FAA- 1st sem
Subject- 1.3 BUSINESS ORGANISATION

UNIT I

Meaning of Business

Business refers to an economic activity involving the production, purchase, sale, or exchange of goods and services with the aim of earning profit.
It involves continuous dealings and transactions in goods and services for satisfying human needs and wants.

Definition:

According to L.H. Haney – *"Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling of goods."*

Key Features:

- Involves production or exchange of goods and services
- Continuous activity
- Profit motive
- Involves risk and uncertainty
- Requires investment

2. Objectives of Business

A. Economic Objectives (Primary)

1. Profit Earning – Necessary for survival, growth, and expansion.
2. Creation of Customers – By producing quality goods and services.
3. Innovation – Adopting new methods and technologies to improve efficiency.
4. Optimal Use of Resources – Using resources efficiently to maximize returns.

B. Social Objectives

1. Providing quality goods at fair prices.
2. Generating employment opportunities.
3. Fair wages and welfare for employees.
4. Environmental protection.

C. Human Objectives

1. Employee satisfaction and development.
2. Training and career growth.
3. Good working conditions.

D. National Objectives

1. Contribution to GDP.
2. Promoting exports and reducing imports.
3. Regional development.

3. Nature of Business

1. Economic Activity – Focused on earning money.

2. Continuous Process – Not a one-time activity.
3. Involves Risk – Uncertainty due to market conditions.
4. Profit Motive – Main aim is earning profit.
5. Deals in Goods and Services – Tangible and intangible products.
6. Customer Satisfaction – Essential for long-term success.
7. Dynamic in Nature – Changes according to technology, trends, and market demand.

4. Scope of Business

Business covers a wide range of activities, mainly classified into:

A. Industry – Production of goods and services

Primary industry – Agriculture, fishing, mining., Secondary industry – Manufacturing and construction., Tertiary industry – Services like transport, banking, insurance.

B. Commerce – Activities that facilitate exchange

Trade – Buying and selling of goods (wholesale & retail)., Aids to Trade – Transport, warehousing, insurance, banking, advertising.

5. Functions of Business

1. Production – Creating goods and services.
2. Marketing – Promoting and selling products.
3. Finance – Managing funds, investments, and expenses.
4. Human Resource Management – Recruiting, training, and motivating employees.
5. Innovation – Developing new products or improving existing ones.
6. Risk Management – Identifying and controlling business risks.
7. Customer Service – Ensuring customer satisfaction and loyalty.

1. Characteristics of Business

1. Economic Activity – Done for earning profit.
2. Production or Purchase of Goods and Services – To satisfy human needs.
3. Profit Motive – Main aim is to earn money.
4. Risk and Uncertainty – Due to market fluctuations and competition.
5. Continuous Process – Regular and repeated transactions.
6. Customer Satisfaction – Essential for survival and growth.
7. Requires Capital – For investment in assets, production, and operations.
8. Legal Formalities – Must follow business laws and regulations.

2. Characteristics of Profession

1. Specialized Knowledge – Requires expertise in a particular field.
2. Formal Education and Training – Must obtain qualifications from recognized institutions.
3. Regulated by Professional Bodies – Example: ICAI for Chartered Accountants, Bar Council for Lawyers.
4. Code of Conduct – Must follow ethical standards set by the professional body.
5. Service Motive – Focus on providing quality service, not just profit.

6. Personal Skills – Relies on the individual's competence and judgment.
7. Continuous Learning – Updating knowledge is essential.
8. Membership Requirement – Must register with the relevant professional authority.

3. Comparison Between Business and Profession

Basis	Business	Profession
Nature	Economic activity involving production, sale, or exchange of goods/services for profit.	Economic activity involving specialized services based on professional knowledge.
Motive	Profit earning is the primary objective.	Service motive with reasonable earnings.
Qualification	No minimum qualification required (except for some businesses).	Requires specialized education and training.
Capital Requirement	Depends on the nature and size of business; may be large.	Limited capital required, mainly for setting up office/practice.
Risk	High risk due to market changes and competition.	Less risk, but income may vary with clients and work.
Regulation	Governed by business laws (e.g., Companies Act, GST laws).	Regulated by professional bodies with codes of conduct.
Reward	Profit is the reward for risk-taking.	Professional fee is the reward for services rendered.
Transferability	Ownership can be transferred (except in some cases).	Cannot be transferred; depends on the individual's skills and license.
Examples	Manufacturing, trading, transport, banking.	Doctors, lawyers, chartered accountants, architects.

Classification of Business Activities

Business activities can be broadly classified into two main categories:

1. Industry

Industry refers to all activities concerned with the production or processing of goods and services.

Types of Industry:

A. Primary Industry – Deals with extraction and production of natural resources.

- Extractive Industry – Mining, fishing, forestry.
- Genetic Industry – Agriculture, dairy farming, poultry, plant nurseries.

B. Secondary Industry – Uses raw materials to produce finished goods.

- Manufacturing Industry – Conversion of raw materials into finished products. Analytical (e.g., oil refinery), Synthetic (e.g., cement), Processing (e.g., textile mills), Assembling (e.g., automobile manufacturing)

- Construction Industry – Building roads, bridges, dams, houses.

