect of the product, its price, availability, installation and sales promotions schemes etc. The customer can order on toll free numbers. Some of the prominent TV retailers in India are Asian sky shop, Tele brands etc.

11.4.10 AUTOMATIC VENDING

Automatic vending makes use of machines. Coin operated, self-service machines make a wide assortment of products available, such as beverages, candy, chewing gum, soft drinks and coffee etc. It is considered as one of the oldest forms of technology based retailing in which the machine dispenses tea, coffee, beverages, candy etc. The vending machine is the best solution where it is not possible to make a physical store i.e. in hospitals, restroom. ATM is the most common form of vending machine operation.

11.4.11 DIRECT SELLING

Some manufacturers sell their goods direct to industrial users or ultimate consumers without middlemen. For this purpose they may engage salesmen in different territories to approach and sell to customers. Sales personnels demonstrate the product, apply their selling skills and take orders. The direct selling may be in three forms.

1. Person to person
2. Party or group presentation
3. Multilevel marketing

11.4.12 NETWORK MARKETING:

It is an innovative way of marketing. This method of marketing is also known as Multi Level Marketing (MLM). MLM utilizes a multi tiered non employee sales persons cum distributors to sell the products. MLM system begings with the recruitment of a core group of sales persons and distributors by a sponsor. Each member of the group then takes up products of a certain quantity and sells them to the consumers. Network or multilevel is a marketing strategy in which the sales force is compensated not only for sales they generate, but also for the sales of the other sales people they recruit. This recruited sales force is referred to as the paticipant's 'downline'. MLM is one type of direct selling. Most commonly, the sales people are expected to sell products directly to consumers by means of relationship referrals and word of mooth marketing. The distributor earns commission that accrues to him on what is sold by him. The amount of earning is the difference between the distributor price in which he makes the purchase and the consumer price at which he sells it to the final consumers. The second stage of commission accrues to him out of the commissions earned by the distributors at the next lower level whom he has recruited. The essence of network marketing is multiplication and growth. This model of marketing is usually suited to fast moving consumer goods (FMCG)

11..5 SERVICE OF RETAILERS TO WHOLESALERS:

1- **Enhancing the scale of operation:** The retailer sells to the ultimate consumers. The retailer's success has a backward cyclical effect in the channel of distribution. Increase in retail sale acts as a catalyst or stimulant for expansion of wholesaler's business.

2. **Provide market information:** The retailers by virtue of their position in the channel of distribution obtain first hand information about the market sentiment, consumers' response and market forecast. All these information they pass on to the wholesalers and manufacturers for their use and strategy formulation.

3. **Help in distribution:** The wholesalers are bulk buyers. It is not economical on their part to sell in small quantities. The retailers break the bulk and sell them in small lots according to the needs of individual final buyer.
4. **Sales promotion:** The retailers undertake promotional efforts along with the wholesalers to increase the volume of sales to the ultimate consumers.
5. **Save wholesaler from direct selling**- Due to the presence of retailers wholesalers are saved from the problems and efforts from directly approaching consumers.

11.6 SERVICES TO THE CONSUMERS

1. **Acts as a consumer's agent:** The retailer anticipates the wants of the consumers and supplies them the right kind of goods at a reasonable price. His job is to make the consumer's buying as easy and convenient as possible.
2. **Bulk breaking:** He purchases in bulk quantity, then breaks them into small lots to cater to the individual needs.
3. **Creating time and place utility:** The retailer provides time and place utility to the consumers by storing the products and making them available at the consumers place or other suitable places so that the consumers can get them as and when needed.
4. **Regularity in supply:** The retailer makes all out effort to ensure regular supply of goods to the consumer by timely procurement and adequate storage.
5. **Convenient shopping:** Through shopping location, market information, better ambience and store atmospherics, parking facility etc. the retailer provides a better shopping experience to the consumers.
6. **After- sales- services:** A retailer in some cases provides after-sales-services to help the customers and develops a lasting customer relationship.
7. **Acts as a specialist:** The retailer plays the role of a consultant and facilitator and helps the buyer to take a right purchase decision.
8. **Financing:** He sells goods on credit thus providing financial support to the consumers.

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11.7 DISTINCTION BETWEEN WHOLESALER AND RETAILER

Sl No	Basis of difference	Wholesaler	Retailer
1	Clientele served	Primarily sells goods to the retailers or industrial users.	Sells goods to ultimate or final consumers
2	Intended use of goods dealt in	Goods sold are meant either for resale (by the retailers) or for further processing (by the industrial users).	Goods sold are meant for final consumption
3	Volume of business	Usually buys and sells goods in larger quantities	Buys and sells in smaller quantities.
4.	Capital requirement	Large amount of capital is required	Small amount of capital is needed.
5.	Range of products	Generally specialized in one product or a limited range of products	Generally stocks a wide assortment of goods catering to a variety of customer requirements.
6.	Link in the channel of distribution	Connecting link between the manufacturer and the retailer	Acts as a link between consumer and manufacturer.
7	Location	Not of much importance	Very important element of retail marketing mix.

11.8 QUESTIONS

OBJECTIVE AND SHORT ANSWER TYPE QUESTIONS

CHOOSE THE CORRECT ALTERNATIVES:

(a) A type of self service retailer that specializes mostly on food items is known as

(i) Departmental store

(ii) Discount store

(iii) Super market

(iv) Chain stores

(b) Low cost of operation is the characteristic feature of

(i) Supper market

(ii) Departmental store

(iii) Franchise store

(iv) Speciality store

(c) Category killers is the term assigned to:

(i) Multiple shops

(ii) Franchise stores

(iii) Specialty discount store

(iv) Department stores

(d) The degree of high level of personal contact is more in

(i) Supermarket

(ii) Departmental store

(iii) On line retailing

(iv) Independent traders

(e) Sellers communicate about their products through news papers, leaflets, catalogues etc in

(i) Discount store format of retailing

(ii) Department store format of retailing

(iii) Chain store format of retailing.

(iv) Mail order business format of retailing

2. Correct the underlined portion in the following sentences:

a) The <u>presence</u> of middlemen is a feature in direct selling

(b) Low cost of operation is a characteristic feature of <u>departmental store</u> form of retailing.

(c) Mail order business is <u>suitable</u> for bulky and perishable products.

(d) Itinerant retailers usually operate from a fixed business premise

(e) Hawkers are one type of <u>fixed shop</u> retailers.

3. Fill in the blanks:

(a) Peddlars carry their goods on____________.

(b) The stores, generally dealing in a particular line of product are known as_________.

(c) A discount store competes on the basis of __________ prices.

(d) The supermarkets normally operate on cash and __________basis.

(e) A type of non-store retaling where machines act as salesman is known as ___________.

4. Express each of the following in one word/terms:

(a) Business through post Offices

(b) Retail Store operating on self-service basis

(c) Last link in the chain of distribution

(c) Traders carrying goods on backs

(d) Customer reaching the marketer with a click of a mouse.

(e) Similar retail shops owned & managed by a single organization.

5. Answer within two sentences each:

(a) What do you mean by direct selling?

(b) What is telemarketing?

(c) What is multiple shops or chain store form of retailing?

(d) Which type of goods are suitable for mail order business?

(e) Who is called a Cheap Jack?

6. Answer within six sentences each:

(a) Describe the characteristics of internet retailing.

(b) What is multilevel marketing (MLM)?

(c) What is network marketing?

(d) What is e-retailing?

(e) Explain the service of retailers to wholesalers.

LONG ANSWER TYPE QUESTIONS

1. Explain the meaning of retailing. Discuss the functions of a retailer.
2. What is Mail Order Business ? Discuss the features, advantages and disadvantages of mail order business.
3. Discuss the role of retailer as a service provider to the consumers and wholesalers.

4. Write notes on.

a) Network marketing

b) Multilevel marketing

11.9 ANSWERS TO OBJECTIVE QUESTIONS

Q.1 a-(iii), b-(i), c- (iii) , d- (iv), e- (iv)

Q.2 (a) Middleman (b) Supermarket , (c) unsuitable , d- store based (c) internet

Q.3 (a) head or back (b) Single- line (c) Low prices (d) Carry (e) automatic vending

Q.4 (a) Mail order business (b) Super Market (c) Retailer (d) Peddlars (e) e-marketing (f) Multiple Shops.

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CHAPTER-12

INTERNATIONAL TRADE

Structure

12.1 INTRODUCTION

International or Foreign Trade is the concept used from ancient times for exchange of goods or services by the merchants of different countries. These trading activities were made in a small scale because of several constraints like lack of communication, transportation facility, technology etc. After the Industrial Revolution, countries all over the world changed their way of production and marketing of goods and services. The concept of utilization of own resources for production or manufacturing in a country was replaced with procuring the same from other countries. Procurement and Supply of goods or services among countries have increased at present radically. The main reasons for such a change in cross border trade and investment is due to developed communication, advanced technology and efficient means of transportation. Countries those were unable to trade with one another because of distance and socio-economic differences have taken positive steps in this regard. The evolution of World Trade Organization (WTO) and several reforms carried out in different countries boosted foreign trade. There is a theory, on which international trade is based is known as a comparative costs. As per this theory, each country should try to manufacture goods which can be manufactured at a price lower than other countries and exchange such goods in return of goods which other countries can produce at a lower cost. At present, we are living in a world where exchange of goods and services among countries are very common. The entire world has become a global market. India is also not far behind in this context, India has been trading with other countries since a long time.

12.2 MEANING OF INTERNATIONAL TRADE

Business transactions undertaken within the geographical boundaries of a country are termed as domestic or national or internal or home trade. Foreign or International Trade refers to trade with foreign countries. It means exchange of goods or services by one country with other countries. The scope of foreign trade is spread beyond the boundaries of a country. For example, India's trade with Russia, South Korea, the USA, and the UK is regarded as International Trade.

The trade or business, taking place in between different countries or persons or firms of different nationalities, is termed as international business. Many a times, a country cannot fulfill all its requirements from its own available sources. As a result of this, it has to depend on other countries. This situation mainly arises because of the odd distribution of natural resources. Production or manufacturing of products mainly depends on the availability of raw materials or resources in a country. A country can produce different types of products only as per the natural resources available with it. The products manufactured in this process are first consumed in the home country and excess left after meeting the country's requirement is sold to other countries. On return, the selling country may buy the products of that other country which are of demand but not available in optimum quantity in its market. This business, taking place in between two different countries, is called international business.

