



Size and Capital Based

Classification of Business Enterprises

Question 1. Answer in not more than 15 words:

- (i) Define a 'Tiny enterprise'.
- (ii) Define a Large Scale Enterprise.
- (iii) When is a unit said to be a "Medium Scale Enterprise"?
- (iv) When is a unit referred to as a "Micro-Business Enterprise"?

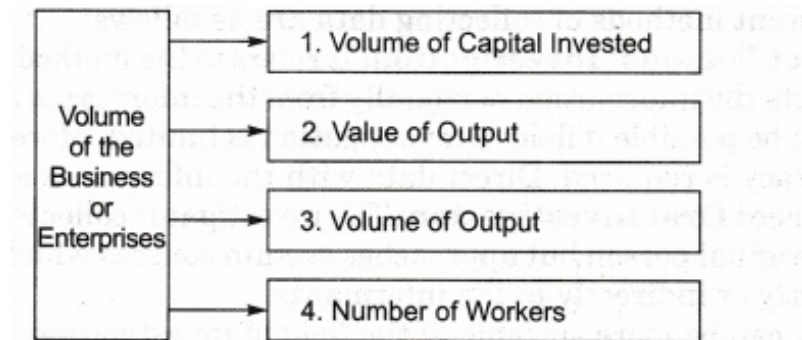
Answer:

- (i) Tiny enterprises are those business unit where the investment in plant and machinery does not exceed Rs 2.5 million (Rs 25 Lakhs) irrespective of the location of the unit.
- (ii) The industrial units whose investment in plant and machinery exceeds 10 crores are said to be large units. .
- (iii) A medium enterprise is one where the investment in plant and machinery is more than ? 5 crore but does not exceed ? 10 crore.
- (iv) A unit is known as micro business enterprise if it has an investment in plant and machinery (their original cost excluding/and building and items specified by Ministry of SSI in its notification No. S.O. 1722 (e) dated Oct. 5, 2006) does not exceed Rs. 25 lakh.

Question 2. Answer in not more than 50 words:

- (i) List the parameters used to measure the volume of the business.
- (ii) How would you differentiate between an ancillary unit and a tiny unit?
- (iii) When is any activity referred as a 'Business Activity'?

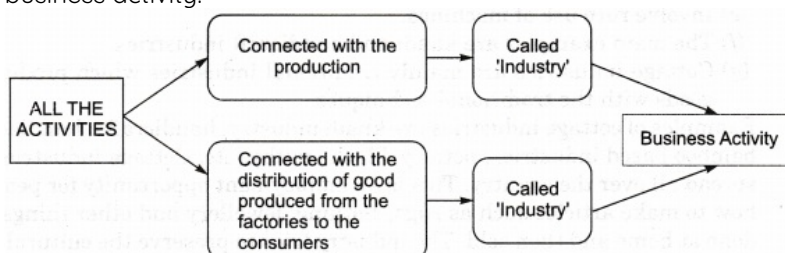
Answer: (i) Following are the list of the parameters used to measure the volume of the business.



- (ii) Differences between an ancillary unit and a tiny unit.

Basis	Ancillary Unit	Tiny Unit
Meaning	All those small-scale industry unit can be known as ancillary (auxiliary) small industrial unit if it supplies not less than 50% of its production to another unit, referred to as the parent unit. Such type of units manufacture components, etc. for the parent units. These units have the benefit of a certain demand from the parent units. They also have the technical and financial help from their respective parent units.	Tiny units are generally very small business enterprises whose investment in plant and machinery is up to ₹ 25 lakhs, but would shortly be raised irrespective of location of the unit.
Types of goods produced	They generally engaged in producing or manufacture of parts, components, sub-assemblies, tooling or intermediates; or the rendering of services. Ancillary industries are those which manufacture parts and components to be used by larger industries. For example: Companies like GE (ancillary) produce engines for the aircraft industry.	All types of shops, stationery shop, tailoring shop, agro-based medical shop, schools, parlours, photostate and STD booths in your locality.
Investment	The investment in plant and machinery, whether held on ownership basis or on lease or on hire purchase, should not exceed ₹ 10 million.	Tiny industry where investment in plant and machinery does not exceed ₹ 25 lakhs
Number of employees	Any number of labour can work, no restrictions.	The number of persons employed in these units must be less than 50.
Operated by	These units are normally operated under parent company.	These units are normally operated under sole proprietorship firm of ownership.
Managed by	These units are managed by holding company or by parent company.	These units are managed by family members and not professionals which result in lower profit generation.

