(5) P as its

f Employment

Employment

is that economic activity under which others and receive remuneration in lieu thereof. The remuneration can be in the shape of salary, wages, etc. The employer can be the govt., govt. enterprise or any private organisation. Employment may be on permanent, temporary or casual basis. Some of the examples of employment are — managers, surveyors, labourers, clerks, etc. Professionals like doctors can also be recruited as an employee. In other words, if a doctor works in a government hospital, his activity will be called employment. On the contrary, if he runs his own hospital, it will be called profession.

Characteristics of Employment

The following are the main features of employment:

Tool Kit 5

Employment?

It refers to that economic activity under which people work for others and receive remuneration in lieu thereof.

(1) **Service to Others:** The first important feature of employment is the service of others.

(2) **Personal Service:** An employee has to provide service himself. In other words, he cannot get service from somebody else in his place.

(3) **Agreement:** Employment is obtained under a special contract. The basis of employment, (permanent, temporary or casual) is entered in the contract. Similarly, the basis of remuneration (salary, commission, fees, etc.) is also written.

(4) **Servant:** An employee is a servant of his master and acts according to his orders.

(5) **No Need of Capital:** There is no need of capital in employment. In other words, the capital is that of the master and not that of the employee.

(6) **No Risk:** The inherent risk in the job is that of the master and not of the employee.

(7) **Nature of Employer:** The employer can be anybody. It can be the government, government enterprise, private organisation, etc.

Differences among Business, Profession & Employment

Basis of Difference	Business	Profession	Employment
1. Commencement	Starts after completing some legal formalities if needed.	Starts after getting certified from the institution concerned.	Starts after getting appointment letter.
2. Nature of Work	Production and buying and selling of goods and services.	Personal services as a specialist.	Work allotted by the employer according to the contract.
3. Investment	Capital is needed according to its nature and size.	Generally, a little capital is required.	There is no need of capital.
4. Risk	It involves high risk.	The degree of risk is low.	There is no risk in it.
5. Qualifications	There is no need of any formal qualification.	Formal qualification is absolutely necessary.	Formal education is not necessary in case of every employment.
6. Objective	To earn profit through sale and purchase.	To earn profit through service.	To earn income through salary or wages.
7. Transfer of Interest	A businessman can transfer his interests.	A professional cannot transfer his interests.	An employee also cannot transfer his interests.
8. Test of Efficiency	Profit earned.	Quality of service provided.	Dedication to job.
9. Code of Conduct	No code of conduct for business.	There is a code of conduct in profession.	There is a contract instead of code of conduct.

Objectives of Business

Objectives are needed in every area that influences the survival and prosperity of business. Objectives enable the business to analyse their own performance and take steps as necessary to improve their performance in future. The following are the main objectives of the business:

Tool Kit 6

Market Standing?

It refers to the market share of a business enterprise in relation to its competitors.

(1) **Market Standing:**

- As per this objective, a business must aim at standing on stronger footing in terms of offering competitive products at reasonable prices to its customers and serving them to their satisfaction.
- It helps to strengthen the goodwill and reputation of ones' business which is paramount to succeed and prosper.

Tool Kit 7

Innovation?

It refers to an introduction of new ideas or methods in the way of something is done or made.

(2) **Innovation:**

- As per this objective, a business must aim at introducing new ideas or methods in the way something is done or made.
- It helps to scale up and give competitive edge to a business unit in the market.
- Innovation may be of two types:
  - Innovation in products or services.
  - Innovation in various skills and activities needed to supply products and services.

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B. Auxiliaries to Trade

> **Tool Kit 17**
>
> **Auxiliaries to Tra**
>
> It refers to all those activi undertaken to overcome the hurdles appearing in the way of trade.

Commerce includes not only trade but also various other auxiliaries or aids or subsidiary activities. All those activities which are undertaken to overcome the hurdles appearing in the way of trade are called aids to trade. These have been explained in the following table:

Imp.

Hindrances		Solutions
1. Hindrance of Place	→	Transport and Communication
2. Hindrance of Time	→	Warehousing
3. Hindrance of Risk	→	Insurance
4. Hindrance of Finance	→	Banking
5. Hindrance of Information	→	Advertising

(1) Transport and Communication:

- Usually, commodities are manufactured in certain specific areas while consumers are not very nearby. In other words, producers and consumers are far away from each other geographically. Hence, this is the hindrance in trade. This hindrance relates to the transportation of the goods from the place of production to the place of consumption.
- This hindrance can be eliminated with the help of transport. With the help of transport, commodities can be carried from their place of production to the places where they are required.

The other aspect of hindrance of place is that producers and purchasers are scattered. The problem which arises is as to how to finalise the deals of sales and purchases. This problem can be solved by communication. Means of communication like telephone, telegram, letter, telex etc., help in finalising the business deals.

(2) Warehousing:

- Usually, there is a big gap of time between manufacturing of any product and consumption of that product. The reason is that the product is manufactured during a specific season while consumption takes place throughout the year. For instance, sugar is produced from November till March but it is consumed throughout the year. Hence, the finished products have to be stored from the time of their production till they are consumed. This problem is solved by warehousing.

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Differences among Industry, Commerce and Trade

Basis of Difference	Industry	Commerce	Trade
1. Activity	Production of goods and services.	Distribution of goods and services.	Buying and selling of goods.
2. Capital Requirement	Both working and fixed capital on a large scale.	More working capital and less fixed capital.	Less working capital depending on the nature of business.
3. Scope	It includes primary, secondary and services industries.	It includes trade and auxiliaries to trade.	It includes home and foreign trade.
4. Creation of Utility	It creates form utility.	It creates place and time utility, and also possession utility through trade because trade is a part of commerce.	It creates possession utility through the medium of sale-purchase.
5. Risk Element	It involves the maximum risk.	There is less risk as compared to industry.	There is least risk involved.
6. Mutual Dependence	Commerce and trade both depend on industry.	Commerce is not possible without trade because trade is its major part.	In the absence of trade there is no justification for commerce and industry.

Knowledge Examine Zone 1.2

[Competency Focused Questions as per NEP]

[A] Objective Type Questions

Multiple Choice Questions:

Choose the correct option in the following questions:

1. Hindustan Plants and Animals Ltd. and Bharat Poultry Farms Ltd. are engaged in breeding plants and animals for their use in further reproduction.

   Name the category of industry to which these companies are related:

   (a) Genetic Industry (b) Extractive Industry

   (c) Manufacturing Industry (d) Construction Industry

2. Hare Krishna Industries Ltd. and Rama Industries Ltd. are the companies which are concerned with using materials, which have already been extracted at a primary state. These companies process such materials to produce goods for final consumption or for further processing by other industrial units.

   Identify the type of industry to which these companies are related:

   (a) Primary Industry (b) Secondary Industry

   (c) Tertiary Industry (d) None of the above

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1.4 Business Risk: Nature and Causes

"Uncertainty i... Mother of ..."

Meaning of Business Risk

Risk is the chief characteristic of business. The predominance of this feature in business is because of the continuous business activities in future and the future is indefinite or uncertain. Uncertainty is the mother of risk. Nobody can say it with any amount of certainty as to what is going to happen tomorrow. In the context of business some examples of risk can be like this — a decline in sales due to the sudden change in the tastes of the consumers; entry of many competing firms in the market and consequent decline in profits; stopping of production due to the workers' strike; damage caused by earthquake, theft, etc. In this way, there is a constant possibility of damage or loss in business. **The possibility of loss in business is called business risk.** It will be wrong to consider loss as risk because risk is not loss but its possibility.

Tool Kit 18

Business Risk?
It refers to the possibility of inadequate profits or even losses in the business because of uncertainties.

Types of Risk

Every business enterprise constantly faces two type of risk, such as:

(1) Speculative Risk:

- It refers to that risk which involves both the possibility of gain, as well as, the possibility of loss.
- Examples:
  - Fluctuations in demand and supply
  - Change in prices
  - Change in fasion and tastes of customers, etc.
- Results:
  - Favourable market conditions are likely to result in GAINS.
  - Unfavourable market conditions are likely to result in LOSS.

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(2) Pure Risk:

- It refers to that risk which involves only the possibility of LOSS or NO LOSS.
- Examples:
  - The chance of fire, theft or strike etc.
- Results:
  - The occurrence of above situations may result in LOSS, whereas non-occurrence may explain ABSENCE OF LOSS instead of gain.

Nature of Business Risk

It is important to understand the nature of risk in order to study business risk. The following are some of the important facts connected with the nature of business risk:

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(1) **Risk is an Essential Part of every Business:** It is difficult to come out of the intriguing web of business risks. The only reason of it is that business is carried on for future and future is uncertain. Yes, the risks can certainly be minimised.

(2) **Risk is the Result of Uncertainties:** Risk is the outcome of uncertainties. Uncertainty can either be human, business or natural. About all these three, the following examples can be cited.

(i) Human uncertainty — strike, theft, etc.

(ii) Business uncertainty — wrong assessment of demand, change in prices, etc.

(iii) Natural uncertainty — earthquake, drought, snowfall, epidemic, etc.

(3) **Degree of Risk Varies with the Size of Business:** The degree of risk is less in a small-sized business as compared to the degree of risk in a big business.

(4) **Profit is the Reward of Risk-Taking:** Whatever a businessman gets for taking risks is profit. The greater the risk, the more is the possibility of profit.

Causes of Business Risk

V.

How Business Risk Is Created?

Business risks are created by many human and natural powers. Apart from this, there can be many other causes for it. For example, physical causes, economic causes and government policies, etc. For the convenience of study they can be divided into the following categories:

(1) **Natural Causes:** These include those causes which are beyond the power of man. Man can only think about them and cannot say anything definitely about them. To check them is simply impossible. They can be divided into three parts.

Natural Cause of Risk

(a) **Seasonal Changes:** Seasonal changes greatly affect business. They include dust storms, floods, drought, snowfall and fire.

(b) **Geological Changes:** Changes taking place in the womb of the earth cause great loss. The earthquake tremors destroy huge buildings in the twinkling of an eye.

(c) **Other Natural Calamities:** These natural calamities include lightning, adverse changes in the atmosphere, locust attack on the standing crops, etc.

(2) **Human Causes:** Man has an important role to play in creating business risk. It includes all the causes born out of human carelessness, dishonesty, impatience and lack of intelligence. Thus, checking these risks created by man is profitable for the entire society and the country. This risk can be checked with the help of caution, honesty, patience

Human Cause of Risk

and application of wisdom. Human causes can be divided into the following four parts:

(a) **Dishonesty by Employees:** When the people working with a businessman start stealing things or money, the business risk is born.

(b) **Dishonesty by Customers:** When the customers start stealing things, are unable to make payment or deliberately refuse to make payment, the business risk is created.

(c) **Strike and Lock-out:** Sometimes there is dissatisfaction among the labourers because of the decisions taken by the managers. Announcement of less bonus causes such a situation. The dissatisfaction of the labourers finally changes itself into a strike or lock-out and which in turn creates a business risk.

(d) **Working Carelessly:** Whenever the owner of a business makes a careless estimate of demand or throwing of a burning bidi or cigarette in the godown resulting in fire — such careless actions create business risks.

(3) **Economic Causes:** They are related to the changes taking place in the market. The following changes often take place in the market:

Economic Cause of Risk

(a) **Change in Fashion:** A change in the taste of the consumers or a change in fashion causes a huge loss because the goods remain confined to the godowns. Therefore, a change in fashion creates economic risk for the entire fashion industry since the consumers no longer prefer to purchase goods even at a reduced price.

(b) **Change in Prices:** The economic risk is also created because of the fluctuations in prices.

(c) **Effect of Competition:** If a trader lowers the prices of his articles in the market, competition demands that the other traders should also lower the prices of their products. This affects the profits.

(d) **Providing Facilities to the Consumers:** When a trader provides some special facilities to the customers, it causes a business risk to the other traders. Others shall have to do likewise otherwise their sales will decline.

(4) **Other Causes:** They can be divided into the following four parts:

(a) **Political Disturbances:** This includes the instability of the Government.

(b) **Technical Causes:** The arrival of technically new machines in the market replacing the old machines is a technical cause of the creation of a business risk.

(c) **Mechanical Causes:** Sometimes while manufacturing machines some defect creeps in. When we use such defective machines we have to face really terrible results. The bursting of a boiler while in operation is an example of this business risk caused by some mechanical defect inherent in the machine itself.

(d) **Managerial Causes:** Management is the sole basis of the entire business. It is here that the policies are framed. If because of inefficiency the manager is not capable of framing favourable policies, business risk is inevitable.

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13. Match the 'Types of Partners' in Column-I with their respective feature in Colur

	Column-I		Column-II
(A)	Active Partner	(i)	Contributes capital and participate ir management.
(B)	Partner by Holding Out	(ii)	The person who knowingly allows himself to be represented as a partner in a firm.
(C)	Sleeping Partner	(iii)	Neither contribute capital nor participate in management.
(D)	Nominal Partner	(iv)	Contributes capital but does not participate in management.

(a) (A)- (i), (B)- (ii), (C)- (iv), (D)- (iii)
(b) (A)- (ii), (B)- (iii), (C)- (i), (D)- (iv)
(c) (A)- (iii), (B)- (ii), (C)- (i), (D)- (iv)
(d) (A)- (i), (B)- (iii), (C)- (ii), (D)- (iv)

14. Match the 'Types of Partnership' in Column-I with their respective statement in Column-II.

	Column-I		Column-II
(A)	Limited Partnership	(i)	It is formed for some specific object.
(B)	General Partnership	(ii)	It can continue as long as the partners want.
(C)	Partnership at Will	(iii)	The liability of partners is unlimited.
(D)	Particular Partnership	(iv)	The liability of atleast one partner is unlimited.

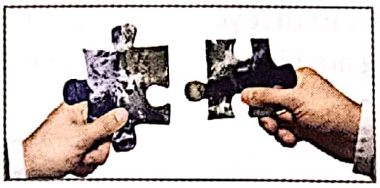
(a) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)
(b) (A)- (iv), (B)- (iii), (C)- (ii), (D)- (i)
(c) (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)
(d) (A)- (ii), (B)- (i), (C)- (iii), (D)- (iv)

15. Match the 'Various Concepts of Partnership Organisation' in Column-I with their respective statement in Column-II.

	Column-I		Column-II
(A)	Merit of Partnership	(i)	Distribution of profit and losses.
(B)	Limitation of Partnership	(ii)	Unlimited liability.
(C)	Feature of Partnership	(iii)	Principal-Agent relationship.
(D)	Partnership Deed	(iv)	Balanced Decisions.

(a) (A)- (i), (B)- (iii), (C)- (ii), (D)- (iv)
(b) (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)
(c) (A)- (iv), (B)- (ii), (C)- (iii), (D)- (i)
(d) (A)- (iv), (B)- (i), (C)- (ii), (D)- (iii)

16. Identify the 'Form of Business Organisation' illustrated by the picture given here:



(a) Joint Hindu Family Business
(b) OPC
(c) Sole Proprietorship
(d) Partnership

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(4) Control:

- The controlling job is performed by the members themselves in way. A managing committee is formed for this purpose which is e basis of voting in the general meeting.
- Every member has the right to cast only one vote whatsoever may be t er of shares he may be holding. Hence, nobody can behave in an autocratic manner in the management system, simply by purchasing more shares.

(5) Service Motive:

- Their main purpose is to provide maximum possible help to the members. Providing maximum possible help does not mean that the societies provide goods and services at cost price but help their members by earning proper profit.

Types of Cooperative Societies

Cooperative Societies are divided into many categories on the nature of work. The following are the main cooperative societies:

1. Consumer's Cooperative Societies
2. Producer's Cooperative Societies
3. Marketing Cooperative Societies
4. Credit Cooperative Societies
5. Farmer's Cooperative Societies
6. Cooperative Housing Societies

Names of the Cooperative Societies	Creators	Objectives	Basic Functions	Other Features
1. Consumer's Cooperative Societies	Consumers (who want to get rid of traders' and brokers exploitation)	(i) Eliminating middlemen. (ii) Ensuring the constant supply of goods. (iii) Availability of high quality goods at reasonable price.	(i) Purchasing goods in bulk from the producers or wholesalers. (ii) Selling goods to the members.	(i) Non-members can also buy the goods. (ii) Members are given priority in case of shortage of goods. (iii) Sometimes members are given special discount. (iv) Members are given bonus and share in profit in proportion to their purchase and investment respectively.
2. Producer's Cooperative Societies	Small producers (who face difficulties in attaining material and selling of goods)	Providing material and help in the sale of goods.	Assisting members in purchasing and selling.	Relieve producers from other burdens so that they can concentrate on production activities.

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3. Marketing Cooperative Societies	Small Producers and Artisans (who face difficulties in selling their products at handsome profit single handedly)	(i) Providing regular market to the members. (ii) Providing relief to the members from the exploitation of the middlemen.	(i) Collecting goods from the members. (ii) Selling the collected goods at reasonable price. (iii) Taking care of the malpractices during trade deals. Like checking fraud in accounts and using false weight.	(i) It increases the capacity of bargaining and also provides financial assistance to the members. (ii) It helps in making arrangement of transportation, warehousing, packing and marketing research for the members. (iii) After deducting the expenses and reserves from the total sale they distribute the remaining amount to the members in proportion to their contribution.
4. Credit Cooperative Societies	General persons (who have limited financial resources and want to get easy credit on reasonable terms).	(i) To help the members feel free from the clutches of money lenders. (ii) To encourage habit of saving in the members.	(i) Accepting deposits. (ii) Providing loans to the members at reasonable rate of interest and on easy terms.	(i) There are three sources of funds for these societies: Share capital, deposits of members and non-members. (ii) These societies sometimes give loan to the non-members also.
5. Farmer's Cooperative Societies	Small Farmers (who are incapable of doing farming economically)	Achieving economies of scale and highest productivity in agriculture.	Encourage co-operative farming and providing modern agricultural equipments, high quality seeds and fertilizers.	These societies play a significant role in getting the members rid of the drawbacks of small-scale farming.

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6. Cooperative Housing Societies	General Persons (who are with limited income want to construct houses at reasonable costs)	Providing residential houses or plots to the members.	(i) Purchasing and developing land (ii) Constructing and allotting houses to the members. (iii) Allotting plots in case no houses can be given.	(i) These societies are generally established in the big cities and get lands at concessional rates. (ii) Societies generally provide all the modern facilities in their houses and even grant loan at lesser rate of interest.

Merits of Cooperative Organisation

Different cooperative organisations or cooperative societies have different merits for its members. Even then there are some common merits which all the cooperative societies offer, which are as follows:

(1) Equality in Voting Status:

- The principle of 'One person one vote' applies here and, therefore, every member can exercise the right to cast his vote.
- The number of shares purchased by a member has no relevance with the right to vote.

(2) Limited Liability:

- The liability of the members in this organisation is limited to their shares or the guarantee given by them.

(3) Stable Existence:

- Being a separate entity, a cooperative society possesses the advantage of stability, which means that the death or bankruptcy of members have no effect on it.