12.3 TYPES OF INTERNATIONAL OR FOREIGN TRADE

International Trade broadly and basically is of various types given below;

(1) **Import Trade:** Import trade refers to buying of goods from a foreign country. For example, purchase of crude oil by India from Kuwait. A person who imports is known as an importer.

(2) **Export Trade:**Export trade refers to sale of goods to a foreign country e.g. selling of Basmati Rice by India to the USA is an example of export trade. One who exports is known as an exporter.

(3) **Entrepot Trade:**Entrepot Trade refers to the trading activities where goods are purchased or imported from one country with a view to exporting or selling to another country. It involves both import and export of goods. For example, India may purchase crude oil from Kuwait and export a part of it to Bhutan.

On the basis of trading parties, international trade may be;

(i) Bilateral Trade : When International trade i.e. import & export take place between two countries only, it is bilateral trade.

(ii) Multilateral Trade :When the international trade takes place among more than two countries it is termed as multilateral trade.On the basis of traded items, international trade can be:

a) **Visible Trade:** Visible trade refers to imports and exports of physical merchandise like oil, cotton, machineries etc.

b) **Invisible Trade:** Invisible trade refers to the exchange of intangible items between countries. The items are services like banking, insurance, consultancy etc.

12.4 NATURE OF INTERNATIONAL TRADE

The nature or features of international trade are as follows:

a. **Countries Involved:** When two or more countries deal with each other for exchange of goods or services, it is termed as international trade or international business. Thus, international business can only be possible among two or more countries for a lawful business transaction.

b. **Specialization:** Every country has its own specialization in manufacturing of certain types of goods because of its available natural resources and specific advantage. For example, India is popular for production of Jute and Tea. As a result, India prefers to export these commodities to foreign countries like the U.K., the USA etc, On the other hand, India imports steel from the U.K. which has specialized in this industry.

c. **Global Competition:** Countries around the world compete with one another for selling their products in the global market. As a result, it becomes a challenge for all the exporting and importing countries to take due care of the quality, design, packaging, price, advertisement, promotion etc. Quality becomes the basic parameter of sale because of the heavy competition in the international market among countries.

d. **Involvement of Middleman:**In international trade, both the seller and buyer belong to different countries. So, it becomes very difficult for a physical interaction or meeting in between them. Therefore, middleman plays a significant role in these intenational business transactions. The lengthy process of international trade is made easy with the help of expert middlemen such as, indent houses, forwarding agents, clearing agents, foreign exchange banks etc.

e. **Payment in foreign currency:**The currency of different exporting and importing countries are different. Therefore, it is always required to identify a mutual accepted currency. In recent times, dollar and pound sterling are considered as such currency accepted by most of the countries in the world. These currencies are also considered as hard currencies because of their universal acceptance.

f. **International Rules and Regulations:**International trade or business is regulated and controlled under international rules and regulations. So, it becomes necessary for all the international traders to have sound knowledge of international laws and trade restrictions.

g. **Government Intervention:** Government of every country involved in the international trade control the entire business operations. Permission has to be obtained from the government before selling or buying from a foreign country. Government also grants licences for the export and import.

h. **Large number of documents:** Due to various legal formalities a large number of documents are required in international business.

i. **Risk factor:** International business is more risky in comparison to domestic business. Export or Import of materials has the distant factor. It is usually to be done through sea route or Air way. These routes of transportation may get affected by weather or environment or climate issues resulting in harming the materials or products dispatched.

12.5 IMPORTANCE OR BENEFITS OF INTERNATIONAL TRADE

The following are the main benefits of international business to the countries involved in it.

(1) **Earning of Foreign Exchange :** I t is important for all the countries involved in the internal trade to earn foreign currency. Foreign exchange can be earned by enhancing the level of export. Earning of foreign exchange develops the economic status of the country.

(2) **Optimum utilization of resources:** International trade or business ensures each country to make optimum utilization of its resources. Manufacturing of products is based on the resources available in the country. Each country focuses on production of those goods which may fetch maximum profit. It can exchange its surplus products for those goods which is not suited to produce.

(3) **Economic growth:** Economic growth and development of a country can be achieved through international trade. Import of machinery, raw material and modern advanced technologies helps in developing industrialization in a country. This also helps in improving growth prospects and generates employment opportunities. Leading countries like Japan, the United Kingdom and the USA earn valuable foreign exchange through exports and thereby developed their economy.

(4) **Creating employment opportunities :**International trade facilitates expansion and growth of agricultural and industrial activities in the countries. This results in generation of more and more employment to a large number of persons.

(5) **Improved standard of living:** International business enables the customers around the world to enjoy better quality of goods and services not produced in their home countries. The people of one country may have the option to use different types of products or services. Hence, trade between countries helps in improving the standard of living of the citizens of different countries.

(6) **Profitability:** International business is more profitable than the domestic business. In case of domestic business, prices are usually fixed at a lower level. International trade provides an opportunity to the domestic players to go global by selling their products at a higher rate which maximizes their profit level.

(7) **Stability in Price:**Prices of various commodities keep on changing from time to time due to several factors in the international market. International trade helps in stabilizing the prices by providing allowance for transport and custom duties. Duties levied on import and export can be utilized to check the price fluctuations. When the price rises in a country, level of imports can be enhanced by reducing import duty to maintain the balance. In case of decline in prices, commodity can be exported in bulk quantity to check the downfall.

(8) **Protection from Natural Disasters :**Production or manufacturing process in any country can be affected by natural calamities or disasters. In such a situation, scarcity of essential commodities may arise. Import of the essential materials from other country can fulfill the requirement. Foreign trade helps a country face the adverse situation arising due to such natural calamities.

(9) **Development of communication:** International trade is undertaken with the best possible means of transportation and communication. So, it is necessary to develop the available communication and transportation facility for doing international business among countries.

10) **International Exposure:** It is the ambition of every business to go global and trade at the international level. International trade helps in fulfilling the dreams of such business houses by providing them a platform to deal with several countries.

12.6 LIMITATIONS OF INTERNATIONAL TRADE

The main limitations of international trade or business are as follows:

(1) **Adverse impact on Economy :**Over dependency on import can adversely affect the economic condition of a country. If a country depends on buying the goods from other countries instead of producing it this may result in outflow of foreign exchange. So, foreign trade on the one hand helps the developing countries to export their products all over the world and on the other hand, economy of underdeveloped countries slows down gradually.

(2) **Impact on domestic business :**Foreign trade helps a country to get a variety of goods or services imported from the other country or countries. This has a negative impact on domestic business in the country. Liberated export and import policy may cause big threat to the existence and survival of the local business of the country.

(3) **Differences in Language:** Foreign trade or international trade refers to trade among countries of different culture, environment and most importantly language. Language becomes a barrier at the time of trading in between the business houses of different countries. As all the businessmen involved in international trade do not have knowledge of foreign languages, it creates many problems for them.

(4) **High Risk Factor :**International trade involves huge risk due to several factors such as investment, distance, risk of happening of natural calamities, accidents during transit. Such accidents may cause huge loss to the business houses involved in such trade. These risks can be minimized by taking several types of available insurance policies.

(5) **Government control :**International business is generally performed under the control of government of participating countries. The rules and regulations framed by the respective governments of the exporting and importing countries may affect the procedure of international trade.

(6) **Lack of uniform law :**The rules and regulations imposed on export and import of goods are different in different countries. So, it becomes difficult for the trader to deal with the legal aspects involved in the process of international business. Due to lack of uniformity in law, traders belonging to different countries face problems.

(7) **Difficulty in mode of payment :**Currencies of different countries are different from one another. It creates a lot of problems for the traders to make the payment for procurement of goods or services and to receive the amount due from the other party. In order to avoid this situation, trader or business houses are required to possess sound knowledge about the foreign exchange system.

(8) **Custom Duty :** Custom duty is charged by a country to regulate the export and import of the country. The basic purpose of charging tax on imported goods is to enhance the price of foreign goods which may dissuade the growing demand for those in the country. On the other hand, custom duty charged on exported goods (especially on raw materials) is to check the flow of goods to other countries.

12.7 DISTINCTION BETWEEN INTERNAL AND INTERNATIONAL TRADE

Basic	Internal Trade	International Trade
Territorial limitations	It takes place within the boundaries of one country	International trade refers to a cross border trade made among countries.
Nationality	People or firm belonging to one country participate in such trade	It includes people or firm from more than one country.
Transportation	Road and Rail are used as the medium of transportation. River, canals and coastal seas are also used for the purpose.	Sea Route and Air route are usually used for transportation of goods in this trade.
Availability of Goods	Traders can choose from the variety of goods available in the local market.	This option is not available as all the commodities cannot be exported or imported.
Currency Mobility	Domestic Currency is used. Mobility is relatively more in such trade.	Foreign currency is used. Mobility is less.
Payment Modality	Payments can be made in cash or by cheques	Payments are made only through banks.
Licence	Licence is not required for operating internal trade.	International trade requires licence as it deals in export and import of goods or services.
Political system & Risk factor	Internal trade is operated in a single country, hence controlled by the political system prevailing in that country. (So it is comparatively less risky.)	International business is affected by the political system of participating countries. (Hence, becomes more risky in comparison to internal trade.)
Middlemen	Internal trade may avoid the involvement of middlemen	Middlemen are an integral part of international business and cannot be avoided.
Documents	Limited documents are required.	Documents required are more.
Language used	Local language of the country is used during trade.	Use of foreign language is required.

12.8 EXPORT PROCEDURE

In export trade a number of formalities are required to be followed. All countries impose restrictions on exports of certain specified goods which are in short supply. Certain other considerations like security reasons or earning more revenue through sale of these commodities inside the country may also motivate a government to restrict imports, The central government declares rules, policies & procedures for export of goods. Export procedure differs from country to country depending on their foreign trade policy. Normally, the procedure for export from India involves the following steps.

1. **Receipt of Enquiry and Sending Quotations:** The intending buyer of a commodity sends an enquiry to the exporter either directly or through an indent firm. The prospective buyers request the exporter to provide information such as (i) description of goods in terms of quality, size & design etc (ii) price (iii) terms of shipment (iv) terms of payment (v) delivery schedule (vi) method of packing (vii) last date of validity of offer etc.

   The quotation or proforma invoice is the answer to all the above information supplied by the exporter. Usually, three copies of quotations are sent by exporter to the importer. If the importer agrees to the terms & conditions of the offer, he signs one of the copies & returns it to the exporter. Now it becomes an export order or indent. Sometimes the importer can also prepare his own indent and send it to the exporter.