(iii) All the activities which are undertaken in connection with the place of production to the place of consumption is said to be business activity.



Question 3. Answer in not more than 75 words:

- Classify, on the basis of size, the business enterprises.
- Explain the characteristics of a cottage and rural industry.
- Discuss the enterprises which comes under the category of being an SSI units.

Answer:

(i) On the basis of size three types of industries are there:

- Small Scale Industry:** It means that industrial unit whose investment in plant and machinery does not exceed Rs 5 crores.
- Medium Scale Industries:** A medium enterprise is one where the investment in plant and machinery is more than Rs 5 crores but does not exceed ? 10 crores.
- Large Scale Industries:** The industrial units whose investment in plant and machinery exceeds 10 crores are said to be large units. Whether a business enterprise is small or large depends upon its volume. Some of the prevalent parameters for measuring the volume are as follows: In India, often, it is adjudged on the basis of the volume of the capital invested whether an enterprise is large or small.

Thus, according to volume of capital invested, industries are categorized as:

(a) Small Scale (b) Medium Scale (c) Large Scale

(a) **Small Scale Industries:** It means that industrial unit whose investment in plants and machinery does not exceed Rs. 5 crores. In this type of industry labours are kept on wages, machines are used, machines must run with electricity. Some examples of SSI units

are:

- (a) Hosiery factories in Ludhiana.
- (b) Scientific instruments making factories in Ambala,
- (c) Carpet making factories in Panipat.
- (b) Medium Scale Industries: A medium enterprise is one where the investment in plant and machinery is more than Rs. 5 crores but does not exceed Rs. 10 Crores.
- (c) Large Scale Industries: The industrial units whose investment in plant and machinery exceeds 10 crores are said to be large units.
- (ii) Cottage and Rural: According to the Fiscal Commission, "Cottage industry is an industry which is run either as a whole-time or a part-time occupation with the full or partial help of the members of the family." It includes all the products that are produced in a home-based enterprise rather than in a factory.

The main features of these industries are as follows:

- (a) Run only by the members of the family.
 - (b) Mainly run by the artisans at their homes.
 - (c) Involve very little capital.
 - (d) Often fulfil the requirement of a local region.
 - (e) Involve rare use of machines.
 - (f) The main examples are khadi and handicraft industries.
 - (g) Cottage industries are mainly traditional industries which produce traditional goods with the traditional techniques.
- Examples of cottage industries are khadi industry, handicrafts, handlooms, cane and bamboo based industries, pottery, black smithy, etc. Cottage industries in India are spread all over the country. This is an employment opportunity for people who know how to make articles such as rugs, clothing, jewellery and other things. It is usually done at home and then sold. The industry tries to preserve the cultural history of the people.

(iii) Small Scale Industries: The industrial unit whose investment in plant and machinery does not exceed ? 5 crore are called Small Scale Industries.

The main features of these industries are as follows:

- (a) Labour are the main people involved in the part of production. They will be get wages.
 - (b) They use machine and runs with electricity.
- Examples: (a) Hosiery factories in Ludhiana.
- (b) Scientific instruments making factories in Ambala.
 - (c) Carpet making factories in Panipat.
 - (d) Radio, TV, etc. manufacturing factories in Delhi.

(1) Tiny Sector: Only those business enterprises are constituted under the tiny sector whose investment in plant and machinery is up to Rs. 25 lakhs, but would shortly be raised irrespective of location of the unit.