C. Tertiary Industry – Provides services to support primary and secondary industries.

- Transport, banking, insurance, warehousing, communication.

2. Commerce

Commerce includes all activities that facilitate the distribution of goods and services from producers to consumers.

Components of Commerce:

A. Trade – Buying and selling of goods.

- Internal Trade – Within the country. Wholesale trade, Retail trade
- External Trade – Between countries. Import trade, Export trade, Entrepot trade (re-export)

B. Aids to Trade – Activities that help in the smooth functioning of trade.

1. Transport and Communication – Movement of goods and exchange of information.
2. Warehousing – Storing goods to meet demand.
3. Banking and Finance – Providing credit and financial services.
4. Insurance – Protection against risks.
5. Advertising – Promoting goods and services.

Meaning of Business Risk

Business risk refers to the possibility of losses or lower-than-expected profits in business due to uncertainties and unexpected events.
These risks arise from factors beyond the control of the business and can affect its operations, revenue, and survival.

Definition:

Business risk is the possibility of loss or inadequate profits due to uncertainties or unexpected events in the course of business operations.

Key Points:

- Risk is inherent in every business.
- It can result in loss, no profit, or lower profit.
- The level of risk varies with the nature and size of the business.

2. Causes of Business Risk

Business risks can be classified into two main types of causes:

A. Natural Causes

Risks arising from natural events beyond human control.

Earthquakes, Floods, Storms, Drought, Cyclones

B. Human Causes

Risks due to human actions, intentional or unintentional.

Dishonesty of employees (theft, fraud), Strikes and lockouts, Negligence in operations, Mismanagement, Political disturbances

C. Economic Causes

Risks due to fluctuations in the economy.

Changes in demand and supply, Price fluctuations, Competition in the market, Change in consumer preferences, Inflation or deflation

D. Physical Causes

Risks due to breakdown or damage to property, goods, or machinery.

Fire accidents, Machinery breakdown, Accidents during transport, Theft or burglary

E. Other Causes

Risks due to miscellaneous reasons.

Changes in technology, Legal changes (e.g., new taxes, regulations), Government policies, War or terrorism

Meaning of Business Organisation

A business organisation refers to the structure, arrangement, and coordination of resources (men, money, materials, machines, and methods) to carry out business activities efficiently. It is the process of establishing relationships among people, resources, and activities to achieve business goals such as production, distribution, and profit-making.

Definition:

Business organisation is the systematic arrangement of people and resources to conduct business operations effectively and achieve objectives.

Key Points: It is both a structure (how a business is set up) and a process (how work is coordinated).

Involves division of work, delegation of authority, and coordination of activities.

2. Importance of Business Organisation

1. Efficient Use of Resources Organises resources like manpower, materials, and capital to avoid wastage.
2. Clarity in Roles and Responsibilities Defines duties and responsibilities of each employee clearly.
3. Facilitates Specialisation Work is divided into different tasks, allowing employees to focus on what they do best.
4. Better Coordination Ensures different departments work together to achieve common goals.
5. Adaptability to Change A good organisation can adjust quickly to technological, market, or policy changes.
6. Smooth Communication Establishes proper channels for the flow of information and instructions.
7. Growth and Expansion A strong organisational structure supports scaling up the business.
8. Reduces Overlapping and Confusion Prevents duplication of work and conflict among employees.

Meaning

Forms of business organisation refer to the different legal and structural ways in which a business can be owned, managed, and operated.
The choice depends on factors like capital, risk, control, and legal requirements.

2. Main Forms of Business Organisation

A. Sole Proprietorship

A business owned and managed by a single individual.

Features: Single ownership, Unlimited liability, Full control and decision-making power, Simple to form and dissolve

Examples: Local shopkeepers, small traders

B. Partnership

A business owned and managed by two or more persons who share profits and losses as per an agreement.

Features: Minimum 2 and maximum 50 partners (as per Indian law), Agreement through Partnership Deed, Unlimited liability, Shared responsibilities and profits

Examples: Law firms, audit firms, small manufacturing units

C. Joint Hindu Family Business

A business run by members of a Hindu Undivided Family (HUF) under Hindu law.

Features: Membership by birth, Managed by *Karta* (head of family), Liability of *Karta* is unlimited; others have limited liability, Common in traditional family businesses in India

D. Cooperative Society

A voluntary association of people who come together to promote their common economic interest.

Features: Voluntary membership, Democratic control (“one member, one vote”), Service motive rather than profit motive, Limited liability

Examples: Dairy cooperatives, credit societies, consumer cooperatives

E. Joint Stock Company

A business organisation registered under the Companies Act, with ownership divided into shares.

Features: Separate legal entity, Limited liability of shareholders, Perpetual succession, Managed by Board of Directors

Types: Private Limited Company, Public Limited Company

Examples: Reliance Industries, Tata Steel

F. Public Sector Undertaking (PSU)

Business owned and managed by the government.