2. **Receipt of Indent or Order:** An indent or order is the request from the buyer to the seller for supply of goods. If the buyer is satisfied with the terms of the exporter, he places order either directly or through an Indent House. Indent House charges commission for their services. There are two types of indents such as (i) opent indent (ii) closed indent. In open indent, all the necessary facts are not given by the importer. The order takes a final shape after negotiation between the exporter & importer. In closed indsents, a fixed offer is made regarding price of goods & other terms.

3. **Enquiry about credit worthiness:** Importer and Exporter are unknown to each other. So, it is necessary for the exporter to verify the creditworthiness of the

importer. The main objective of such an enquiry is to assess the risk of non-payment by the importer. To minimise such risk the exporter may either ask for full payment from importer or the exporter may demand a letter for credit (L/C) from the importer which is issued by importers' bank. L/C is a guarantee letter issued by the importers bank stating that it will honour the export bills to the bank of the exporter up to a certain amount. It is the most secure and appropriate mode of payment for settling international transactions.

4. **Obtaining Export Licence:** Export of goods in India is controlled and regulated under the Import & Export (control) Act, 1947. Goods covered under export control are mentioned in schedule I of Export Control Order, 1962. To export such goods, a person must obtain export licence from the central government.

Procedure to obtain a licence: The exporter has to make an application to the Chief Controller of Imports & Exports in a prescribed form. Such an application must be accompanied by the following documents :

(i) Chalan showing that licence fees have been deposited in the State Bank of India.

(ii) An income tax verification certificate showing that the applicant has no arrears of tax.

An export licence is valid for a period of three months. This can be extended upto six months. The extension will be granted only if the exporter satisfies the authorities that failure to export was because of reasons beyond his control.

No export licence is required for exporting the following goods:

(a) Exports by the central government

(b) Personal luggages of passengers or members of the crew of a ship going outside India.

(c) Permitted goods exported by post

(d) Goods covered under Open General Licence (OGL)

5. **Depositing Foreign Exchange:** According to the provisions of the Foreign Exchange Regulation Act (FERA) 1947 every exporter must deposit whatever foreign exchange he earns from his export with the government or the Reserve Bank of India within a specified time. For this pupose the exporter has to give an undertaking by filling in a specified form (GR forms). This form requires information on

   (a) Value of goods being exported.

   (b) Mode of receiving payment

   (c) Name of the foreign exchange dealer through whom dealing are to be made

6. **Fixation of Exchange Rate :** Exchange rate is the rate at which the currency of one country is exchanged for the currency of another country. This rate keeps on changing with the change in demand for the currencies in the foreign exchange market. Usually there is a time gap between the sending of goods and receiving of the payment. In case of an adverse change, the exporter will suffer heavy losses. To avoid this, the rate of exchange may be fixed at the time of the contract.

7. **Collection of Goods:** After receiving the order and finalization of all other terms and conditions, the exporter collects the goods. If in stock, goods are assorted and packed and if not in stock, then they are procured from other suppliers.

8. **Packing & marking of Goods:** Since goods travel over long distances, packing is a very important aspect. The goods should be packed properly to prevent damages en route. Packing & marking are to be done as per the instructions of the importer. If no clear cut instruction are given by the importer, then prevailing practices are followed.

   Marking of goods helps in recognizing them while they are in store. So, each package should be stamped with a district mark pointing out the port of distination, the name of importer, the gross & net weight etc.

9. **Reserving shipping space:** Well in advance of the actual shipping of goods, the exporter should apply to a shipping company for a shipping space. In his application, the exporter has to maintain the type of goods to be exported, probable date of shipment and the port to which the goods will go.. Upon acceptance of the application, the shipping company issues a 'shipping order'. This directs the Captain of the ship to carry the goods on board. If the exporter does not want to involve himself in the complexities of forwarding the goods, he may take the help of 'forwarding agent'. The forwarding agent books space on board of the most convenient ship and looks after all the details regarding forwarding of goods. He carries the goods from the godown of he exporter; clear them through the customs; and finally arranges for them on board the ship. When goods to be exported are very large, the exporter may hire the whole ship. Such an arrangement is called 'charter party'.

10. **Meeting Custom Formalities:** Before the goods can go on the board the ship some formalities are to be complied with to obtain custom clearnance. For this purpose, following documents are to be submitted:

(a) Three copies of shipping bill

(b) AR-4 form (regarding excise duty payment)

(c) GR form (declaring value of goods)

(d) Original order

(e) Letter of credit

(f) Commercial Invoice

(g) Packing list (needed for inspection goods)

(h) Declaration form to the effect that particulars of shipping bill are in conformity with the export order.

A Shipping Bill is prepared in triplicate giving information about the name of the exporter, description of goods, name of the ship, port to which the goods are being sent. There are three types of Shipping Bills such as:

(a) White Shipping Bill for duty free goods.

(b) Yellow Shipping Bill for dutiable goods.

(c) Green Shipping Bill for duty drawback goods. (in this case, duty is refundable).

Another form known as 'Application to Export' has to be filed in duplicate. This is presented in the Shipping & Landing Duties Office. Both Shipping Bill an the Application to Export are presented in the custom office where the exporter gets an Export Pass. This pass helps him to carry the goods through the gates of the dock.

11. Obtaining Consular Invoice: In certain cases, import duties are charged ad valorem i.e. on the basis of the value of goods. At the port of destination, the goods may have to be opened to calculate the value of goods and the duties charged on them. To avoid this difficulty, a consular invoice may be sent to the importer. A consular invoice is obtained from the trade consul of the importing country placed in the exporter's country. This is a certificate regarding the value of goods which helps in calculation of custom duties to be paid by the importer. Precisely speaking, consular invoice helps in getting the goods cleared easily through the customs.

12. Effecting Insurance: The shipping companies refuse to carry the goods unless they are insured. Thus goods are insured against sea perils before they are dispatched. A marine insurance policy is purchased from an insurance company. This insurance will compensate the loss if it occurs while the goods are in course of transit. The premium is payable either by the exporter or by the importer, as agreed upon. For those who undertake exports and imports on a regular basis, a floating insurance policy is most suitable. It provides general insurance for a specified period and separate insurance is not required for each lot of goods.

13. Shipment of Goods: After getting clearances from the custom authorities, exporter delivers the goods to the dock or ship. When delivery is made to the dock, a Dock Receipt is received. When goods are directly delivered to master of the ship or his assistant, called the Mate, exporter will get a Mate's Receipt. If there is any defect in packing, the mate will note this fact on the Mate's Receipt. Such a receipt is known as 'foul or dirty' receipt. If the mate's Receipt does not contain any adverse remark, it is known as' clean receipt'.

14. **Bill of Lading:** After getting the Mate's Receipt, the exporter presents it in the office of the shipping company where freight is calculated and paid by the exporter. After receiving the freight charges the shipping company issues a document called Bill of Lading. This document proves that the shipping company has accepted the goods mentioned in the bill of lading. It contains the following information:

    (a) name of the shipping company.

    (b) name of the ship

    (c) names of exporter & importer.

    (d) Description of goods.

    (e) Port where goods are loaded

    (f) Port of destination

    (g) Particulars regarding packing

    (h) Terms under which the goods are being carried

    (i) Freight details

A bill of lading may be clean bill of lading or foul bill of lading. A clean bill of lading implies that everything is alright & there is no adverse remarks. When packing is not satisfactory, a foul or elapsed bill of lading is issued.

Normally, three copies of bill of lading is prepared. One is retained by the shipping company and other two copies are given to the exporter who sends them to importer. The importer presents it to the captain of the ship to take release of the goods.

15. **Preparation of Invoice:** After arrangement for shipping of goods is complete, the exporter prepares invoice on the basis of quotations. Invoice is prepared in triplicate showing the quantity, quality, description & price of goods. It also contains

indent number, name of the ship, packing and marking details etc. Invoice is made according to terms and conditions mentioned in the quotation.

16. Obtaining Certificate of Origin: Some countries provide concessions in tariff if the goods are imported from a friendly country. For this purpose, the importer may request the exporter to send a certificate of origin from a chamber of commerce or the trade consul of the exporting country. A certificate origin mentions that the goods being exported were originally produced in the exporter's country..

17. Securing Payment: When all the formalities are over and goods are consigned, the final step is securing payment from the importer. Any one of the following methods may be adopted by the exporter for securing payment.

(a) Documentary Bill of Exchange: Here, the exporter draws a bill of exchange on the importer asking him to make payment to the specified bank. Documents such as bill of lading, insurance policy, certificate of origin and invoice etc are attached with the bill. For this reason it is known as documentary bill of exchange. The bill is marked either D/P (Documents Against Payments) or D/A (Documents Against Acceptance). In case of D/P bill, the importer's bank will release the documents only when the importer makes payment. In case of D/A bill, an acceptance of bill is sufficient. After acceptance, the bill is returned to the exporter. The exporter presents the bill on its maturity to collect payment.

(b) Discounting the Documentary Bill: If the exporter wants immediate payment, he may discount the D/A bill with a bank. The banker receives a letter of hypothecation from the exporter before it makes payment. If the importer does no pay the bill on due date, the bank can sell the goods.

(c) Documentary letter of credit: In this method, the importer will request his bank to issue letter credit to his agent in exporter's country. The exporter can present documentary bills to the bank and bank immediately pays the exporter against letter of credit. This method involves no risk and this method is also favourable to the exporter and importer.

(d) **Foreign Bank Draft:** Here, the importer deposits the value of goods in a local bank in terms home currency and gets a draft payable at specified bank in exporter's country. On receipt of draft, the exporter can get payment by converting the foreign currency into cash through the bank.

(e) **Telegraphic Transfer (TT):** It is a transfer of money by Telex issued by a bank. It is the fastest mode of remittance. There is neither stamp duty nor loss of interest & time. The cost of this method is higher because of such extra facilities.

18. Claiming Export Incentives: It is the last stage in export procedure. Exporter claims various export incentives available to him by the government. They are as follows:

(a) Import Replenishment: It refers to the issue of import licence to the exporters for import of raw materials required to produce exportable goods.

(b) Cash Compensatory Support: Cash compensation is given to support the export of specified goods.

(c) Duty Drawback: Exporters are entitled to get refund of import duty paid on imported raw materials and excise duty on manufactured goods which are subject to export.

13.6.1 IMPORTANT DOCUMENTS USED IN EXPORT TRADE

After discussing the export procedure we know that following important documents are used in export trade.

1. Export order/indent
2. Letter of credit
3. Shipping order.
4. Shipping Bill
5. Dock Receipt
6. Mate's Receipt
7. Bill of Lading
8. Insurance policy
9. Export Invoice.
10. Consular Invoice
11. Certificate of origin
12. Documentary Bill of Exchange.