(4) Economy in Operations:

- As the members generally offer HONORARY services to the society, the administrative expenses are very little.
- The customers or producers themselves are the members of the society, and hence the risk of bad debts is lower.

(5) Support from Government:

- As the idea behind cooperative societies is to help the various sections of the society, the government has liberal attitude towards them.
- The government supports them in the form of Low Taxes, Subsidies, and Low Interest of Rate on loan.

(6) Easy Formation:

- A cooperative society can be formed easily. Any ten adults can establish a cooperative society by getting it registered with the Registrar of Cooperative Society. It does not require and expensive legal procedure.

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in an Organised Sector: The concept of OPC has provided an opportunity unorganised business units to enter an organised sector. This opportunity will e them to get the benefits of the organised sector.

Limitations of OPC

The main limitations of OPC are the following:

(1) **More Formalities:** For the formation of OPC more formalities have to be performed than sole proprietorship business.

(2) **Shortage of Resources:** The availability of resources in an OPC is less than in a Public Company.

(3) **Unbalanced Decisions:** Generally, decisions are taken only by one person. So, there is always an apprehension of their being unbalanced.

Distinction between Private Company and Public Company

Basis of Difference	Private Company	Public Company
1. Number of Members	Minimum–02 Maximum–200 (As per Companies Act, 2013)	Minimum–07 Maximum—no limit.
2. Name	It is necessary to add the word 'Private Limited' after the name of the private company.	It is essential to add the word 'Limited' after the name of the public company.
3. Number of Directors	A minimum number of two directors is essential.	A minimum number of three directors is essential.
4. Invitation to Public	Private company cannot invite public for issuing shares and debentures.	Public company can invite public for issuing its shares and debentures.
5. Transfer of Shares	There is no freedom to transfer shares in a private company.	There is no restriction on the transfer of shares.
6. Issue of Prospectus	Private company cannot issue prospectus and statement in lieu of prospectus.	It is essential to issue statement in lieu of prospectus in the absence of prospectus and send it to the Registrar.
7. Statutory Meeting	It is not necessary for it to call statutory meeting.	It is essential for it to call statutory meeting.
8. Right of Giving Loan to Directors	It can give loan to directors without the permission of central govt.	It is important to get prior approval of the central govt. to give loans to directors.
9. Index of Members	It is not essential to prepare an index of members.	If the number of members exceeds 50, preparing an index of members is necessary.
10. Minimum Paid-up Share Capital	One lakh rupees.	Five lakh rupees.

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17. Match the 'Features of a Company' in Column-I with their respective statement in Column-II.

Column-I		Column-II	
(A)	Artificial Person	(i)	Company being an artificial person cannot put its signature.
(B)	Separate Legal Entity	(ii)	The law does not recognise the business and owners to be one and the same.
(C)	Perpetual Succession	(iii)	Creation and an end only by law.
(D)	Common Seal	(iv)	Like natural persons, a company can own property.

(a) (A)- (iii), (B)- (ii), (C)- (i), (D)- (iv)
(b) (A)- (iv), (B)- (ii), (C)- (i), (D)- (iii)
(c) (A)- (iv), (B)- (ii), (C)- (iii), (D)- (i)
(d) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)

18. Match the 'Merits of a Company' in Column-I with their respective statement in Column-II.

Column-I		Column-II	
(A)	Scope for Expansion	(i)	A shareholder of a public company can transfer his shares freely without the approval of other members.
(B)	Limited Liability	(ii)	To the extent of the amount unpaid on the shares.
(C)	Transfer of Interest	(iii)	It can be liquidated only as per the provisions of the Companies Act, 2013.
(D)	Perpetual Existence	(iv)	A company has large financial resources.

(a) (A)- (iv), (B)- (ii), (C)- (i), (D)- (iii)
(b) (A)- (ii), (B)- (i), (C)- (iii), (D)- (iv)
(c) (A)- (iii), (B)- (ii), (C)- (i), (D)- (iv)
(d) (A)- (*i*), (B)- (iii), (C)- (*ii*), (D)- (*iv*)

19. Identify the 'Type of Business Organisation' illustrated by the picture given here:

(a) Public Company
(b) OPC
(c) Sole Proprietorship
(d) None of these

Complete the following statements with appropriate word(s) in the blank space(s):

1. The maximum number of members in a public company is ____________. (50/No Limit)
2. The perpetual succession of a company can be terminated only through ____________. (Death of directors/the termination method indicated in law)
3. It is not necessary to call ____________ meeting in a private company. (Annual/Statutory)

Read each of the following statements and write if it is true or false:

1. The existence of the company is different from its members. (True/False)

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5. **Appointment of Professionals**

- Certain professional such as MERCANTILE BANKERS, AUDITORS, etc, are appointed by the promoters to assist them in the preparation of necessary documents which are required to be with the Registrar of companies.

6. **Preparation of Necessary Documents**

- The promoter takes up steps to prepare certain legal document which have to be submitted under the law, to the Registrar of Companies for getting the company registered.

These documents are:

(i) Memorandum of Association
(ii) Articles of Association
(iii) Consent of proposed Directors
(iv) Agreement
(v) Statutory declaration
(vi) Receipts of payments of fee

Preliminary Contracts Vs Provisional Contracts

- **Preliminary Contracts:** It refers to the contracts which are signed by promoters with third party before incorporation of company. These contracts are the liability of the promoters, their liability ceases only after adoption of such contracts by the company after incorporation.
- **Provisional Contracts:** It refers to the contracts which are signed after incorporation but before commencement of business, they can be enforced on receiving a certificate of commencement of business.

Necessary Documents

1. **Memorandum of Association [MOA]**

- Meaning
  - It refers to that basic document of the company in which those conditions are stated on the basis of which a company is incorporated.

Imp

- Contents/Clauses/Subject-matter
  - The Name Clause
  - Registered Office Clause
  - Objects Clause
  - Liability Clause
  - Capital Clause

Sr. No	Name of Clauses	Particulars
1.	**The Name Clause**	It contains name of the company with which the company will be known.
2.	**Registered Office Clause**	It contains name of the state, in which the registered office is proposed to be situated.
3.	**Objects Clause**	It defines the purpose for which the company is formed.

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4.	**Liability Clause**	It limits the liability of the members to the amount unpaid on the shares owned by them.
5.	**Capital Clause**	It contains the authorized capital & its division into the number of shares.

2. **Articles of Association [AOA]** Imp.
   - Meaning
     - It refers to that document of the company in which rules of Internal Management, to achieve the objectives laid down in the MOA, are stated.
   - Contents/Clauses/Subject-matter
     - Exclusion wholly or in part of Table 'F'
     - Adoption of preliminary contracts
     - Number & Value of shares
     - Issue of preference shares
     - Allotment of shares
     - Calls on shares
     - Lien on shares
     - Transfer & Transmission of shares,etc
3. **Consent of Proposed Directors**
   - Apart from MOA & AOA, a written consent of each person named as a Director is required confirming that they agree to act in that capacity and undertake to buy and pay for qualification shares, as mentioned in the AOA.

> **Tool Kit 17**
>
> **Qualification Shares?**
>
> It refers to those shares which under the provisions of the Act, the directors are required to buy, ensuring to have some stake in the proposed company.

4. **Agreement**
   - The agreement, if any, which the company proposes to enter with any individual for appointment as its Managing Director or a whole Time Director or Manager.

> **Director Identification Number (DIN)**
>
> - Every individual intending to be appointed as director of a company shall make an application for allotment of Director Identification Number(DIN) to the Central Government in prescribed form along with fees.
> - DIN is to be allotted by the Central Government within one month from the receipt of application.
> - No individual, has more than one DIN.

5. **Statutory Declaration**
   - A declaration stating that all the legal requirements pertaining to registration have been completed.

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(i) ... incorporated entity.

(ii) Certificate of incorporation can be presented in court as a proof of the existence of company.

(iii) Company becomes an artificial person created by law and its identity is considered separate from its members.

(iv) Identity of company becomes permanent.

(v) A **private company** can start its business just after receiving the Certificate of Incorporation.

[C] Capital Subscription/Commencement of Business Stage

A private company or a public company which does not have share capital can commence its business just after getting incorporated. Hence "Capital Subscription Stage" or "Commencement of Business Stage" apply only to public company with share capital. The following steps are required for raising funds from the public:

(1) SEBI Approval

Imp.

- SEBI (Securities and Exchange Board of India) has issued guideline for the discloser of information and investor protection.

> **Tool Kit 19**
>
> **SEBI ?**
>
> It refers to that regulatory body which is established to promote orderly and healthy growth of securities market and for investors protection.

- A public company inviting funds from the general public must not conceal any material information from the potential investor.
- Therefore, it is essential to get prior approval from the SEBI before going ahead.

(2) Filing of Prospectus:

- As a second step of capital subscription, a copy of the prospectus or statement in lieu of prospectus is filed with the Registrar of Companies.
- **Prospectus:** It refers to that document which contains the all relevant information to the issue and through which the company invites the public to apply for shares, debentures, etc.
- **Statement in Lieu of prospectus:** It refers to that statement which is field with the Registrar of Companies in case a company not issuing the prospectus.

(3) Appointment of Bankers, Brokers & Underwriters:

- Raising funds from the public is a stupendous work. It involves mainly three parties.
  - **Banker's:** The application money is to be received by the bankers of the company.

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Generally, every company prepares its Articles of Association according to its requirements. So the contents of the Articles of Association for different companies may be different. Generally, **Table F** is considered to be a standard structure of the Articles of Association and on the basis of it, various rules and sub rules are prepared. The following points are mentioned generally in a company's Articles of Association:

(1) Mode of ratification of preliminary contracts
(2) Division of various types of shares and rights of shareholders
(3) Mode of issue and allotment of shares
(4) Fixation of minimum subscription
(5) Method of issuing share certificates
(6) Rules regarding calls on shares
(7) Mode of increase, decrease or restructuring of share capital
(8) Payment of underwriting commission
(9) Payment of commission and brokerage on shares and debentures
(10) Consolidation and division of shares, etc.

Differences between the Memorandum and the Articles of Association

Basis of Difference	The Memorandum of Association	The Articles of Association
1. Objectives	It defines the objectives of the company.	It defines the rules for attaining the objectives mentioned in the Memorandum of Association.
2. Position	It is a very vital document.	It is a subsidiary document.
3. Relationship	It defines the relationship between the company and the outsiders.	It defines the relationship between the members and the company.
4. Validity	The activities beyond the power of the Memorandum of Association are not considered to be performed by the company and even all the members cannot ratify them.	Activities beyond the powers of the Articles of Association are also void. But their ratification is possible by the members.
5. Necessity	Its preparation is necessary to get the company registered.	It is not necessary to prepare it for Public Limited Company (in its absence the provision of Table F applies) but is necessary for a Private Company.
6. Alteration	It cannot be easily altered. Many matters require approval of court.	It can be easily altered by a special resolution.

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(b) Incorporation, Capital Subscription, Commencement of Business
(c) Promotion, Incorporation, Capital Subscription, Commencement of Business
(d) Capital Subscription, Promotion, Incorporation, Commencement of Business

12. Choose the correct statement about a private company:
   (a) A private company can start its business just after receiving the certificate of incorporation.
   (b) According to companies Act, the limit of the minimum subscription is fixed at 90% of the size of the issue.
   (c) A public company cannot commence business until it obtains a certificate of commencement of business.
   (d) If a public company collects capital from the public it will have to issue the prospectus.

13. **Statement-I:** No company can legally undertake activities that are not contained in its memorandum of association.
   Statement-II: Articles of association are the rules regarding internal management of a company.
   Choose the correct option from the following:
   (a) Statement I is true and Statement II is false.
   (b) Statement II is true and Statement I is false.
   (c) Both the statements are true.
   (d) Both the statements are false.

14. Match the 'Documents to be used in the formation of a Company' in column-I with their respective term in Column-II.

Column-I		Column-II	
(A)	Memorandum of Association	(i)	Internal management
(B)	Articles of Association	(ii)	Liability Clause
(C)	Prospectus	(iii)	Invitation to the public

   (a) (A)- (i), (B)- (ii), (C)- (iii)
   (b) (A)- (iii), (B)- (ii), (C)- (i)
   (c) (A)- (ii), (B)- (i), (C)- (iii)
   (d) (A)- (i), (B)- (iii), (C)- (ii)

15. Match the 'Different Clauses of Memorandum of Association' in Column-I with their respective statement in Column-II.

Column-I		Column-II	
(A)	Capital Clause	(i)	Authorised Capital of a company is ₹ 10 crore
(B)	Liability Clause	(ii)	With which the company will be known
(C)	Name Clause	(iii)	Contains the name of the state
(D)	Registered Office Clause	(iv)	Amount unpaid on the shares

   (a) (A)- (i), (B)- (iv), (C)- (ii), (D)- (iii)
   (b) (A)- (ii), (B)- (i), (C)- (iii), (D)- (iv)
   (c) (A)- (i), (B)- (iii), (C)- (ii), (D)- (iv)
   (d) (A)- (iii), (B)- (ii), (C)- (i), (D)- (iv)

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personal contact is needed with the customers" (one of the nature of business) such as in the case of grocery shop, Sole Proprietorship may be more suitable. On the other hand, for large manufacturing units where "direct personal contact with the customers is not required" (another nature of business) the Company Organisation may be the right choice.

- In case where the services of professional nature such as Legal, Medical & Healthcare, Accounting & Auditing, Consultancy, etc. are required, Partnership form is much more suitable.

Conclusion

The information given above clearly indicates that the decision to select a form of business organisation should be taken very judiciously as it is very difficult to change it after it has been selected. All the above-mentioned factors affect this decision which means that decision cannot be taken on the basis of a single factor. Hence, a proper balance shall have to be struck among all these factors. In short, it can be said that the sole proprietorship business is suitable for a small-scale business, the partnership business for a middle-level business and the company organisation for a large-scale business. So far as the establishment of public utilities services organisations is concerned, the use of different forms of public sector is more appropriate.

Distinguish among the various forms of Business Organisations

Basis of Difference	Sole Trade	Partnership Organisation	Company Organisation	Joint Hindu Family Business	Cooperative Organisation
1. Ease of Formation	Easiest, No legal formalities are required.	Easy enough, only an agreement is required.	Very difficult, a large number of legal formalities are required.	Easy, no legal formalities are required.	Difficult- some legal formalities are required.
2. Governing Act	No Act is applicable.	Indian Partnership Act, 1932 applies.	Indian Companies Act, 2013 applies.	Hindu Law applies.	Cooperative Societies Act, 1912/State Cooperative Societies Act applies.

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3. Registration	No question of registration as there is no special Act available for it.	Not necessary	Compulsory	Not necessary	Compulsory
4. Liability of Members	Unlimited	Unlimited	Limited	Expect Karta, the liability of all other members is limited.	Limited
5. No. of Members	Only one.	Minimum: 2 Maximum: 50	**Public Company:** Minimum: 07 Maximum: No limit **Private Company:** Minimum: 02 Maximum: 200	No Limit	Minimum: 10 Maximum: 100 in Credit Cooperatives and there is no restriction in others.
6. Transfer of Ownership	No Restriction.	With mutual consent.	Public Co.: No Restriction Private Co.: Restricted	Restricted	Restricted
7. Stability	Unstable.	More stable than sole trade.	Stable	Stable	Stable
8. Secrecy	Complete secracy.	Secrets limited to partners.	Public Co.: Secrets shared with public. Private Co.: Secrets shared with members	Secrets limited to members.	Secrets limited to members.
9. Suitability	Suitable for small scale business.	Suitable for medium scale business.	Suitable for large business.	Suitable for small and medium scale business.	Suitable for small and medium scale business.
10. Winding-up	At will	At will	Under the Act.	On the demand of all the members of the family.	Under the Act.

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Assertion-Reason Questions

[2.1 To 2.7]

Read the following statements—Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

1. Assertion (A) : Sole proprietorship has the advantage of 'direct incentive'.
   Reason (R) : The need to share profits does not arise in the case of sole proprietorship as Sole Proprietor is the single owner.
2. Assertion (A) : Sole proprietorship is the least regulated form of business.
   Reason (R) : There is no separate law that governs the sole proprietorship.
3. Assertion (A) : The size of the business of a sole trader rarely grows much and generally remains small.
   Reason (R) : Banks and other lending institutions may hesitate to extend a long term loan to a sole proprietor.
4. Assertion (A) : Decision making may not be balanced in the case of sole proprietorship.
   Reason (R) : A sole proprietor is less inclined to take risks in the form of innovation or expansion.
5. Assertion (A) : The decisions of the Karta are not binding on the other members.
   Reason (R) : The control of the Joint Hindu Family Business lies with the Karta of the family.
6. Assertion (A) : Every partner of a partnership firm is both an agent and a principal.
   Reason (R) : The definition of the partnership business highlights the fact that it is a business carried on by all the partners.
7. Assertion (A) : In the case of partnership organisation the anxiety, burden and stress on individual partners is less.
   Reason (R) : The risks involved in running a partnership firm are shared by all the partners.
8. Assertion (A) : The confidence of the public in partnership firms is generally low.
   Reason (R) : A partnership firm is not legally required to publish its financial reports.
9. Assertion (A) : The liability of a nominal partner is limited.
   Reason (R) : A nominal partner is liable, like other partners to the third party, for the repayment of firm's debt.

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10. Assertion (A): The written agreement that governs the partnership is called the 'Partnership Deed'.

Reason (R): In order to enter into partnership, a clear agreement with respect to the terms, conditions and all other aspects concerning the partners is essential.

11. Assertion (A): It is compulsory for a general partnership firm to get registered.

Reason (R): It is one of the consequences of non-registration of firm that it cannot file a case against the partners.

12. Assertion (A): The membership of a cooperative society is voluntary.

Reason (R): The cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members.

13. Assertion (A): Irrespective of the amount of capital contribution by a member of cooperative society, each member is entitled to equal voting rights.

Reason (R): The liability of members of a cooperative society is limited.

14. Assertion (A): The company is an artificial person.

Reason (R): Unlike natural persons it cannot breathe, eat, run, talk and so on.

15. Assertion (A): The liability of the members of a company is limited.

Reason (R): The creditors can use only the assets of the company to settle their claims since it is the company and not the members that owes the debt.

16. Assertion (A): It is difficult to maintain complete secrecy about the operations of the company.

Reason (R): The companies Act requires each public company to provide from time-to-time a lot of information to the office of the registrar of company.

17. Assertion (A): For the formation of One Person Company its only member has to nominate some other person.

Reason (R): The purpose of nominating a person is to maintain the continuity of the company in case of death or inability of the main member.

18. Assertion (A): Sometimes an idea to form a company may be good but technically not possible to execute.

Reason (R): It may be so because the required raw material or technology is not easily available.

19. Assertion (A): Memorandum of Association contains rules regarding internal management of a company.

Reason (R): A company cannot legally undertake activities that are not contained in its Memorandum of Association.

20. Assertion (A): Promoters are not the agents of the company.

Reason (R): Promoters can't be the agents as the company is yet to be incorported.

