LIVE

CLASS 11th BUSINESS ST.

BACKLOG MARATHON

SERIES

100/100 in Bst.

1. Nature & Purpose of Business
2. Forms of Business Organisations
3. Private, Public & Global Enterprises



Chapter 1
Nature and Purpose of Business

MEANING OF BUSINESS

The term Business is derived from the word Busy which means engaging in work.
Business refers to any occupation in which people regularly perform an activity to earn profit.





INTRODUCTION: HUMAN ACTIVITIES

An activity performed by a human being to meet his wants is known as 'Human Activity'.
Depending on wants, all human activities can broadly be divided into two categories-

- Economic Activities
- Non-Economic Activities

TYPES OF HUMAN ACTIVITIES

Economic Activities

Economic activities are those by which we can earn our livelihood i.e. which are undertaken to earn a living.

For example,

a worker working in a factory, a doctor operating in his clinic, a teacher teaching in a school.

(Money)





Non-Economic Activities

Non-Economic Activities are those activities, which are undertaken to satisfy social, psychological and emotional needs.

For example,

housewife cooking food for her family, a teacher teaching his own son, etc.





1) A doctor treating his wife. (Non-Economic)

2) A doctor treating an unknown patient. (Economic)

Types of Economic Activities.

Next Toppers

Business

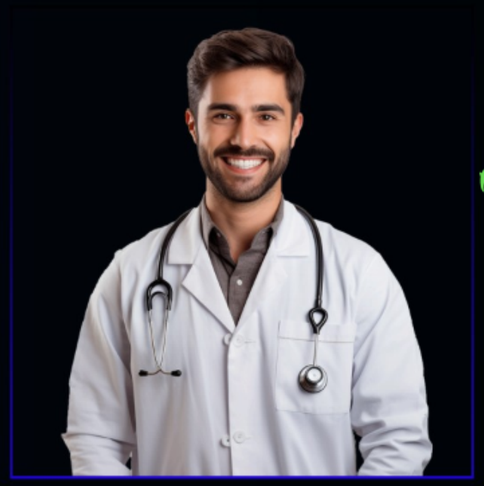
It involves providing goods and services to earn profits.



Mr. Mukesh Ambani

Profession

It involves providing personalised services to earn fees.



Dr. Sanjeev Kapoor.

Employment

It involves performing work as per service contract to earn salary.



→ Employee

Features

→ Case study.

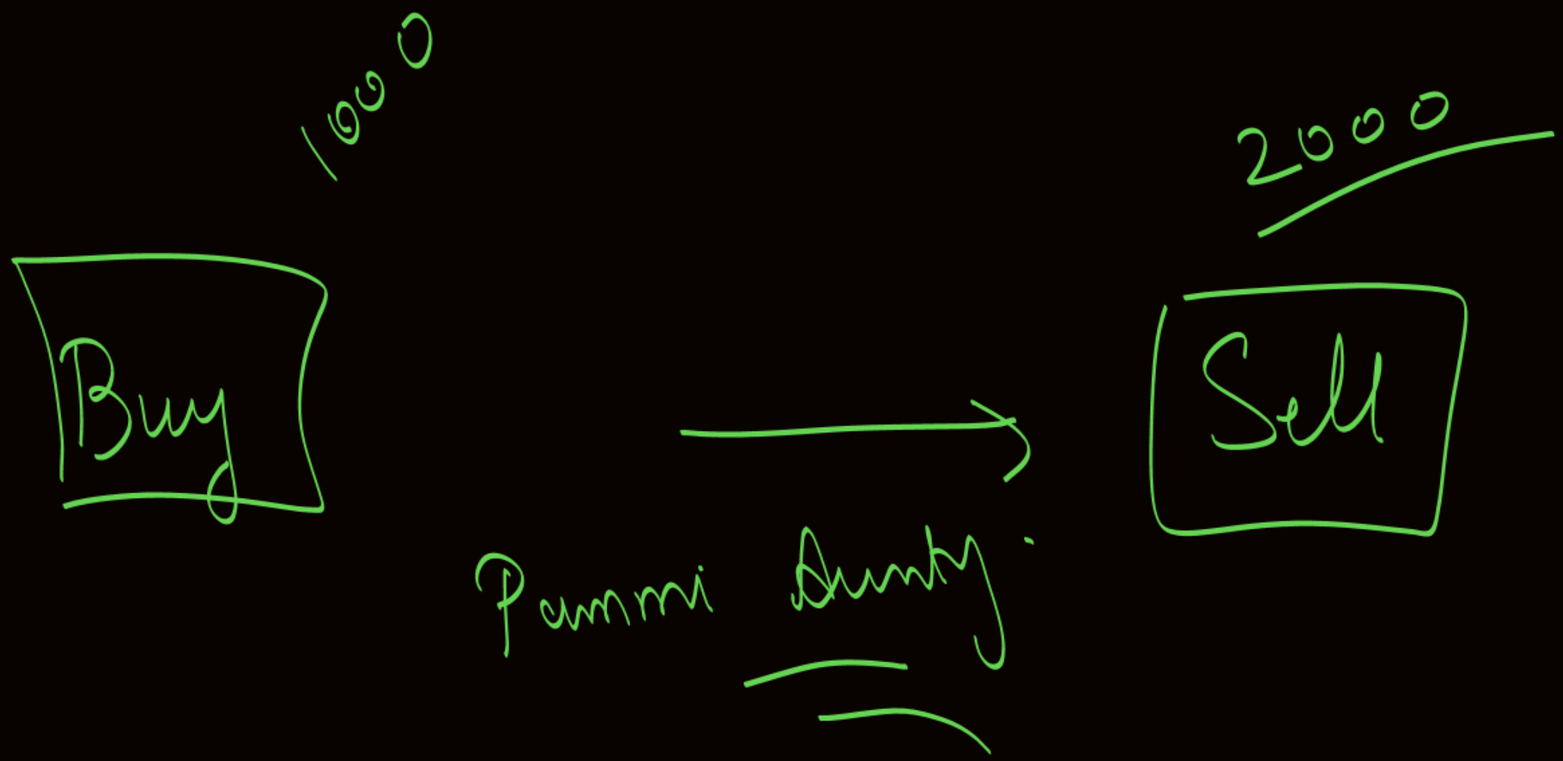
CHARACTERISTICS OF BUSINESS

– V.V.Imp.

- **An economic activity:** It is undertaken with the objective of earning money and not out of any emotion.
- **Production or procurement of goods and services:** Every business enterprise either manufactures the goods or acquires them from producers, to be further sold to consumers or users.
- **Sale or exchange of goods and services:** If goods are produced not for the purpose of sale but for personal consumption, it cannot be called a business activity.






1000
Buy
2000
Sell
Pammi Aunty.

- **Dealings in goods and services on a regular basis:** One single transaction of sale or purchase does not constitute business so regularity is must.
- **Profit earning:** If the profit motive is missing in a atransaction, then it cannot be considered as Business Transaction.
- **Uncertainty of Return:** It is not certain as to whether profit will be earned or what amount of profit will be earned.
- **Element of risk:** Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavourable or undesirable event.





CONCEPT OF PROFESSION

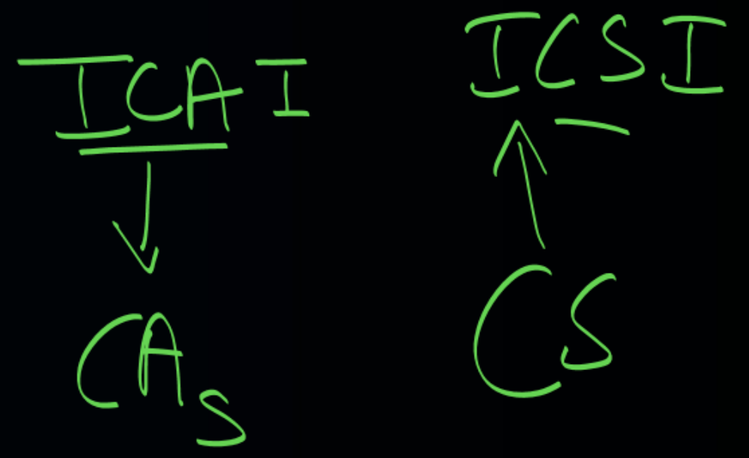
Profession includes those activities, which require special knowledge and skill to be applied by individuals in their occupation to earn fees. People engaged in profession are known as professionals.

For example,
Lawyers, Doctors, Chartered Accountants, etc.



CHARACTERISTICS OF PROFESSION

- **Well-defined body of knowledge:** Every profession has a systematised body of knowledge, which can be learnt through instructions.
- **Restricted Entry:** Every profession restricts the entry on the basis of examination or education.
- **Professional Association:** All professions are affiliated to a professional association which regulates entry, grants certificate of practice and develops code of conduct.



Bar Council of India
↑
Lawyers

- **Code of conduct:** A strict code of conduct exists in every profession. Members of a profession are required to follow the code sincerely.
- **Service Motive:** The basic motive of a profession is to serve clients with dedication.
- **Reward or Return:** Professionals earn income in the form of professional fees.
- **Nature of work:** Professionals provide consultancy and advisory services to their clients.

Business

Basic Motive ?

CONCEPT OF EMPLOYMENT



Employment refers to the occupation in which people work for others and get remunerated in return, in the form of salary or wages.

CHARACTERISTICS OF EMPLOYMENT

Employee ⟷ Employer

- **Contractual Relation:** Employment is the outcome of a contract between the employer and employee. It consists of terms & conditions of employment.
- **Reward or Return:** The employee is paid salary or wages for his services, at regular time intervals.
- **Nature of work:** Employee is required to perform work as prescribed by the employer.
- **Capital Investment:** Employment does not require any investment and involves negligible risk.
- **Code of conduct:** Employee has to follow norms of behaviour as laid down by the employer.
- **Qualification:** Under employment, employee is required to possess qualification and training as prescribed by the employer.