13.6.2 DIFFERENT TYPES OF PRICE QUOTATIONS

International trade transactions involve a lot of expenses and these are usually shared between the exporter and the importer. Normally, the exporter and importer decide between themselves who will bear what types of charges. Basing on this, following are the different types of price quotations:

1. **Loco Price:** This represents the cost of the product to the manufacturer plus his profits. The buyer pays all the expenses for taking the goods from the seller's place to his own godown. This is also known as ex-factory price or ex-works' price.
2. **Free on Rail** (**F.O.R.)-** This price includes the cost of the products plus expenses of carrying the goods to the railway station and loading them on wagons. All other expenses are met my the buyer.
3. **Free on Board (F.O.B.)** It includes cost plus the expenses involved in loading the goods on board the ship. It includes cost of transportation to the port, dock charges & export duty, if any.
4. **Free Alongside Ship (F.A.S):** It represents the cost of goods plus expenses connected with putting the goods alongside the ship. Other expenses such as loading charges, freight etc are paid by importer.
5. **Cost and Freight (C & F):** This price is determined by adding freight charges to F.O.B price. It does not include insurance charges. The quotation also mentions the name of the port at which delivery will be made. For example, C & F England.
6. **Cost, Insurance & Freight (C.I.F):** This price is determined by adding insurance charges to C & F Price.
7. **Cost, Insurance**, **Freight and Interest (C.I.F.I):** It is determined by adding interest payable on the capital invested in the goods to C.I.F. price. If commission to agent is included in the quotation, it is called CIFI & C. If risk of exchange fluctuation is also covered, it is quoted as CIF & E.

8. **Ex-Ship Price:** It implies that the exporter will bear all expenses until the ship carrying the goods arrives at the port of discharge. The importer has to pay the unloading charges and other expenses of taking delivery of goods.

9. **Landed Price:** Here, in addition to ex-ship price, exporter pays the unloading charges from the ship.

10. **In-Bond Price:** Here, exporter pays all the expenses till the goods are delivered into a bonded warehouse at the specific port. The importer will pay the expenses for withdrawal of goods from the bonded warehouse.

11. **Duty-paid Price:** Here, the exporter pays the import duty along with the cost of carrying the goods to the bonded warehouse.

12. **Franco or Rendu:** This includes the cost and all other expenses involved in placing the goods in the hands of the buyer. Importer need not pay any thing for taking delivery of goods. So, it is also known as **free delivery of goods**.

12.9 IMPORT PROCEDURE

Import trade involves buying of goods from a foreign country. Import trade is governed by the import policy of the government. Due to regulations imposed on import scarce (i) foreign currency is properly utilized. (ii) import of luxury goods is restricted, (iii) indigenous industries are given protection.

Import procedure differs from country to country depending on the existing import policy of that country. In India, Government declares import policy once in six months. An intending importer must check this before he can proceed to import goods.

In India, import procedure involves the following steps:

1. **Trade Enquiry:**

A trade enquiry is a written request by the intending importer to the exporter to supply the following information: (i) specification of goods, (ii) Price, (iii) Quantity, (iv) Terms of shipment (FOB, FOR etc) (v) Method of packing (vi) Method of delivery, (ii) Terms of payment, and (viii) Last date of validity of the offer.

In response to the enquiry, the exporter prepares a quotation, known as 'Proforma Invoice' and sends it to the importer. Importer compares different offers and decides the exporter to whom import order/indent can be placed.

2. Obtaining Import Licence:

Certain goods can be imported freely while in some cases obtaining licence is essential. Government, for issuing licence, has divided all types of goods into two groups. The first group is covered under Open General Licence (OGL) where a list of commodities can be imported freely by obtaining a general permission only. The second group is covered under 'Restricted Licence' for which import licence is required.

For the purpose of issuing licences, importers are divided into-

(i) Established importer of actual users: They import those goods which they need in production.

(ii) Registered exporters: They import raw materials, P/M etc to facilitate export.

(iii) Special agencies: It includes undertaking set up by the government to import goods required by public sector undertaking

An import licence may be either

(i) General Area Licence

(ii) Specific Area Licence

In case of General Area Licence, the importer can import from any country while in case of Specific Area Licence, an importer can import only from the specific areas mentioned in the licence.

The application requesting for the import licence must be accompanied by the following documents:

(i) Treasury challan showing that the licence fees have been deposited.

(ii) Income tax verification certificate showing that the importor has been paying his taxes regularly.

(iii) A certificate from a Chartered Accountant showing the value of goods imported by him during the previous years.

Two copies of import licence are given to the importer. He has to present one of them before customs authorities to get his goods cleared through customs. The second copy is required to make payment to the exporter through a dealer in foreign exchange.

Besides the import licence, the importer has to obtain Quota Certificate which specifies the maximum amount of goods that can be imported by the licencee.

3. **Obtaining Foreign Exchange:** In case of import transaction, the supplier resides in a foreign country that demands payment in foreign currency. The Exchange Control Department of the RBI regulates foreign exchange transactions in India. Every importer has to secure the sanction of foreign Exchange. For such a sanction, the importer files an application along with the import licence & quota certificate to a bank authorized by RBI to issue foreign exchange. After scrutinizing the application, the bank sanctions the necessary foreign exchange to the importer.

4. **Placing order or Indent:** The next step is to place the order with the exporter. This may be done directly or through an indent firm. If it is an open indent, then the prices and other terms are settled by the importer's agent residing in the exporter's country. If it is a closed indent all the terms and conditions are specified clearly.

   The importer cannot directly import canalized items. He should place an order with canalizing agency who will import & supply the same . [Canalization means channelization of goods through a government agency like Minerals & Metal Trading Corporation (MMTC)]

5. **Sending Letter of credit (L/C):**

   A letter of credit is a proof of creditworthiness of the importer. It is issued by a bank in favour of the exporter. It contains an undertaking by the bank to honour bill of exchange drawn by the exporter on importer up to the amount specified there-in. L/c is issued by a bank on the strength of the amount deposited by the importer with the bank.

Types of Letter of Credit: A bank issues any of the following types of letter of credit.

(i) **Clean or open or unconditional Letter of Credit:** It does not stipulate any conditiona for the acceptance and payment of the bill of exchange.

(ii) **Conditional or Documentary Letter of Credit:** It stipulates the condition that the bill of exchange must be accompanied by the documents of the title to the goods. Otherwise the bill will not be honoured.

(iii) **Revocable or Non- confirmatory Letter of Credit:** This type of letter of credit can be reoked or withdrawn at the discretion of the issuing bank without prior notice to the exporter.

(iv) **Irrevocable or Confirmatory Letter of Credit:** It cannot be revoked or withdrawn by the issuing bank without the consent of the exporter.

(v) **Revolving Letter of Credit:** Here, the amount of credit is automatically reversed back to the original amount after such amount has once been paid on presentation of the bill. The importer is not required to apply every time a letter credit is needed. It is also called circular letter of credit.

(vi) **Fixed Letter of Credit**: In this case, the amount of financial obligation of the issuing bank is fixed either in one bill or more than one bill.

6. **Obtaining Shipping Documents:** After dispatching the goods the exporter informs the importer about the probable date of arrival of the ship. The exporter draws a bill of exchange on the importer and sends it through his banker to the banker of the importer along with other shipping documents. If the bill is marked D/A (Documents Against Acceptance) then the banker will hand over the documents when importer accepts the bill. If the bill is marked D/P (Documents Against Payment) the banker will hand over the shipping documents only after receiving payment from the importer.

7. **Clearing the Goods:** After either accepting or paying the amount of the bill, the importer waits until the ship arrives at the port of destination. When the ship arrives the importer makes arrangements for the clearance of goods from custom authorities.

For clearance of goods, the importer has to comply with the following formalities:

(i) **Delivery order:** If the freight for the goods has not been paid by the exporter, the importer has to pay the freight. Only after making payment, he gets the delivery order from the shipping company.

(ii) **Port-Trust Dues Receipt:** The port trust authority collects a charge on all goods entering the boundaries of the country. This charge represents the cost of services rendered by the dock authorities for landing of the goods. When importer pays this charge to the 'port trust office' or 'landing & shipping dues office'- a port trust dues receipt is issued to him.

(iii) **Bill of Entry:** It is a document required in case of import. It is like shipping bill in case of exports. A bill of entry is a document which shows goods of stated values, description & quantity entering into the country from abroad. The custom office supplies this form which is prepared in triplicate. Three different coloured forms are used for this purpose. The black form is for free goods, the blue form is for dutiable goods and the violet one is for bonded goods.

(iv) **Bill of sight:** When the importer is not completely source about the goods being imported, he fills in another form known as 'Bill of Sight'. He gives there-in whatever information he has got and gives a declaration that he does not know any thing else.

(v) **Bonded warehouse:** If the goods are subject to import duty, the goods are released only after the duty is paid. Port authorities maintain godown for goods on which duty has not been paid. Here imported goods may be kept until they are taken delivery at a low rent. These are known as Bonded Warehouses. The bonded warehouses may be used by the importers in the following situations:

(a) When the importer has no warehouse of his own.

(b) When he has a plan to re-export the goods.

(c) When he wants to pay import duty in installments.

(vi) Clearing Agents: These are specialized middlemen engaged in the work of performing formalities for taking delivery of imported goods. When importer does not want to take the botheration of complying with import formalities, he appoints clearing agents. It saves a lot of time and efforts. He charges commission for his service.

8. Making Payments: The mode of payment for import goods depends upon the agreement between the importer and exporter. Usually, the exporter draws a bill of exchange which the importer accepts & makes payment. If payment has not been made in advance, the importer may adopt any one of the following methods:

(i) D/A Bills; (ii) D/P Bills; (iii) Letter of Credit; (iv) Payment through exporter's agent.

9. Follow Up: This is the last stage in the import procedure. After taking delivery of goods, the importer ascertains if there is any discrepancy with the specifications and damages if any. When there is discrepancy and he is not satisfied with the quality of goods, he can negotiate with the exporter to settle the matter.

DOCUMENTS USED IN IMPORT TRADE:

Following documents are used in import trade:

i. Import Licence and Quota Certificate
ii. Indent or order
iii. Letter of Credit
iv. Bill of Lading
v. Ship's Report
vi. Bill of Entry
vii. Bill of Sight
viii. Marine Insurance Policy
ix. Delivery Note
x. Documentary Bills.