The names (with government shares) of some public sector undertak whose shares are actively traded on various stock exchanges are given below:

LIST OF SOME PUBLIC SECTOR UNDERTAKINGS

NAME OF PUBLIC SECTOR UNDERTAKINGS	Govt. Share (%) as on Dec., 2020	NAME OF PUBLIC SECTOR UNDERTAKINGS	Govt. Share (%) as on Dec., 2020
Andrew Yule & Co. Ltd.	89.25	Indian Telephone Industries (ITI)	90.30
Bharat Electronics Limited (BEL)	51.14	Mahanagar Telephone Nigam Ltd. (MTNL)	56.25
Bharat Heavy Electricals Limited (BHEL)	62.70	National Aluminium Company (NALCO)	51.50
Container Corporation of India (CONCOR)	54.80	National Fertilizers Ltd. (NFL)	74.71
Engineers India Ltd. (EIL)	51.49	National Thermal Power Corporation (NTPC)	51.10
Gas Authority of India Ltd. (GAIL)	52.12	Power Finance Corporation	55.99
Hindustan Organic Chemicals Ltd. (HOCL)	58.78	Rashtriya Chemicals and Fertilizers	75.00
Hindustan Petroleum Corporation Ltd. (HPCL)	51.11	Scooters India	93.87
Indian Oil Corporation Ltd. (IOCL)	51.50	Steel Authority of India Limited (SAIL)	75.00

Features of Public Enterprises

Imp

On the basis of the above description the prominent characteristics of the public enterprises are:

(1) **State Ownership:** The ownership of the government enterprises is either entirely with the central government, state government or local government or is held jointly. There can be partnership of the private sector in the public enterprises but the government must have 51% of the share capital. It is important to make it clear that 'State' here means not the state government but the government which includes all the governments.

(2) **State Control:** The management and ownership of the public enterprises are in the hands of the government. Some of the enterprises are established by the government under its own departments. For example, the post and telegraph services are handed over to the post and telegraph department which is run by the Ministry of Communication. Similarly, some enterprises have been left to the care of some independent boards like the Bhakhra Nangal Control Board, Hirakud Control Board, etc., but the final control rests with the government.

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(3) **Financial Freedom:** Almost all the financial needs of the public enterprises are met through the investment of capital by the government. These days, however, they have been permitted to fulfil their financial needs by obtaining capital from the public because of the liberal policies of the government. Therefore, the government enterprises mostly get loan and capital from the public to satisfy their financial needs which is an indication of the financial freedom enjoyed by these enterprises.

(4) **Service Motive:** The chief purpose of the establishment of the government enterprises is to serve society. A private enterprise is established only when there is some possibility or hope of profit but a government enterprise is established for the service of society even if there is loss in its establishment.

(5) **Public Accountability:** The private enterprises are accountable for their progress only to a few individuals, especially their owners. On the contrary, the government enterprises are accountable not only to the government but also to the public. The elected representatives of the people criticise their success or failure in the parliament or in the state assemblies.

(6) **Bureaucracy in Management:** Since the public enterprises are established by the government, their management is run by the administrative officers. They run these enterprises in accordance with the rules and regulations as a result of which the decisions are often inflexible. It is only because of this characteristic that the decisions in these enterprises are not taken quickly as is the case with private enterprises. In these enterprises, even the smallest decisions are taken only after going through a long process and that is why there is unnecessary delay in their activities.

(7) **Harmonious Industrial Relations:** The attitude of the public enterprises is more liberal in comparison with that of the businessmen in the private enterprises. These enterprises adopt the policies which are beneficial for their employees, consumers and ultimately the entire society. Because of this very characteristic of the public enterprises, they have harmonious relations with all the other parties.

(8) **Useful for All the Sectors:** The public enterprises do not serve any particular section of society but are beneficial for all. For example, the post and telegraph department serves the entire society in equal manner.

(9) **Monopoly in Few Sectors:** The public enterprises have a monopoly in some sectors. Monopoly means that some particular industries can be established only in the public sector. For example, the railways, post and telegraph services, etc. It is important from the point of view of social service because these industries do not yield much profit and are, therefore, of not much interest for private sector entrepreneurs. In 2001, three industries were reserved exclusively for the public sector. These are Atomic Energy, Arms and Rail Transport.

Forms of Public Enterprises

It is obvious that only those business organisations are included in the public sector which are of public interest and which are controlled and managed by the government. Such enterprises are either entirely owned by the government or their maximum ownership lies with the government. From the legal point of view the public enterprises can both be incorporated and non-incorporated. It is essential to get the enterprises fall incorporated category to be registered under the laws regarding various org while the non-incorporated enterprises can be started without any registration. different forms of public enterprises are the following:

1. Departmental Undertakings

> **Tool Kit 4**
>
> **Departmental Undertakings?**
>
> It refers to that public enterprise which is run as a part of government department under the direction of the minister concerned.

This is the most popular form of managing the public enterprises. These enterprises are necessarily fully owned and controlled by the government (central, state or local) and their management and control are with the ministry concerned. The Secretary of the Department is its Chief Executive Officer who works under the guidance and control of the ministry. Every year its budget is prepared and government approval is obtained. A report regarding the activities of these enterprises is prepared and sent to the Parliament/State Assembly. The minister concerned with the departmental organisation is accountable for the success or failure of the department. The form of the departmental organisation of public enterprises is established as Public Utility Services.

In India, the chief enterprises established in the form of departmental enterprise are:

1. *The Indian Post and Telegraph Department* (which is run by the Ministry of communication);
2. The Indian Railways (which is run by the Ministry of Railways).

Similarly, the *All India Radio, The Doordarshan, Telephone Services, Ordnance Factory, etc.,* are the examples of departmental organisations.

• Features of Departmental Undertakings Imp.

The main features of the departmental undertakings are as under:

(1) **Formation:** These are formed as government departments by the government. Each government department is associated with a special ministry.

(2) **Ownership:** Their ownership lies compulsorily with the government.

(3) **Management:** These are managed by the ministry concerned. They are subjected to accounting and audit controls applicable to other Government activities.

(4) **Financing:** Their financing is completely done by the government through general budget. They have no right to borrow from public. They draw money from the government treasury for their daily expenses. Their income is also deposited in the government treasury.

(5) **Appointments:** The appointments in these undertakings are made through Union Public Service Commission (UPSC). These departments may have their own staff selection board, for example, Railway Service Commission is formed by the Railway

Department. They are headed by Indian Administrative Service (IAS) officers and civil servants who are transferable from one ministry to another.

(6) **No Separate Existence:** These undertakings do not have any existence of their own. In other words, they cannot have any property in their own name. They cannot file any court case against anyone without the permission of government and nobody can sue them.

(7) **Accountability:** They are accountable to the ministry since their management is directly under the concerned ministry.

• Merits of Departmental Undertakings

The following are the merits of the departmental undertakings:

(1) **Easy Formation:** These undertakings are formed very easily as registration is not needed for their formation. They are established just by the administrative order of the government.

(2) **Effective Control:** These undertakings ensure a high degree of public accountability. The management of these undertakings work under the rules framed by the relevant ministry. Apart from it, the work is done by educated and trained officers. As a result, an effective control can be achieved.

(3) **Increase in Government Income:** The income fetched by the activities of these undertakings is, in fact, the income of the government. Thus, this earned income adds to the existing government income.

(4) **Helpful for Parliament:** These undertakings facilitate the Parliament to exercise effective control over their operations.

(5) **Easy Financing:** Financing becomes very easy as it is managed by the government.

(6) **Proper Utilisation of Funds:** All the activities of these undertakings are done with the approval of the government and the officials have complete control over them. So, there can be no misutilisation of funds.

• Limitations of Departmental Undertakings

The limitations of departmental undertakings are given below:

(1) **Lack of flexibility:** There is lack of flexibility due to strict government rules whereas it is essential for the successful operation of an undertaking.

(2) **Lack of Prompt Action:** Centrally controlled management and excessive formalities generally cause delay in taking decision. Consequently, no quick action can be taken. That is why many opportunities of earning profit are missed.

(3) **Conservative Approach:** These enterprises are unable to take advantage of business opportunities. The bureaucrat's over-cautious and conservative approval does not allow them to take risky ventures.

(4) **Red Tapism:** Excessive paperwork and the habit of not finishing the work give rise to red tapism. Consequently, there is a heap of files tied in red tape and no work comes to an end.

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(5) **More Political Interference:** Departmental undertakings are run under the supervision of a minister. The minister, being a representative of the political party, gives more priority to the benefits of the party than the benefits of the country.

(6) **Lack of Adequate Services:** These undertakings are usually insensitive to consumer needs and do not provide adequate services.

• Utility of Departmental Undertakings

The utility of the departmental undertakings exhibits itself in the following situations:

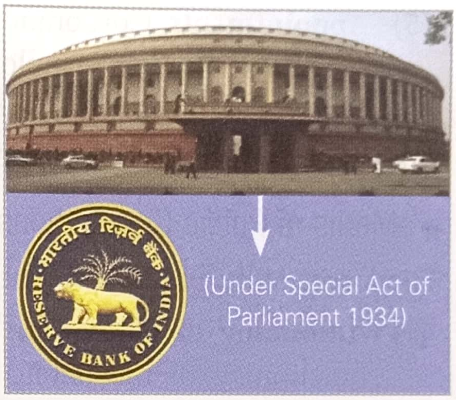
(1) Where the complete control of the government is essential for public welfare;

(2) Where secrecy plays a vital role, for example, Defence Industry;

(3) Where services for the public utility are to be made available and the contribution of the private sector is nil; and

(4) Where heavy investment is involved without any guarantee of profit.

2. Statutory/Public Corporation



Public Corporations fall in the category of incorporated enterprises which are established under a Special Act of the Parliament or State Legislature which provides for its management and methods of running them, their powers and privileges are determined and their relations with the government departments are specified.

Tool Kit 5

Statutory Corporation?

It refers to that public enterprise which is created by a Special Act of Parliament or State Legislature.

Public corporations have separate legal existence, which means that they can purchase assets in their name, have contracts with other parties, can sue and be sued. Their entire capital is provided by the government (central government, state governments or jointly), which means that these corporations are fully owned by the government but they have the right to get loan from the public. Unlike the enterprises of departmental organisations, the income and expenditure of the corporations are not shown in the budget.

In India, the chief public corporations include the following:

1. Life Insurance Corporation of India
2. Reserve Bank of India
3. Employees' State Insurance Corporation
4. Food Corporation of India
5. Oil and Natural *Gas Commission*

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...atures of Public Corporation

The main features of the public corporations are given below:

(1) **Formation:** They are established by a Special Act of the Parliament or State Assembly. The Act defines the objects, powers and privileges of a statutory corporation.

(2) **Ownership:** The corporations are completely under the ownership of the state. The government has the ultimate financial responsibility and has the power to appropriate its profits. At the same time, the state also has to bear the losses, if any.

(3) **Separate Legal Entity:** They have a separate legal entity. In other words, they can purchase property of their own, they can contract with other parties, they can sue others and can also be sued.

(4) **Financing:** They are usually independently financed. It obtains funds by borrowings from the government or from the public through revenues, derived from sale of goods and services. It has the authority to use its revenues.

(5) **Appointments:** Corporations have their own rules regarding the appointment and remuneration of the employees. The service conditions are fixed by the Board of Directors. The employees of the corporations, like departmental undertakings, are not the employees of the government.

Merits of Public Corporations

The merits of the public corporations are given below:

(1) **Autonomy in Operation:** There is no interference of the government in the functioning of the public corporations. Thus, they can pursue their activities independently.

(2) **Financial Freedom:** Since the funds of these organisations do not come from the central budget, the government generally does not interfere in their financial matters, including their income and receipts.

(3) **Self-made Policies and Procedures:** Since statutory corporations have autonomous status, they frame their own policies and procedures within the powers assigned to them by the Act. In some cases, prior approval of a particular ministry may be required.

(4) **Instrument for Economic Development:** These are the valuable instruments for economic development. It has the power of the government, combined with the initiative of private sector.

(5) **Social Service Motive:** The main and the secondary aim of the corporations are social service and profit respectively. For example, no profit or very limited profit is taken for the services provided by the corporations.

Limitations of Public Corporations

The following are the limitations of the public corporations:

(1) **Incomplete Operational Autonomy:** To declare that corporations have autonomy in operation is only theoretical .In reality, there is complete government interference. Consequently, they cannot take any decision freely.

(2) **Government and Political Interference:** Government and political inte
always been there in major decisions or where huge funds are involved

(3) **Entry of Corrupt Practices:** Generally, where there is dealing with public,
corruption takes place.

(4) **Delays actions:** The government has a practice of appointing advisors to the Corporation Board. This practice checks the freedom of the corporation in entering contracts. In case of disagreement, the matter is referred to the Government for final decision. This, further delays decision-making.

• Utility of Public Corporations

The establishment of public corporations is profitable/useful in the following situations:

(i) where a huge amount of capital is needed; and

(ii) where public welfare is the top priority.

3. Government Company

A government company means a company which has a minimum of 51% of the paid-up share capital in the name of the Central Government or State Government/s or partially the Central Government and partially one or more State Government/s. In this way, the government becomes a major shareholder in the enterprise and makes use of all the rights of a shareholder through the medium of the ministry concerned or the cabinet or the Head of the State. If the local governments or the corporations acquire 51% or more of the capital, the enterprise concerned cannot be treated as a government company. They are registered under the Indian Companies Act, 2013.

The following are the examples of the government companies:

1. Hindustan Machine Tools
2. National Fertilizers Limited
3. Coal India Limited
4. Hindustan Aeronautics Limited
5. Bharat Heavy Electricals Limited

Tool Kit 6

Government Company?

It refers to that public enterprise which has a minimum 51% of the paid-up capital in the name of the Central Government or State Government/s or partially the Central Government and partially one or more State Government/s.

• Features of Government Companies

The following are the main features of the government companies:

(1) **Formation:** Like the companies of private sector, these are formed according to the provisions of Indian Companies Act, 2013. If the government desires, relaxation can be given to them regarding any provision. But this relaxation must be authorized by the parliament.

(2) **Ownership:** Minimum 51% of their paid-up share capital is in the name of the Central Government or State Government/s or partially in the name of Central Government and partially in the name of one or more State Governments.

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Definitions of MNCs

Major definitions of a multinational company are the following:

(i) According to the **ILO Report**, "*The essential nature of the mult... enterprises lies in the fact that the managerial quarters are located in one country (referred to for convenience as the home country) while the enterprise carries out operations in a number of other countries as well.*"

(ii) According to **IBM World Trade Corporation President**, "*A multinational corporation is the one that: 1. Operates in many countries, 2. Carries out research, development and manufacturing in those countries, 3. has a multinational management and 4. has a multinational stock ownership.*"

Features of MNCs

The main features of the multinational company are the following:

(1) **Huge Capital Resources:** MNCs are able to raise huge funds easily from different sources. The major sources are as follows:

- Issue of equity shares and debentures
- Borrow from financial institutes and international banks
- Enjoying credibility in the capital market
- Because of their better financial position they are able to run successfully even in the adverse situations.

(2) **Foreign Collaboration:** MNCs may collaborate with the companies of host countries. Usually they enter into agreements regarding Sale of Technology, Production of Goods and Use of Brand Names for the final products. Foreign collaboration has two aspects. On the one hand, Big industrial houses wants to diversify and expand have gained by collaborating with MNCs. On the other hand, these foreign collaborations have given rise to monopolies which is not at all in the favour of host countries.

(3) **Advanced Technology:** MNCs provide advanced technology. Because of this, they are able to conform to international standards and quality specifications. This leads to industrial development of the host countries.

(4) **Product Innovation:** As MNCs have huge financial resources, they can establish highly sophisticated Research & Development Department which makes it possible to develop new products and superior design of existing products.

(5) **Marketing Strategies:** MNCs use Aggressive Marketing Strategy so that sales may be increased in short period. In addition to that:

- They possess a more reliable and up-to-date market information system.
- They have very effective advertising and sales promotion techniques.
- They have internationally well-known brand.
- Hence, sales is no problem for them.

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4.1 Business Services: Banking Services and Digital Payments

"Service… backbone of a bu…

BUSINESS SERVICES

Meaning of Business Services

Business services means those services which help in the successful running of a business. The examples of business services are: banking, insurance, transport, warehousing and communication. Business cannot be even imagined in the absence of these services. With the growing scale of business, the need and importance of these services are increasing accordingly.

> **Tool Kit 1**
>
> **Service Businesses?**
>
> It refers to the businesses that provide intangible products.

Nature of Business Services

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The nature of business services is elucidated by the following points:

(1) **Intangibility:** Unlike products, services cannot be seen, touched or smelled. These are intangible. These can just only be felt. For example, the building/premises of the bank is visible but the banking services can't be seen as such, yet their benefits can be availed of.

(2) **Inconsistency:** Services lack in homogeneity. Like the behaviour of a bank employee (a provided service)— it can be amiable towards one customer and harsh towards the other. So, it is not essential that the services provided by a person or an organisation is homogeneous.

(3) **Inseparability:** Out of the main features of service is that in it both the production and utilisation go hand in hand. For example, if we place the material in a warehouse, vacant space is provided to us. The moment we keep the material in the warehouse, the owner starts charging the rent. In this way, the moment the service was generated, then and there it was utilised. A doctor can operate only on the condition that the patient is ready to take his service.

(4) **Inventory-Less:** Services cannot be stocked. For example, a transport company has a truck, which remains idle on 1st January on account of no work. Now it is not possible to stock the services which it can render on that day and get double the work done from it on 2nd January. That's why it is said that the demand and supply of services go hand in hand. Neither it is possible that the supply of services is more than its demand nor it can be stored. In other words, services are perishable. If they are not used they perish/waste away and do not wait for anybody.

"Banque". Meaning of both the terms is Bank.

Meaning of Bank

In common parlance, a Bank means an organisation which transacts in money. This organisation accepts the money from the people as deposit and lends money to the people. Nowadays, apart from the work of transacting in money, a bank performs many other functions also like credit creation, agency functions, general services etc. Hence, a **Bank is an organisation which accepts deposits, lends money and performs other agency functions.**

> **Tool Kit 2**
>
> **Bank?**
>
> A Bank is an institution which accepts deposits withdrawable by cheque and gives loans and advances for the purpose of earning profits.