Features: Government ownership, Objective is public welfare along with service, Examples: Indian Railways, LIC

- Summary Table – Forms of Business Organisation

Form	Ownership	Liability	Control	Examples
Sole Proprietorship	One person	Unlimited	Owner	Local shop
Partnership	2–50 partners	Unlimited	Partners	Law firm
Joint Hindu Family	Hindu family members	Unlimited for *Karta*	*Karta*	Traditional family business
Cooperative Society	Members (min. 10)	Limited	Elected committee	Amul
Joint Stock Company	Shareholders	Limited	Board of Directors	Infosys
Public Sector	Government	Limited	Govt. officials	LIC

UNIT 2

Meaning of Sole Proprietorship

A sole proprietorship is a form of business organisation owned, managed, and controlled by a single person. The owner provides the capital, takes all decisions, bears all the risks, and enjoys all the profits.

Definition: *Sole proprietorship is a business owned and run by one person, where there is no legal distinction between the owner and the business.*

Example: Local kirana shop, bakery, tailoring shop.

2. Objectives of Sole Proprietorship

1. Earning Profit – To earn income as a reward for the owner's efforts.
2. Self-Employment – To be independent and avoid working under others.
3. Providing Personal Service – To directly serve customers and build good relationships.
4. Quick Decision-Making – To respond quickly to market changes.
5. Utilisation of Skills – To make full use of the owner's abilities and experience.
6. Business Growth – To expand operations gradually based on personal capacity.

3. Nature / Characteristics of Sole Proprietorship

1. Single Ownership – Only one person owns the business.
2. Direct Control – Owner manages all activities personally.
3. Unlimited Liability – Owner is personally responsible for all debts.
4. No Separate Legal Entity – Owner and business are legally the same.
5. Personal Contact with Customers – Close relationship ensures better service.
6. Limited Capital – Capital depends on the owner's personal funds.
7. Easy Formation and Closure – Simple legal formalities.
8. Risk and Reward – Owner bears all risks and enjoys all profits.

4. Scope of Sole Proprietorship

Sole proprietorship is most suitable for:

- Small-scale retail trade – Grocery stores, stationery shops.
- Service businesses – Beauty parlours, repair shops, tailoring units.
- Small manufacturing units – Bakery, handicrafts.
- Professional services – Independent lawyers, doctors, consultants.
- Local businesses – Where personal relations and trust matter most.

Characteristics of Sole Proprietorship

1. Single Ownership – Owned by one person.
2. Direct Control – Owner manages the business independently.
3. Unlimited Liability – Owner is personally responsible for debts.
4. No Separate Legal Entity – Owner and business are the same in law.
5. Easy Formation and Closure – Minimal legal formalities.
6. Personal Contact with Customers – Ensures better service and goodwill.
7. Limited Capital – Funds come mainly from the owner's savings or borrowings.
8. Risk and Reward – All profits and losses are borne by the owner.

2. Merits (Advantages)

1. Easy to Start and Close – Few or no legal requirements.
2. Quick Decision-Making – Owner has full control.
3. Direct Motivation – Owner keeps all profits, encouraging efficiency.
4. Personal Attention to Customers – Leads to better customer relations.
5. Flexibility – Can adapt quickly to market changes.
6. Secrecy of Affairs – No obligation to publish accounts.
7. Low Cost of Management – No need to hire many managers.

3. Demerits (Limitations)

1. Unlimited Liability – Personal assets can be used to pay debts.
2. Limited Capital – Growth restricted due to owner's financial capacity.
3. Limited Managerial Skills – Owner may lack expertise in all areas.
4. Uncertainty of Continuity – Business ends with owner's death, illness, or bankruptcy.
5. Heavy Workload – Owner handles all responsibilities alone.
6. Limited Scope for Expansion – Not suitable for large-scale operations.

Meaning of Partnership

A partnership is a form of business organisation where two or more persons agree to carry on a business and share its profits and losses according to the terms of an agreement (called the Partnership Deed).

Definition (Indian Partnership Act, 1932, Sec. 4):

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

Examples: Law firms, audit firms, small manufacturing units, trading firms.

2. Objectives of Partnership

1. Profit Earning – To earn income collectively.

2. Pooling of Resources – Combining capital, skills, and experience of partners.
3. Sharing of Risks – Losses are shared among partners.
4. Better Decision-Making – Utilising the expertise of multiple partners.
5. Expansion of Business – More resources allow for larger operations.
6. Mutual Support – Partners help and complement each other's strengths.

3. Nature / Characteristics of Partnership

1. Agreement Between Persons – Partnership arises from an agreement, oral or written.
2. Number of Partners – Minimum 2; maximum 50 (as per Indian Companies Rules, 2014).
3. Lawful Business – Only for legal business activities.
4. Profit Sharing – Profits and losses are shared in an agreed ratio.
5. Mutual Agency – Each partner can act on behalf of all.
6. Unlimited Liability – Partners are personally liable for debts.
7. No Separate Legal Entity – Partners and business are considered the same in law.
8. Voluntary Registration – Partnership can be registered, but registration gives legal benefits.