V.V. Imp

COMPARISON OF BUSINESS, PROFESSION & EMPLOYMENT

BASIC	BUSINESS	PROFESSION	EMPLOYMENT
Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice	Appointment letter and service agreement
Nature of work	Provision of goods and services to the public	Rendering of personalised, expert services	Performing work as per service contract or rules of service
Qualification	No minimum qualification is necessary	Qualifications, expertise and training in specific field as prescribed by the professional body is a must	Qualification and training as prescribed by the employer
Reward or rent	Profit earned	Professional fee S	Salary or wages
Capital investment	Capital investment required as per size and nature of business	Limited capital needed for establishment	No capital required

BASIC	BUSINESS	PROFESSION	EMPLOYMENT
Risk	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no or little risk
Transfer of interest	Transfer possible with some formalities	Not possible	Not possible
Code of conduct	No code of conduct is prescribed	Professional code of conduct is to be followed	Norms of behaviour laid down by the employer are to be followed
Example	Shop, factory	Legal, medical profession, chartered accountancy	Jobs in banks, insurance companies, government departments

NEXT500



NEXT1500



OBJECTIVES OF BUSINESS

Every business has some or the other objectives to achieve. Business Objectives may be broadly classified into three categories:

- Organisational or Economic Objectives
- Human or Personnel or Individual Objectives
- Social Objectives

Profit earning.

(Employees)

ORGANISATIONAL OR ECONOMIC OBJECTIVES

Business is an economic activity and its objectives are mainly economic in nature. The main economic objectives are:

2. **Profit Earning:** A business needs profits not only for its existence but also for expansion and diversification.

1. **Survival:** Survival is possible only when orgarusation is able to earn enough revenue to cover its costs.

3. **Growth:** Growth is measured in terms of sales volume, increase in number of employees, market share,number of products, etc.

Income -> 3L
Expenses -> 1L
2L

Income -> 1L
Expenses -> 1L
Nil







SOCIAL OBJECTIVES

Social objectives refer to the objectives, which are desired to be achieved for the benefit of the society. Social objective deals with fulfilling obligations towards the society.



- **Supply of Quality products at Fair Prices:** Supply of adulterated goods, inferior quality goods or harmful products are detrimental to the survival of business.
- **Avoidance of Unfair Trade Practices:** Business enterprise should not indulge in anti-social and unfair trade practices like black marketing, hoarding, adulteration, etc.
- **Generation of Employment Opportunities:** Every business enterprise should create sufficient employment opportunities without any discrimination as to caste, religion, sex, etc.

100 – 150

relative

Mohan & Ramesh

40K & 30K

- **Protection of Environment:** It must make proper arrangement for disposal of effluents, smoke, wastes, etc. in order to avoid various types of pollution.

- **Community Service:** Many business organisations engage in various community services, like setting up schools, charitable services, donating money for social and religious activities, etc.

- **Welfare of Employees:** No business can succeed without the contribution of its employees.Thus, business should aim to provide fair wages and reasonable living conditions to workers.

HUMAN OR PERSONNEL OR INDIVIDUAL OBJECTIVES

As employees are one of the most valuable resources for an organisation, satisfaction of their objectives is very important.

Individual objectives include the following objectives:

- To provide healthy and safe working conditions.
- To pay fair and competitive salaries and perks.
- To provide opportunities for personal growth and development of employees. (promotion)
- To provide reasonable security of service. .
- Peer Recognition and encouraging employees to take initiative and participate in decision- making.

CLASSIFICATION OF BUSINESS ACTIVITIES

Business activities may be classified into two broad categories:

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

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

Or,

Business = Industry + Commerce

INDUSTRY

Industry refers to economic activities, which are connected with conversion of resources into useful goods.
Industry can be classified into three broad categories.

- Primary Industry
- Secondary Industry
- Tertiary Industry

Raw Materials → Useful goods.

Primary Industry

These include all those activities which are concerned with the extraction and production of natural resources and reproduction and development of living species.
These are divided as follows:

- Extractive industries: These industries extract or draw product from natural sources (like soil, water, air or beneath the surface of earth).
  - These industries include farming, mining, lumbering, hunting and fishing operations.
- Genetic industries: These industries are engaged in breeding plants and animals for their use in further reproduction.
  - These industries include seeds and nursery companies, cattle breeding farms, poultry farms, and fish hatchery.





Secondary Industry

These industries process such materials to produce goods for final consumption or for further processing by other industrial units.
For example, mining of iron ore is a primary industry, but manufacturing of steel by way of further processing of raw irons is a secondary industry.
Secondary industry can be further classified into two categories-

- Manufacturing Industry
- Construction Industry

Manufacturing Industries:

- It includes all those industries, which are engaged in processing of raw materials to produce finished goods.
- Manufacturing industry can be further divided into four categories:

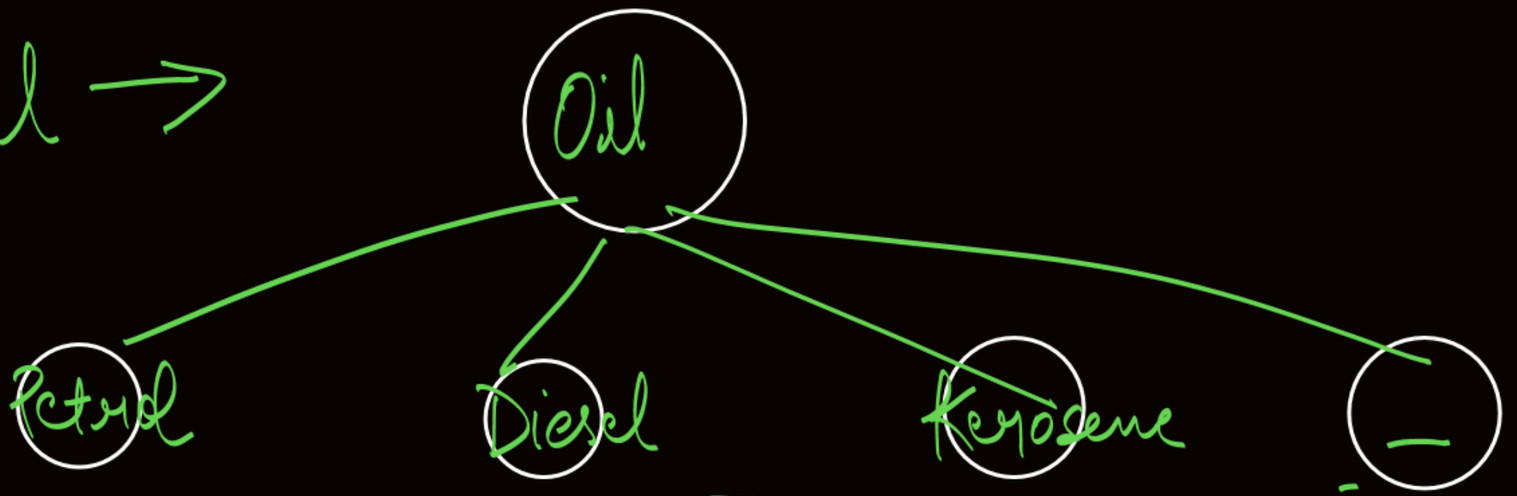
  - Analytical Industry: In this industry, the basic raw materials are analysed and separated into different finished products. For example, crude oil is processed into many finished products, such as kerosene, petrol, diesel, etc.



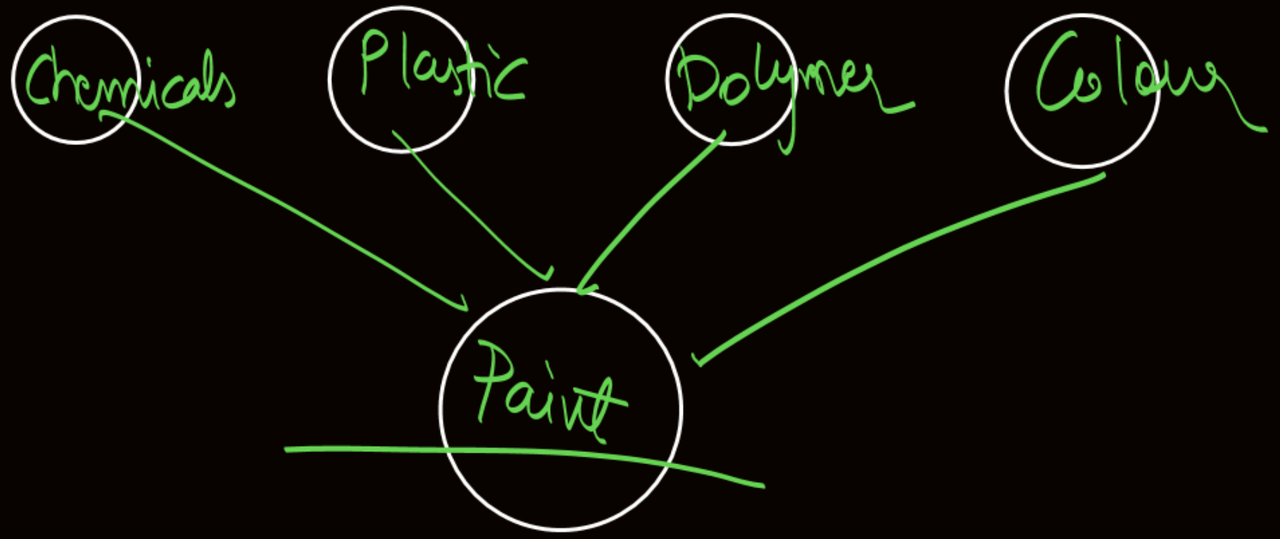
  - Synthetical Industry: In this industry, two or more raw materials are combined together in manufacturing process to make the final product. For example, various chemicals are mixed together to manufacture cement.



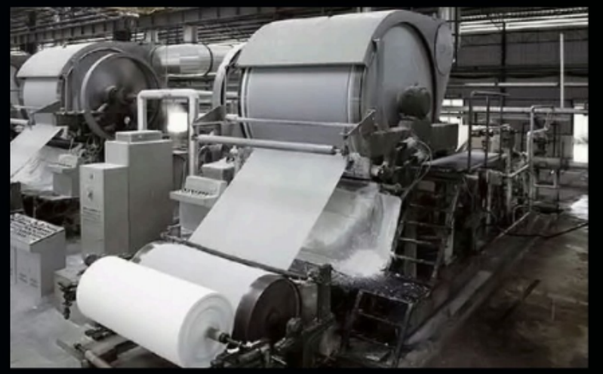
Analytical →



Synthetical →



- Processing Industry: In this industry, a product passes through various stages to become a final product. For example, sugar industry, paper industry, etc.