Types of Banks

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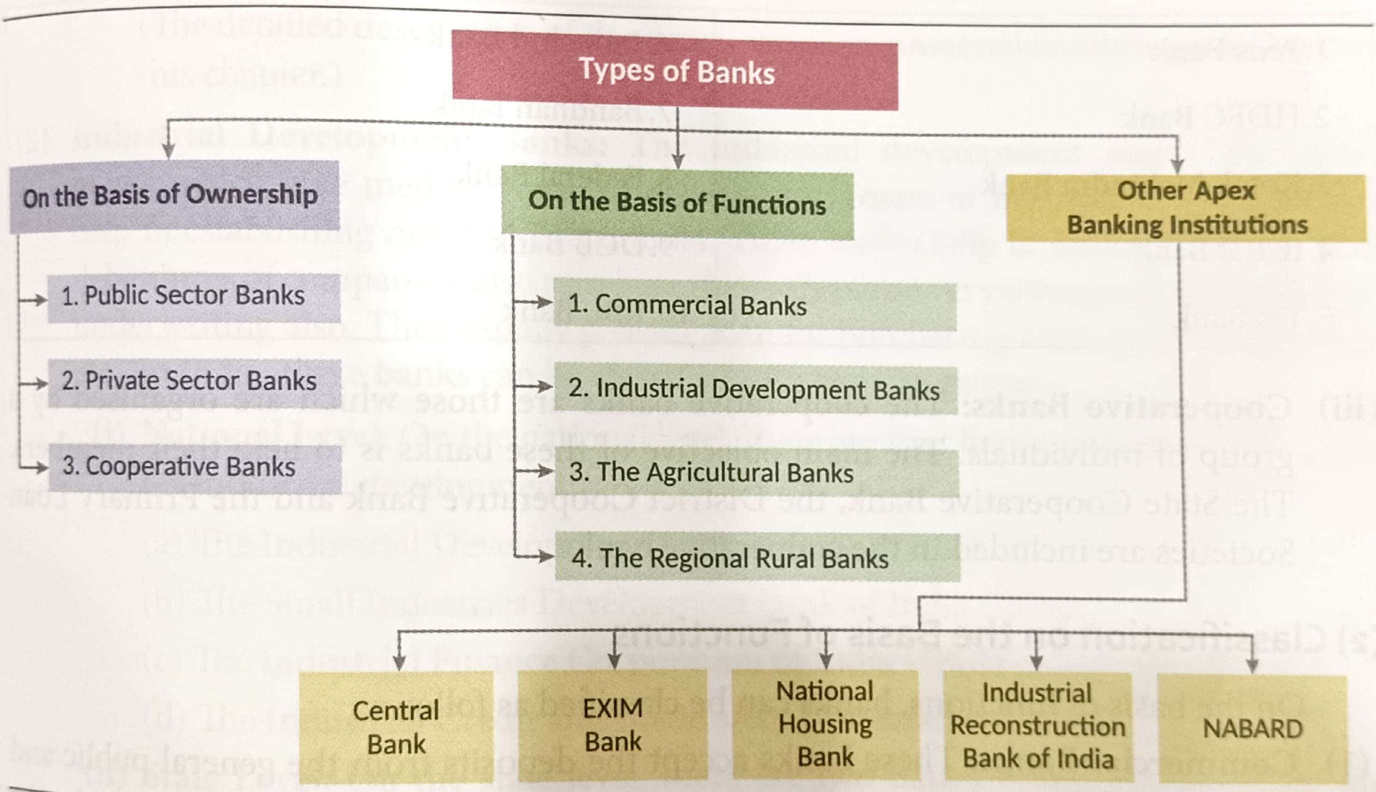
Banks can be classified on the following basis:



(a) State Co...

(b) Central Cooperative Ban...

(c) Primary Cooperative Societies.

(ii) **The Land Development Bank:** The main function of a land development bank is to provide loan on security of land. These banks provide long-term loan. The main objectives of these loans are to purchase tractors, land improvement, payment of old debts etc. These banks are of the following two types: (a) The State Land Development Bank, (b) The Primary Land Development Bank.

(4) **The Regional Rural Banks:** These banks were established in 1975 to enhance the banking facilities in the rural areas. In these banks, features of commercial and cooperative banks are found. These banks are sponsored by some commercial bank. Their total capital's 50% is provided by the Central Government, 35% by the commercial bank concerned and 15% by state government concerned. The main functions performed by these banks are to provide loans to small traders, small farmers and for the development of agricultural activities.

(3) Other Apex Banking Institutions

In this category, the other main banks of the country are included. These are as follows:

(i) **Central Bank:** Central bank is the apex bank of the banking structure of a country. According to **Bill Rogers**, "*Three main discoveries have been made till now—fire, wheel and central bank.*" Central bank plays an important role in any country's monetary and banking system. Central bank is the most important bank of a country. The main function of this bank is to maintain the economic stability of the country and in reference to underdeveloped countries, its main function is to make possible the works of economic development. This bank issues currency, controls other banks and works as a bank of the government. This bank controls the credit in a country

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In India, the Reserve Bank of India, in England, the Bank of Englar America, the Federal Reserve Bank are the central banks. Thougl central bank of the world was established in Sweden in 1668 yet the ce banking system was started only after the establishment of the Bank of England in 1694.

(ii) **The Export-Import Bank of India (EXIM Bank):** On January 1, 1982, EXIM Bank was established to expand the foreign trade. The main objective of this bank was to provide assistance to traders engaged in import and export. This bank provides the facility of refinancing to the financial institutions and the commercial banks. Besides this, the bank provides loan facilities for establishing joint undertakings in foreign countries and to export-import machinery and tools.

(iii) **The National Housing Bank:** In 1988, National Housing Bank (NHB) was established. The main objective of establishing this bank was to provide housing loans to the general public. This bank provides the facility of refinancing also on housing loans extended by the financial institutions and the commercial banks.

(iv) **The Industrial Reconstruction Bank of India:** The main objective of this bank is to rehabilitate the industries. For rehabilitation of industries, the bank takes the management of the sick industrial units in its own hands and provides them financial assistance.

Imp. (v) **The National Bank for Agriculture and Rural Development (NABARD):** The main objective of establishing this bank is to develop agriculture and rural areas. The main functions of this bank are as follows: 12 July 1982

(a) To provide short-term, medium-term and long-term loans for agriculture and its allied activities.

(b) To extend refinancing facility to the commercial and the cooperative banks on agricultural loans.

(c) To provide finance for encouraging the export of specific commodities.

(d) To perform research work for rural upliftment.

Functions of Commercial Banks

Functions of the commercial banks have been divided into two categories:

(1) Primary Functions

(2) Secondary Functions

(1) Primary Functions

Banks have two primary functions—accepting deposits and advancing loans.

(A) **Acceptance of Deposits:** The bank accepts the deposits from public. People deposit their money as per their convenience and capability in the following accounts:

(i) **Savings Deposit Account:** This account is to encourage the small savings. The bank pays interest on this account which is less than that of fixed deposit account. Money deposited in this account is known as Demand Liability of the Bank.

a particular point of time. All transactions are hold till that time. For example, NEFT takes place in half-hourly settlement batches on 24×7, 365 days basis. Any transaction initiated after a designated settlement time could have to wait till the next designated settlement time.

Features of NEFT: The following are the features of NEFT:

(i) For being a part of the NEFT funds transfer network, a bank branch has to be NEFT- enabled.

(ii) Not only individuals, firms or companies maintaining accounts with a bank branch can transfer funds using NEFT but even such individuals, firms or companies who do not have a bank account can also deposit cash at the NEFT-enabled branch with instructions to transfer funds using NEFT.

(iii) Only individuals, firms or companies maintaining accounts with a NEFT-enabled bank branch can receive funds through the NEFT system.

(iv) In case, if anyone has a bank account then there is no limit — either minimum or maximum — on the amount of funds that could be transferred using NEFT.

(v) In case, if anyone does not has a bank account, then the maximum amount that could be transferred is ₹ 50,000 against cash.

(vi) Generally, following fee is charged on NEFT facility:

IMP

Amount	Charges
Up to ₹1 lakh	Not exceeding ₹ 5 + GST
Above ₹ 1 lakh and up to ₹ 2 lakhs	Not exceeding ₹ 15 + GST
Above ₹ 2 lakh	Not exceeding ₹ 25 + GST

(vii) No charges to be levied for the beneficiaries or receiver of funds.

(viii) Foreign remittances cannot be received through NEFT.

(ix) NEFT settles transactions in batches.

(b) **Real Time Gross Settlement (RTGS):** It refers to a funds transfer system where transfer of funds takes place from one bank to another on a 'Real Time' and on 'Gross' basis. Settlement in 'Real Time' means payment transaction is not subjected to any waiting period. The transactions are settled as soon as they are processed. 'Gross' settlement means the transaction is settled on one-to-one basis without bunching or netting with any other transaction. This is the fastest possible money transfer system through the banking channel.

The RTGS service for customers is available on 24×7, 365 days a year.

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do not know the use of Smart Phone and Internet, for them the Aadhaar Linked Digital Payment has been started. For making Digital Payment, it is essential that the user should have his Bank Account and that Account should be linked with his Mobile Number or Aadhaar Number. In the Digital Payment System three important facts are taken care of (i) Convenience (Speed, Reliability and Availability), (ii) Charges and (iii) Safety.

• Types of Digital Payments

The following are the main types of digital payments:

(i) Banking Cards

(ii) Unstructured Supplementary Service Data (USSD)

(iii) Aadhaar Enabled Payment System (AEPS)/ Micro ATM

(iv) Unified Payment Interface (UPI) Imp

(v) E-Wallet

(vi) Quick Response Code (QR Code)

(vii) Internet Banking

(viii) Mobile Banking

[1] Banking Cards

Banking cards are plastic cards, they are issued by different banks to their Account Holders for making digital payment. Some card are linked with the bank account of the Card-holders. These cards have the name of the Card-holder, name of the

Tool Kit 9

Banking Cards?

They are plastic cards issued by the banks to the Account Holders. They contain magnetic strips and are linked with the bank accounts of the

Tool Kit 18

Insurance?

It refers to a contract whereby in exchange of fixed consideration one party promises to pay a fixed amount either at the happening of an event or at the expiry of a certain period.

...ning of Insurance

...rance is a contract where one party takes the responsibility of the risk of other party in exchange of some fixed fee. As per this contract, the first party, which is taking the responsibility of risk of another party, promises to pay a fixed amount of money to the second party, either at the end of a fixed period or at the happening of some event.

Basic Terminology of Insurance

(1) **Insurer:** One who does the insurance, *i.e.*, who takes the responsibility of risk.

(2) **Insured:** One whose insurance is done, *i.e.*, whose responsibility of risk is taken by the Insurer.

(3) **Premium:** The fee charged by the insurer on account of providing services is called Premium.

(4) **Policy:** Document of contract of insurance in which, terms and conditions related to contract of insurance are mentioned is known as Policy.

(5) **Sum Assured:** Amount for which the insurance policy is taken is known as Sum Assured.

All the above terms can be explained through the following example:

Mr A gets his car insured for ₹ 2,50,000 from the Oriental Insurance Co., Shimla. The annual insurance premium is ₹ 3,000. After some days, the car met with an accident. The expenses for repair of the car which are to be paid amount to ₹ 15,000. This amount will be paid by the insurance company. In this example, the Oriental Insurance Co. is the Insurer, Mr A is the Insured, ₹ 2,50,000 is the Sum Assured, ₹ 3,000 is the Insurance Premium and the document containing terms and conditions of insurance is known as Policy.

IMP

Functions of Insurance

The various functions of insurance are as follows:

(1) **Providing Certainty:**

- Insurance provides certainty in uncertain situations. By paying premiums, policyholders can transfer risk to the insurer, who promise to make payment of loss in a specified event.

(2) **Protection:**

- Insurance provides protection against probable loss or damage, helping to restore the insured's financial position.
- It should be noted that insurance cannot stop the happening of a risk or event but compensate for losses arising out of it.

(3) **Risk Sharing:**

- Insurance provides risk sharing facility as well. On the happening of a risk event, the loss is shared by all the persons exposed to it.

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- The share is obtained from every insured by the way of premiums.

(4) **Assist in Capital Formation:**
- Insurance also provides capital formation function. Insurance companies collect premiums from policyholders, which are then invested in various income generating schemes such as shares, debentures, and real estate.
- In this way, by mobilizing savings, insurance companies contribute to capital formation, which is essential for economic growth and development.

Types of Insurance V.Imp

When insurance business came into existence, there were only two types of insurance—Life Insurance and Property Insurance. But nowadays insurance has become a very popular medium for eliminating/minimising risk. New types of insurance are being introduced by insurance companies. Besides life and property insurance, Lata Mangeshkar can insure her sweet voice, Sachin Tendulkar can insure his hands with which he holds his cricket bat, a businessman can insure a certain amount of profit in case his business suffers some mishap, you can insure your car, scooter, a dancer can insure her legs etc. Insurance can be classified as follows:

(1) **Life Insurance:** This is the most popular form of insurance. Any person can insure himself either against death or for loss of any of his body parts. Under life insurance, every insured person has to pay a premium. This premium keeps on accumulating and either at the expiry of the policy or on the insured's death, he or his nominee gets this accumulated money. If the insured has lost any of his body part either due to an accident or any other mishap, he gets the predetermined amount mentioned in the insurance policy.

(2) **General Insurance:** Insurance contracts other than life insurance contracts are called general insurance contracts. General insurance, unlike life insurance, provides insurance against theft, fire, marine, accident etc. General insurance is done mainly of the properties such as car, stock-in-trade, building, scooter, TV, house, jewelleries etc. General insurance can be classified as follows:

(i) **Fire Insurance:** Fire insurance provides safety against loss from fire. If the property of insured gets damaged due to fire, the insured will receive the value of the damaged property as compensation from the insurance company. If no such event happens, the insured will not receive anything. For such service, the insurance company charges some premium. Such provide only safety factor, no investment factor is present in these policies.

(ii) **Theft Insurance:** Theft insurance provides insurance against theft. The insurance company pays the insured the value of property as compensation if the property is stolen.

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7.	[illegible]	17.	Shriram General Insurance Co. Ltd.
8.	IFFCO-Tokio General Insurance Co. Ltd.	18.	TATA AIG General Insurance Co. Ltd.
9.	Kotak General Insurance Co. Ltd.	19.	Universal Sompo General Insurance Co. Ltd.
10.	L&T General Insurance Co. Ltd.		

Principles of Insurance

V.Imp

Essential Elements of an Insurance Contract

Insurance is a contract between two parties. Hence, all the elements of a valid contract (such as agreement and acceptance, capacity to contract, consent of the parties, etc.) should present in every insurance contract. Besides these elements, there are certain other principles also to be followed essentially at the time of entering into an insurance contract. These principles are as follows:

Tool Kit 19

Principle of the Utmost Good Faith?

It refers that no material or important facts should be concealed by both the parties to the insurance contract.

(1) **Principle of the Utmost Good Faith:** As explained earlier also, principle of the utmost good faith suggests that both the parties, i.e., the insurer and the insured must disclose each fact and information related to the insurance contract to each other. For instance, without

Tool Kit 25

Principle of Proximate Cause?

It refers that the proximate or nearest cause and not the remote cause shall be considered to establish the responsibility of bearing the losses.

...ple of Proximate Cause: The insurance ...any will compensate for the loss suffered ...e insured due to the causes mentioned ...the insurance policy. But if the losses ...fered are due to the causes not mentioned in the insurance policy, then the principle of proximate cause is followed. This principle suggests that under the conditions where it is not possible to establish the cause of the loss, the proximate cause is followed. For instance, if a ship gets damaged due to constant frictions with icebergs and this causes damage to the stock as well. Now this damage is to the stock which is insured. Hence the insurance company will pay the compensation.

Types of Insurance Contract

Vimp

Contract between the insured and the insurer is known as the insurance contract. The insured pays the premium and the insurer promises to compensate the loss, if there is any. The insurance contracts are of two types:

(1) **Contract of Indemnity:** Except the life insurance contract, all other types of insurance contracts are contracts of indemnity. These contracts are: fire insurance, marine insurance, theft insurance etc. Under such contracts, the insured pays premium to insurance company and the insurance company takes the responsibility of compensating the insured if he suffers any loss on the insured property. These contracts are such where actual loss can be calculated and compensation can be taken from the insurance company. For instance, a person gets his house insured for ₹ 1,00,000. After some time, his house gets damaged due to fire and there is a loss of ₹ 50,000. The person will receive ₹ 50,000 from the insurance company.

(2) **Life Insurance Contract:** This contract is not a contract of indemnity. Value of life of any human being cannot be estimated hence it is very difficult to calculate the exact amount of loss. Under such contracts, the insured pays a fixed premium every year and either at the expiry of the policy or on his death, whichever is earlier, he or his dependent gets the amount insured.

Reinsurance and Double Insurance

Generally, reinsurance and double insurance are used interchangeably but they are two distinct terms, as is evident from the following:

Tool Kit 26

Reinsurance?

It refers to that insurance in which an insurance company gets its risk insured from another insurance company.

(1) **Reinsurance:** When an insurance company gets its risk insured from another insurance company, then it is called reinsurance. In this insurance contract, both the insured as well as the insurer are insurance companies. When an insurance company finds that its risk has exceeded a certain limit, it transfers a part of the risk to some other insurance company by taking reinsurance of certain items. This contract does not affect the contract between the main insured and the insurer.

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For instance, a person gets his house insured from two companies for ₹ 40,000 and ₹ 60,000 respectively. If that person suffers a loss of ₹ 40,000 due to the damage to his house, then he can either claim ₹ 20,000 each from both the companies or he can compensate his loss by claiming ₹ 40,000 from one company only. Later on, on the basis of the principle of contribution both the companies will divide the compensation paid according to the ratio of the insured amount to them. The amount paid will be distributed between A Co. and B Co. ₹ 16,000 and ₹ 24,000 respectively.

Differences between Reinsurance and Double Insurance

Basis of Difference	Reinsurance	Double Insurance
1. Relation	It is related with the insurer (the insurance company).	It is related with the original insured.
2. Number of Insurers	In this case, the number of original insurer is restricted to one.	In this case, the same risk is insured with more than one insurers.
3. Position of Original Insured	The original insured cannot claim compensation from the reinsurer.	The original insured can claim the compensation from all the insurers but not more than the amount of actual loss.
4. Utility	It is beneficial for insurance companies.	It is beneficial for the general public in case of life insurance only.

Insurance and Assurance

Generally, these two words are used as synonyms but their meaning is different. The term 'assurance' is used in life insurance policy. In life insurance policies, its meaning is that the policyholder is assured of receiving money from the insurance company. This assurance is not only for his life but also when he is dead. Hence, the insurance company has to pay either to the policyholder or to his successor, the only question is to fix the time of payment.

On the other hand, the term 'insurance' is used in indemnity policy like fire insurance policy, marine insurance policy etc. Insurance here means that insurance company will pay the compensation to the insured only when there is some loss incurred by the insured. If a person gets his godown insured against fire and no fire incident takes place during that period, then the compensation will not be paid by the insurance company.

Differences between Insurance and Assurance

Basis of Difference	Insurance	Assurance
1. Relation	It is related to fire and marine insurance.	It is related to life insurance.
2. Payment of Compensation	The compensation is paid only on happening of an event.	The compensation is paid whether the event happens or not.

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3. Nature of Risk	It is used when the risk is of uncertain nature, it may or may not happen.	It is used when the risk is of certain nature, *i.e.*, it is bound to happen.
4. Condition to Claim Compensation	The insured must suffer a loss to claim the compensation.	The insurance company is bound to pay whether the insured suffers a loss or not.