4. Scope of Partnership

Partnership is suitable for:

- Small to Medium Businesses – That require more capital than a sole proprietorship.
- Professional Services – Lawyers, chartered accountants, doctors.
- Trading Firms – Wholesale and retail businesses.
- Small Manufacturing Units – Furniture, handicrafts, bakeries.
- Contract Work – Construction, repair, supply contracts.

Characteristics of Partnership

1. Agreement-Based – Formed by an agreement between partners (oral or written).
2. Number of Partners – Minimum 2, maximum 50 (as per Indian Companies Rules, 2014).
3. Lawful Business – Only for legal business activities.
4. Profit Sharing – Profits and losses are shared in an agreed ratio.
5. Mutual Agency – Every partner can act on behalf of others.
6. Unlimited Liability – Partners' personal property can be used to pay debts.
7. No Separate Legal Entity – Partners and the firm are the same in law.
8. Voluntary Registration – Not compulsory, but registration gives legal rights.
9. Continuity of Business – Ends on death, insolvency, or retirement of a partner unless agreed otherwise.

2. Merits (Advantages) of Partnership

1. More Capital – Partners pool resources.
2. Combined Skills and Expertise – Different partners bring varied talents.
3. Easy to Start – Few legal formalities required.

4. Shared Risk – Losses are borne collectively.
5. Better Decision-Making – Consultation among partners improves decisions.
6. Flexibility – Easy to change policies and adapt to market changes.

3. Demerits (Limitations) of Partnership

1. Unlimited Liability – Partners are personally responsible for firm’s debts.
2. Limited Capital – Still less than companies.
3. Risk of Conflicts – Disputes among partners can harm the business.
4. Lack of Continuity – Dissolves on death, insolvency, or retirement of a partner.
5. Decision Delays – Consultation may slow urgent decisions.
6. Difficulty in Transfer of Share – A partner’s share cannot be transferred without consent of all.

Partnership Deed – Meaning

A Partnership Deed is a written agreement between partners that specifies the terms and conditions of their partnership.
Although not compulsory under the Indian Partnership Act, 1932, it is highly recommended to avoid disputes.

Contents of a Partnership Deed

1. Name of the Firm – Official name under which business will operate.
2. Nature and Scope of Business – Type of business activities to be carried out.
3. Address of the Firm – Principal place of business.
4. Duration of Partnership – Whether it is for a fixed period, project-based, or at will.
5. Details of Partners – Names, addresses, and other personal details.
6. Capital Contribution – Amount contributed by each partner.
7. Profit and Loss Sharing Ratio – Agreed proportion for sharing profits/losses.
8. Drawings by Partners – Rules for withdrawal of money by partners.
9. Interest on Capital and Loans – Rate of interest, if any.
10. Salaries or Commissions to Partners – If applicable.
11. Duties and Powers of Partners – Responsibilities, decision-making authority.
12. Admission, Retirement, and Expulsion of Partners – Rules for changes in partnership.
13. Bank Accounts – Operation and signing authority.
14. Accounts and Audit – Maintenance of books, auditing arrangements.
15. Settlement of Disputes – Arbitration or legal methods.
16. Dissolution of Firm – Procedure for winding up the partnership.

Rights of Partners

1. Right to Participate in Management – Every partner has the right to take part in business activities.
2. Right to be Consulted – All partners must be consulted before major decisions are taken.
3. Right to Access Books of Accounts – Every partner can inspect and copy firm’s accounts.

4. Right to Share Profits – As per the agreed profit-sharing ratio.
5. Right to Interest on Capital – If agreed in the partnership deed.
6. Right to be Indemnified – For expenses incurred or liabilities suffered in the ordinary course of business.
7. Right to Act as an Agent of the Firm – Any partner can bind the firm by their acts within the scope of business.
8. Right to Prevent Admission of a New Partner – A new partner cannot be admitted without consent of all existing partners.
9. Right to Retire – As per the agreement or with the consent of other partners.
10. Right to Continue After Expiry – If partners wish, they can continue the business even after the original term ends.

2. Duties of Partners

1. Duty to Act Honestly and Faithfully – Must act in the best interest of the firm.
2. Duty to Share Profits and Losses – As per the agreed ratio.
3. Duty to Render True Accounts – Must keep accurate records and provide correct information.
4. Duty to Indemnify for Loss Caused by Fraud – Must compensate the firm for losses due to their wrongful acts.
5. Duty to Work Diligently – Should devote time and attention to business.
6. Duty to Use Firm's Property Only for Business – Not for personal use.
7. Duty to Avoid Conflict of Interest – Cannot run a competing business without consent.
8. Duty to Inform Co-Partners – About all matters affecting the business.
9. Duty to Bear Loss Before Claiming Profit – Losses must be adjusted before distribution of profit.

Difference Between Partnership and Sole Proprietorship

Basis	Sole Proprietorship	Partnership
1. Ownership	Owned by one person.	Owned by two or more persons (min. 2, max. 50).
2. Formation	Very easy, few or no legal formalities.	Requires an agreement (oral/written) called Partnership Deed.
3. Capital	Limited to owner's personal funds.	More capital available as partners pool resources.
4. Liability	Unlimited liability of the owner.	Unlimited liability of all partners.
5. Management	Owner has full control over decisions.	Managed jointly; every partner can act on behalf of the firm.