- Assembling Industry: In this industry, different components are assembled to make a new product. For example, Automobile industry, TV industry, etc.



Construction Industry:

- It includes all those industries, which are engaged in the construction activities. For example, industries involved in construction of buildings, dams, bridges, roads, etc.
- Engineering and architectural skills are an important part in construction industries.





Tertiary Industry

- Tertiary industry includes all those activities, which are concerned with providing aid to primary and secondary industries as well as activities relating to trade.
- It is also known as Service Industry.
- Tertiary Industry tries to remove various hindrances or obstacles which arise during production and distribution of goods and services.

It provides following service facilities:

- **Transport:** It facilitates movement of goods from one place to another.
- **Banking:** It provides finance and credit for various business activities.
- **Insurance:** It provides protection from various kinds of risks.
- **Warehousing:** It stores goods to facilitate their supply to the market at the right time.
- **Advertising:** It provides information about the product to the consumers.





COMMERCE

- Commerce includes all those activities, which are necessary for sale, transfer or exchange of goods and services.
- It provides the necessary link between producers and consumers to ensure proper distribution of goods.
- In this way, commerce ensures free and smooth exchange by removing various hindrances or obstacles in the way of exchange.
- The hindrances may be in respect of persons, place, time, risk, finance and information.

Role or Functions of Commerce

(Hindrances / Barriers)

Commerce plays a vital role by removing the following hindrances in the exchange of goods and services:

- **Hindrances of Persons:** This hindrance occurs due to lack of contact and communication between producers and consumers. Commerce removes this hindrance through Trade.
- **Hindrances of Place:** This hindrance occurs due to geographical separation between producers and consumers. Commerce removes this problem by means of "Transport'.
- **Hindrances of Finance:** Commerce removes this hindrance through 'Banking and Financing Institutions'. They provide the requisite capital to carry on various activities.
- **Hindrances of Information:** This hindrance occurs due to lack of product awareness on the part of consumers. Advertising makes it possible for producers and traders to inform consumers about the goods and services available in the market.

BRANCHES OF COMMERCE

Commerce includes two types of activities

- **Trade:** It implies buying and selling of goods. (Exchange of goods & services)
- **Aids or Auxiliaries to Trade:** It implies activities required to facilitate the purchase and sale of goods.

- Trade refers to buying and selling of goods and services with the aim of earning profits.
- Without trade, both producers and consumers will have to search for each other and it would not be possible to undertake production activities on a large scale.

Next Toppers

Classification of Trade



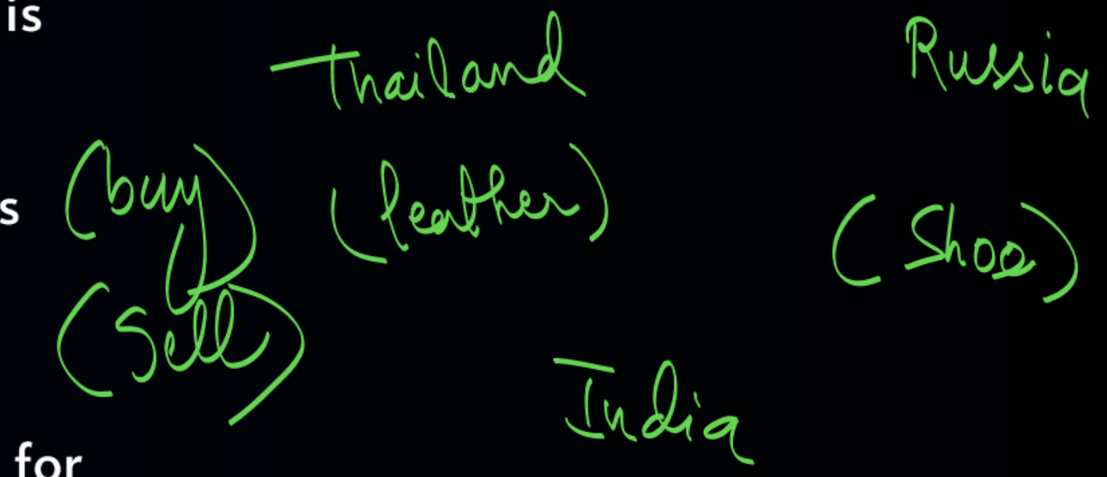
Internal Trade (or Home Trade) / Domestic

- It is concerned with the buying and selling of goods and services within the geographical boundaries of a country. Internal Trade is of two types-
  - Wholesale Trade: It involves buying and selling of goods in large quantities.
  - Retail Trade: It refers to buying of goods and services in relatively small quantities from wholesalers and selling them to the ultimate consumers.

External Trade

It is concerned with the buying and selling of goods and services between persons or organisations operating in two or more countries. Such trade is also known as Foreign Trade or International Trade. External Trade is of three types:

- Import Trade: It refers to purchase of goods from a foreign country.
- Export Trade: It refers to sale of goods to a foreign country.
- Entrepot Trade: It refers to import of goods for the purpose of export to other countries.



Aids or Auxiliaries to Trade:

It refers to those activities which facilitate the purchase and sale of goods.

- **Transport and Communication:** It involves all those activities which are undertaken for the movement of goods from one place to another.
- **Banking and Finance:** It involves all those activities which are concerned with providing finance for various business activities.
- **Insurance:** It involves all those activities which are concerned with providing protection from various kinds of risks.
- **Warehousing:** It is concerned with storing goods in order to facilitate their supply to the market at the right time.
- **Advertising:** It involves all those activities which are concerned with providing information about the product to the consumers.

BUSINESS RISK

The term 'business risk' refers to the possibility of inadequate profits or or even losses due to uncertainities or unexpected events.

- A businessman tries to control or minimise the risk, but they cannot altogether be avoided.

Business enterprises constantly face two types of risk:

- Speculative Risk: Such risk involves both the possibility of gain as well as the possibility of loss. They arise due to changes in market conditions, like fluctuations in demand and supply, changes in prices or fashion or tastes of customers.
- Pure Risk: Such risk involves only the possibility of loss or no loss. For example, chance of fire, theft, strikes etc. Occurrence of such risk may lead to loss, whereas, non-occurrence lead to absence of loss.

Nature of Business Risk

- **Business risk arises due to uncertainties:**
  - Uncertainty means lack of knowledge about what is going to happen in the future.
  - Fluctuations in demand and supply of products, changes in government policy, natural calamities, improvement in technology, etc., are all uncertainties, which creates risk for business as their outcome is not known in advance.
- **Risk is an essential part of every business:** No businessman can totally escape from the risk, although the amount of risk may vary from business to business.
- **Degree of risk depends on nature and size of business:** For example, an entrepreneur dealing in fashionable items has a high degree of risk as compared to business involved in necessity goods. Similarly, a large scale business has a higher risk as compared to small scale business.
- **Profit is the reward for risk taking:** No risk no gain' is an important principle which applies to all types of business.Greater the risk involved in a business, higher is the chance of profit.

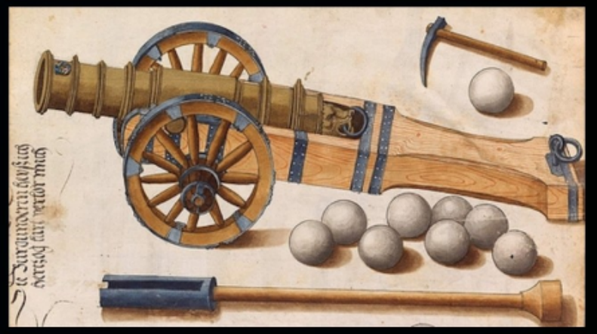
Causes of Business Risk

- **Natural Causes:** Due to beyond control of Human Beings.
- **Human Causes:** Due to Human Resources of the organisation.
- **Economic Causes:** Due to change in Market conditions.
- **Other Causes:** Due to number of factors.

HISTORY OF TRADE & COMMERCE

Commerce is a wide term which consists of all those activities, which are necessary for sale, transfer or exchange of goods and services.

- Silk Route: It was an ancient network of trade routes that connected the east and the west. The Silk Route got its name because of the heavy silk trading that was carried out along its length.
- Spice Route: The maritime routes linked the east and the west by sea and were used for the trade of spices and known as 'Spice Route'.







Role of Business in Development of an economy

- Archaeological evidence have shown that trading activities were the mainstay of the economy in ancient times.
- Many people were engaged in various economic activities such as agriculture and domestication of animals, weaving cotton dyeing fabrics, making clay pots, utensils and handicrafts, etc.

To transfer money from one hand to another for trading activities Hundis were used .