12.10 QUESTIONS

OBJECTIVE AND SHORT ANWER TYPE QUESTIONS

Q.1 Chose the correct alternative

(a) Business taking place between countries is known as

(i) Internal Business (iii) Country-wise Business

(ii)Indirect Business (iv) International Business

(b) Buying of goods from a foreign country to the home country is

(i) Export trade (iii) Entrepot Trade

(ii) Import Trade(iv) Domestic Trade

(c) In International trade, both buyer and seller belong to

(j) Same country (iii) same city

(ii) Different countries (iv) Different cities

(d) Full form of FDI is

(i) Foreign Development Investment (iii) Foreign Direct Investment

(ii)Financial Development in India (iv) Foreign Direct Institution

(e) First step in the procedure of import trade is

(i) Obtaining import Licence (iii) Placing an order

(ii) Making Trade Enquiry (iv) Sending letter of credit

(f) Document prepared in triplicate in import is

(i) Letter of credit (iii) Marine Insurance Policy

(iv) Bill of entry (iv) Delivery order

(g) Of the following, the one which is not a document of imort trade is

(i)Indent (iii) Invoice

(ii) Bill of lading (iv) Forwarding Agent's Report

(h) Incomplete indent is also called a/an

(i) Open Indent (iii) Shipping order

(ii) Closed Indent (iv) Shipping Bill

(i) A document whereby the shipping company acknowledges the receipt of goods on board the ship is.

(i) Dock Receipt (iii) Bill of lading

(ii) Certificate of origin (iv) Document against acceptance

(j) Price quotation bearing all expenses until the ship carrying the goods arrives at the point of discharge is

(i)Ex-ship price (iii)C.I.F. Price

(ii)Landed Price (iv) Inbound Price

(k) AR-4 form is used for

(i) Declaring Value of goods (iii)Commercial invoice

(ii)Excise duty rebate (iv) Letter of Credit

(l) White shipping bills are used for

(i)Dutiable goods (iii) Duty drawback goods

(ii)Duty free goods (iv) Duty paid goods.

Q.2 Correct the underlined portions in the following sentences

(a) International trade means trade between persons of different <u>states.</u>

(b) In multilateral trade only two countries are involved

(c) Exporter gets a mate's receipt after he delivers the goods to the dock

(d) Bill of lading is required for calculating import duties at the port of destination.

(e)A clearing agent is appointed by an exporter.

Q.3 Fill in the blanks:

(a) Freign trade is classified under three categories namely import, export and_________trade

(b) A/An________letter of credit cannot be withdrawn

(c) A bill of lading is a memorandum signed by_________of the ships

(d) _________ letter of credit is a guarantee for the acceptance and payment of bills without any condition.

(e) Indents are of two types i.e. open & __________

(f) L/C stands for _____________

(g) Fixed letter of credit fixes the___________

(h) A bill of entry is made in__________copies

(i) A bill of ________ is prepared only when complete information is not available about the goods.

(j) A dock warrant is issued by a___________.

(k) A dock challan is fixed by the__________.

(L) __________trade involves importing goods from one or more countries with the purpose of exporting them to some other countries.

Q.4 Express each of the following in one word/term:

(a) Trade between three or more countries

(b) Import with an intent to export

(c) The letter of credit in which the amount of credit there in is automatically reversed back to the original amount

(d) A form through which the value of exported goods is declared.

(e) The other name of order in the international trade.

Q.5 Answer the following within two sentences each:

(a) What is international trade?

(b) What is entrepot trade?

(c) State any two merits of international trade.

(d) Define bill of lading

(e) Distinguish between dock receipt & mate's receipt

(f) What is CIF Price?

(g) What do you mean by export trade?

(h) What is import trade?

Q.6 Answer the following questions within six sentences each

(a) Explain any three features of international business

(b) Write any three merits of international trade.

(c) State any three demerits of international business.

(d) State any three distinction between intenal and international trade.

(e) Mention any three steps followed in import.

Long Answer Type Question:

1.What is international trade? Discuss the need and significance of international trade.

2. Distinguish between internal and international trade.

3. Discuss the characteristic features of intenational trade.

4. What is the necessity of international trade for a country? Point out its limitations.

5. Describe the procedure of importing goods into India.

6. Explain export procedure.

7. Explain the methods by which an exporter obtains payment for goods shipped abroad.

8. What is a letter of credit? Explain various types of letter of credit.

9. What is bill of lading? Discuss various types of bill of lading.

10. Discuss types of price quotations used in international trade.

11. Explain the important documents involved in export of goods from India.

12.11 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1. a (iv); (b) (ii); (c) (ii) , (d) (iii), e (ii), f(ii) , g(iv), h(i), (i(iii) j (i) , K(ii), l(ii)

2. a Countries; b. Bilateral; c. Dock Receipt, d. Cretificate of origin e. Importer.

3. a. Entrepot; b. Irrevocable; c. Master, d. Clean; e. Closed; f, Letter of credit; g. Maximum amount, h. Three, i. Sight; j. Warehouse keeper; K. Importer ;l. Entropot

4 a. Multilateral Trades ,b) Entrepot Trade, c) Revolving Letter of credit ,d) GR Form

e. Indent

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CHAPTER-13

WAREHOUSING

STRUCTURE

13.1 INTRODUCTION

In a business, there are several procedures involved commencing from production to distribution of products. It is not always possible to distribute the products immediately after manufacturing. This is illustrated in the example of agricultural products. Industrial products take a long time to reach the consumers. It requires an effective system to store and preserve the products to make them available for consumption in future also. Warehousing is a system developed to meet these storing and preservation requirement of the manufactured products. A warehouse is a place used for the purpose of housing and preserving of wares.

13.2 MEANING OF WAREHOUSING

Warehousing refers to a process of storing and preserving of products from the time of its manufacturing till their sales or utility. This system ensures effective management and proper maintenance of the products. The place where goods or products are stored for future use is termed as warehouse. Warehousing facilitates storing of various goods over the year and issue those as and when required. In this way, warehousing creates time form of utility by reducing the gap between production and distribution.

13.3 NEED FOR WAREHOUSING

Warehousing system is required in a business due to the following reasons:

1. Meet the demand of products: Manufacturing of goods or products are made to sale in the market. Sales and demand for product may fluctuate and change from time to time. There is no guarantee about the volume of sales except contract sales. So, it is required to store and preserve the manufactured goods to meet customers demand at any point of time. Warehousing system helps in storage of goods anticipating demand for the products in future. Goods which are not consumed immediately can be stored in warehouses to meet future needs.

2.Helps in meeting seasonal Demand: There are various commodities required during a particular season or time. These are regarded as seasonal products such as woolen clothes, electric fans, raincoats, umbrellas etc. These products are manufactured throughout the year but demanded only during a particular season. Such goods must be preserved during the off season in order to make them available at the time of demand.

3. **Price stability:** It is required to store and preserve goods or products to control the prices. Otherwise, it may lead to monopoly by some traders and make violent changes in prices. Warehousing helps in storing excess supply of products to avoid the problem of price fluctuations. In case of shortage, products are issued from the warehouse to control the price level changes. By adopting this technique, a balance can be maintained in the demand and supply.

4. Preserving Raw Material: Storing of raw materials required for production of goods is an integral part of all business houses engaged in manufacturing and selling. Warehouse is the place where the raw materials can easily be preserved for use in the process of manufacturing in future. Such a course of action ensures uninterrupted flow of products in the market. For example, a businessman dealing in agricultural products may purchase in bulk quantity immediately after harvesting. It is required to store these products at a safe place because all those cannot be utilized at a time. The surplus crops or materials may be required for production in near future, hence, these are kept in the warehouse.

5. Used in both wholesale and retail trade:

Storage facilities are required in both wholesale and retail trade. It is the responsibilities of the wholesaler to ensure an uninterrupted flow of goods to retailers. On the other hand, retailers require sufficient quantity of goods for meeting the need of consumers on demand. Warehousing system helps both wholesaler and retailer to store the goods and meet their respective requirements in time.

6. Helps in processing and preserving products: There are some products stored for the purpose of curing and due processing e.g. Tobacco, Coffee etc. Some other type of product, if preserved for a long period, gives better return. For example, Gur, Rice and liquor are stored to secure higher prices. There are a number of goods which can be stored with the expectation of price rise which fetches more profits to the business. Perishable goods like fruits, vegetables and butter are stored in cold storages to ensure regular supply all over the year.

13.4 FUNCTIONS OF WAREHOSUING

1. Storage: This is the basic function of warehousing. Surplus commodities which are not required immediately can be stored in warehouses. They can be supplied as and when needed by the customers.

2. Price Stabilization: Warehouses play a crucial role in the process of price stabilization. It is achieved by creating time utility. Warehouse helps in storing the goods at the time when their supply is in abundance. These goods are released during high demand for the products. In this process, fall in prices is balanced and rise in prices of the products during the slack season is avoided.

3. Risk Taking: There are several risk factors involved in the process of warehousing such as theft, deterioration, fire etc. It is the responsibility of the warehouse keeper to ensure the safe keeping of the goods stored in warehouse. Warehouses are constructed in a manner to minimize these risks. A warehouse keeper has to take due care of the goods and safeguard them against various risks. If there is any loss or damage is caused to goods, warehouse keeper shall be liable to the owner of the goods.

4. Financing: At the time of storing the goods in a warehouse, keeper issues receipts to the person keeping his goods on rent in the warehouse . Owner of goods, stored in the warehouse, can use the receipt as collateral security for the purpose of taking loan from bank or financial institutions. In this manner, warehousing acts as a source of finance for the businessmen for meeting financial requirements of business.

5. Grading and Packing: Warehouses, at present, provide several facilities for packing, processing and grading of goods. Goods can be packed in convenient sizes as per the instructions of the owner. In this process, they work as a distribution centre.

7. Employment generation: Warehousing system helps in generating employment by providing jobs to many people in the warehouses. They provide direct employment facility by enhancing the scale of operations.

8.Encouraging foreign trade: In case of import trade, importer can store the imported goods in a bonded warehouse, in case he is unable to pay custom duty immediately. He has to pay such duties in installments and withdraw the goods as per his requirement.

13.5 TYPES OF WAREHOUSES

Warehouses may be classified broadly into the following categories:

1. **Private Warehouse:** The private warehouses are owned, controlled and regulated by big manufacturing units and merchants to fulfill their requirements of storage. Some big business houses need large storage capacity on a regular basis and they can afford money, can construct and maintain their private warehouses. A big manufacturer or wholesaler may have a network of his own warehouses in different parts of the country. General public are not usually allowed to use these warehouses.