6. Profit Sharing	All profits belong to the owner.	Profits shared among partners as per agreement.
7. Continuity	Ends with owner's death, insolvency, or retirement.	Ends with partner's death, insolvency, or retirement unless agreed otherwise.
8. Secrecy	High level of secrecy in operations.	Comparatively less secrecy as more people are involved.
9. Legal Status	No separate legal entity from the owner.	No separate legal entity from partners.
10. Decision-Making	Very quick, as only one person decides.	Slower, as consultation among partners is needed.
11. Scope	Suitable for small businesses.	Suitable for small to medium businesses.
12. Risk Bearing	Borne entirely by the owner.	Shared among partners.

UNIT III

Meaning of Joint Stock Company

A Joint Stock Company is an artificial legal entity formed by a group of persons who contribute capital in the form of shares and carry on business with the aim of earning profit. It is registered under the Companies Act and is owned by shareholders but managed by a Board of Directors.

Definition (Prof. Haney):

"A Joint Stock Company is a voluntary association of persons created by law, having a separate legal existence, perpetual succession, and a common seal."

Examples: Reliance Industries Ltd., Tata Steel Ltd., Infosys Ltd.

2. Characteristics of a Joint Stock Company

1. Incorporated Association – Must be registered under the Companies Act.
2. Artificial Legal Person – Exists in the eyes of law; can own property, sue, and be sued.
3. Separate Legal Entity – Separate from its members.
4. Perpetual Succession – Continuous existence regardless of death or change of members.
5. Limited Liability – Shareholders' liability is limited to the amount unpaid on their shares.
6. Transferability of Shares – Shares can be bought and sold freely (in public companies).
7. Common Seal – Acts as the official signature of the company.
8. Large Capital – Capital collected from many shareholders.
9. Management by Board of Directors – Elected by shareholders.

3. Merits (Advantages)

1. Large Capital Resources – Can raise huge amounts through shares and debentures.
2. Limited Liability – Reduces risk for shareholders.

3. Perpetual Existence – Stable and continuous operations.
4. Transferability of Shares – Provides liquidity to investors.
5. Specialisation in Management – Managed by professionals.
6. Greater Scope for Expansion – Easy to raise funds for growth.
7. Public Confidence – Subject to strict legal regulation.

4. Demerits (Disadvantages)

1. Complex Formation – Requires many legal formalities and expenses.
2. Lack of Secrecy – Must publish financial statements.
3. Separation of Ownership and Control – May lead to conflicts of interest.
4. Possibility of Fraud – Manipulation by dishonest management.
5. Delay in Decisions – Due to lengthy procedures and formalities.
6. Excessive Government Regulation – Reduces flexibility.

Classification of Joint Stock Companies

Joint Stock Companies can be classified on various bases:

1. On the Basis of Incorporation

(a) Chartered Company

- Formed under a special charter granted by the monarch or government.
- Powers and objectives defined in the charter.
- Examples: East India Company (historical), Bank of England.

(b) Statutory Company

- Formed by a special Act of Parliament or State Legislature.
- Objective is public service, not pure profit.
- Examples: Reserve Bank of India, LIC of India.

(c) Registered Company

- Formed under the Companies Act, 2013 (in India).
- Can be private or public.
- Most modern companies fall in this category.

2. On the Basis of Liability

(a) Company Limited by Shares

- Liability of members is limited to the unpaid value of their shares.
- Most common type.

(b) Company Limited by Guarantee

- Liability is limited to a guaranteed amount, payable only if the company is wound up.
- Often used for non-profit organisations.

(c) Unlimited Company

- No limit on members' liability; rare in practice.

3. On the Basis of Number of Members

(a) Private Company

- Minimum 2 and maximum 200 members.

- Restricts transfer of shares.
- Cannot invite public to subscribe for shares.

(b) Public Company

- Minimum 7 members; no maximum limit.
- Can invite the public to subscribe for shares.
- Shares freely transferable.

4. On the Basis of Nationality

(a) Indian Company

- Incorporated in India, with management in India.

(b) Foreign Company

- Incorporated outside India but has a place of business in India.

Difference Between Private Company and Public Company

Basis	Private Company	Public Company
1. Minimum Members	2 members	7 members
2. Maximum Members	200 members (excluding employees)	No maximum limit
3. Name	Must include the words "Private Limited"	Must include the word "Limited"
4. Share Transfer	Restricted; needs consent of other members	Freely transferable
5. Invitation to Public	Cannot invite public to buy shares or debentures	Can invite public to subscribe for shares or debentures
6. Issue of Prospectus	Cannot issue a prospectus	Must issue a prospectus (if inviting public subscription)
7. Minimum Directors	2 directors	3 directors
8. Commencement of Business	Can start business after obtaining the certificate of incorporation	Requires both Certificate of Incorporation and Certificate of Commencement
9. Disclosure of Information	Less disclosure required	Must disclose more information; subject to strict regulations
10. Examples	Small family-owned businesses	Large listed companies like Infosys, Tata Steel

Meaning of Incorporation

Incorporation is the legal process of forming and registering a company under the Companies Act, 2013.