Hundi became very popular Hundi involved a contract which-

- Warranties the payment of money. It indicated an unconditional promise.
- Could be transferred through valid negotiation..
- Different types of Hundis as used by Indian merchants were-





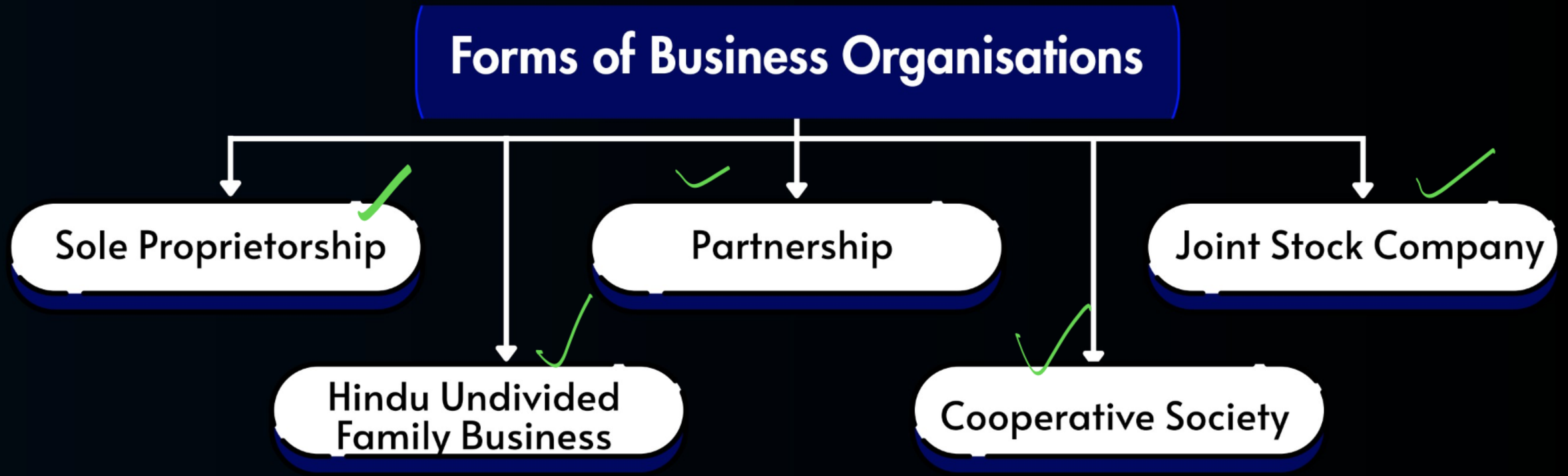
- **Darshani Hundi:** A hundi payable at sight is called Darshani hundi. It should be presented for payment within a reasonable time of its receipt by the holder.
- **Muddati or Miadi Hundi:** It is one which is payable after a specified period of time like a 'time bill' Banks usually provide loans against the security of such hundis.
- **Shahjog Hundi:** This is a hundi made payable only to a Shah (a respectable person of financial worth and substance in the market).
- **Namjog Hundi:** It is a hundi payable to the party named in the hundi or his order.
- **Dhanijog Hundi:** It is a hundi which is made payable to the owner or a holder or bearer- owner.
- **Jokhmi Hundi:** Such a hundi is usually drawn against goods shipped on a vessel and implies a certain risk involved in the shipment of goods.
- **Jawabee Hundi:** A hundi, which is in the form of letter or recommendation to a banker for payment of a certain sum of money to a specified person.
- **Firmanjog Hundi:** This hundi is made payable to the order of payee. It is just opposite of dhanijog hundi which is payable to the bearer only.

Will meet at 7:35

(Break)

Chapter 2
Forms of Business Organisations

INTRODUCTION



SOLE PROPRIETORSHIP

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

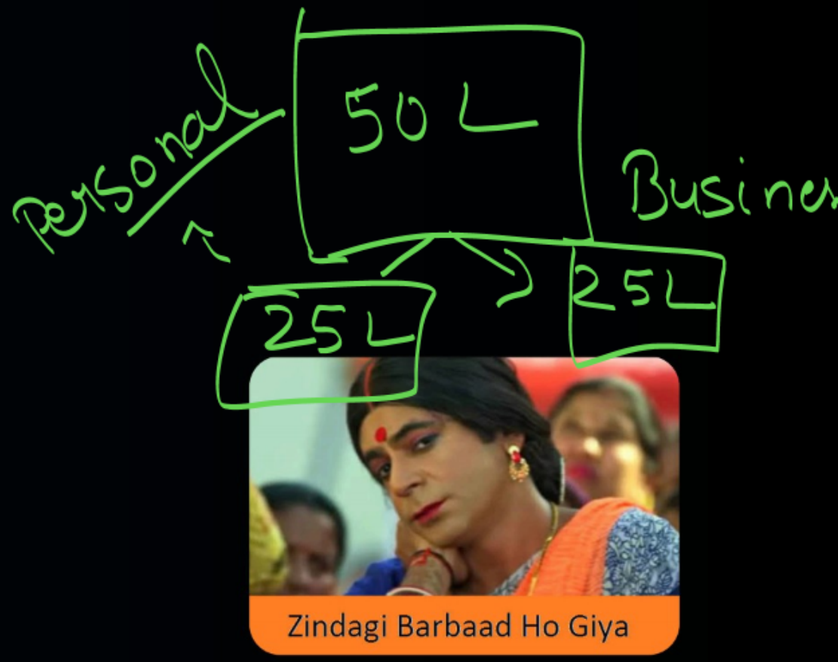
One-Man Show





Features of Sole Proprietorship

- **Formation and Closure:** Sole proprietorship is very easy to start as no legal formalities are required to start it. There is no separate law that governs sole proprietorship.
- **Liability:** The liability of the owner (i.e., sole proprietor) is unlimited. It means that the owner is personally liable for payment of debts if assets of the business are not sufficient to meet all the debts.
- **Sole Risk Bearer and Profit Recipient:** Any risk of failure of business is borne all alone by him. Similarly, if the business is successful, he receives all the business profits which becomes a direct reward for his risk bearing.
- **Control:** Sole proprietorship is a one man show, ie. right to run the business and to make all the decisions, lies absolutely with the sole proprietor.





- **No Separate Entity:** A sole proprietorship has no legal existence, i.e. in the eyes of the law, no distinction is made between the firm and the proprietor.



- **Lack of Business Continuity:** As owner and business are one and the same entity, death, physical ailment or insolvency of the proprietor has a direct and detrimental effect on the business.



Merits of Sole Proprietorship

- Quick Decision Making
- Confidentiality of Information
- Direct Incentive
- Sense of Accomplishment
- Ease of Formation and Closure



Limitations of Sole Proprietorship

- Limited Resources
- Unlimited Liability
- Limited life of a Business Concern

HINDU UNDIVIDED FAMILY BUSINESS

- It is governed by the provisions of the Hindu Law (The Hindu Succession Act, 1956). It is one of the oldest forms of business organisation in the country.
- The basis of membership in the business is birth in a particular family and three successive generations can be members in the business.
- The business is managed and controlled by the eldest male member of the family known as 'Karta' or 'Manager'. The decisions of the karta are binding on all the members.
- All members have equal ownership right over the property of an ancestor and they are known as co-parceners.



Features of Hindu Undivided Family

- **Formation:** There should be at least two members in the family and ancestral property must be inherited by them. There is no need for any agreement between the family members as membership arises by virtue of birth.
- **Liability:** The liability of all members (except karta) is limited to the extent of their shares in the co-parcenery property of the business. However, the karta has unlimited liability.
- **Control:** The control of the family business lies with the karta. His decisions are binding on the other members.
- **Continuity:** In the case of death of karta, the next eldest male person in the family becomes the karta, leaving the business stable.
- **Minor Members:** Minors can also be members of the business as inclusion of an individual into the business occurs due to birth in the Family.





Merits of Hindu Undivided Family

- Effective control
- Continued business existence
- Limited liability of members
- Increased loyalty and cooperation

Limitations of Hindu Undivided Family

- Limited resources
- Unlimited liability of Karta
- Dominance of karta
- Limited managerial skills



PARTNERSHIP

According to Indian Partnership Act, 1932, Partnership is the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.



Features of Partnership

- **Formation:** It comes into existence through a legal agreement among the partners, in which terms and conditions governing the relationship, sharing of profits and losses and the manner of conducting the business are specified.
- **Liability:** The partners of a firm have unlimited liability, i.e. their personal assets may be used to pay off debts of the business in case of insufficiency of business assets.
- **Risk Bearing:** The reward for risk bearing comes in the form of profits, which are shared by the partners in an agreed ratio. However, in the event of losses, they also share the losses in the same ratio.
- **Decision-Making and Control:** In a partnership firm, partners share amongst themselves the responsibility of decision-making and control of day-to-day activities. Decisions are generally taken with mutual consent.