2. **Public Warehouses:** A public warehouse provides storage facilities to the general public for a specific charge. Such warehouses may be owned and operated by an individual, port trusts, the government, cooperative societies etc. It has to work under a licence from the government in accordance with the prescribed rules and regulations. Public warehouses play an important role in the marketing of agricultural product and therefore the government is encouraging the establishment of public warehouses in the cooperative sector. Central Warehousing Corporation and State Warehousing Corporations regulate and control such warehouses in public sector. Most of the business enterprises cannot afford to maintain their own warehouses due to huge capital investment. Some business enterprises can meet their storage requirements easily and economically by making use of the public warehouses without large investment. Public warehouses provide better storage facilities to small manufacturers and traders at low cost. These warehouses are properly constructed and protected round the clock to ensure safe custody of goods. Public warehouses provide better storage facilities to small manufacturers and traders at low cost. Public warehouses are generally located near the junctions of railways, highway and waterways for availing better transportation facilities. Public warehouses provide several facilities for the inspection of goods by prospective buyers. They also permit packaging and grading of goods. The public warehouse receipts are good collateral securities for borrowings.

3. **Bonded Warehouses:** Bonded warehouses obtain licence from the government to accept imported goods for storage until the payment of custom duty. They are located near the ports. These warehouses are either owned or operated by the government or by custom authorities. The whole control and regulations of such warehouses remain with custom authorities

    In a bonded warehouse, it is required to give an undertaking or 'Bond' to the custom authorities. Because of this bond, it will not allow the goods to be removed from warehouses without the consent of the custom authorities. The goods are held in bonded warehouses and cannot be withdrawn without paying the custom duty or dock duties. The goods stored in bonded warehouses cannot be withdrawn by owner without the permission of custom authorities.

Bonded warehouses are very helpful to international trade by helping importers and exporters. If an importer is unable or unwilling to pay customs duty immediately after the arrival of goods he can store the goods in a bonded warehouse. He can withdraw the goods in number of installments by payment of custom duty. In case the importer wants to export the goods, he is not required to pay custom duty. Moreover, a bonded warehouse provides all those services provided by public warehouses. Goods lying in a bonded warehouse can be packed, graded and branded for the purpose of sale. Even small importers not having their warehouses can store their goods in bonded warehouse for a nominal charge. A warehouse which is not a bonded warehouse is a duty paid warehouse.

4. **Cooperative Warehouses :** Cooperative warehouses are owned, regulated and controlled by cooperative organizations. In our country, the National Cooperative Development Corporation operates developed cooperative warehouses. Such warehouse facilitates are also provided by cooperative marketing societies to their members.

5. **Government Warehouses :** Government warehouses are regarded as warehouses owned operated and controlled by public sector undertakings or by the government directly. These warehouses provide better facilities at reasonable rate to the customers. Warehouses of the Central Warehousing Corporation, Food Corporation of India and State Trading Corporation are the examples of government warehouses.

12.6 DOCUMENTS USED IN WAREHOUSING

There are several documents used in the process of warehousing as discussed below :

a. **Warehouse Warrant :**Warehouse warrants are the documents issued by a warehouse keeper to the owner of the goods at the time of storing of goods in a public or bonded warehouse. This document is treated as a document of title which can be transferred as endorsement and delivery. It represents that the specified goods are stored in the warehouse for safe custody. Ownership of the stored goods in the warehouse can easily be transferred to the buyer through warehouse warrant.

Warehouse warrant is a document which includes the following information:

i) Name and Location of the Warehouse

ii) Name and address of the owner of goods

iii) Date of receipt of goods

iv) Rent charged for storage of goods

v) Period of time for which goods are accepted.

vi) Signature of the owners of the warehouse and the goods.

b. Receipt issued by Warehouse Keeper

These receipts are regarded as an acknowledgment of the goods stored by the warehouse keeper. It works as an evidence of storing the goods specified in the warehouse. It is not a document of title like a warrant.

c. Delivery Order

Delivery order refers to an order in writing by the owner to withdraw goods from the warehouse. Warehouse authorities demand the delivery order to make the delivery of the goods. The warehouse keeper retains the delivery order and makes a note regarding the delivery of products on warehouse warrant. This order is used for delivering all or a part of the storage goods to another person.

A delivery order may include the following information:

i. The date of issue of the delivery order

ii. Name and address of the person to whom the delivery is made

iii. Signature of the owner of the goods on delivery order.

13.7 REQUISITES OF AN IDEAL WAREHOUSE

An ideal warehouse has the following characteristics:

1. **Convenient Location:** Warehouse should be located at such a place where it is convenient for various distributing agencies, consumers. Further, it should be close to the means of transportation.

2. **Safety and Security**: Warehouse should be built strong to be safe from pilferages, thefts etc. It should provide protection against insect, fire, corrosion, heat, humidity, evaporation etc. Incharge of warehouse should go round the warehouse at frequent intervals to ensure that goods remain in proper condition.

3. **Suitability:** It should be suitable for the products to be stored. It should have sufficient space for storing the goods in bulk quantities.

4. **Economy:** It should be economical to operate and maintain such that it will provide maximum service at the lowest cost.

5. **Adequate space:** A warehouse should have sufficient space keeping the present as well as future requirements into consideration.

6. **Lay-out:** 'A place for everything and everything in its own place"- is associated with ideal store-keeping. Ideal warehouse should have scientific layout for effective control & supervision.

13.8 QUESTIONS

Objective and short Answer Type Question

Q.1 Choose the correct alternative from the following

(a) Warehousing is a

(i) Production function (iii) Marketing function

(ii) Finance function (iv)Transport function

(b) Storage removes the hindrances of

(i) Time & money (iii) Place & Time

(ii) Persons & Time (iv) Money & persons

(c) Primary function of warehousing is

(i) Stabilization of price (iii) Sharing of risk

(ii) Financing (iv) Storage of goods

(d) Of the following the one which is not a function of warehouse is

(i) Consolidation (iii) Breaking the bulk

(ii) Manufacturing (iv) Price stabilization

(e) Warehouses used exclusively by traders to store their own goods are known as

(i) Bonded warehouse (iii) Private warehouse

(ii) Public warehouse (iv) Co-operative warehouse

(f) Goods for which import duty is not yet paid are kept in

(i) Co-operative warehouse (iii) Private warehouse

(ii) Bonded warehouse (iv) Government warehouse

(g) Warehousing helps in

(i) increasing the price of goods (iii) stabilizing the price.

(ii) decreasing the price of goods. (iv) anticipating price trend

(h) Storage creates

(i) Production utility (iii) form utility

(ii) Esteem utility (iv) Time utility

Q.2. Fill in the blanks

(a) _________ warehouses are used to store imported goods.

(b) _________warehouses are generally owned & managed by the manufactures and traders.

(c) Central warehousing corporation is a ___________warehouse.

(d) _________warehouses are meant for preservation of perishable commodities.

(e) _________ warehouses are established by Co-operative societies.

Q3.Correct the underlined portion in the following sentences.

(a) Warehousing helps in <u>delaying</u> the supply of goods.

(b) <u>Public</u> warehouses are mined and controlled by manufacturers to store their own goods.

(c) <u>Private</u> warehouses are used to store imported goods for which import duty is yet to be paid.

(d) <u>Cooperative</u> warehouses are generally found near ports.

(e) Storage is the <u>production</u> function of a business

(f) Warehouse warrant is issued by the <u>shipping</u> authorities.

(g) Bonded warehouses are used by <u>exporters.</u>

Q.5. Answer each of the following within two sentences

a. What is warehousing?

b. State any two needs of warehousing

c. State any two functions of warehouses.

d. What is a bonded warehouse?

e. Name any two types of warehouses

f. What is a co-operative warehouse?

g. Define government warehouse.

h. What is seasonal demand?

Q.6. Answer each of the following within six sentences.

a. What are the needs of a bonded warehouse?

b. Name any three types of warehouses.

c. Describe various functions of warehouses.

LONG ANSWER TYPE QUESTIONS

a. Define warehouse. Discuss the functions of warehouse.

b. Discuss the need of warehousing.

c. What is a bonded warehouse? Discuss its utilities.

d. Explain different types of warehouses available in India.

13.9 ANSWERS TO OBJECTIVE QUESTIONS

1. a(iii), b(iii), c(iv), d.(ii), e.(iii),f(ii), g(iii), h(iv)

2. a. Bonded, b. Private, c, Public, d. Public, e. Co-operative

3. a. Ensuring, b. Private, C. Bonded, d. Bonded e. Marketing, f. Warehouse, g. Importers

4. a- Bonded warehouse , b- Private warehouse, c. warehouse.

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CHAPTER-14

TRANSPORTATION

STRUCTURE:

14.1 INTRODUCTION

Physical transfer of goods or products and people from one place to other is termed as transportation. It is a process in which goods are transferred from the place of manufacturing to that of consumption or end user. It also means travel of people from one place to another. Transportation helps in reducing the gap between different locations in terms of easy transferability. According to Alfred Marshal, Transport Industries work for movement of people and products from one location to another. It constitutes one of the very crucial activities of people in every stage of advanced civilization. Transport and communication are regarded as the most important factors in any type of business. An efficient transport system is essential for sustainable economic development of the country and plays a significant role in promoting national and global integration. There are various modes of transport that include road transport, rail transport, water transport, and air transport.

14.2 NEED FOR TRANSPORTATION

Transportation is required for the smooth operation of a business. It is inevitable to undertake various industrial and commercial activities. Transportation reduces the gap between the producer and consumer by decreasing the distances. It facilitates large scale production and regional specifications. Transportation is highly required for both economic and social life due to the following reasons:

a) Helps in reducing cost of production and distribution of goods by enhancing volume of sales
b) Controls the price level that leads to large scale of production and consumption
c) Discourages the price disparities and maintains equilibrium between different regions by making adjustment of supply and demand
d) Increases the availability of the quality of goods in the market for consumption
e) Helps in improving the standard of living of the people because of quality and diversified product consumption
f) Transportation ensures transfer of raw materials and equipment to the place of production
g) Leads to large scale production
h) Facilitates regional specialization
i) Works as an integral part of international trade or business

14.3 IMPORTANCE OF TRANSPORT

Transport plays the role of a sheet anchor in the economic and social development of a country. A country cannot develop quickly without a developed transport system. Transport system transfers raw materials, fuel and machineries to different industries.

1. **Helps in reducing regional imbalance:** A developed transport system ensures reduction of regional and industrial disparity by facilitating establishment of industries in backward areas. Such backward areas are brought nearer to developed area with the help of a proper transport system by sending raw-materials to the backward industrial centre and by selling the products of industries in different areas.