Once incorporated, the company gets a separate legal identity and can start functioning as per law.

2. Stages of Incorporation

Stage 1 – Promotion

Meaning:

Promotion means taking the initial steps to form a company and arrange for its registration.

Main Activities:

1. Identifying a business idea.
2. Conducting feasibility studies.
3. Assembling resources (capital, people).
4. Deciding name and preparing necessary documents.

Promoter: Person or group who takes these steps.

Stage 2 – Registration (Incorporation)

Meaning:

Formal process of getting the company registered with the Registrar of Companies (RoC).

Steps:

1. Apply for Name Approval through RUN (Reserve Unique Name) service of MCA.
2. Prepare Documents (Memorandum of Association, Articles of Association, etc.).
3. File Incorporation Application in SPICe+ form with required documents and fees.
4. Scrutiny by Registrar – RoC checks compliance.
5. Certificate of Incorporation issued by RoC – company legally comes into existence.

Stage 3 – Commencement of Business

- For Private Companies – Can start after getting the Certificate of Incorporation.
- For Public Companies – Must obtain Certificate of Commencement of Business after meeting share subscription requirements (earlier compulsory, now simplified under Companies Act, 2013).

3. Documents Required for Incorporation

A. Memorandum of Association (MoA)

- Defines the objectives, scope, and powers of the company.
- Contains clauses: Name, Registered Office, Objects, Liability, Capital, Subscription.

B. Articles of Association (AoA)

- Rules and regulations for the internal management of the company.

C. Other Documents

1. Declaration by directors and professionals (Form INC-9).
2. Address proof of registered office.
3. Identity proof, address proof, and photographs of directors and subscribers.
4. Details of share capital.
5. Consent of directors (Form DIR-2).

Meaning of LLP

A Limited Liability Partnership (LLP) is a form of business organisation that combines the benefits of a partnership and a company. It is registered under the Limited Liability Partnership Act, 2008 in India.
In an LLP, partners have limited liability to the extent of their contribution, and it has a separate legal entity from its partners.

2. Features / Characteristics of LLP

1. Separate Legal Entity – LLP can own property, sue, and be sued in its own name.
2. Limited Liability – Partners are liable only to the extent of their agreed contribution.
3. Perpetual Succession – Existence is not affected by change of partners.
4. Minimum Partners – At least 2 partners; no maximum limit.
5. No Minimum Capital Requirement – Can start with any capital.
6. Flexibility of Partnership – Internal management is decided through an LLP agreement.
7. Less Compliance than Companies – Fewer legal formalities compared to private/public companies.

3. Merits (Advantages)

1. Limited Liability Protection – Personal assets are safe except in case of fraud.
2. Separate Legal Identity – Enhances credibility and stability.
3. Flexible Management – Partners decide rights and duties through an agreement.
4. No Limit on Owners – Unlimited number of partners allowed.
5. Tax Benefits – Taxation similar to partnership, avoiding dividend distribution tax.
6. Continuity – Business not affected by death or exit of a partner.

4. Demerits (Limitations)

1. Not Suitable for Large Capital Requirements – Less preferred for large-scale business.
2. Less Public Confidence – Compared to public companies.
3. Limited Fund Raising – Cannot raise capital from the public.
4. Mandatory Annual Compliance – Must file annual returns and statements with RoC.

5. Examples of LLPs in India

- Infosys BPM LLP
- Deloitte India LLP
- KPMG India LLP

UNIT IV

Domestic Trade

Meaning

Domestic trade refers to the buying and selling of goods and services within the boundaries of a country. Both the buyer and seller belong to the same nation, and transactions are carried out using the local currency.

Features

1. Within National Boundaries – No crossing of international borders.
2. Same Currency – Transactions in the domestic currency (e.g., Indian Rupee in India).

3. Common Laws and Regulations – Governed by the country’s commercial laws.
4. Lower Transportation Cost – Compared to international trade.
5. No Customs Duties – Goods move freely within the country.

Types

- Wholesale Trade – Buying in bulk from producers and selling in smaller lots to retailers.
- Retail Trade – Selling goods directly to consumers.

Example: Selling Tata Tea within different states of India.

2. Global Enterprises

Meaning

Global enterprises, also known as Multinational Corporations (MNCs), are companies that operate in multiple countries but have their headquarters in one country. They have production, marketing, and service facilities in different nations.

Features

1. Large Scale Operations – Operate in many countries with huge resources.
2. Global Brand Image – Strong international reputation and marketing.
3. Centralized Control – Headquarters in the home country control overall policies.
4. Advanced Technology – Use of modern production techniques.
5. Worldwide Market – Serve customers across the globe.
6. Professional Management – Managed by experts from various countries.