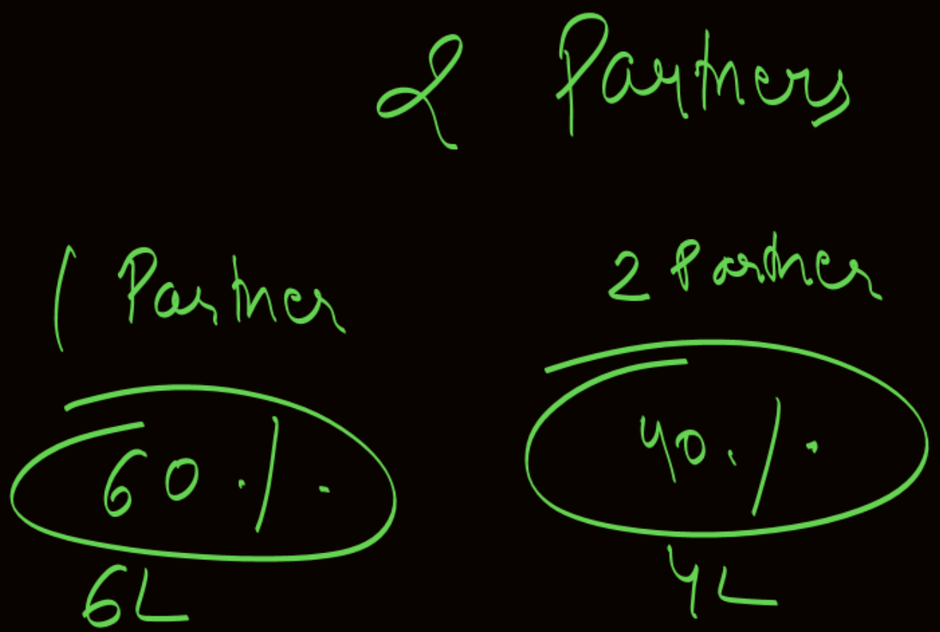








2 Partners



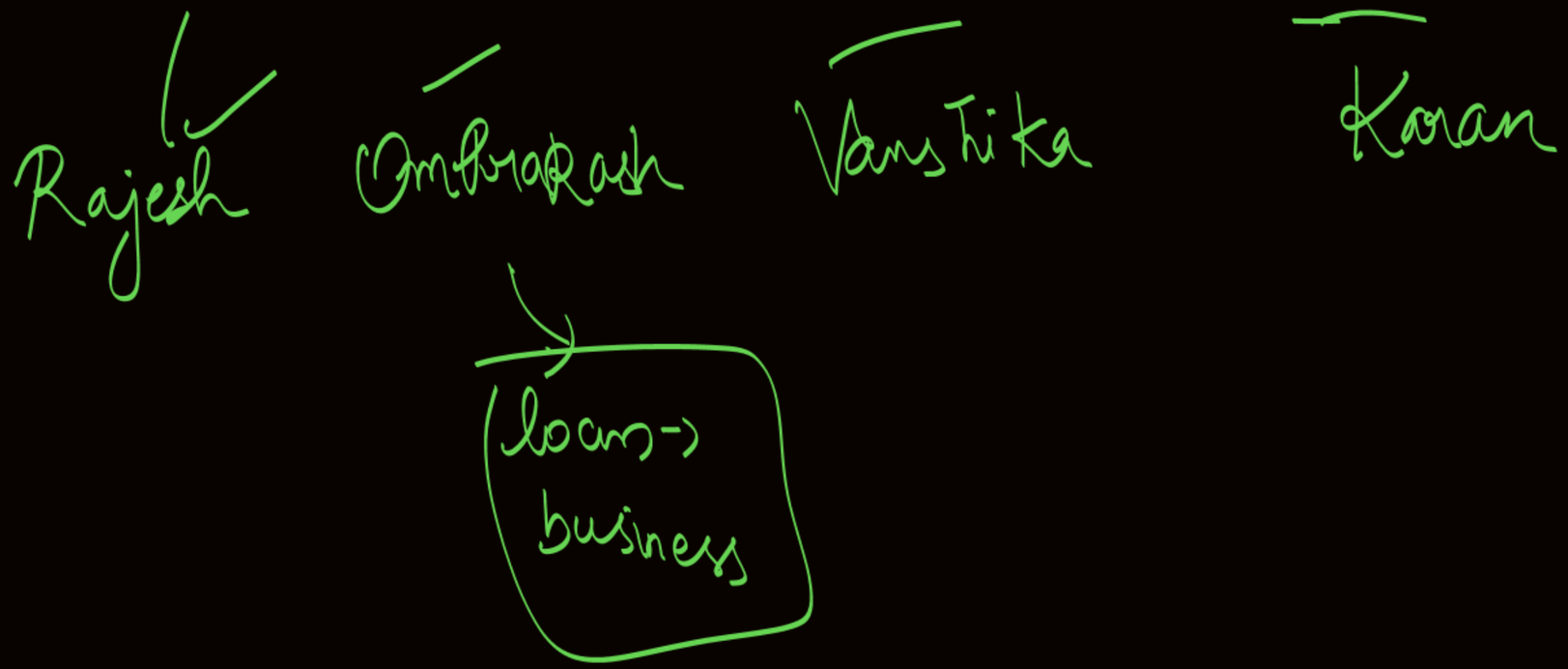
10L Profit

- **Membership:** Rule 10 of the Companies, 2014 provides that no partnership shall be formed, consisting of more than 50 persons.
- **Mutual Agency:** Partnership business is carried on by all or any one of the partners acting for all. It means, every partner acts in the capacity of an 'agent' as well as a 'principal'. As an agent, he represents other partners and thereby binds them through his acts. As a principal, he is bound by the acts of other partners.

Minimum → 2
Maximum - 50






Rajesh
Omprakash
Vanshika
Karan
loans -> business

Merits of Partnership

- Ease of formation and closure
- Balanced Decision-Making
- More Funds
- Sharing of Risks
- Secrecy

Limitations of Partnership

- Unlimited Liability
- Limited Resources
- Possibility of Conflicts
- Lack of Continuity

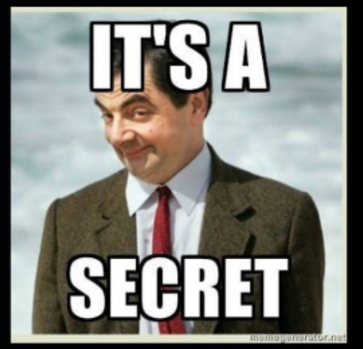


Types of Partners

- **Active or Working Partner:** An active partner is one who contributes capital, participates in the management of the firm, shares its profits and losses and bears an unlimited liability for the debts of the firm.
- **Sleeping or Dormant Partner:** A sleeping partner is one whd does not take part in the day-to-day activities of the business. Such partner, of course contributes capital, bears unlimited liability but does not participate in the management affairs.
- **Secret Partner:** A secret partner is one whose association with the firm is unknown to the general public. He contributes capital, take part in the management, shares its profits and losses and has unlimited liability towards the creditors.







- **Nominal Partner:** A nominal partner is one who allows the use of his name and goodwill for the benefit of the firm and can be represented as a partner. He does not invest capital, does not share profits and does not take part in the management of business. However, he bears unlimited liability for the debts of the firm.
- **Partner by Estoppel:** A partner by estoppel is one who by his words or conduct gives an impression to others that he is a partner of the firm.
- **Partner by Holding out:** A partner by holding out is one who is represented as a partner and he does not deny such impression, despite becoming aware of that fact.







Partnership firms can be classified in two ways-

- On the basis of Duration, i.e.. on the basis of length or period of existence of partnership.
- On the basis of Liability, i.e. on the basis of extent of liability of Partners.

Next Toppers

Partnership firms

Classification on the basis of Duration -

Partnership at Will:

The life of this type of partnership depends upon the will of partners. The partnership can be dissolved at the desire of any partner on giving a notice. This type of partnership is not for a fixed period or for during a particular fixed venture.

Particular Partnership:

It is one which is formed to accomplish a particular project or to carry out an activity for a specified period of time. It dissolves automatically at the expiry of fixed period or completion of project.

Classification on the basis of Liability:

- **General Partnership:** General partnership is one in which liability of every partner is unlimited and every partner is entitled to take active part in management of the business. Acts of each partner are binding on each other as well as on the firm.
- **Limited Partnership:** Limited partnership is one in which liability of at least one partner is unlimited, whereas, rest of the partners may have limited liability. Registration of such partnership is compulsory.

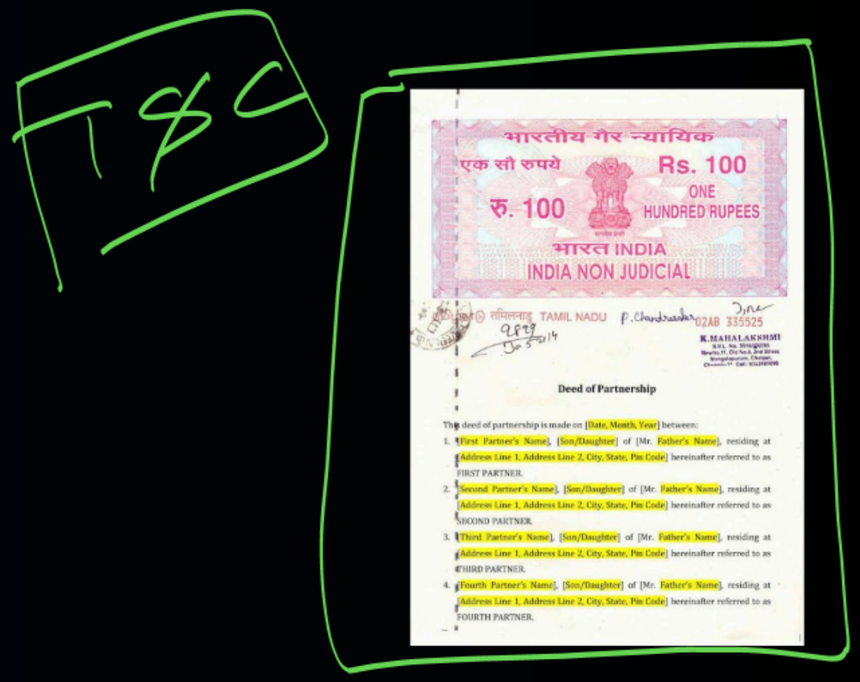
1 Partner → Unlimited

Rest partners → Limited.



Partnership Deed

Partnership deed is the written agreement, which specifies the terms and conditions that govern the partnership.



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

COOPERATIVE SOCIETY

10 adult members.

- Cooperative Society is a voluntary association of persons, who join together with the motive of welfare of the members.
  - It aims to protect and promote economic and social interests. It is an association of persons, not of capital.



10 people.

Features of Cooperative Society

- **Voluntary Membership:** Membership of a cooperative society is voluntary. Any person of 18 years and above and having a common interest can become its member.
- **Legal Status:** Registration of a cooperative society is compulsory. It can own property and make contracts on its own name. It can also sue and be sued in its own name.
- **Limited Liability:** The liability of the members of a cooperative society is limited to the extent of amount contributed by them as capital.
- **Control:** All members elect a managing committee through 'one-man-one-vote system.
- **Service Motive:** The cooperative society is formed with a service motive rather than maximisation of profits.







Merits of Cooperative Society

- Equality in Voting Status
- Limited Liability
- Stable Existence
- Economy in Operations
- Support from Government
- Ease of Formation

Limitations of Cooperative Society

- Limited Resources
- Inefficiency in Management
- Lack of Secrecy
- Government Control
- Differences of Opinion



Types of Cooperative Societies

imp.