Life, Fire and Marine Insurance

"Life Insurance involves both Protection and Investment."

(A) LIFE INSURANCE

Life insurance is more important than any other kind of insurance. With the help of life insurance, a person can easily reduce the risk arising due to some sudden mishap. Though a dead person cannot be brought back to life, yet the economic losses arising out of the sudden death of a person can be minimised.

Meaning of Life Insurance

Under life insurance, the insured pays some fixed instalments in the form of premium to the insurer. In exchange of this premium, the insurer promises to pay a certain amount either at the expiry of ... death of the

Tool Kit 28

Life Insurance?

It refers to that insurance in which, in consideration of a premium, the insurer promises to pay a sum of money on the death of the person whose life is insured or expiry of a certain period, whichever is earlier.

Differences between Life Insurance and General Insurance

Basis of Difference	Life Insurance	General Insurance
1. Nature of Contract	This is not a contract of indemnity. After a certain time, payment of sum assured is made.	This is a contract of indemnity. Compensation is paid only when there is some damage.
2. Objective	The objective of this insurance is to control financial problems of self and family.	This insurance is taken for the safety of property.
3. Limit of Amount	There is no limit of amount for taking insurance policy.	Insurance can be taken upto the maximum value of the property.
4. Principle of Subrogation	This principle does not apply here.	This principle applies here.
5. Period	This policy can be taken for any number of years.	The maximum period for this policy is one year.
6. Safety and Investment	This involves both the elements.	It involves only safety.
7. Insurable Interest	Insurable interest is required at the time of taking the insurance policy.	In fire insurance, insurable interest is required both at the time of taking policy as well as at the time of loss. But in marine insurance it is required at the time of loss.
8. Moral Risk	This risk is minimum here because no person would like to kill himself.	This risk is higher as many people can damage property themselves and ask for compensation.
9. Surrender Value	It has a surrender value. On cancellation of the policy some money is refunded.	No such provision of a surrender value exists here.

Imp.

Differences among Life, Fire and Marine Insurance

Basis of Difference	Life Insurance	Fire Insurance	Marine Insurance
1. Subject Matter	Human Life.	Any physical property or assets.	A ship, cargo or freight.
2. Element	Both protection as well as investment.	Only protection.	Only protection.
3. Insurable Interest	At the time of taking policy.	Both at the time of taking policy and at the time of loss.	Only at the time of loss.

4. Duration	Usually exceeds a year and is taken for any number of years (depending on the plan of policy, such as it may be 5-30 years) or whole life.	Usually does not exceeds a year.	For one year or period of voyage or mixed.
5. Indemnity	This principle does not apply.	This principle is applicable.	This principle is applicable.
6. Loss Measurement	Loss is not measurable.	Loss is measurable	Loss is measurable.
7. Surrender value or paid up value	It has a surrender value or paid up value.	It does not have any surrender value or paid up value.	It does not have any surrender value or paid up value.
8. Policy Amount	One can insure his/her life for any amount.	It cannot be more than the value of subject matter.	It can be the market value of the ship or cargo.
9. Contingency of Risk	Because of the element of certainty, compensation of claim is must.	Because of uncertainty, there may be no claim.	Because of uncertainty, there may be no claim.

Knowledge Examine Zone 4.2

[Competency Focused Questions as per NEP]

[A] Objective Type Questions

Multiple Choice Questions:

Choose the correct option in the following questions:

1. Without disclosing that he is suffering from TB, Mr A gets himself insured against death for ₹ 10,00,000. He lives for another 3-4 years and dies due to TB. The insurance company comes to know about Mr A's illness only after his death. Now, under these circumstances the insurance company is not liable to pay anything to the dependents of Mr A as the ...any and Mr A is void.

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(d) ... statements are false.

27. Which of the following statement is correct for 'Life Insurance'?
    (a) It does not exceed a year.
    (b) It's loss is measurable.
    (c) It's subject matter is human life.
    (d) It has only the element of protection.

28. 'This principle states that it is the duty of the insured to take reasonable steps to minimise the loss or damage to the insured property'?
    The statement being referred to here is related to the ______________ principle of insurance.
    (a) Indemnity
    (b) Insurable Interest
    (c) Mitigation
    (d) Subrogation

29. 'Both the insurer and the insured should display good faith towards each other in regard to the contract.'
    The statement being referred to here is related to the ______________ principle of insurance.
    (a) Utmost good faith
    (b) Insurable Interest
    (c) Proximate cause
    (d) Contribution

30. 'After the insured is compensated for the loss or damage to the property insured by him/her the right of ownership of such property passes on to the insurer?'
    Which principle of insurance is discussed in the above statement?
    (a) Insurable Interest
    (b) Indemnity
    (c) Contribution
    (d) Subrogation

31. Match the 'Principles of Insurance' in Column-I with their respective statement in Column-II.

Column-I		Column-II	
(A)	Principle of Insurable Interest	(i)	The insured must behave with great prudence.
(B)	Principle of Indemnity	(ii)	The damage property passes on to the insurer.
(C)	Principle of Subrogation	(iii)	It is related to all type of insurance other than life insurance.
(D)	Principle of Mitigation	(iv)	In case of life insurance, it must be present at the time of taking policy.

    (a) (A)- (ii), (B)- (i), (C)- (iii), (D)- (iv)
    (b) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)
    (c) (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)
    (d) (A)- (iv), (B)- (iii), (C)- (ii), (D)- (i)

32. Match the various types of 'Insurance Contract' in Column-I with their respective statement regarding the presence of insurable interest in the subject matter of insurance in Column-II.

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Column-I		Column-II	
(A)	Life Insurance	(i)	Both at the time of effecting policy as well as when the claim falls due.
(B)	Fire Insurance	(ii)	At the time of effecting the policy.
(C)	Marine Insurance	(iii)	When claim falls due or at the time of loss only.

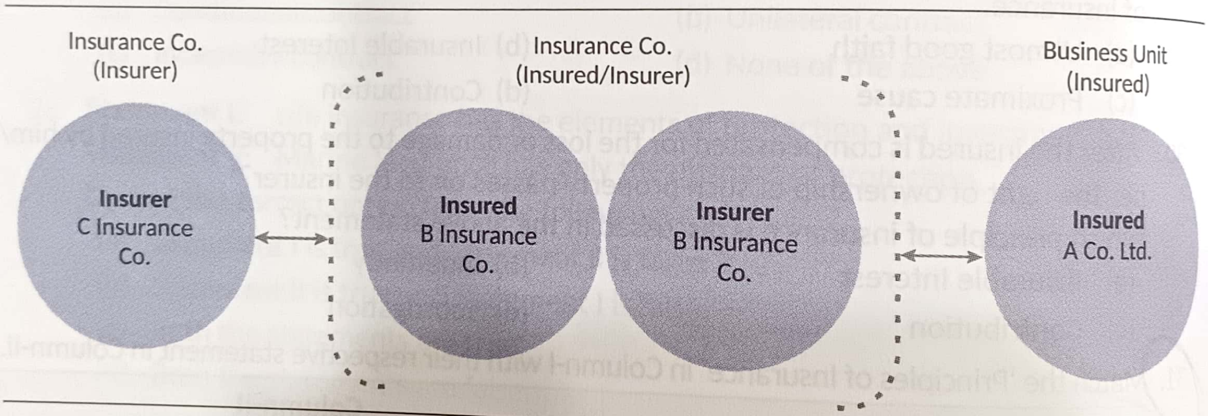
(a) (A)- (ii), (B)- (i), (C)- (iii)
(b) (A)- (iii), (B)- (i), (C)- (ii)
(c) (A)- (iii), (B)- (ii), (C)- (i)
(d) (A)- (ii), (B)- (iii), (C)- (i)

33. Match the terms in Column-I with their respective statement meaning in Column-II.

Column-I		Column-II	
(A)	Insurer	(i)	The insurance company.
(B)	Insured	(ii)	The person whose life is insured.
(C)	Sum Assured	(iii)	The consideration paid periodically to the insurer.
(D)	Premium	(iv)	The amount for which is the insurance policy is taken.

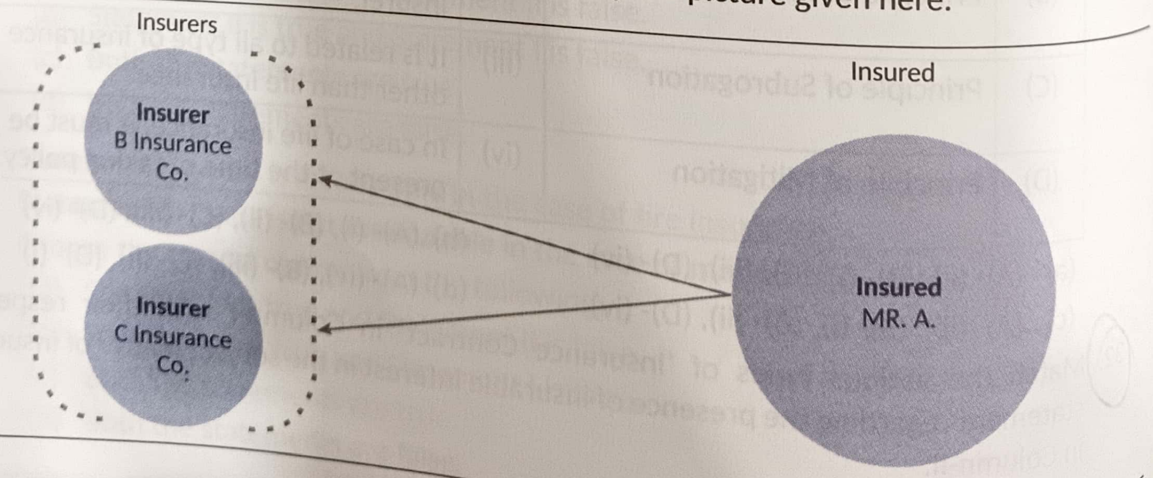
(a) (A)- (i), (B)- (ii), (C)- (iv), (D)- (iii)
(b) (A)- (ii), (B)- (i), (C)- (iii), (D)- (iv)
(c) (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)
(d) (A)- (iv), (B)- (iii), (C)- (ii), (D)- (i)

34. Identify the 'Concept of Insurance' illustrated by the picture given here:



(a) Double Insurance
(b) Reinsurance
(c) Principle of Proximate
(d) Principle of Subrogation

35. Identify the 'Concept of Insurance' illustrated by the picture given here:



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(c) Assertion (A) is true but Reason (R) is false.
(d) Assertion (A) is false but Reason (R) is true.

1. Assertion (A): One cannot taste a doctor's treatment, or touch entertainment.
   Reason (R): Services cannot be touched, they are experimental in nature.
2. Assertion (A): Services have to be performed exclusively each time.
   Reason (R): Services are intangible.
3. Assertion (A): Services cannot be performed earlier to be consumed at a later date.
   Reason (R): Services are perishable.
4. Assertion (A): The production and consumption of services seem to be separable.
   Reason (R): The participation of customer is must in the services delivery process.
5. Assertion (A): Companies tend to stick to what they can do best as far as the business services is concerned.
   Reason (R): Now a days there is no room for non-performance.
6. Assertion (A): The higher rate of interest is payable on Fixed Deposit as compared to the Saving Accounts.
   Reason (R): A premature withdrawal of Fixed Deposit is permissible with a percentage of interest being forfeited.
7. Assertion (A): The transfer of funds by banks is administered by using bank drafts, NEFT, RTGS, etc. on nominal commission charges.
   Reason (R): Banks perform other services like buying and selling of securities.
8. Assertion (A): The customer who maintains a Current Account with the bank, takes permission from the bank to withdraw more amount than deposited in his account.
   Reason (R): This facility is available to trustworthy customers for a small period to oblige them.
9. Assertion (A): NEFT settles transactions in batches.
   Reason (R): The settlement takes place at a particular point of time. All transactions are hold till that time.
10. Assertion (A): Under RTGS payment transactions are not subjected to any waiting period.
    Reason (R): A transaction is settled on one to one basis without bunching or netting with any other transaction.
11. Assertion (A): Debit Card is like the prepaid sim card.
    Reason (R): A Debit Card is issued to a customer in lieu of his money deposited in the bank.
12. Assertion (A): The use of USSD can be done only with the help of Smartphone.
    Reason (R): To transfer money from one account to another, the user requires the receiver's Registered Mobile Number and 'Mobile Money Identifier' (MMID).

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13. Assertion (A): Under the Unified Payment Interface (UPI) System, the Virtual ID of the user is created, which is known as Virtual Payment Address (VPA).

Reason (R): Under the (UPI) system, only on the basis of Virtual Id (without bank details) fund can be transferred.

14. Assertion (A): The user can transfer the desired amount into the receiver's bank account by scanning the QR Code in his Smart Phone.

Reason (R): The QR code is such a pattern of 'Black and White Squares' as contains the details of the Merchant's Bank Account secretly.

15. Assertion (A): It is binding on the proposer to disclose all material facts about the subject-matter of the proposed insurance.

Reason (R): Any fact, which is likely to affect the mind of a prudent insurer in deciding to accept the proposal of insurance is material.

16. Assertion (A): The insured must have an insurable interest in the subject-matter of insurance.

Reason (R): In the absence of insurable interest, insurance contract is void.

17. Assertion (A): In the case of insurance, if reasonable care is not taken like any prudent person then the claim from the insurance company may be lost.

Reason (R): It is the duty of the insured to take reasonable steps to minimise the loss or damage to the insured property.

18. Assertion (A): The life insurance is not only a protection but is a sort of investment.

Reason (R): A certain sum is returnable to the insured at the time of death or at the expiry of a certain period.

19. Assertion (A): Life insurance is a contract of indemnity.

Reason (R): The sum of money payable in the case of life insurance contract, is fixed, at the time of entering into the contract.

20. Assertion (A): In fire insurance, the insured must have insurable interest in the subject-matter of the insurance.

Reason (R): In case of fire insurance, unlike life insurance insurable interest must be present both at the time of insurance and at the time of loss.

21. Assertion (A): The contract of fire insurance is a contract of strict indemnity.

Reason (R): The insured can, in the event of loss, recover the actual amount of loss, subject to the maximum amount for which the subject-matter is insured.

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...rence between Traditional Business and ...siness

	Basis of Distinction	Traditional Business	e-Business
1.	Ease of Formation	Difficult	Easy
2.	Physical Presence	Required	Not Required
3.	Locational Requirement	It should be near to the source of raw material or point of sale.	None
4.	Cost of Setting up	High	Low
5.	Operating Cost	High, as more physical facilities in the form of procurement, storage, production, marketing and distribution are required.	Low, as no physical facilities are required.
6.	Nature of Contact with the Suppliers and the Customers	Indirect through agents, etc.	Direct as no need of intermediaries.
7.	Nature of Internal Communications	Hierachical. Top level management → Middle level management → Lower level management → operatives.	Non-hierachical
8.	Response time for Meeting Customers'/Internal Requirement	Long	Instantaneous
9.	Shape of the Organisation Structure	Vertical	Horizontal
10.	Length of Business Cycle	Longer, because of the completion of various processes on sequential basis.	Shorter, because of the completion of various process on simultaneous basis.
11.	Opportunity for Interpersonal Touch	Much more	Less
12.	Opportunity for Physical Pre-sampling of the Products	Much more	Less in physical products but high in digitable products.
13.	Ease of Going Global	Less	Much more
14.	Government Patronage	Less	More, because of giving priority to IT Sector.

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15.	**Nature of Human Capital**	Need of semi-skilled and unskilled manpower.	Need of Technical and professionally qualified manpower.
16.	**Transaction Risk**	Low, because of face-to-face contact between parties.	High, because of no direct contact between parties.

Knowledge Examine Zone

[Competency Focused Questions as per NEP]

[A] Objective Type Questions

Multiple Choice Questions:

Choose the correct option in the following questions:

1. Creation of utilities or delivering value requires a business to interact with a number of other business firms which may be suppliers or vendors of diverse inputs; or else they may be a part of the channel through which a firm distributes its products to the consumers.

   Identify the constituent of e-business to which the above statement is related:

   (a) B2C Commerce ✓(b) B2B Commerce
   (c) Intra-B Commerce (d) C2C Commerce

... which transactions have business firms at one

(b) Statement II is true and Statement I is false.
(c) Both the statement are true.
~~(d)~~ Both the statement are false.

13. Match the various 'Emerging Modes of Business' in Column-I with their respective statement in Column-II.

	Column-I		Column-II
(A)	e-Business	(i)	Commercial Activities.
(B)	e-Commerce	(ii)	Industrial and Commercial Activities.
(C)	Intra-B Commerce	(iii)	A firm's interaction with other firms.
(D)	B2B Commerce	(iv)	A firm's internal transaction.

(a) (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)
(b) (A)- (iv), (B)- (iii), (C)- (ii), (D)- (i)
~~(c)~~ (A)- (ii), (B)- (i), (C)- (iv), (D)- (iii)
(d) (A)- (ii), (B)- (iii), (C)- (i), (D)- (iv)

14. Match the 'Scope of e-Business' in Column-I with their respective statement in Column-II.

	Column-I		Column-II
(A)	B2B Commerce	(i)	Two departments of the same firm.
(B)	B2C Commerce	(ii)	Business firm at the one end and customer on the other end.
(C)	Intra-B Commerce	(iii)	Both the parties are business firms.
(D)	C2C Commerce	(iv)	Both the parties involved are consumers.

(a) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)
~~(b)~~ (A)- (iii), (B)- (ii), (C)- (i), (D)- (iv)
(c) (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)
(d) (A)- (iv), (B)- (ii), (C)- (i), (D)- (iii)

15. Match the 'following statements of Column-I with their respective terms in Column II:

	Column-I		Column-II
(A)	An automobile Co. requires a large number of components from outside.	(i)	C2C Commerce
(B)	ATM speeds up withdrawal of money.	(ii)	B2B Commerce
(C)	Customized products are made.	(iii)	B2C Commerce
(D)	No established market mechanism is available.	(iii)	Intra-B Commerce

(a) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)
(b) (A)- (iii), (B)- (ii), (C)- (i), (D)- (iv)
~~(c)~~ (A)- (ii), (B)- (iii), (C)- (iv), (D)- (i)
(d) (A)- (iv), (B)- (ii), (C)- (i), (D)- (iii)

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units should evaluate the ... on the basis of cost-benefit Analysis. This will help in encouraging the positive result yielding programmes.

(7) **Arranging Pollution Control Workshops:** In order to get the benefit of the knowledge and experiences of suppliers, dealers and customers with regard to pollution control, pollution control workshops should be arranged.

Business Ethics

Concept of Business Ethics

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Ethics means the ideals which one follows in life. Ideals are those concepts which motivate an individual to work with honesty in his life. In other words, when we think of a work which we may be doing from the point of view of public welfare — whether it is right or wrong — it can be said that we are being guided by ethics. If we ignore this attitude, we may not be ethical in our conduct. Ethics can be related to different fields like medical, law, business, etc.