Examples: Coca-Cola, Samsung, Unilever, Tata Consultancy Services

Key Difference Between Domestic Trade and Global Enterprises

Basis	Domestic Trade	Global Enterprises
Geographical Area	Within one country	Operates in many countries
Currency	Local currency only	Multiple currencies
Scale	Small or medium scale	Very large scale
Market	Local/national	International
Examples	Reliance Retail in India	Apple Inc., Toyota

Wholesale Trade: Meaning

Wholesale trade involves buying goods in large quantities from producers or manufacturers and selling them in smaller quantities to retailers, industrial users, or other merchants, not directly to final consumers.

Features

1. Bulk Buying and Selling – Deals in large quantities.
2. Link Between Producers and Retailers – Acts as a middleman.
3. Warehousing – Stores goods in bulk before distribution.
4. Specialisation – Often deals in specific types of products.
5. No Direct Contact with Consumers – Sells mainly to retailers.

Example:

A textile wholesaler buying cloth from mills in bulk and selling it to garment shop owners.

2. Retail Trade

Meaning

Retail trade involves buying goods in small quantities from wholesalers or manufacturers and selling them directly to final consumers for personal use.

Features

1. Small Quantity Sales – Sells products in small units.
2. Direct Contact with Consumers – Understands customer needs.
3. Wide Variety of Goods – Offers different brands and products.
4. Location Near Consumers – Shops, supermarkets, or online platforms.
5. Customer Service – Provides after-sales service, advice, and credit facilities.

Example:

A grocery store selling food and daily essentials to local customers.

3. Key Differences Between Wholesale and Retail Trade

Basis	Wholesale Trade	Retail Trade
Quantity	Large quantities	Small quantities
Customers	Retailers, industrial buyers	Final consumers
Capital Requirement	Large	Comparatively smaller
Storage	Requires large warehouses	Small storage facilities
Pricing	Lower price per unit	Higher price per unit
Role	Link between producer & retailer	Link between retailer & consumer
Examples	Cloth wholesaler, grain distributor	Grocery shop, mobile store

Types of Retail Trade

Retail trade can be classified into two main categories:

A. Itinerant Retailers *(Moving from place to place)*

These are small traders who do not have a fixed place of business and move to customers to sell goods.

Types:

1. Hawkers and Peddlers – Carry goods on handcarts, bicycles, or baskets and sell door-to-door. Example: Street vendors selling vegetables, clothes.
2. Market Traders – Sell goods in weekly markets or fairs. Example: Stall owners in village fairs.
3. Street Traders – Sell goods in busy streets or public places. Example: Vendors selling snacks, toys.
4. Cheap Jacks – Set up temporary shops in different localities for a short period.

B. Fixed-Shop Retailers *(Permanent place of business)*

These have fixed shops and maintain regular contact with customers.

Types:

1. Small-Scale Fixed-Shop Retailers

- General Stores – Sell a variety of goods for daily needs.
- Speciality Shops – Sell goods of a particular type (e.g., shoe store, bookshop).
- Second-Hand Goods Shops – Sell used items (e.g., old books, furniture).

2. Large-Scale Fixed-Shop Retailers

- Departmental Stores – Large stores offering a wide range of products under one roof.
- Chain Stores (Multiple Shops) – Same brand shops in different locations.
- Supermarkets – Self-service stores selling food and household goods.
- Shopping Malls – Complexes with multiple branded retail stores.
- Consumer Co-operative Stores – Owned and run by consumers themselves.

Objectives of Global Enterprises

1. Profit Maximisation Main goal is to earn the highest possible returns for shareholders worldwide.
2. Market Expansion Enter new international markets to increase sales and customer base.
3. Utilisation of Resources Use natural, human, and technological resources from different countries effectively.
4. Economies of Scale Produce on a large scale to reduce per-unit cost.
5. Brand Building Establish and strengthen a strong global brand image.
6. Risk Diversification Operate in multiple countries to reduce dependence on a single market.
7. Innovation and R&D Invest in research and development to create new products and technologies.
8. Social and Environmental Responsibility Fulfil corporate social responsibility (CSR) and maintain a positive public image.
9. Skilled Workforce Development Recruit and train employees from different countries to enhance productivity.
10. Long-Term Sustainability Maintain continuous growth and competitiveness in the global market.

Merits (Advantages)

1. Large Capital Resources – Can invest huge funds in production, marketing, and R&D.
2. Advanced Technology – Introduce latest production techniques and innovations.
3. Quality Products – Maintain high international quality standards.
4. Employment Generation – Create job opportunities in host countries.
5. Global Brand Recognition – Strong brand image attracts customers worldwide.
6. Economies of Scale – Large-scale production reduces per-unit costs.
7. Boost to Exports – Help in increasing exports and foreign exchange earnings.
8. Managerial Expertise – Bring professional management practices.

2. Demerits (Disadvantages)

1. Profit Repatriation – Send a large share of profits back to the home country.
2. Market Domination – Can drive out local small businesses.
3. Cultural Impact – Promote foreign culture, leading to loss of local traditions.
4. Economic Dependence – Host country may depend heavily on the MNC.
5. Tax Avoidance – May use loopholes to avoid paying full taxes.
6. Political Influence – Can influence government policies in their favour.
7. Focus on Profitable Areas – Neglect less profitable but socially important sectors.