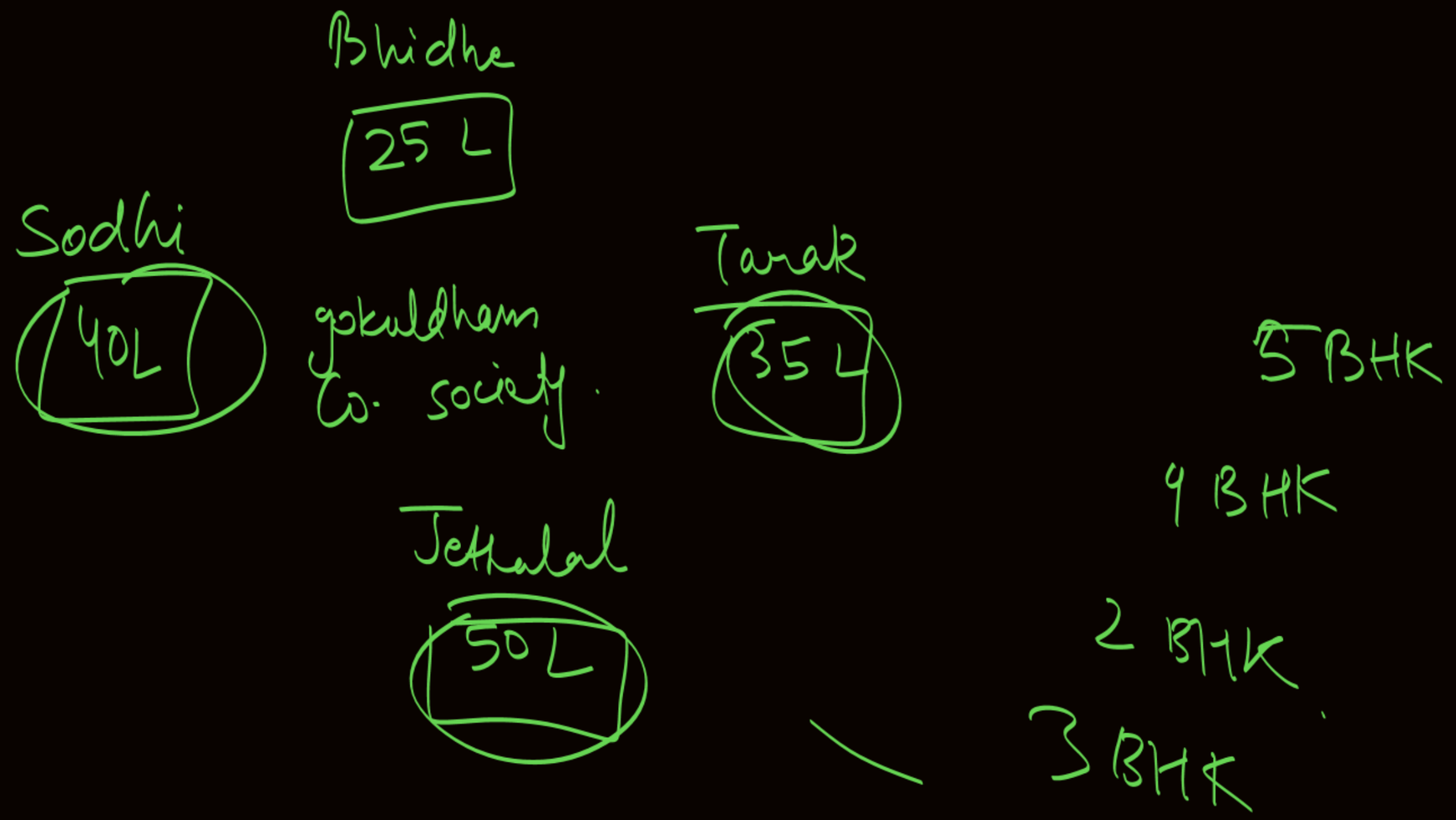
- **Consumers' Cooperative Societies:** Consumers' Cooperative Society is formed by consumers for obtaining good quality products at reasonable prices. The society aims to eliminate the middlemen by purchasing goods in bulk directly from the manufacturers or wholesalers and selling them to the members.
- **Producers Cooperative Societies:** Producers' Cooperative Society is formed by small producers, who desire to procure inputs for production of goods in order to meet the demands of consumers. The society aims to fight against the big capitalists and wants to enhance the bargaining power of small producers.
- **Marketing Cooperative Societies:** Marketing Cooperative Society is a voluntary association of small independent producers who desire to sell their output through one centralised agency. These societies also perform marketing functions like transportation, warehousing, packaging, etc.



- **Farmers' Cooperative Societies:** Farmers' Cooperative Society is formed by farmers to jointly take up farming activities in order to gain the benefits of large-scale farming and higher productivity. The society provides better quality seeds, fertilizers, machinery and other modern techniques for use in the cultivation of crops.
- **Credit Cooperative Societies:** A Credit Cooperative Society is formed to provide short-term financial assistance to the members in the form of loans. The society aims to protect the members from the exploitation of lenders who charge high rates of interest on loans.
- **Cooperative Housing Societies:** A Cooperative Housing Society is formed by those people who are desirous of procuring residential accommodation at lower costs. The society either constructs the flats or provides plots to the members on which they can construct houses on their own.






Bhidhe
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Tarak
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2 BHK
3 BHK

JOINT STOCK COMPANY

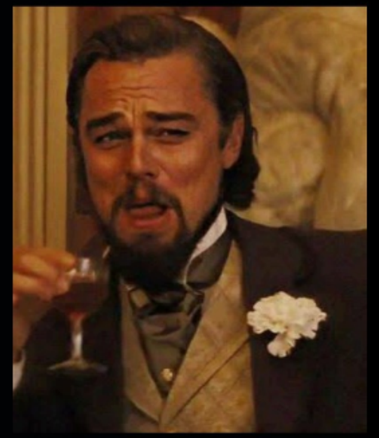
Joint Stock Company is considered to be the most suitable form of organisation for operating business activities on a large scale.

> **A company is an association of persons formed for carrying out business activities and has a legal status independent of its members.**



Features of Joint Stock Company

- **Artificial Person:** Like a natural person, a company can own property, incur debts, borrow money, enter into contracts, sue and be sued. It can conduct a lawful business and enter into contract with others.
- **Separate Legal Entity:** On incorporation, a company acquires a separate legal existence in the eyes of law. The assets and liabilities of the company are separate from those of its owners.
- **Formation:** The formation of a company involves preparation of several documents and legal requirements before it can start functioning.
- **Perpetual Succession:** Company has a permanent or perpetual existence. As company is a creation of the law, it can be brought to an end only by law. It will cease to exist only when specific procedure of winding up is followed.





- **Control:** The ownership and the management (control) are in two different hands. Shareholders are the owners, but the company is managed by its Board of Directors, which appoints the top management officials for running the business.
- **Liability:** The liability of the members is limited to the extent of the capital contributed by them in a company.
- **Common Seal:** As company is an artificial person, it acts through its Board of Directors, who use Common Seal of the company as signature of the company.
- **Risk Bearing:** In the event of financial crisis, all the shareholders have to contribute to the debts to the extent of their capital contribution.
- **Transfer of Shares:** The shareholders enjoy a right to transfer their shares to other persons in the open market or at the stock exchange, at the price prevailing in the market at that time.







Merits of Joint Stock Company

- Limited Liability
- Transfer of Interest
- Perpetual Existence
- Scope for Expansion
- Professional Management

Reliance

Telecom



Limitations of Joint Stock Company

- Complexity in Formation
- Lack of Secrecy
- Impersonal Work Environment
- Numerous Regulations
- Delay in Decision Making
- Oligarchic Management
- Conflict in Interests

TYPES OF COMPANIES

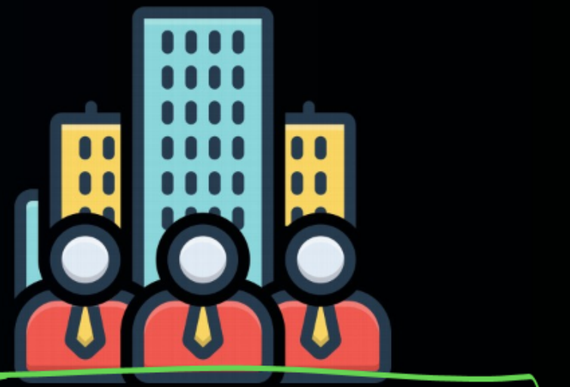
On the basis of ownership, a company can be of three types:



One Person Company



Private Company



Public Company

One Person Company (OPC)

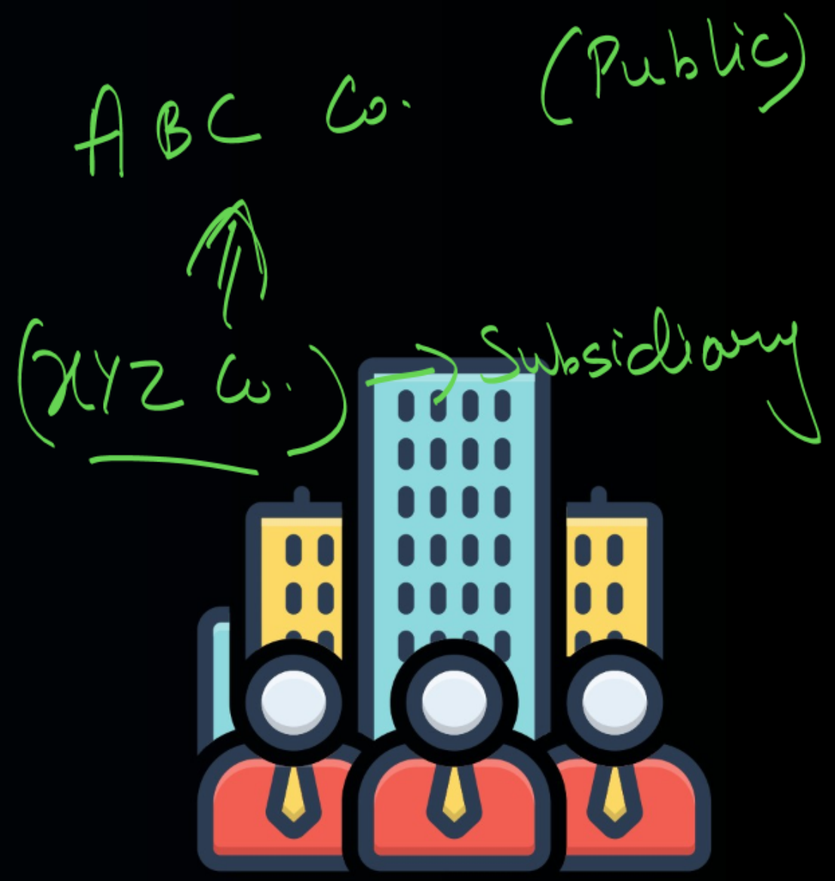
- According to Section 2(62) of the Companies Act. 2013. One Person Company means a company which has only one person as a member.
- It is a company incorporated as a private company which has only one member.
- OPC avails all the benefits of a private limited company, such as separate legal entity, protecting personal assets from business liability and perpetual succession.



Public Company

A public company means a company, which is not a private company. According to Indian Company Act, a public company is one which:

- Has a minimum of 7 members and no limit on maximum members.
- Has no restriction on transfer of shares.
- Is not prohibited from inviting subscription from general public.
- A private company which is a subsidiary of a public company is also treated as a public company.