> **Tool Kit 3**
>
> **Business Ethics?**
>
> It refers to socially determined moral principles which govern the activities of a business.

Business ethics means the ideals to be adopted in the field of business. In respect of business, business ethics means discharging of responsibilities in respect of all the parties related with business such as shareholders, customers, suppliers, competitors, society, government, etc. In short, business ethics is discharging moral duty towards all these.

Examples of Business Ethics

Some main examples of business ethics are given below:

(i) Charging fair prices from customers.

(ii) Using fair weights for measurement of commodities.

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this situation ... contrary, according to the modern ... moral responsibility towards all the parties concerned ... simultaneously. Today, this point of view is in vogue. It can, therefore, be said that the importance of ethics has now been recognised in business.

Definition of Business Ethics

According to **W.O. Wheeler**, *"Business ethics is an art and science of maintaining a proper harmonious relationship with society, its various groups and institutions as well as recognising the moral responsibility for the rightness or wrongness of business."*

Elements of Business Ethics

Business Ethics is beneficial both for business and society. Therefore, it is necessary that the day-to-day working of the business should give the glimpse of ethics. In order to ensure the glimpse of ethics it is necessary to focus the attention on the Elements of Business Ethics. These elements are the following:

(1) **Top Management Commitment:** For the ethical conduct to be found in an organisation, to a large extent, it depends on its top management. In order to get positive results the Chief Executive Officer and other Top Level Managers should be committed to ethics.

(2) **Publication of Code:** It is required that the business unit should publish the principles of conduct in writing. Such a publication is called the code. In the code is included: honesty, adherence to laws, product safety and quality, workplace safety, conflicts of interests, employment practices, fairness in Selling/Marketing and financial reporting.

(3) **Establishment of Compliance Mechanisms:** In order to ensure compliance of Ethical Standards, suitable mechanism should be established. Some of its examples are the following: (i) Taking care of ethics at the time of Recruitment and Training

(ii) Auditing the day-to-day working continuously in order to know the extent of compliance; (iii) Following such a communication system as may give the workers the information regarding the unethical conduct.

(4) **Involving Employees at all levels:** It is the employees of all levels who implement the Ethical Policies. Hence, their participation in all the Ethical Programmes is essential. For example, a small group of employees can be formed and they can be given the job of discussing the importance of Ethical Policies and ascertaining the opinion of other employees on them.

(5) **Measuring Results:** Although measuring the success of ethical programmes is a very difficult job, yet it can be done by determining certain standards of business. It is on the basis of these results that an outline for future action should be prepared for "Business Ethics".

Knowledge Examine Zone

[Competency Focused Questions as per NEP]

[A] Objective Type Questions

Multiple Choice Questions:

Choose the ... following questions:

- It includes share...

II. **Borrowed Funds**

- It refers to the funds which are raised through Loans or Borrowings.
- It provides funds for a specified period, on certain terms and conditions and have to be repaid after the expiry of that period.
- It is, generally, provided on the security of some fixed assets.
- It includes Debentures, Loans from financial institutions, Public deposits, Loans from commercial banks, Trade credit and Inter-corporate deposits.

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Difference between Owners' Fund and Borrowed Fund

Basis of Difference	Owners' Fund	Borrowed Fund
1. Meaning	It refers to the fund provided by the owners of Business.	It refers to the fund which is taken by business in the form of loan.
2. Types	Equity Shares, Preference Shares, Retained Earning, GDRs, ADRs, IDRs.	Debentures and Bonds, Loan from Financial Institutions, Loan from Commercial Banks, Inter-Corporate Deposits – ICDs, Trade Credit, Public Deposits.
3. Requirement of Security	For this fund, there is no need of any security.	For this fund, there is a need of security.
4. Consideration	On this fund the Owners get a profit in by way of consideration.	On this fund the Lenders get interest by way of consideration.
5. Risk of Refund	There is a risk in the refund of the Owners' Fund.	There is hardly any risk in the refund of the Borrowed Fund.
6. Period of Investment	It is a permanent source of capital for business. Generally, its refund takes place on the winding up of business.	It is for a specified period and have to be repaid after the expiry of that period.
7. Control over Business	The providers of this fund have a control over the management of business.	The providers of this fund have no control over the management of business.

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discretion of the directors and only out of ... the dividend is payable only at the ... out of profit after tax.

(3) **Voting Rights:** Preference shareholders generally do not enjoy any voting rights. However, they get voting rights if the dividends are not paid for two or more years.

(4) **Multiple Types:** Preference shares may be of many types such as (i) Convertible & Not Convertible, (ii) Cumulative & Non-Cumulative, (iii) Participating and Non-Participating.

Types of Preference Shares

Preference shares are of the following types:

(1) **Convertible Preference Shares:** If the preference shareholders are entitled to get their shares converted into equity shares after the lapse of a fixed period, then such shares are called convertible preference shares.

(2) **Non-convertible Preference Shares:** When the preference shareholders are not entitled to get their shares converted into equity shares, then such shares are called non-convertible preference shares.

(3) **Cumulative Preference Shares:** Rate of dividend on preference shares is fixed. If a company earns no profit in any year, then the dividend due for that year is paid along with the dividend of next year. In this way, dividend of all those years goes on accumulating when no dividend is paid due to inadequate profit. In future when the company earns profit, first of all preference shareholders are paid their dividend in arrears. Thereafter, they are paid dividend for the current year. It is only after payment of full dividend of all the previous years to the cumulative preference shareholders that payment of dividend is made, out of the residual profit, to the equity shareholders.

(4) **Non-cumulative Preference Shares:** Holders of this type of preference shares are not entitled to dividend in arrears. In other words, their yearly dividend is not accumulated. The shareholders will get dividend only for the current year when the company earned profit, arrears are not payable.

(5) **Participating Preference Shares:** After making payment of dividend to the equity shareholders at a given rate, those preference shares which are entitled to get additional dividend (having already received once dividend at fixed rate) out of the residual profit are called participating preference shares.

(6) **Non-participating Preference Shares:** Those preference shares which are not entitled to receive additional dividend, out of the residual profit, are called non-participating preference shares.

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The following are the main limitations of raising funds through preference shares:

(1) **Not Suitable for Risk Takers:** These shares are not suitable for that category of investors which is willing to take risk in lieu of higher returns.

(2) **Diluting the claim of Equity Shareholders:** This capital dilutes the claims of equity shareholders over assets of the company.

(3) **Costly as compared to Debentures:** The rate of dividend on preference shares is generally higher than the rate of interest on debentures. Therefore, this capital is costlier than debentures.

(4) **No Assured Return:** The dividend on preference shares is to be paid only when the company earns profits. Therefore, there is no assured returns for the preference shareholders.

(5) **No Tax Benefit:** Dividend paid on preference shares is treated as a part of divisible profits and not an expense. The company, therefore, has to pay income tax on this dividend also.

IMP

Differences between Equity Share and Preference Share

Basis of Difference	Equity Share	Preference Share
1. Participation in Management	Equity shareholders have full right to participate in management.	Preference shareholders have no right to participate in management.

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2. Sequence of Dividend	Dividend is paid last of all.	Dividend is paid before the equity shareholders.
3. Sequence of Refund of Capital	On winding up of the company, capital is refunded after preference shares capital.	Capital is refunded before equity shares capital.
4. Refund of Capital during Life	Company cannot refund equity capital during its life.	Capital can be refunded in case of redeemable preference shares.
5. Permanency of Dividend	Dividend is uncertain as it fluctuates.	Dividend is fixed and certain.
6. Compulsion	It is compulsory to issue equity shares for the formation of the company.	Issuing preference shares is not compulsory.
7. Cumulative Nature	Dividend does not accumulate. Dividend of previous years is not payable in the current year.	Dividend of cumulative preference shares goes on accumulating and is payable in the year of profit.

2. Debentures/Bonds

Debentures are an important source of long-term and medium-term finance. Debenture holders are the lenders of the company. Debenture, issued under the seal of the company, is a written document of the acceptance of loan.

Tool Kit 5

Debentures?

It refers to an acknowledgement that the company has borrowed a certain amount of money, which it promises to repay at a future date.

According to Section 2(30) of Companies (Amendment) Act, 2017, *"Debentures include debenture stock, bonds and any other securities of a company evidencing a debt, whether constituting a charge on the assets of a company or not."*

Thus, debenture issued under the seal of the company is a document that acknowledges the receipt of the loan and mentions the terms and conditions under which it has been obtained. These conditions relate to the rate of interest, the period of the loan and the assets pledged. The main characteristic of the debentures is that interest on them is payable even when the company suffers a loss.

Features of Debentures/ Bonds

The following are the main features of debentures/bonds:

(1) **Borrowed Funds:** Debentures are included in the borrowed funds and debenture holders are termed as creditors of the company.

(2) **Fixed rate of Interest:** Debenture holders are paid a fixed stated amount of interest at specified intervals, say six months or one year.

(3) **Compulsory payment of Interest:** Payments of interest on debentures is a legal obligation on the part of the company. It has to be paid even when the company suffers a loss.

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(2) **Pressure of Repayment:** For repayment of debentures on specified date creates pressure on the company to arrange funds even during period of financial difficulty.

(3) **Reduces Borrowing capacity:** The borrowing capacity of each company is limited. This limited capacity further reduces with each issue of debentures.

Differences between Debenture and Share

Basis of Difference	Debenture	Share
1. Relation with Company	Debenture holders are creditors of the company.	Shareholders are the owners of the company.
2. Consideration	Interest is paid on their investment.	Dividend is paid on their investment.
3. Participation in Management	Debenture holders have no right to participate in management.	Shareholders have a right to participate in management.
4. Refund of Capital	Except irredeemable debentures, capital is refunded in respect of all other debentures during the lifetime of the company.	Except redeemable preference shares, company does not refund capital in respect of all other shares during its lifetime.
5. Tax Advantage	Company enjoys tax advantage on debentures.	No tax advantage to the company on shares.
6. Sequence of Refund	Payment is made to debenture holders before shareholders.	Payment is made last of all to equity shareholders.

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general reserve is used by the company ... and expand its business. Use of the undistributed profit in this manner is called **ploughing back of profits**. It is also called **self-financing**. Company needs large amount of finance for its development and expansion. It is quite expensive to obtain this finance from external sources. Under the circumstances, it is most appropriate to invest a part of the profits in the business. That is the reason why a company transfers a part of its profit to the general reserve to meet its future needs.

Features of Retained Earnings

The following are the main features of retained earnings:

(1) **Long Term Source of Funds:** Retained earnings is a long-term source of funds available to a company.

(2) **Safety from Trade Cycles:** There are many ups and downs in business. The amount lying as retained earnings protects the company from the negative effects of these ups and downs.

(3) **No Dilution of Control:** With the increase of this source of funds, there is no increase in the number of equity shareholders. Therefore, it involves no risk of dilution of control.

(4) **Freedom in Use:** As this source of funds is generated internally, the company has full freedom to use it.

(5) **No Explicit Cost:** It does not involve any explicit cost in the form of dividend, interest or cost of raising funds.

Merits of Retained Earnings

The merits of retained earnings as a source of finance are as follows:

(1) **Permanent Source of Funds:** As it generat...

(3) **Hurdle in Normal Business working:** In some cases, banks m restrictions and difficult terms and condition. For example, a banl restrictions on the sale of mortgaged goods. Thus, it creates hurdle business working.

7. Trade Credit

Tool Kit 13

Trade Credit?

It refers to that credit facility which is extended by one businessman to another for purchase of goods and services.

In business, credit facility dominates in sale and purchase transactions. Credit purchase is a kind of short-term finance. Under this facility, goods purchased on credit are used immediately but their payment is made after some-time. Duration of this source of finance depends on the discretion of the seller. For how many days credit facility is to be made available is decided by him.

Features of Trade Credit

The important features of trade credit are as follows:

(1) **Credit Buying:** It facilitates credit purchases which is one of the substitutes of finance. Under this facility, goods purchased are used immediately, but their payment is made after some time.

(2) **Entry in Books:** Credit buying appears in the Account Books of the buyer as 'Sundry Creditors' / 'Account Payable'.

(3) **Short-term Financing:** It is commonly used as a source of short term financing.

(4) **Eligibility Criteria:** It is usually available to those business organisations which have good credibility.

(5) **Volume and period:** The volume and period of trade credit depends on factors such as:

- Reputation of the buyer
- Financial standing of the seller
- Past record of payment
- Volume of goods to be purchased
- Competition in the market

(6) **Terms and Conditions:** Terms and conditions of this source of finance may vary from one industry to another, from one person to another and from one customer to another.

Merits of Trade Credit

The major merits of trade credit are as follows:

(1) **Easy Source:** It is a convenient and continuous source of finance.

(2) **Readily Available:** It may be readily available in case the goodwill of the buyers is known to the supplier.

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in lieu of credit sales.

Limitations of Trade Credit

Trade credit as a source of funds has certain limitations, which are given below:

(1) **Over Trading Leads to Risk:** Due to easy availability of goods on credit, traders start buying more goods. This increases their risk.

(2) **Limited Help:** Through trade credit, a business organisation generate limited amount of funds.

(3) **Costly:** Trade credit is generally a costly source of finance as compared to most other sources of funds.

8. Inter-corporate Deposits

Inter-corporate Deposits are unsecured short-term deposits made by one company with another company. These deposits are essentially brokered deposited, which led the involvement of brokers. The rate of interest on these deposits is higher than that of banks and other markets. The biggest advantage of ICDs is that the transaction is free from bureaucratic and legal hassles.

• Types of ICDs

The ICDs are of the following three types:

(i) **Three Months' Deposits:** It is the most popular type of ICDs. These deposits are generally considered by the borrowers to solve problems of short-term capital adequacy. This type of shortage of cash may be created because of many reasons, such as tax payment, excessive raw material import, payment of dividends, excessive capital expenditure, breakdown in production, etc. The annual rate of interest given for three months deposits is around 12%.

(ii) **Six Months' Deposits:** It is usually made with first class borrowers. The term for such deposits is six months. The annual interest rate assigned for this type of deposit is around 15%.

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(iii) **Call Deposits:** The concept of call deposit is different from the previous two deposits. This deposit can be withdrawn by the lender on a day's notice. The annual interest rate on call deposits is around 10%.

Features of ICDs: The following are the main features of ICDs:

(i) These transactions take place between two companies.

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debentures.

(a) Financial Institutions
(c) Equity Shares
(d) Preference shares

22. Name the source of finance which extend loans to firm in the form of overdraft:
(a) Financial Institutions
(b) Commercial Banks
(c) Equity Shares
(d) Preference shares

23. Which of the following is considered suitable when large funds for longer durations are required for expansion, reorganisation and modernisation of an enterprise.
(a) Financial Institutions
(b) Trade credit
(c) Public Deposits
(d) Inter-corporate deposits

24. **Statement -I:** Trade credit is the credit extended by one trader to another for the purchase of goods and services.

Statement -II: Retained earnings may lead to decrease in the price of equity shares of a company.

Choose the correct option from the following:
(a) Statement I is true and Statement II is False.
(b) Statement II is true and Statement I is False.
(c) Both the statements are true.
(d) Both the statements are false.

25. **Statement -I:** The funds required to purchase fixed assets are known as working capital requirement of the company.

Statement -II: A business unit selling goods on cash, would require more working capital.

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Choose the correct option from the following:
(a) Statement I is true and Statement II is False.
(b) Statement II is true and Statement I is False.
(c) Both the statements are true.
(d) Both the statements are false.

26. **Statement -I:** The deposits that are raised by organisations directly from the public are known as inter-corporate deposits.
Statement -II: Debentures are preferred by investors who want fixed income at lesser risk.

Choose the correct option from the following:
(a) Statement I is true and Statement II is False.
(b) Statement II is true and Statement I is False.
(c) Both the statements are true.
(d) Both the statements are false.

27. **Statement -I:** Financial institutions provide both owned capital and loan capital.
Statement -II: Zero interest debenture is one of the kinds of debentures.

Choose the correct option from the following:
(a) Statement I is true and Statement II is False.
(b) Statement II is true and Statement I is False.
(c) Both the statements are true.
(d) Both the statements are false.

28. **Statement -I:** Bank credit is not a permanent source capital.
Statement -II: Equity capital provides credit worthiness to the company and confidence to prospective loan providers.

Choose the correct option from the following:
(a) Statement I is true and Statement II is False.
(b) Statement II is true and Statement I is False.
(c) Both the statements are true.
(d) Both the statements are false.

29. Match the 'Sources of Business Finance' in Column-I with their respective term in Column-II.

	Column-I		**Column-II**
(A)	Equity Shareholders	(i)	Self Financing
(B)	Retained Earning	(ii)	Discounting of Bills
(C)	Commercial Banks	(iii)	Residual Owners
(D)	Trade Credit	(iv)	Short Term Finance

(a) (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)
(b) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)
(c) (A)- (iv), (B)- (ii), (C)- (iii), (D)- (i)
(d) (A)- (i), (B)- (iii), (C)- (ii), (D)- (iv)

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atch the following items of Column -I with the items given in Column II.

Column-I		Column-II	
(A)	Raised directly from the public	(i)	Ownership capital
(B)	Raised by issue of shares	(ii)	Debentures
(C)	Raised long term debt capital	(iii)	Retained Earnings
(D)	Raised from retaining net earnings	(iv)	Public Deposits

(a) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)
(b) (A)- (iv), (B)- (iii), (C)- (ii), (D)- (i)
(c) (A)- (iv), (B)- (i), (C)- (ii), (D)- (iii)
(d) (A)- (iii), (B)- (iv), (C)- (i), (D)- (ii)

31. Match the following items of Column -I with the items given in Column II.

Column-I		Column-II	
(A)	Land, Building and Machinery	(i)	Equity shares
(B)	Stock, Bills Receivables, Salaries, wages, etc	(ii)	Fixed Capital requirements
(C)	Do not get a fixed dividend	(iii)	Debentures
(D)	Bear a fixed rate of interest	(iv)	Working Capital requirements

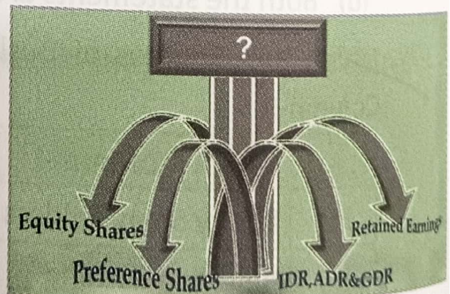
(a) (A)- (i), (B)- (iii), (C)- (iv), (D)- (ii)
(b) (A)- (iii), (B)- (i), (C)- (iv), (D)- (ii)
(c) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)
(d) (A)- (ii), (B)- (iv), (C)- (i), (D)- (iii)

32. Match the following items of Column -I with the items given in Column II.

Column-I		Column-II	
(A)	Trade Credit	(i)	These are the deposits made by one company with another company.
(B)	Retained Earning	(ii)	It is the credit extended by one trader to another.
(C)	Preference Shares	(iii)	They enjoy a preferential position.
(D)	Inter-corporate deposits	(iv)	It is a source of internal financing.