2. **Increases mobility of people:** Transport system increases mobility of rural people. It helps to solve the problem of unemployment in rural areas. Rural labourers easily move to the industries and it solves the needs of industries. Development of transport system also leads to development of industries because transport system helps them to market their products.

3. **Industrial growth:** Industrial development of any country depends on its prevailing transportation system. Both these factors are interrelated. An effective transportation system helps the industrial producers to produce and then sell their goods to the wider markets. Transportation ensures movement of raw material and other requirement from the place of supply to the place of production. Efficient transportation system is required for the economic development of the nation.

4. **Generation of employment:** Transport also contributes towards economic development of a country through employment generation. It develops both direct and indirect ways of generating employment opportunities. In India, a major portion of the country's working population is directly or indirectly employed in the transport sector. It ensures the movement of labours and encourages growth of employment that leads to industrial and economic development.

5. **Creates place utility:** Transportation helps in transferring the products or commodities from the place of producer to the consumer on demand. It creates place utility. Transportation plays a crucial role in the agricultural sector. It fulfils the requirements of the farmers at a short span of time by carrying various agricultural products. It is an integral part of trade and commerce. It creates place and time utility to goods by transferring them from the place of production to the places of consumption.

6. **Reducing gap in between countries:** All the countries of this world depend on each other for various trade and commerce in order to get variety of products and services. It helps the countries to provide better goods or products of different quality in the local market through foreign trade. Transportation helps in reducing the distance between countries by making the transfer of goods easier.

7. **Used for multi purposes:** Transportation provides a better access to natural resources and promoting trade, allowing a nation to accumulate wealth and power. Transportation allows the movement of soldiers, equipment, and supplies during the situation of war. Hence, transportation is very important for the development of a nation's economy as it serve several purposes.

8. **Price Stabilization:** Transportation of goods can be made in between places where there is scarcity and the prices are high from those places where there is surplus and the prices are low. Such transfer of goods helps in stabilizing the prices of the commodity. Thus stability of prices restricts the local producers to charge prices at their own will. This discourages monopoly and encourages competition.

9. **Division of labour**: Transport helps in improving the mobility of labour and capital, widens the market that leads to specialization and division of labour and stabilizing prices. Specialization helps in creating employment to a very large number of people.

10. **Use of Economic resources:** Transportation system helps in optimum utilization of the economic resource. By using these systems, each economic region can concentrate upon the goods and services for which it is best adapted. It leads to a better economic use of available resources.

11. **Standard of living**: Transportation raises the standard of living, making possible improved housing, clothing, food and recreation. This system facilitates large scale production at a very low cost which enables maximum people to utilize the goods. There is a variety in consumption patterns and customers have a wider option for choosing goods.

12. **Spreading education and culture:** Transport system helps in spreading of knowledge and culture. It ensures a better understanding among people. This system brings a fusion of different cultures and social systems. It helps to develop international brotherhood and social awareness.

14.4 MODES OF TRANSPORT

Modes of transport mean the different types of routes used for transportation. It also includes various means or forms of vehicles for the purpose depending on the types of routes.

14.5 ROAD TRANSPORT

Road transport is the ancient mode of transporting system. Road transport is facilitated by some of the traditional forms such as bullock, cart, horse carts etc. There are some modern tools used for the road transport like bicycle, motor cars, trucks and buses. Road transport plays a crucial role in the economic, social and political development of a country. There are numerous advantages of road transport in comparison to other modes of transport:

14.5.1 Advantages:

1. **Minimum Capital Outlay:** Road transport system requires less amount of capital investment in comparison to that of other forms of transport such as railways and air transport. The expenditures incurred towards construction, operation and maintenance of roads are cheaper than that of the railways. Roads are generally constructed by the government and local authorities and only small revenue is spent for these works.

2. **Door to Door Service:** Road transport provides door to door services and to the customers by dispatching the goods ordered at their door step. This transport system does not require any additional loading arrangements and involve less time for transportation. This helps in reducing cartage, loading and unloading expenses.

3. **Service in Rural Areas:** Road transport is suitable for carrying goods and people to and from rural areas where other transportation facilities like rail, water or air are not available. Exchange of goods, between large towns and small villages is made possible only through road transport.

4. **Flexible Service:** Road transport has a great edge over other modes of transport for its flexible character. Its routes and timings can be adjusted and changed to individual requirements without much inconvenience.

5. **Suitable for covering short distance:** It is economical and useful for carrying goods and people to cover short distances. Road transport helps in avoiding delays in transit of goods on account of intermediate loading and handling. Goods can directly be loaded into a road vehicle and transported straight to their place of destination.

6. **Lesser Risk of Damage in Transit:** Road transport helps in avoiding intermediate loading and handling which ultimately reduces the risk of damage, breakage etc. of the goods in transit. Thus, road transport is most suited for transporting delicate goods like chinaware and glassware.

7. **Saving in Packaging Cost:** As compared to other modes of transport, the process of packaging in road transport is less complicated. Goods transported by motor transport need less packaging or even no packing in several cases.

8. **Quick delivery:** If the goods are to be despatched immediately, road transportation is more suitable than the railways or water transport. Water transport is comparatively very slow. It requires a lot of time in booking the goods and taking delivery of the goods in case of railway and water transport.

9. **Economical:** Road transport is economical and need minimum level of capital investment, the cost of operation and maintenance. Even if the rate charged in road transport is bit higher than railways, the actual effective cost of transporting goods by this transport is less.

10. **Private Owned Vehicles:** Another advantage of road transport is that big businessmen can easily purchase their own motor vehicles and initiate their own road services to market their products. This ensures a smooth process of transportation without any delay.

11. **Feeder Service:** Motor vehicles are used for transferring the goods to the terminal points like railway stations, ports and air ports. They are also used for the purpose of transporting goods to those places not having railway and air facilities. Thus, road and motor transport act as a feeder to the other modes of transport such as railways, ships and airways.

14.5.2 Disadvantages

In spite of various merits, road or motor transport has some serious limitations:

1. **Seasonal Nature:** Road and motor transport are not treated as a reliable system of transportation in comparison with rail transport. This transport is not suitable during rainy season as most roads become unfit and unsafe for use during this season.

2. **Accidents and Breakdowns:** Accidents and breakdown in case of road transport through motor vehicle cannot be easily avoided. The chances of accidents and breakdowns in case of motor transport are relatively more. So, such transport system is not considered safe as rail transport.

3. **Not suitable for Long Distance and Bulky Traffic:** This mode of transport is unsuitable and costly for transporting cheap and bulky goods over long distances.

4. **Slow Speed:** There are some limits in the pace of operation of road transport. It may be affected by heavy traffic or congestion on road which may lead to delay in delivery. Speed limit has to be maintained for the safety of the general people on road.

5. **Lack of Organisation:** The road transport is comparatively less organized than other forms of transport system. More often, it is irregular. The rates charged for transportation are also unstable and unequal.

14.6 RAIL TRANSPORT

Indian railways are regarded as the most important means of transport in our country. It is very much comfortable and the cheapest means of transportation. They transfer large and heavy materials like cement, coal, iron-ore, petroleum, food grains, jute and cotton. Raw materials are moved to the factories and the finished products are transported to the markets by railways. Railways are very crucial for the defence of the country. In case of emergency, the arms, ammunition and men from one part of the country are transferred to the other part through railways. In case of famine, floods, epidemics and other disasters, the railways carry food and medicines quickly to that part of the country, where they are needed. Railways are providing some useful services to the nation. They are our national property.

14.6.1 Advantages

Following are the main advantages of Railway transport:

1. **Development of Agriculture:** Development of Railways in India has contributed a great deal to the development of agriculture. Prior to this facility, agriculture was largely subsistence-oriented. Railways have made it commercial. Now the farmers of India produce the agricultural products for self consumption as well as for sale in the market.

2. **New sources and Areas of Production:** Railways have developed different new sources and areas of production. They provided knowledge of the new areas, but also helped in reaching the inaccessible areas.

3. **Growth of Markets and Specialization:** Railways have extended the size of market and thus controlled the process of specialization. Railways transport helps in transporting goods in bulk quantity from one place to another easily.

4. **Facilitates Internal Trade:** Railways connect different places or areas of the country which facilitates internal trade convenient. They carry goods and passengers to distant places easily.

5. **Mobility of Labour and Capital:** Railways have enhanced the mobility of labour and capital which in turn has contributed towards the rapid industrialization of the country.

6. **Check on the Fluctuations of Prices:** Railways have checked and controlled various fluctuations in prices that were detrimental to the economic, political and

social stability of the country. Price fluctuations which cause misery, disturb trade and give rise to many problems can be solved by railway.

7. **Helpful in Famines**: Railways have helped in reducing the intensity of famines by carrying the food-grains to famine-stricken areas.

8. **Employment:** Railways help in generating employment in India. It provides job opportunities to a large number of skilled and unskilled people to be employed in the operation of railways. This transport system builds many opportunities of employment that leads to the economic development of the country.

9. **Encouragement to Tourism:** Tourist traffic has also been encouraged through railway services. Railways sell circular tickets to the tourists in order to promote tourism.

10. **Dependable:** The main advantage of the railway transport is that it is the most dependable mode of transport and least affected by weather conditions such as rains, fog etc. compared to other modes of transport.

11. **Better Organized**: The rail transport is always better organized transport system than any other form of transport. It has fixed routes and schedules. Its sen ice is more certain, uniform and regular as compared to other transporting options.

12. **Cheaper Transport** : It is the most economical mode of transport in comparison to other modes of transport. Most of the operating expenses of railways are in the nature of fixed costs. Increase in the railway traffic is followed by a decrease in the average cost. Rail transport is less costly in the use of labour also as one driver and one guard are sufficient to carry much more load than the motor transport.

13. **Safety:** Railway is regarded as the safest form of transporting goods from one place to other. The possibilities of accidents and breakdowns of railways are minimum as compared to other modes of transport. Moreover, the traffic can be protected from the exposure to sun, rains, snow etc.

14. **Larger Capacity:** The carrying capacity of the railways is very large. Moreover, its capacity is flexible which can easily be increased by adding more wagons.

15. **Public Welfare:** It is the largest public undertaking in the country. Railways perform many public utility services.

16. **Administrative Facilities of Government:** Railways provide various administrative facilities to the Government as a tool of transport. The defence forces and the public servants move primarily through the railways from one place to other.