Private Company

A Private Company as per Section 2(68) of Indian Companies Act, 2013 is one which by its Articles of Association:

- Restricts the right of its members to transfer shares.
- It has minimum of 2 and a maximum of 200 members excluding past or present employees of the company, who are members of the company.
- Prohibits any invitation to the general public to subscribe for its shares.

It is necessary for a private company to use the word Private Limited. If a private company contravenes any of the aforesaid provisions, it ceases to be a private company and loses all the exemptions and privileges to which it is entitled.



Pvt. Ltd.

FORMATION OF A JOINT STOCK COMPANY

- Formation of a company is not a simple process like in case of sole proprietorship or partnership. It is a complex and lengthy process, which involves a number of legal formalities and procedures.
- The formation of a company involves the following stages:
  - Promotion
  - Incorporation
  - Capital Subscription

  } Private Co.

  } Public Co. (PIC)
- Promotion is the first stage in the formation of a company.
- The person who performs all the tasks during the promotion stage is known as 'Promoter'.

PROMOTION OF A COMPANY

Functions of a Promoter (Steps in Promotion)

- **Identification of Business Opportunity:** The process of formation of a company begins when promoter identifies a business opportunity or an idea. The idea may be with respect to setting up of a new business or expansion of the existing unit or merger of two business units.
- **Feasibility Studies:** It may not be feasible or profitable to convert all identified business opportunities into real projects. Depending upon the nature of project, the following feasibility studies may be undertaken:





- **Technical Feasibility:** Sometimes, the business idea is favourable, but technically it may not be possible to implement the idea.
- **Financial Feasibility:** If the funds required for the project is so large that it cannot be arranged within the available means, then the project is said to be financial unfeasible.
- **Economic Feasibility :** Sometimes a project is abandoned just because it might not be very profitable.
- **Name Approval:** The promoters have to select a name for the company and get it approved from the Registrar of companies. It has to be ensured that the name selected for the company does not match with the name of any other company.





- **Fixing up Signatories to the Memorandum of Association:** The promoters have to decide about the people who will be signing the Memorandum of Association of the proposed company. Usually, the people who sign the memorandum (known as signatories) are also the first Directors of the Company.
- **Appointment of Professionals:** The promoters appoint professionals such as mercantil bankers, auditors, etc. to assist in preparation and submission of necessary documents to the Registrar of Companies.
- **Preparation of Necessary Documents:** The promoter takes up steps to prepare legal documents (Memorandum of Association Articles of Association Consent of Directors, etc.) as they have to be submitted to the Registrar for getting the company registered.





IMPORTANT DOCUMENTS REQUIRED

The important documents required to be submitted to the Registrar are:

- Memorandum of Association
- Articles of Association
- Consent of Proposed Directors
- Agreement
- Statutory Declaration

1 Memorandum of Association

- Memorandum of Association (MoA) is the principal document of the company.
- It has been described as the 'Charter of the Company' as it contains the powers and objectives of the company, defines the scope of its operations and its relations with the investors and outside world.
- Contents of Memorandum of Association
  - Name Clause
  - Registered Office Clause
  - Objects Clause
  - Liability Clause
  - Capital Clause
  - Associations Clause

2 Articles of Association

- The Articles of Association is the second important document, which contains the rules and regulations for the internal management of the company.
- It is subsidiary to the Memorandum of Association.



MEMORANDUM OF ASSOCIATION VS ARTICLES OF ASSOCIATION

BASIC	MEMORANDUM OF ASSOCIATION	ARTICLES OF ASSOCIATION
Objectives	Memorandum defines the objects for which the company is formed.	Articles done the rules of internal management of the company. They indicate how the objectives of the company are to achieved.
Position	This is the main document of the company and is subordinate to the Companies Act.	This is a subsidiary document and is subordinate to both the Memorandum of Association and the Companies Act.
Necessity	The preparation and filing of Memorandum is compulsory.	It is not compulsory for a public limited company to file Articles. It may adopt Table F of the Companies Act.

BASIC	MEMORANDUM OF ASSOCIATION	ARTICLES OF ASSOCIATION
Change in Alteration	It is a dificult and lengthy process and also requires approval of the government	Articles can be easily altered by passing a special resolution. (75% + members)
Validity	Acts done beyond the scope of memorandum are invalid and cannot be ratified even by unanimous vote of the members.	Acts done beyond the articles can be ratified by the shareholders by passing a special resolution, provided they do not violate the Memorandum.
Relationship	It defines the relationship between company and the outsiders.	It defines the relationship between the members and the management.

Consent of Proposed Directors

- In addition to Memorandum and Articles of Association, a written consent of proposed directors is required to confirm that they agree to act in that capacity.

Agreement

If the company proposes to enter into an agreement with any individual for appointing him as Managing Director/Whole time Director/Manager, then such agreement is also to be submitted to the Registrar.

Statutory Declaration

A statutory declaration is to be submitted to the Registrar stating that all the legal requirements of the Companies Act in regard to incorporation have been complied with.

Payment of Fee

Along with the above documents, necessary filing fees and registration fees has to be paid for the registration of the company.

2nd stage:

INCORPORATION OF THE COMPANY

This is the second stage in the formation of the company. After the registrar approves the name, the promoter can proceed with the following steps for the incorporation of the Company:

- **Filing of Documents:** Promoters make an application to the Registrar for the incorporation of the company.
- **Payment of Fees:** Along with the above documents, necessary filing fees and registration fees at the prescribed rates are also to be paid.
- **Certificate of Incorporation:** The Registrar scrutinises all the documents and if he is satisfied, he issues a Certificate of Incorporation. The moment the certificate is issued, the company comes into existence.

3rd stage.

CAPITAL SUBSCRIPTION

→ Rough

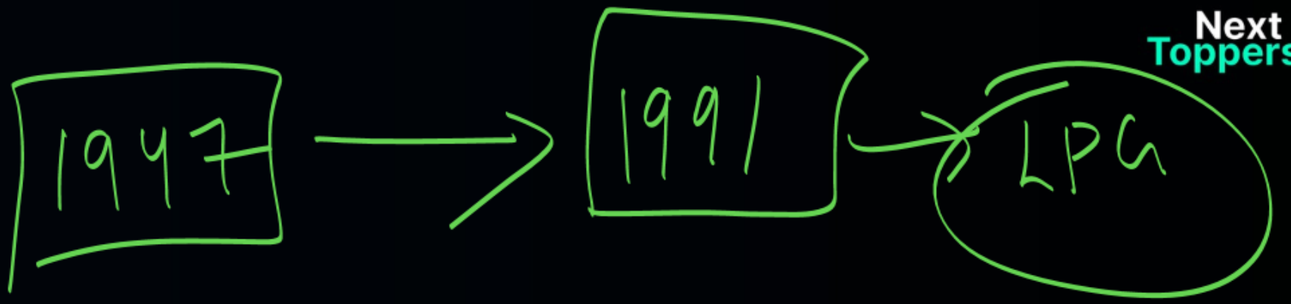
- **SEBI Approval:** If the company proposes to raise capital from public by issue of shares or debentures, then a draft prospectus has to be submitted to SEBI.
- **Filing of Prospectus:** Prospectus is a document inviting deposits or offers from the public for the subscription or purchase of shares or debentures of the company.
- **Appointment of Bankers, Brokers and Underwriters:** Raising funds from the public is a complex task. So, in order to ease the process, experts in different fields are appointed.
- **Minimum Subscription:** Before commencing the business, every public limited company must raise minimum subscription in order to avoid shortage of funds.
- **Application to Stock Exchange:** A public company must get itself listed or quoted in a stock exchange before it starts selling the securities to the public.
- **Allotment of Shares:** After getting the name listed in the stock exchange, the company makes allotment of shares as per guidelines of SEBI.

Break

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Chapter 3
Private, Public & Global Enterprises

INTRODUCTION



After independence, the emergence of public sector enterprises became a necessity for the all round development of the country. Moreover, India was committed to a socialistic pattern of economy. Therefore, it adopted a pattern of Mixed Economy, where both the public sector and the private sector are allotted their respective roles for the economic development of the country.



Private Sector

It includes all those enterprises which are managed and owned by individuals or group of individuals.

Public Sector

It includes all those enterprises which are managed and owned partly or wholly by the Central or State Government .

DEPARTMENTAL UNDERTAKING

It is managed by government officials as one of the government departments. It is under the control of concerned Minister of the department, who is answerable to government through parliament.
For example, Railway Minister is ultimately responsible for all the activities of the Railways.





Features of Departmental Undertaking

- **Finance:** It is financed by the government through allocation of funds in the Annual General Budget of Parliament.
- **Accounting System:** This organisation is also subject to accounting and audit controls as applicable to other Government activities.
- **Management:** It is managed and controlled by a government department and is subject to direct control of the ministry.
- **Appointment of Employees:** As the undertaking does not have separate legal existence, its employees are Government employees and terms and conditions of their appointment, remuneration, promotion, etc., are determined by government.
- **Accountability:** The employees of the enterprise are accountable to the concerned Minister, who is ultimately responsible to the parliament.





Merits of Departmental Undertaking

- Complete Government Control
- Answerable to Parliament
- Source of Income
- Suitable for National Security

Limitations of Departmental Undertaking

- Lack of Flexibility
- Delay in Decision-Making
- Bureaucracy and Conservative Approach
- Red Tapism
- Undue Government Interference
- Indifferent to Consumers' Needs



STATUTORY CORPORATION OR PUBLIC CORPORATION

Statutory Corporation is a corporate body with a separate legal existence, set up under a special Act of parliament or of the state legislature.

- The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments.
- It is managed and controlled by a Board of Directors appointed by the government.

In India, Reserve Bank of India (RBI), Food Corporation of India (FCI), Life Insurance Corporation (LIC) and Air India are some important examples of statutory corporations.