(2) Auxiliary Small Units: A small-scale industry unit can be known as ancillary (auxiliary) small industrial unit if it supplies not less than 50% of its production to another unit, referred to as the parent unit. Such type of units manufactures tools and equipments, components, unfinished goods, spare parts, etc. for the parent units. These units also enjoy the benefit of getting demand from the parent units so that they can survive for long time and they get financial help also from their parent unit.

(3) Micro-business: A unit can be called as micro business enterprise, if it has an investment in plant and machinery does not exceed ? 25 lakhs.

(4) Small-scale Service and Business (industry Related) Enterprise: The definition of MSME's (Ministry of Micro, Small and Medium Enterprises) in the service sector is:

- Micro-enterprise: Investment in equipment does not exceed Rs. 10 lakhs.
- Small enterprise: Investment in equipment is more than Rs. 10 lakhs but does not exceed Rs. 2 crores.

- Medium enterprise: Investment in equipment is more than Rs. 2 crores and less than 5 crores.

(5) Small-Scale Industries Owned and Managed by Women Entrepreneurs:

A small-scale industry can be known as a 'Women Enterprise' if a woman or a group of women individually or jointly, have share capital of not less than 51%. Such type of enterprises can avail of the concession offered by the government, e.g. low rate of interest on loans, etc.

(6) Export-oriented: A small scale industry unit can be known as export-oriented unit if it exports more than 50% of its production. Such type of units have the benefit like subsidy offered by the government.

The Ministry of MSME & ARI will bring out a specific list of hi-tech and export oriented industries which would require the investment limit to be raised upto ₹ 5 crores to admit of suitable technology upgradation and to enable them to maintain their competitive edge.

(7) Cottage and Rural: According to the Fiscal Commission, "Cottage industry is an industry which is run either as a whole-time or a part-time occupation with the full or partial help of the members of the family."

The main features of these industries are as follows:

- Run only by the members of the family.
- Mainly run by the artisans at their homes.
- Involve very little capital.
- Often fulfil the requirement of a local region.
- Involve rare use of machines.
- The main examples are khadi and handicraft industries.

Question 4. Higher Order Thinking Skills (Hots)

(i) Anurag, a textile industrialist, wants to buy a new printing machinery and its allied tools.

Suggest for him, that before any finalising the same, what he should investigate first.

(ii) Procurement of physical resources is not an easy job. Do you agree? Give reasons.

(iii) How is "Capitalisation" different from "Capital Structure"?

(iv) 'An ideal capital structure is a result of great, planning and team work'. What factors are required to be planned and paid attention to at this time?

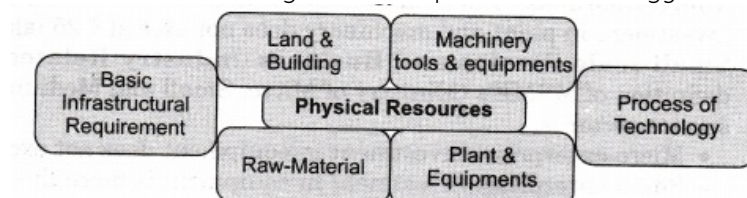
(v) Anjali Ltd. had decided to expand its production capacity by modernizing its plant and machinery at an estimated cost of ₹ 2 crores. The company doesn't have enough reserves to finance modernization. Suggest two sources to the company from where they can raise finance.

Answer:

(i) Physical resources are those that are made by human through his abilities and skills.

It includes various capital equipments required by an entrepreneur at the startup stage of the business that he can carry out his business smoothly. They are available to an organisation in the form of:

- buildings, plants, machineries, etc.
- raw-material required for the basic operation.
- other requirements depending upon the nature of the product and services for running of an enterprise like technology.



So, the foremost concern for the entrepreneur is to assess the 'place' where the enterprise is going to be established.

The basic infrastructure required to be constructed is all part of physical resources.

The category of physical resources covers a wide range of operational resources concerned with the physical capability of the enterprise.

(ii) A careful selection of physical resources is essential because many allied issues are influenced by the 'place' selected such as:

(1) Capital Cost: Physical resources should be within the limit laid down.