14.6.2 Disadvantages

Apart from the advantages, there are several disadvantages or limitations of rail-way-transport as discussed below:

1. **Huge Capital Outlay:** The railway transport requires large investment of capital. The cost of construction, maintenance and overhead expenses of trucks are comparatively higher than other modes of transport.
2. **Lack of Flexibility:** Another limitation of railway transport is its inflexibility. Its routes and timings cannot be adjusted to individual requirements.
3. **Lack of Door to Door Service:** Rail transport cannot provide door to door service as it is tied to a particular track. Intermediate loading or unloading involves greater cost, more wear and tear and wastage of time.
4. **Monopoly:** As railways require huge capital investment, they may result in monopolies and work against public interest. These are controlled and managed by the government. Railway transport system suffers from the problem of limited competition which may breed inefficiency.
5. **Not suitable for Short Distance and Small Loads:** Railway transport is not suitable and is costly for short distance and small traffic of goods.
6. **Booking Formalities**: It takes more time and labour for booking and delivery of goods through railways as compared to motor transport.

7. **No Rural Service:** Because of huge capital requirements and traffic, railways cannot be operated economically in rural and remote areas in a country. In general, rural areas are not connected through railway service even today. This causes inconvenience to the people living in rural areas.

8. **Under-utilized Capacity:** The railway must have full load for ideal and economic performance. It has a very large carrying capacity but under-utilization of its capacity, in most of the regions, is a great financial problem and loss to the economy.

9. **Centralized Administration:** Being the public utility service, railways transports are in a monopolistic position controlled by centralized administration. Local authorities in case of railway transporting system normally fail to meet the personal requirements of the people as compared to roadways.

14.7 WATER TRANSPORT

Water transport is regarded as an economical and one of the oldest modes of transport. It operates on a natural track and does not require huge capital outlay or investment in the construction and maintenance of its track except in case of canals. The cost of operation in case of water transport is also very less. It possesses the largest carrying capacity and is most suitable for carrying large quantity and bulky goods over long distances. It has played a crucial role in bringing different parts of the world closer and is indispensable to foreign trade. India is surrounded by the Bay of Bengal, the Arabian Sea and the Indian Ocean. Therefore it has a long coastline. Water transport refers to movement of goods and passengers on waterways. With the help of these means goods and passengers are carried to different places, both within as well as outside the country.

14.7.1 Importance of water transport

Importance of water transport is evident from the following points:-

1. **Important for Foreign Trade:** Water transport helps in developing the foreign trade of a country. At present, current volume of India’s trade is quite large and likely to further expand for economic development of the country. So, its importance cannot be ignored or undervalued.

2. **Foreign Exchange:** Majority of international trade is done through water transport. Water transport system through shipping enables the country to expand its international trade and earn more and more foreign exchange by entering into foreign trade. Foreign exchange is highly required for any country's economic development.

3. **Defence**: Development of shipping or water transport system is very much essential for the defence of the country also. It is regarded as second line of defence.

4. **Economical means of Transport:** Water transport is considered as an economical means of transport. Oceans and rivers are the free gifts of nature. No cost is involved in their construction unlike that of railways and roads.

5. **Transport of Heavy Goods:** Heavy and bulky goods can be transported at comparatively less cost through water transport.

6. **Useful during Natural Calamities**: During natural calamities like floods, heavy downpour etc. when rail or road transport is disrupted, water transport alone becomes a possible alternative.

7. **Less Maintenance Cost:** Compared to other means of transport, maintenance cost of water transport is very little.

14.7.2 Limitations of Water Transport

1. **Slow:** Speed of water transport is very slow and therefore this mode of transport is unsuitable where time is an important factor.
2. **Limited Area of Operation of inland waterway:** Inland water transport can be used only in a limited area which is served by deep canals and rivers. In this case, special packing of goods is required.
3. **Seasonal Character:** Rivers and canals cannot be depended upon for transportation throughout the year as water may freeze during winter or water level may go very low during summer.
4. **Unreliable**: The water transport system through river is unreliable in nature. Sometimes the river changes its course which causes dislocation in the normal route of the trade.

5. **Unsuitable for Small Business:** Inland water transport by rivers and canals is not suitable for small traders, as it takes normally a longer time to carry goods from one place to another through this form of transport.

14.8 AIR TRANSPORT

Air transport is the recently developed modern mode of transport. It is the gift of the 20th century to the world. The two world wars have stimulated a great impetus to the development of air transport in almost all the countries of the world. The main characteristics of air transport is that it does not need a specific surface track for its operations. It has no physical limitations as like of other mode of transport. The main advantage of air transport lies in its quickness. It is the fastest mode of transport. But the cost of its operation is very high and thus it is suitable for only rich passengers, mails and light and costly cargo. In India two nationalized airways provides air transport facilities. These airways are the Indian Air Lines and the Air India International. Indian Air Lines deals in domestic operation whereas the Air India is concerned with international operation. Besides these, a number of private airlines also operate in India.

14.8.1 Characteristics

Air transport has the following characteristics:

1. **Uninterrupted Journey:** Air transport provides uninterrupted journey over land and sea. It is the fastest and quickest means of transport.
2. **High Speed:** Air transport has the highest speed among all the modes of transport.
3. **Expensive:** Air transport is the most expensive means of transport. It requires large amount of investment in purchasing aero planes and constructing of aerodromes.
4. **Special Preparations:** Air transport needs special preparations like wheelers links, meteorological stations, flood lights, searchlights etc.

14. 8.2 Advantages

1. **High Speed**: The main advantage of air transport is its high speed and better accuracy. It is treated as the fastest mode of transport and used in those places where time is an important factor.

2. **Comfortable and Quick Services**: It ensures a regular, comfortable, efficient and quick service.

3. **No Investment in Construction of Track**: It does not require large amount of capital investment for the purpose of constructing and maintaining of surface track. Of course air stations (aerodromes) are constructed at specified places for operations.

4. **No Physical Barriers:** - Air transport follows the shortest and direct route as it crosses the geographical boundaries like seas, mountains or forests over the sky.

5. **Easy Accessibility:** Air transport can be utilized to carry goods and people to the areas which are not accessible by other means of transport.

6. **Emergency Services:** It can operate even when all other means of transport cannot be operated in various situations like floods or other natural calamities. Thus, at that time, it is the only mode of transport which can be employed to do the relief work and provide the essential commodities of life.

7. **Most Suitable for Carrying Light Goods of High Value:** It is generally suitable for carrying goods of perishable nature which require quick delivery and light goods of high value such as diamonds, bullion etc. over long distances.

8. **National Defence**: Air transport plays a crucial role in the defence of a country. Modern wars have been fought mainly by fighter planes. It has upper hand in destroying the enemy in a very short period of time. It also supports over wings of defence of a country.

9. **Space Exploration**: Air transport provides help to the world in the exploration of space.

14.8.3 Disadvantages

Air transport system suffers from the following limitations:

1. **Costly:** It is the most costly means of transport. The fares of air transport are so high which is beyond the reach of the common man.

2. **Small Carrying Capacity:** Its carrying capacity is very small and hence it is not suitable to carry cheap and bulky goods.

3. **Uncertain and Unreliable:** Air transport is uncertain and unreliable by nature. It is regulated and controlled up to a great extent by weather conditions. Unfavorable weather such as fog, snow or heavy rain etc. may cause cancellation of scheduled flights and suspension of air service.

4. **Breakdowns and Accidents:** The chances of breakdowns and accidents are relatively high as compared to other modes of transport. Hence, it involves comparatively greater risk.

5. **Large Investment:** It requires a huge amount of capital outlay towards the construction and maintenance of aeroplanes & airports. Further, very trained and skilled persons are required for operating air service.

6. **Specialised Skill:** 1 Air transport requires specialised skill and high degree of training for its operation.

7. **Unsuitable for Cheap and Bulky Goods:** Air transport is not suitable for carrying cheap, bulky and heavy goods because of its limited capacity and high cost.

8. **Legal Restrictions:** There are several legal restrictions imposed by various countries.

14.9 QUESTIONS

OBJECTIVES AND SHORT ANSWER TYPE QUESTIONS

Q1. Choose the correct answer from the given alternatives.

(a) The oldest mode of transport as

(i) Road Transport (iii)Air Transport

(ii) Water transport (iv) Rail Transport

(b) Railway transport receipt is treated as

(i) Receipt of goods (iii) Document to title of goods

(iii) An agreement between railway & Consignor (iv) An agreement between railway

(c) Vessels specifically designed to carry oil is called

(i) Liners (iii) Tankers

(ii) Tramps (iv) Yachts

(d) Water transport is relatively a transport of

(i) High speed (iii) Medium Speed

(ii) Slow speed (iv) Very high speed

(e) Air transport is very

(i) Cheap (iii) Slow

(ii) Fast (iv) Moderate

(f) The transport that provides flexible service is

(i) Water transport (iii) Road Transport

(ii) Air transport (iv) Railway Transport

Q2. Correct the underlined portions in the following sentences:

a) Air transport is suitable for heavy & bulky goods.

b) Water transport is a high speed mode of transport

c) Rail transport is the costliest mode of transport

d) Buyer can get delivery at door step trough air transport

e) Delicate & breakable good are usually delivered by roadways.

Q3. Fill in the blanks

a) __________transport requires a Special track for its movements

b) ____________transport in capable of providing door to door services

c) Carrying capacity of ___________ transport is the smallest

d) ___________transport is most suitable for carrying perishable goods from one counter to another

e) _____________transport is the most expensive.

f) ________________ is used for carrying liquid products & gases.

g) ______________transport is the most flexible one.

Q4. Express each in one word/ term

a) A transport system that requires special track for plying.

b) The speediest mode of transport

c) The widest transport system in India.

Q5. Answer the following within two sentences each

a) State any two advantages of water transport.

b) State any two advantages of air transport

c) Mention any two disadvantages a rail transport

d) Mention any two disadvantages of air transport

Q6. Answer the following within six sentences each.

a) State any three merits of road transport

b) State any three limitations of railways?

c) State any three advantages of air transport?

LONG ANSWER TYPE QUESTIONS

1. Define transport Why is it important?
2. Explain advantages and disadvantages of road transport.
3. State merits & demerits of railways transport
4. Make a comparison between rail & road transport
5. Classify and explain modes of transport.

14.10 ANSWERS TO OBJECTIVE TYPE QUESTIONS

1. i, b. ii, c.iii, d ii. e.ii. f.iii
2. a. water b. Air, c, Air, d. Road, e. Air
3. a. Railway b. Road, c. Air, d, water, e. Air, f. pipelines, g. Road
4. a. Railway b. Air transport c. Road transport

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