ICSI, ICAI

Features of Statutory Corporation

- **Formation:** It is established under a special Act of the parliament, that lays down the objects, powers and functions of the Corporation.
- **Ownership:** It is wholly owned by the government. Government has the power to appropriate its profits and also has to bear the losses, if any.
- **Corporate Existence:** A statutory corporation is a body corporate, which has a separate legal existence independent of the Government.
- **Financial Autonomy:** This type of enterprise is usually independently financed.
- **Accounting and audit procedures:** It is not subject to the government rules and regulations in the matter of accounting, budgeting and audit as applicable to departmental undertakings.
- **Staffing and Terms of Service:** The public corporation has its own rules of recruitment and remuneration for its staffs and employees.



Merits of Statutory Corporation

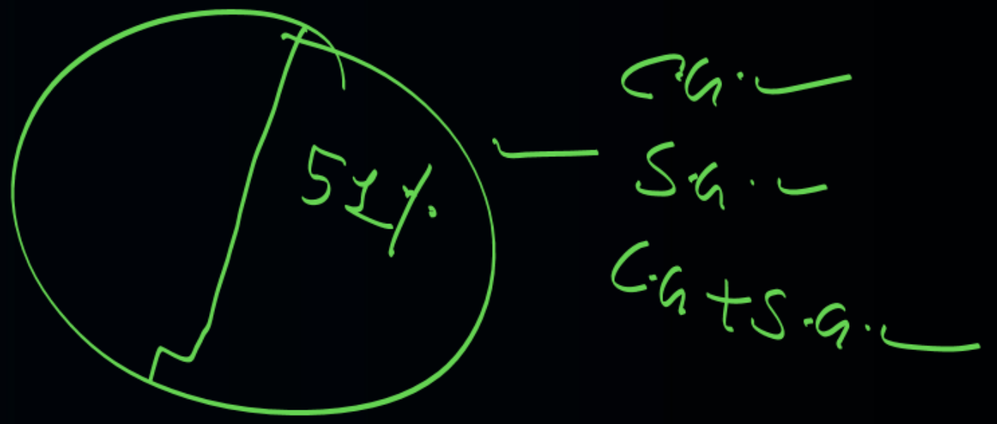
- Operational Flexibility
- Freedom from Interference
- Autonomous Set-up
- Facilitates Economic Growth

Limitations of Statutory Corporation

- Theoretical Autonomy
- Government Interference
- Undesirable Practices
- Rigid Structure

GOVERNMENT COMPANY

According to Section 2(45) of the Companies Act, 2013, a government company means any company in which not less than 51 percent of the paid up capital is held by the central government or by any state government or partly by central government and partly by one or more state governments and includes a company which is a subsidiary of a government company. In India, Steel Authority of India Ltd. (SAIL), Bharat Heavy Electricals Ltd. (BHEL) and Bharat Earth Movers Ltd. (BEML) are the leading examples of government companies.



Features of Government Company

- **Incorporation:** The government company is registered under the Companies Act, 2013 or any previous Company Law. It is formed by an executive rather than a legislative decision.
- **Separate Legal Entity:** It has a separate legal existence independent of the government. The company can enter into a contract, acquire property or can file a suit in a court of law against any third party and be sued.
- **Management:** It is managed by a board of directors nominated by the government.
- **Governed by Provisions of Memorandum and Articles of Association:** The Memorandum and Articles of Association are the main documents of the company, containing the objects of the company and rules and regulations of the company.

- **Accounting and Audit Procedures:** An Annual Report is to be presented in the parliament or the state legislature by the auditor appointed by the Central Government.
- **Finance:** At least 51% of the capital of the company is contributed by the state or the central government while the rest can be raised from the capital market.



Merits of Government Company

- Easy Formation.
- Operational Autonomy
- Independent Status — legal entity
- Prevents Unhealthy Business Practices.

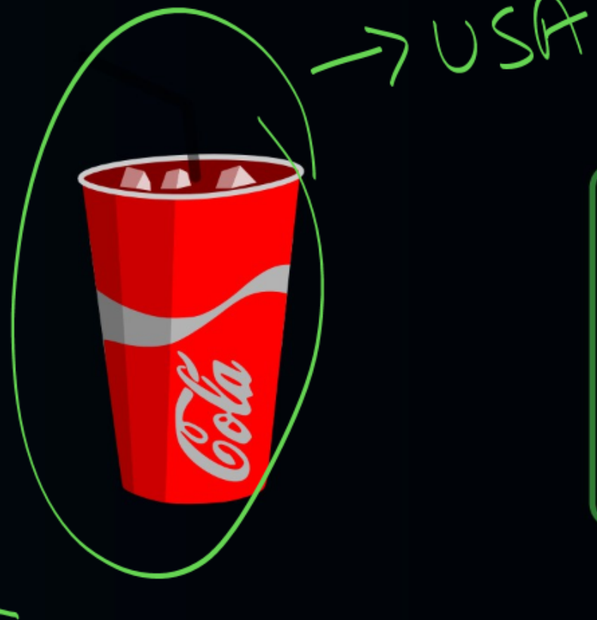
Demerits of Government Company

- Freedom only in name
- Lack of Accountability
- Defeat of main Purpose

GLOBAL ENTERPRISES OR MULTINATIONAL COMPANIES

Global Enterprise or Multinational Company (MNC) is a company whose business operations extend beyond the country in which it has been incorporated. For example, Pepsi and Coca Cola companies are registered in USA, whereas, they operate across the world.







Features of Global Enterprises

- **Huge Capital Resources:** Global enterprises are characterised by possessing huge financial resources and the ability to raise funds from different sources.
- **Foreign Collaboration:** Global enterprises usually collaborate with Indian companies (public or private) for production of goods, use of brand names or for sale of technology.
- **Advanced Technology:** MNCs make use of latest technology to supply world class products.





- **Product Innovation:** Global enterprises are continuously engaged in research and development activities.
- **Marketing Strategies:** MNCs use aggressive marketing strategies in order to increase their sales in a short period.
- **Expansion of Market Territory:** As activities of MNCs extend beyond the physical boundaries of their own countries, they have to operate through a network of subsidiaries, branches and affiliates in host countries.
- **Centralised Control:** Global enterprise exercises centralised control over all its branches and subsidiaries in the host countries from its Head Office (located in the home country).



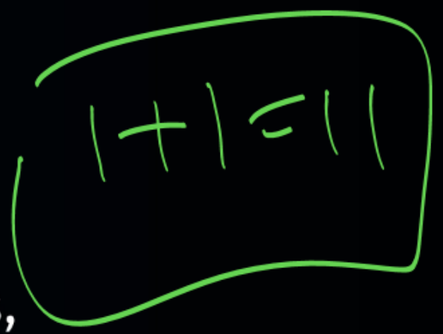
JOINT VENTURE

When two or more firms join together to establish a new enterprise then it is known as joint venture.
In simple words we can say, joint venture is a partnership between two firms.
Example: Maruti Company of India and Suzuki Co. of Japan joined together to form Maruti Suzuki India Ltd.





Features of Joint Venture



- **Increase Resource and Capacity:** Companies get larger resources, financial as well as human resources.
- **Access to new Market and Distribution Networks:** When a business enters into joint venture, it can access new markets.
- **Access to Technology:** Advance techniques of production lead to superior quality of products and reduced cost of production.
- **Innovations:** Joint Ventures help business to come up with new and innovative products for the market because of new ideas and technology of foreign partners.
- **Low Cost of Production:** When International Companies merge with an Indian company they get immense benefit due to lower cost of production.
- **Established brand name:** When two firms enter into a joint venture, one of the party benefits from other's goodwill, which is already established in the market.



PUBLIC PRIVATE PARTNERSHIP

Public Private Partnership (PPP, P3 or P^3) is a legally binding contract between government and private business firm for the provision of public assets and/or public services for the benefit of public.In Short, PPP is a relationship between public and private entities in the context of infrastructure and other services.





Features

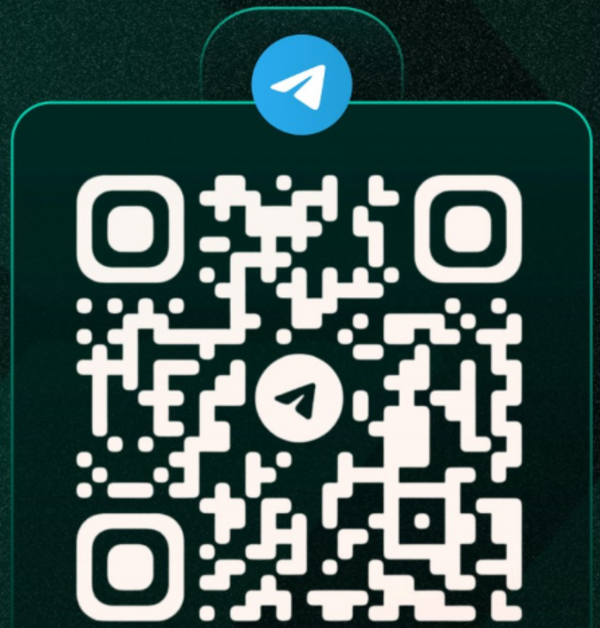
- **The Public Partner in the PPP:** The public partner in the PPP model are government entities i.e. ministeries, government department, municipalities or state owned enterprise.
- **The Role of Public Sector in PPP:** The role of public sector in PPP is to ensure social obligations are fulfilled and sector reforms and public investment are successfully met.
- **The Role of Private Sector:** The role of private sector is to make use of its expertise in operation, managing tasks and innovation to run the business efficiently.
- **Contract between Public Sector and Private Party:** PPP is a contract between public sector authority and private party, in which the private party provides a public service and bears financial, technical and operational risk.

- **Cost of Using Service:** In some types of PPP, the cost of using service is borne by users of services and not by taxpayers and in some the cost of providing services is borne wholly or partly by the government.
- **Provision of Capital Subsidy:** Projects that aim at creating public goods in infrastructure sector, the government may provide a capital subsidy in the form of a one-time grant to make it more attractive to the private sector.
- **Pertaining to High Priority Projects and Public Welfare:** PPP is suitable for high priority projects such as Infrastructure sector. PPP is used in the government projects targeted at Public Welfare e.g. Delhi Metro Rail Corporation.
- **Sharing of Revenue:** The Revenue of PPP is shared between government and private enterprises in agreed ratio.
- **Problem with PPP:** The main problem with PPP project is that private investors obtained a rate of return that was higher than the government bond rate even though most of the income risk is borne by the public sector.

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