(a) (A)- (ii), (B)- (iv), (C)- (iii), (D)- (i)
(b) (A)- (i), (B)- (iii), (C)- (ii), (D)- (iv)
(c) (A)- (iv), (B)- (iii), (C)- (ii), (D)- (i)
(d) (A)- (i), (B)- (iii), (C)- (iv), (D)- (ii)

33. Identify the 'Sources of Business Finance' illustrated by the picture given here:



(a) Borrowed Fund
(b) Owners' Fund
(c) Inter-Corporate Deposits
(d) Public Deposits

34. Identify the 'Sources of Business Finance' illustrated by the picture given here:

(a) Equity Shares
(b) Preference Share
(c) Debentures
(d) Retained Earnings

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6.1 Small Business: An Introduction

"Small business provides strength to the employment and economic development."

Meaning of Small Business

Tool Kit 1

Small Business?

It refers to a business that is independently owned and operated and meets certain criteria for the number of employees and sales volume.

Small businesses play a significant role in Indian economy. These businesses have made significant contribution in the fields of employment generation and economic development. For the past few years a range of products, i.e., from simple consumer goods to goods based on latest technology (like electronic products, TV, etc.) are being produced by these businesses. Even the government has nicely understood the importance of these businesses and for this reason, in all the five-year plans so far, special attention has been paid to the development of these businesses.

First, it is imperative to understand the meaning of small businesses/industries before getting into their detailed information. Thus, how to find out whether the business is large or small. Whether a business enterprise is small or large depends upon its volume. Some of the prevalent parameters for measuring the volume are as follows:

(i) Volume of capital invested
(ii) Value of output
(iii) Volume of output
(iv) Number of workers.

In India, often it is adjudged on the basis of the volume of capital invested whether a business enterprise is large or small.

Meaning of Small Business as per MSMED ACT

V. Imp.

First of all Small Scale Industry was defined by the Industries Development and Regulation Act, 1951 as "Any enterprise which employs not more than 50 persons when using power and 100 when not using power and with capital assets not exceeding ₹ 5 lakh".

After that this definition was revised in 1959, 1960, 1966, 1975, 1980, 1990, 2006.

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 came into force w.e.f. October, 2006. As per this act various enterprises are classified as Micro, Small and Medium categories on the basis of following two criterias:

1. Whether the concerned enterprise comes under Manufacturing or Service category.
2. Amount of investment in Plant & Machinery or Equipments.

On 13th May, 2020 Finance Minister of India added the additional criteria of TURNOVER along with the INVESTMENT in the classification of enterprises as Micro, Small and Medium category. This revised definition was announced under the ATAM NIRBHAR BHARAT ABHIYAN to facilitate MSMEs (Micro, Small and Medium Enterprises) to grow in size.

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According to the latest definition which came into force w.e.f. July 1, 20
be any distinction between Manufacturing and Service Enterprises. Now a
considered as Micro, Small or Medium on the basis of following criterias:

1. Amount of Investment in Plant and Machinery or Equipments.
2. Amount of Annual Turnover.

Presently the classification of enterprises as per Amendment of MSMED (Micro, Small and Medium Enterprises Development) Act, 2020 is as under:

CLASSIFICATION OF MSMEs for (Manufacturing & Service both Sectors)

Ceiling on Investment in Plant and Machinery or Equipments	AND	Ceiling on Annual Turnover
Up to ₹ 1 Crore	Micro	Up to ₹ 5 Crore
Above ₹ 1 Crore and Up to ₹ 10 Crore	Small	Above ₹ 5 Crore and Up to ₹ 50 Crore
Above ₹ 10 Crore and Up to ₹ 50 Crore	Medium	Above ₹ 50 Crore and Up to ₹ 250 Crore

Role of Small Business in Rural India

India is a country of villages. Here the maximum population resides in villages. The standard of living here is not high because of many reasons. Among these reasons the primary reasons happen to be unemployment, financial crisis, fewer opportunities for artisans, scarcity of resources, etc. The issue to contemplate here is how the country will ... resides in villages/rural areas certainly

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(ii) Provides various equ...

(iii) Provides scarce raw material.

(iv) Assists in marketing of the products of SSIs.

(v) Helps in exporting the products of SSIs.

(vi) Provides training to workers of SSIs in various trades.

(vii) Helps in upgradation of technology.

(viii) Establishes industrial estates.

(ix) Provides advisory services.

(x) Provides raw material at reasonable rates.

(2) **District Industries Centre (DIC):** The concept of District Industries Centre came during 1977, when government of India announced the new Industrial Policy on 23 December 1977. It was finally started on May 1, 1978. It laid special stress on the development of Small Scale Industries in a particular area. The main objective of DICs is to make available all necessary services at one place. The finances for setting up DICs in a state are contributed equally by the particular state government and the central government. For the purpose of allotment of land, work sheds, raw material, etc. DICs function under the 'Directorate of Industries'. Each DIC is headed by a General Manager and three project managers to look after the various activities of DIC.

Functions of District Industries Centre (DIC):

The following are the main functions of DIC:

(i) Acts as the focal point of the industrialisation of the district.

(ii) Identifies projects and entrepreneurs for setting up of SSI units.

(iii) Issues permanent registration certificate to SSI units.

(iv) Provides loan, work sheds and raw material to SSI ...

(v) Recommends ...

■ St
...have
...d

...tificate of registration of business
...description of the business

Availing Tax Benefit: There is a provision of rebate in the Income Tax ...ears to a Startup. In order to avail this rebate it is necessary for a Startup ...d from the 'Inter-Ministerial Board (IMB)'. If this certificate is available it will have to be uploaded.

(5) **Self Certified Conditions:** Now the entrepreneur himself will have to certify the following conditions:
   (i) The type of the business unit
   (ii) Duration of establishment
   (iii) The quantum of turn-over
   (iv) The innovative nature of business
   (v) The status of splitting and reconstruction

(6) **Getting Recognition Number:** When the above process gets completed, the applicant gets the Startup Recognition Number. The certificate of Recognition is issued after scrutinising all the documents. (It should be borne in mind that there is a provision of a heavy fine if the information submitted is wrong and the documents are fake.)

■ Ways to Fund Startup

The main methods of fund arrangement for a Startup are the following:

(1) **Bootstrapping:** The Bootstrapping is the method of Startup Fund under which the entrepreneur invests in business his personal savings himself. He can request his friends and relatives also for funds. It is the easiest method of Startup Fund.

(2) **Crowdfunding:** In this method of Startup Fund, fund is gradually collected from a large number of people through the medium of Internet. For this purpose the entrepreneur gives the detailed information of his Startup on the available platform. The people who agree with him get ready to invest in Startup. An entrepreneur can give the information about his plan on the following sites:
- Indiegogo
- Ketto
- Wishberry
- Fundlined

(3) **Angel Investment:** Angel Investment is the method of Startup Fund under which the rich people having interest in the development of Startup get ready to invest in this business.

The following are the main Angel Investors in India:
- Indian Angel Network
- Hyderabad Angels
- Mumbai Angles

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(4) **Venture Capital:** Under this method of Startup Fund the Venture Capita[l] invests in the risky but with the possibility of being very much profitable busine[ss]. Following are the main companies which provide this Fund:

- Nexus Venture Partners
- Helion Ventures
- Kalaori Capital
- Accel Partners
- Blume Ventures
- Canaan
- Sequoia Capital
- Bessemer Ventures

(5) **Incubators and Accelerators:** The Government has kept several Financial Institutions in the class of Incubators and Accelerators. These organisations provide financial assistance to the Startup. The organisations which financially help the Startup at the start are called Incubators. Similarly, when Startup starts developing the organisation which gives financial help at that time is known as Accelerator. These two (Incubators and Accelerators) can be understood in the following manner also:

- Incubators → Walk
- Accelerators → Run

(6) **Winning Contests Fund:** Under this method of Startup Fund the competition for the entrepreneurs engaged in Startup is organised. In the competition all of them present their respective Startup plans. The one who gives the best presentation is declared the winner. In this way the winner easily gets the funds.

(7) **Bank Loan:** Under this method Loan can be got from the bank. The main banks for the Startup include 'Bank of Baroda', 'HDFC Bank', 'ICICI Bank' and 'AXIS Bank'.

(8) **Non-Banking Financial Companies – NBFCs:** The Startups who can not fulfil the Loan conditions of Banks can easily get the financial help from NBFCs.

(9) **Government Offer:** To give financial help to the Startups, the government has arranged ₹ 10,000 crores.

(10) **Quick Money:** Under this method of Startup Fund, the arrangement of Fund is made mainly in the following manner:

- Getting payment prior to the sale of product
- Sale of properties
- Use of credit card

For example, the companies like APPLE and SAMSUNG generally get the payment from their customers prior to the supply of goods.

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Intellectual Property Rights

Prior to understanding the Intellectual Property Rights, it is necessary to understand the meaning of Intellectual Property.

Tool Kit 7

Intellectual Property?

It refers to any original creation of the human intellect such as Artistic, Literary, Technical or Scientific creations.

Intellectual Property

It refers to any original creation of the human intellect. Its main examples are Artistic, Literary, Technical and Scientific creations. In other words, we may say that Intellectual Property is such a property of a person as is created by the human intellect.

Different Intellectual Properties can be divided into the following two parts:

- Literary and Artistic works
- Industrial Property

(i) Literary and Artistic Works

The main creations included in this class of Intellectual Property are the following:

- Books
- Musical Composition
- Novels
- Printings
- Computer Software
- Movies
- Sculpture

(ii) Industrial Property

The following are the main creations included in the Industrial Property:

- Invention of New Technology
- Industrial Design
- Idea of a new Product
- Commercial name and Logo of a new product

Intellectual Property Right

Tool Kit 8

Intellectual Property Right?

It refers to the special right to the creator for a definite period, which is provided to him for the use of his creative work.

Intellectual Property is not a thing which may be created suddenly. A person, after untiring efforts and several research activities, is able to do something innovative and creative. Undoubtedly, a creator would like to have the advantage of his creation only to him. In other words, every creator wants that his creation should be safe from theft and forgery. If theft and forgery of the creation continues to be there, people would feel discouraged of creating new things. Since in the modern economy the Intellectual Property plays an important role, it is very necessary to provide it with security. This is the very reason that

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with the objective of providing safety to the creator of Intellectual Property from forgery, the Intellectual Property Rights (IPRs) have been formulated.

The Intellectual Property Right refers to the special right given to the creat definite period for the use of his creative work. In the course of this period no other can make use of the Intellectual Property of the creator. The person who makes an illegal use of the Intellectual Property Rights (IPRs) is held guilty and is punished under different Acts.

- **Types of Intellectual Property Rights (IPRs)**

There is a long list of IPRs. Following are the main IPRs:

(i) Copyright
(ii) Patent
(iii) Trademark
(iv) Trade Secrets
(v) Geographical Indications
(vi) Design
(vii) Plant Variety

[1] Copyright

It refers to the right given to the Literary and Artistic creator, under which it is ensured that only the creator makes use of his creation. No other person can use the creation without the creator's permission. In India, in order to control this Intellectual Property Right, 'Indian Copyright Act, 1957' has been made. (From time to time, according to the need, amendments have been made in this Act.)

Tool Kit 9

Copyright?

It refers to the right given to the creator on his Literary and Artistic creations.

Under this Act, safety has been provided to the Expression of Ideas. Here the Expression of Ideas means the 'words' used in the expression of our views. The facility of copyright is available on books, musical composition, novels, painting, computer software, movie, etc.

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- **Registration Process of Copyright**

The process of copyright registration is the following:

(i) For getting copyright registration, the applicant has to fill up an Application Form, in which the information about the Name, Address, Nationality, the Title of creation, Language, etc. is made available.

(ii) Along with the fixed fees, the Application Form and Four (4) copies of copyright have to be submitted in the office.

(iii) Within Thirty (30) days after checking the Application Form, the 'Copyright Registration Certificate' is issued to the Applicant.

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Patent Granting Process

The main steps for the grant of Patent are the following:

(i) **Filing Application:** First of all, the filing of Application by complete details of the invention (product/process) in the Pat Registration. Along with the application, the prescribed/fixed fees has al deposited.

(ii) **Publication of Application:** Eighteen months after the filing of the application, the Patent application is published in the 'Official Journal'. (After fulfilling all the conditions of Patent Registration and the deposition of special fees, the time limit of this duration can also be reduced.)

(iii) **Pre-grant Opposition:** The purpose of publication of application is to provide an opportunity to the other parties with legitimate reasons to oppose the grant of Patent. For this purpose no fees is taken.

(iv) **Filing for Examination:** In case there is no opposition of the other parties the applicant has to file the Application in the Patent Office with prescribed fees again for the Final Examination.

(v) **Decision of Patent Office:** After the complete examination, the Patent Officer can accept or reject the Patent Application. (If the Examining Officer raises any objection to the application, the applicant has to reply to the objections within twelve months.)

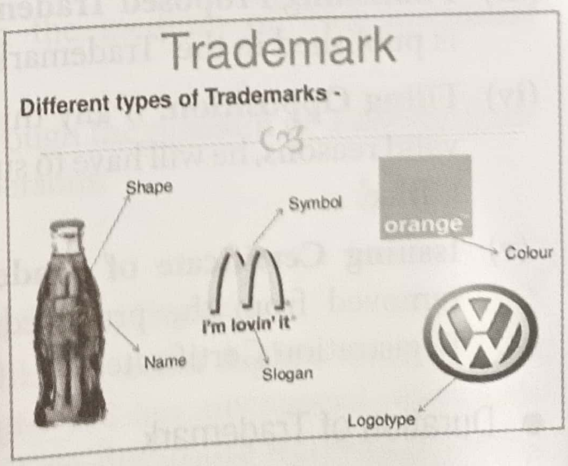
(vi) **Publication of Grant:** When the Patent Registration is accepted, it is published in the 'Official Journal'.

(vii) **Post-grant Opposition:** Even after the grant of the permission for the Patent, the third party can get its opposition registered. To do this, the opposite party has to submit its application with facts in the Patent Office.

[3] Trademark

Some special Word, Name, Symbol, Sound, Size or Colour the use of which is done to give a distinguishing mark to a Business, Product or Service is called the Trademark. Trademark is such a right under which no other person or business concern can use the well protected identity.

(Here, the shape of the coca-cola bottle includes its overall contour and proportions such as height, width and diameter of the bottle.)



Trademark plays an important role in the marketing of a product or service. The concern from using the similar

(b) Statement II is true and Statement I is false.

(c) Both the statements are true.

(d) Both the statements are false.

22. Match the 'Components of Entrepreneurship Development' in Column-I with their respective term in Column-II.

Column-I		Column-II	
(A)	Enterprise	(i)	The person
(B)	Entrepreneur	(ii)	The process
(C)	Entrepreneurship	(iii)	The outcome

(a) (A)- (ii), (B)- (i), (C)- (iii)
(b) (A)- (iii), (B)- (i), (C)- (ii)
(c) (A)- (iii), (B)- (ii), (C)- (i)
(d) (A)- (i), (B)- (ii), (C)- (iii)

23. Match the 'Various Concepts of Small Business and Entrepreneurship' in Column-I with their respective term in Column-II.

Column-I		Column-II	
(A)	Entrepreneurship Development	(i)	Bootstrapping
(B)	Startup India	(ii)	Trademark
(C)	Intellectual Property Right	(iii)	Enterprise
(D)	Support from Government Agencies	(iv)	NSIC

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(a) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)
(b) (A)- (iv), (B)- (iii), (C)- (ii), (D)- (i)
(c) (A)- (ii), (B)- (i), (C)- (iii), (D)- (iv)
~~(d)~~ (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)

24. Match the 'Ways of Fund Startup' in Column-I with their respective statement in Column-II.

Column-I		Column-II	
(A)	Bootstrapping	(i)	Walk
(B)	Crowd Funding	(ii)	Personal savings and resources
(C)	Angel Investment	(iii)	Individual with surplus
(D)	Incubators	(iv)	Pooling of resources

~~(a)~~ (A)- (ii), (B)- (iv), (C)- (iii), (D)- (i)
(b) (A)- (ii), (B)- (iii), (C)- (i), (D)- (iv)
(c) (A)- (i), (B)- (ii), (C)- (iii), (D)- (iv)
(d) (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)

25. Match the 'Types of Intellectual Property Rights' in Column-I with their respective term in Column-II.

Column-I		Column-II	
(A)	Copyright	(i)	Non-obvious product or process.
(B)	Patent	(ii)	Darjeeling Tea, Nagpur Orange, etc.
(C)	Geographical Indication	(iii)	Unauthorised use of content.
(D)	Trademark	(iv)	Some special word, name etc.

(a) (A)- (iv), (B)- (ii), (C)- (i), (D)- (iii)
(b) (A)- (iii), (B)- (ii), (C)- (i), (D)- (iv)
(c) (A)- (i), (B)- (iii), (C)- (ii), (D)- (iv)
~~(d)~~ (A)- (iii), (B)- (i), (C)- (ii), (D)- (iv)

26. Identify the term related to 'Entrepreneurship Development' illustrated by the picture given here:

(a) Entrepren...

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2. Assertion (A) : Small industries contribute significantly to the balanced development of the country.

Reason (R) : Small industries which produce simple products using simple technology can be set up anywhere in the country.

3. Assertion (A) : Small industries enjoy the advantage of low cost of production.

Reason (R) : Small industries are best suited for customised production.

4. Assertion (A) : Small industries cannot capture new business opportunities at the right time.

Reason (R) : Due to small size of the organisation quick timely decisions can be taken.

5. Assertion (A) : DIC (District Industries Centre) acts as the focal point of the industrialisation of the district.

Reason (R) : The main object of DICs is to make available all necessary services at one place.

6. Assertion (A) : Risk cannot be separated from entrepreneurship.

Reason (R) : Entrepreneurship is surrounded by uncertainty on every side.

7. Assertion (A) : Bootstrapping is the easiest method of startup funds.

Reason (R) : In this method, funds are collected from the rich people having interest in the development of startup.

8. Assertion (A) : Youth avoids entrepreneurship.

Reason (R) : Entrepreneurship is a risky area.

9. Assertion (A) : The facility of copyright is available on books, musical composition, etc.

Reason (R) : Under Indian Copyright Act, 1957 safety has been provided to the expression of idea.

10. Assertion (A) : In order to control the right related to the patents 'Patents Act, 1970' has been formulated in India.

Reason (R) : Every creator wants that his creation should be free for all.

...days, and so on.
...goods of daily use such as ready-made garm... ...ockery, etc.

- They are mainly catering to lower-income group of customers.
- Their shops are known as 'Haat'.

(3) **Pavement Traders/Street Traders:**

- They refer to those small retailers who are commonly found in places where Huge FLOATING POPULATION gathers.
- They are generally found near Railway Stations, and Bus Stops.
- They deal in stationery items, eatables, ready-made garments, newspapers and magazines.
- **Note:** They are different from market traders in the sense that they do not change their place of business so frequently.