(2) Access to other resources: At initial stage availability resources should be assured

(3) Transport and Communication Cost: These two things should be within the limit.

(4) Availability of manpower and its cost (wages, salaries) All skilled, unskilled, administrative staff and technical expert should be available and their remuneration should be appropriate.

(5) Cost of production should not exceed.

(6) Availability of other utilities like water, gas, fuel, etc. must be ensured. The premises should be located according to the availability of various infrastructural requirement like water, gas, power, fuel, etc.

(7) Access to market for both raw materials and finished goods within the area easily accessible and delaying should be avoided for both market and supply of finished goods.

(8) Pollution concerns involved: Should be cross checked and verified throughout means it should not be harmful to the society.

(iii)

S.No.	Basis	Capitalisation	Capital Structure
1.	Meaning	Capitalisation is the total amount of all long-term funds available to a company and includes undistributed profits/retained earnings.	Capital structure is the composition or mix of different types of long-term capital whether owner's funds or borrowed funds.
2.	Composition	It includes shares, debentures, long-term loans and free reserves.	It includes in the following pattern: (1) Equity shares only (2) Both equity and preference shares (3) Equity and debentures (4) Equity, preference and debentures.
3.	Determined by	It is determined by various factors like cost of capital, market conditions, trading on equity.	It is determined by earning capacity of the company.

(iv) Capital structure is the composition or mix of different types of long-term capital whether owned or borrowed. It includes all the long term funds consisting of share capital, debentures, bonds, loans and reserves.

$$\text{Capital Structure} = \frac{\text{Debt}}{\text{Equity}}$$

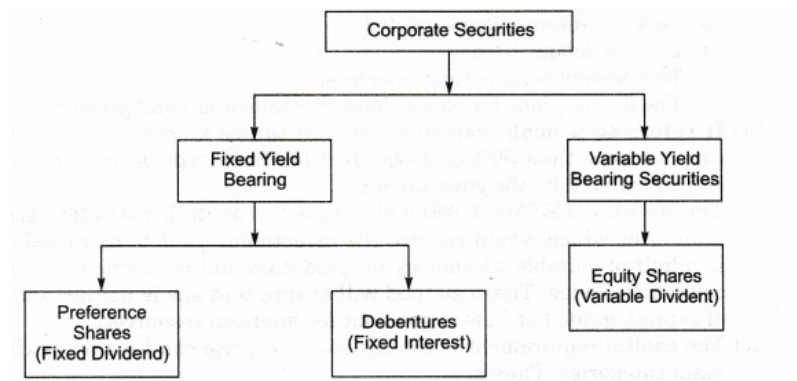
To find out an ideal debt-equity mix is a difficult task. Every entrepreneur should try developing that relationship of debt and equity securities which is maximum the value of a company's shares in the market. There are many factors which are to be considered while designing an appropriate capital structure of a company like earning capacity of the company. The relative weightage assigned to each of these factors will vary widely from company to company depending upon the:

(a) Characteristics of the company

(b) General economic conditions prevailing

(c) Circumstances under which the company is operating.

A proper proportion between fixed and variable yield-bearing securities is very necessary for the liquidity and solvency of the company.



If a company make an ideal capital structure which shows a high degree of earning capacity it shows a result of great, planning and team work.

(v) (i) Loans from Financial Institutions: Institutional finance refers to institutional sources of finance to industry, other than commercial banks. These institutions are established by the Central/State Government, aiming at promoting the industrial development of a country and to provide technical assistance to industrial units.

(ii) Loans and Advances: A loan is a lumpsum advance made for a specified period. Here, the entire amount is paid to the borrower in lumpsum either in cash or by way of transfer to his account. In this:

- The borrower may withdraw the entire amount in a lumpsum or in installments as per his/her needs.
- The interest is charged on full amount of loan irrespective of how much had been actually withdrawn.
- Loans are generally granted against the security of certain assets.

These are the two sources to the company from where they can easily raise finance.

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