(4) **Cheap Jacks:**

- They refer to those petty retailers who keep on changing their shops from one locality to another, depending upon the potentiality of the area. They aim at taking advantage of local events.
- They deal in consumer goods as well as services such as repair of watches, shoes, buckets, etc.
- **Note:** They are different from hawkers and market traders in the sense that they do not change their place of business so frequently.

II. Fixed Shops

On the basis of fixed shops the retailers can be divided into two parts—small-scale retailers and large-scale retailers.

(A) Small-scale Retailers

Small-scale retailers, who carry on their trade through fixed shops, are of the following five types:

(1) **General Store:**

General Store

- As the name suggests, these shops sell the goods of daily use such as grocery items, soft drinks, toiletry products, confectionery and stationery.
- They are commonly located in a local market and residential areas.
- These stores remain open for long hours for customers' convenience and often provide home delivery and credit facility to their regular customers.

be given to all the customers. ... very large scale. That is why adequate attention cannot

(4) **Difficult to Change Demand:**

- If the demand for the goods sold at these stores changes rapidly, then the organisation has to bear heavy losses.
- This loss is caused by the unsold stock lying in the central warehouse.

Distinction between Departmental Stores and Chain Shops

Basis of Difference	Departmental Stores	Chain Shops
1. Location	At major business centres.	At different places in the city.
2. Range of Products	The number of things in their case is very large.	These shops have things of only one or two types.
3. Services Offered	They provide services like post office, restaurant, etc.	They provide services like guarantees and repairs if the sold out products turn out to be defective.
4. Pricing	They do not follow the policy of uniform prices for all the departments.	They follow the policy of uniform prices for all the shops.
5. Type of Customers	People of high income group.	General public.
6. Credit Facility	Often provided.	Never provided.

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The GST is such a Tax System as has included in itself almost all the ta... and services to be levied by the Centre and State Governments. There is a f... this Tax System will encourage simplification and uniformity at the National Level. No doubt, at the beginning, some problems will have to be faced to understand and to bring this system into force, but nobody should have any doubts about the far reaching results of this system being positive.

GST Council-Constitution

Imp.

1. **Chairperson:** Union Finance Minister.
2. **Vice Chairperson:** This can be chosen amongst the Ministers of State (Regardless of their portfolio) typically a State Finance Minister.
3. **Members:** *Representing Central Govt:*

   MoS Finance (Union Minister of State-Finance)

   Representing State Govts:

   Finance Minister of State
4. **Quorum:** 50% of the total members.
5. **Voting System:** State- 2/3 weightage, Central Govt.- 1/3 weightage
6. **Decision Criteria:** Decisions are taken by 75% majority.
7. **Functions:** The council shall make recommendations on everything related to GST including, Rates, Rules, Procedures, Dispute Resolution, Compensation, etc.

Benefits of GST

1. Customers to have wider choice.
2. Development of harmonised national market for goods and services.
3. Higher disposable income in hand.
4. Increased economic activity.
5. More employment opportunities.
6. No hidden taxes.
7. Reduction in overall tax burden.

Key terms to be used under GST

The following are the main terms to be used under the GST:

1. **Supply:** It is a comprehensive term. Besides sales, it includes several items like transfer, etc. Prior to bringing into force the GST System, tax was levied mainly in

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(2) **Increased Capacity Utilisation:** ... capacity can plan overseas expansion. In this way, on the one hand, they can utilise their idle production capacity and on the other hand, they can enjoy the benefits of large-scale production.

(3) **Prospects for Growth:** International business is a good option for the firms whose products start getting saturated in the local market. These firms can considerably improve prospects of their growth by entering into the overseas market.

(4) **Way out to Intense Competition in Domestic Market:** For the firms who are facing tough competition in the local market, international business seems to be the only way to maintain their position in the market.

(5) **Improved Business Vision:** Many firms aim at getting goodwill internationally. For these firms, international business is the only way to achieve their target.

What is included in international Business?

Scope of International Business

Imp.

Today, the scope of international business is expanding rapidly. Earlier, exporters used to export the finished goods which they had purchased from their own country. Nowadays, the scope of international business is not just limited to export-import but it is expanding. The scope of international business includes the following:

(1) **Merchandise Exports and Imports:** of Physical goods

Physical goods

- Merchandise exports and imports means trade in goods, include only tangible goods and exclude trade in services.

(2) **Service Exports and Imports:**

Invisibles

- It involves trade in intangibles. It is also known 'invisible trade'.
- It mainly includes:
  - Tourism and travel
  - Boarding and lodging
  - Entertainment and recreations
  - Transportation
  - Professional services, etc.

(3) **Licensing and Franchising:**

- **Licensing:** It refers to permit another party in a foreign country to produce and sell goods under your trademarks, patents or copyrights in lieu of some fee, such as, Pepsi and Coca Cola.

  Sometimes there is mutual exchange of knowledge, technology and patents between firms which is known as *cross-licensing*.

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- **Franchising:** It refers to that special right which is given by a producer to a particular individual or a group of individuals to start some business abroad being done by the producer, such as, McDonalds, etc.

(4) **Foreign Investment:**

- It involves investments of funds abroad in exchange for financial return.
- There are two ways of foreign investment:
  - (i) **Foreign Direct Investment (FDI):** It refers to make an investment abroad in properties such as plant and machinery with a view to undertaking production and marketing of goods and services in those countries.
  - (ii) **Portfolio Investment:** It refers to that investment which a company makes into another foreign company by way of acquiring shares or providing loans to the latter and earns income by way of dividends or interest.

Knowledge Examine Zone 10.1

[Competency Focused Questions as per NEP]

[A] Objective Type Questions

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...ease competition in the domestic market.

(5) **To meet Export Requirements:**

- Importing raw materials or intermediate goods to promote exports.

(6) **To Stabilise Prices:**

- Importing goods or services to stabilise prices in the domestic market.

Procedure of Import Trade

An Indian importer has to follow the following procedure while importing goods:

(1) **Trade Enquiry:**

- As soon as a trader thinks of importing goods, he makes trade enquiry. First of all, he collects the information about the availability of goods of his requirement and the name of the country and the exporter he has to deal with.
- He can collect this information from the agents of exporters in India, other importers, trade directories and trade commissioners of foreign countries.
- After collecting information about the exporters he contacts them and gathers information from them about the price of product, type of product, the terms of payment etc.
- After receiving a trade enquiry, the exporter prepares a quotation (known as proforma invoice) and sends it to the importer.

Tool Kit 3

Trade Enquiry?

It refers to a written request by an importing firm to the exporter for supply of information regarding the price and various terms and conditions on which the latter is ready to export goods.

Tool Kit 4

Proforma Invoice?

It refers to a document that contains details as to the Quality, Design, Grade, Weight, Size and Price of the export product and terms and conditions on which their export take place.

(2) **Procurement of Import Licence:**

- Certain products are prohibited to be imported. In case one wants to import them, he/she needs to procure an import licence.
- In India, it is obligatory for every importer and exporter to get registered with the Directorate General Foreign Trade [DGFT] or Regional Import-Export

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ensing Authority and obtain an Import-Export Code [IEC] number. This number is required to be mentioned on most of the import documents.

(3) **Obtaining Foreign Exchange:**

- After receiving the import licence, the importer has to arrange the foreign exchange. Payment in foreign currency involves exchange of Indian currency into Foreign Currency.
- In India, all foreign exchange transactions are regulated by the Exchange Control Department of RBI.
- For obtaining sanction to obtain foreign exchange, the importer has to make an application to a bank authorised by RBI for this purpose.
- After proper scrutiny of the application, the bank sanctions the necessary requirement.

(4) **Placing an Order or Indent:**

- At this stage, the importer places an import order or indent with the exporter for supply of the specified products.
- The indent contains information about the Price, Quantity, Size, Grade, Quality and Instructions about the Packaging, Shipping, Insurance, Mode of Payment, Ports of shipment and destination, Delivery Schedule.
- Indents are of two types: (i) Open Indent — In this indent very little information is mentioned, like quantity of product, types of products etc. All the rest is left on the exporter to decide. (ii) Closed Indent — In this, all the information regarding goods is mentioned.

Tool Kit 5

Indent?

It refers to a formal order or request for goods or services typically placed by an importer with an exporter. [Indents are commonly used in international trade].

(5) **Obtaining Letter of Credit (L/C):**

- To ensure payment to the exporter, the importer has to give a financial instrument (Letter of Credit) issued by his bank to the exporters.
- Letter of credit is the most appropriate method of payment adopted to settle international transactions.

Tool Kit 6

Letter of Credit?

It refers to a guarantee issued by the importer's bank that it will honour payment up to a certain amount of export bills to the bank of the exporter.

(6) **Arranging for Finance:**

- The importer has to arrange finance before the goods arrive at the port so that any kind of **demurrage** can be avoided.
- Otherwise, due to lack of finance, the goods will remain stuck at the dock and the demurrage will keep increasing.

Tool Kit 7

Demurrage?

It refers to a penalty for holding onto a container or cargo for long time, taking up valuable space and resources.

(7) **Receipt of Shipment Advice:**

- At this stage, after loading the goods on the vessel, the exporter sends a Shipment

Tool Kit 8

Shipment Advice?

It refers to a document or electronic message sent by the exporter to the importer, providing detailed information about a shipment.

Advice to inform the importer about the shipment of goods.

- Shipment Advice Contains:
  - Invoice Number
  - Bill of lading/Airways bill number with date
  - Name of the ship/vessel
  - Port of export
  - Description of goods
  - Date of sailing the ship.

(8) **Retirement of Import Documents:**

As soon as the goods are shipped, the exporter prepares a set of documents and hands it over to his banker for further action as specified in the letter of credit.

- **The set of documents contains:**
  - Bill of Exchange
  - Commercial Invoice
  - Bill of Lading/Airway Bill
  - Packing List
  - Marine Insurance Policy
  - Certificate of origin
- **Bill of Exchange** The bill of exchange accompanying the above documents is called as the DOCUMENTARY BILL OF EXCHANGE. It can be of two types:
  - (i) **Documents Against Payment (D/P)/Sight Draft:** In this case, the importer collects documents from the bank only after making payment.
  - (ii) **Documents Against Acceptance (D/A)/Usance Draft:** In this case, the importer collects documents from the bank against acceptance of the bill of exchange. It is known as the Retirement of Import Documents.
- Once the retirement is over, the bank hands over the documents to the importer for further action.

Tool Kit 9

Bill of Lading?

It refers to that document wherein a shipping company gives its official receipts of the goods put on board.

Tool Kit 10

Airway Bill?

It refers to that document wherein an airline company gives an official receipt of the goods on board its aircraft and at the same time gives an undertaking to carry them to the port of destination.

Tool Kit 11

Retirement of Import Documents?

It refers to the acceptance of bill of exchange or making cash payment for the purpose of getting delivery of the documents from the bank.

Tool Kit 12

Certificate of Origin?

It refers to that certificate which acts as a proof that the goods have actually been manufactured in country from where the export is taking place.

Tool Kit 13

Bill of Exchange?

It refers to a written document whereby the person (here, he is exporter) issuing the instrument directs the other party (here, he is importer who accepts the bill) to pay a specified amount to a certain person or the bearer of the instrument.

Tool Kit 14

Sight Draft?

It refers to a type of bill of exchange wherein the drawer of the bill of exchange instructs the bank to hand over the relevant documents to the importer only against payment.

Tool Kit 15

Usance Draft?

It refers to a type of bill of exchange wherein the drawer of the bill of exchange instructs the bank to hand over the relevant documents to the importer only against acceptance of the bill of exchange.

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(10) Customs Clearance and Release of Goods:

- At this final stage, the importer or his agent after fulfilling certain formalities (such as getting delivery order and port trust dues receipt, and payment of import duty) gets the release order from the port authority.
- **Delivery Order:**
  - As and when the ship arrives at the port, the importer obtains the endorsement on the back of the bill of lading which is done by the shipping company. Sometimes, shipping company does not sign the bill of lading but issue a delivery order separately. [This order entitles the importer to take the delivery of goods subject to the payment of all dues.]
- **Port Trust Dues Receipt:**
  - To get 'Port Trust Dues Receipt' the importer has to pay Dock Dues.
  - For the above purpose, two copies of 'Dock Challan'/'Application to import' has to be submitted to the 'Lading and Shipping Dues Office'. This office determines the dock dues borne by the importer.
  - After payment of dock dues the importer get one copy of the application back as a receipt of 'Port trust dues receipt'.

Tool Kit 17

Dock Challan?

It refers to that document in which the importer or his clearing agent specifies the amount of dock dues.

- **Payment of Customs Import Duty:**
  - The importer now fills in a form 'Bill of Entry' for assessment of customs import duty.
  - One appraiser examines the documents and determines the amount of customs import duty, if any.

Tool Kit 18

Bill of Entry?

It refers to that document which is filled in by the importer for assessment of import duty.

- **Issue of Release Order:**
  - After the payment of import duty, the bill of entry has to be presented to the dock superintendent.
  - An examiner will be deputed to examine the imported goods and gives his report on the bill of entry.

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Tool Kit 25

Trade Consulate?

It refers to that Government agency which promotes and facilitates international trade between countries.

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Tool Kit 26

Shipping Order?

It refers to an instruction to the captain of the ship that the specified goods after their customs clearance at a designated port be received on board.

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Tool Kit 27

Railway Receipt?

It refers to that receipt which serves as a title of goods and enable the agent of the exporter to take delivery of goods at the port of the shipment.

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Tool Kit 28

Marine Insurance Policy?

It refers to a certificate of insurance contract whereby the insurance company agrees in consideration of a payment called premium to indemnify the insured against loss incurred by the latter in respect of

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Clearing and Forwarding(C & F) Agent?
It refers to that agent who performs all the formalities at the port on behalf of the exporter.

Tool Kit 32

Cart Ticket ?
It refers to a gate pass which is prepared by the exporter and includes details of the export cargo in terms of the shipper's name, number of packages, shipping bill number, port of destination and the number of the vehicle carrying the cargo.

Tool Kit 33

V. Imp

Mate's Receipt ?
It refers to that receipt which is issued by the commanding officer of the ship when the cargo is loaded on the board.

is a bill of lading? How does...

6 Marks Questions

1. Write briefly the procedure of export trade.
2. What do you mean by the following documents of export trade:
   (i) Export invoice (ii) Mate's Receipt
   (iii) Bank certificate of payment
3. Explain the procedure of obtaining export licence and pre-shipment finance.

V.V.

10.4 World Trade Organisation (WTO): Meaning and Objectives

> "World Trade Organisation is established to promote multilateral trade of goods and services."

Meaning and Establishment of WTO

World Trade Organisation was formed to promote free trade among its member nations. Its main objective is to promote multilateral trade (trade among many nations) in goods and services by eliminating tariff and non-tariff barriers. Eliminating tariff barriers means removing import duties and eliminating non-tariff barriers means removing import quotas (quantitative restrictions), import licensing, etc. In eighth round of General Agreement on Tariffs and Trade (GATT), popularly known as Uruguay Round, member nations of GATT decided to set up a new organisation, 'World Trade Organisation' in place of GATT. WTO was formed on 1st January, 1995. It took over GATT.

Tool Kit 38

What is WTO?

WTO is a new globally recognised trade organisation with the new name succeeding GATT having a new vision and more power to promote international trade.

At the time of its establishment WTO had membership of 124 nations. In January, 2021, its membership increased to 164 nations, out of 202 countries in the world, accounting for 81% of the total nations. India is one of the founder members of WTO. Some areas like trade in services, promoting foreign investment, protecting patents, dispute settlement, trade in textiles and clothing, etc., were given special emphasis in WTO. The developing countries will benefit from the increased exports, foreign investment, technical assistance, etc., which will help to promote their economic development.

WTO is an international trade organisation having set of rules and principles, mutually designed and agreed upon to promote international trade in general and reduction of tariff barriers and removal of import restrictions in particular.

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3. What is ...

Marks Questions

1. Write a brief note on the establishment of WTO.
2. Write four features of WTO.
3. What are the main functions of WTO?

Marks Questions

1. What is WTO? Explain its main features.

Assertion-Reason Questions

[10.1 To 10.4]

Read the following statements—Assertion (A) and Reason (R). Choose one of the correct alternatives given below:

(a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

(b) Both Assertion (A) and Reason (R) are true and Reason (R) is not the correct explanation of Assertion (A).

(c) Assertion (A) is true but Reason (R) is false.

(d) Assertion (A) is false but Reason (R) is true.

1. Assertion (A): The countries cannot produce equally well or cheaply all that they need.
   Reason (R): The natural resources are unequally distributed among various countries.
2. Assertion (A): International business can be more profitable than the domestic business.
   Reason (R): When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high.
3. Assertion (A): Production on a large scale lowers production cost and improves per unit profit margin.
   Reason (R): Production on a large scale often does not lead to economies of scale.
4. Assertion (A): International business does not act as a catalyst of growth for firms facing tough market conditions on the domestic turf.
   Reason (R): When competition in the domestic market is very tense, internationalisation does seen to be the only way to achieve significant growth.

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5. Assertion (A): Export and import of goods is not that straight forward as buying and selling in the domestic market.

Reason (R): A major distinction between domestic and international trade is the complexity of the latter.

6. Assertion (A): After receipt of the indent, the exporter makes necessary enquiry about the credit worthiness of the importer.

Reason (R): In case the prospective buyer find the export price and other terms and conditions acceptable, it places an order for the goods to be despatched.

7. Assertion (A): The importer needs to consult the Export-Import Policy in force.

Reason (R): There are certain goods that can be imported freely, while others need licensing.

8. Assertion (A): The exporter always wants letter of credit.

Reason (R): Letter of credit is the most appropriate and secured method of payment adopted to settle international transactions.

9. Assertion (A): WTO is much more weak body than GATT.

Reason (R): It governs trade in goods, services and intellectual property rights.

10. Assertion (A): WTO has a global status similar to the IMF and the World Bank.

Reason (R): WTO is the principal international body concerned with solving trade problems between countries.

Unit-Wise Practice Paper-10

Time: 90 Minutes **Max. Marks: 30**

General Instructions:

1. This question paper contains 15 questions.
2. Marks are indicated against each question.
3. Answers should be brief and to the point.
4. Attempt all parts of the questions together.

1. After obtaining the import licence, the purchase department of the 'Kobra Importers India Ltd.' places an order with the 'Japan Exporters' for supply of the specified items. The import order contains information about the price, quantity, size, grade and quality of goods ordered and the instructions relating to packing, shipping, ports of shipment and destination. [1]

   Name the step involved in the import transaction:

   (a) Trade Enquiry (b) Obtaining Import Licence

   (c) Obtaining Foreign Exchange (d) Placing an Indent

2. Which of the following document is prepared by the exporter and includes details of the cargo in terms of the shippers name, the number of packages, the shipping bill, port of destination, name of the vehicle carrying the cargo? [1]

   (a) Shipping bill (b) Packaging List

   (c) Mate's receipt (d) Bill of exchange

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