UNIT V

Requirement of Finance

Finance is needed by every business for various purposes:

A. Fixed Capital Requirements *(Long-term needs)*

- Meaning: Funds required to buy long-term assets.
- Uses: Purchase of land and buildings., Purchase of machinery and equipment., Installation of plant., Initial promotion expenses.
- Duration: More than 5 years.

B. Working Capital Requirements *(Short-term needs)*

- Meaning: Funds required for day-to-day operations.
- Uses: Purchase of raw materials., Payment of wages and salaries., Payment of rent, electricity, and other expenses., Maintaining stock of goods.
- Duration: Less than 1 year.

2. Sources of Finance

Finance can be obtained from different sources based on time period:

A. Long-Term Sources *(More than 5 years)*

1. Share Capital – Equity and preference shares.
2. Debentures – Long-term loans from the public.
3. Term Loans – From banks and financial institutions.
4. Retained Earnings – Profits reinvested into the business.

B. Medium-Term Sources *(1 to 5 years)*

1. Bank Loans – Medium-term financing for expansion.
2. Hire Purchase – Buying assets by paying in instalments.
3. Leasing – Renting machinery or equipment.

C. Short-Term Sources *(Less than 1 year)*

1. Trade Credit – Buying goods on credit from suppliers.
2. Bank Overdraft – Withdrawing more than the bank balance.
3. Cash Credit – Short-term loan from a bank.
4. Commercial Paper – Short-term unsecured promissory notes.

Factors Determining Requirement of Fixed Capital

(Fixed capital = long-term investment in assets like land, building, machinery)

1. Nature of Business – Manufacturing needs more fixed capital than trading.

2. Size of Business – Large businesses require more fixed assets.
3. Nature of Products – Heavy industrial goods need more machinery than simple products.
4. Technology Used – Capital-intensive technology needs more fixed investment.
5. Scope for Expansion – Businesses planning expansion require higher fixed capital.
6. Growth Stage of Business – Newly started firms need more investment in assets.
7. Government Policies – Certain industries require compliance with asset regulations.

2. Factors Determining Requirement of Working Capital

(Working capital = short-term funds for day-to-day operations)

1. Nature of Business – Trading firms need more working capital than service firms.
2. Size of Business – Bigger scale means higher working capital needs.
3. Production Cycle – Longer cycles tie up funds for a longer period.
4. Credit Policy – Liberal credit to customers increases working capital needs.
5. Inventory Policy – Large stock levels require more working capital.
6. Seasonal Demand – Seasonal businesses need extra funds during peak season.
7. Operating Efficiency – Efficient management reduces working capital needs.
8. Business Cycle – Boom periods require more funds for higher production.

Shares

Meaning

A share is a unit of ownership in a company. People who buy shares are called shareholders. Money raised from selling shares is called share capital.

Types

1. Equity Shares – Owners have voting rights and get dividends from profits (dividend rate not fixed).
2. Preference Shares – Fixed dividend, preference in repayment during winding up, limited voting rights.

Merits

- Permanent source of capital.
- No repayment obligation.
- No interest burden.

Demerits

- Equity shareholders expect high returns.
- May dilute control of existing owners.

2. Debentures

Meaning Debentures are long-term debt instruments issued by a company to borrow funds. Debenture holders are creditors of the company.

Features

- Fixed interest paid regularly.
- Redeemed after a fixed period.

- No voting rights for debenture holders.

Merits

- Can raise large amounts of funds.
- Interest is tax-deductible.

Demerits

- Fixed interest burden even in loss years.
- Increases financial risk due to debt.

3. Public Deposits

Meaning Money borrowed by companies directly from the public for a fixed period at a fixed interest rate.

Features Collected without issuing security., Short to medium-term source.

Merits

- Simple and low-cost source of finance.
- Does not dilute ownership.

Demerits

- Limited to a percentage of capital and reserves (regulated by law).
- May not be available if public trust is low.

4. Ploughing Back of Profits *(Retained Earnings)*

Meaning

A portion of net profits is kept back in the business instead of distributing it as dividends to shareholders.

Features

- Internal source of finance.
- Used for expansion, modernization, and debt repayment.

Merits

- No cost of raising funds.
- Improves financial stability.

Demerits

- May reduce dividends to shareholders.
- Profits must be sufficient to use this method.

Bank Credit

Meaning A short-term loan, overdraft, or cash credit facility provided by a bank to a business, repayable with interest.

Merits

1. Flexibility – Can be taken as per business needs.
2. Large Amounts Possible – Banks can provide significant funds.
3. Confidential – Arrangements remain private between bank and borrower.
4. Encourages Growth – Helps in meeting sudden financial needs.

Demerits

1. Interest Burden – Interest must be paid regardless of profits.
2. Security/Collateral Required – Assets may need to be pledged.
3. Short-Term Nature – Usually repayable quickly.
4. Strict Evaluation – Banks assess creditworthiness before lending.

2. Trade Credit

Meaning

Credit facility given by suppliers to buy goods without immediate payment, usually repayable within 30–90 days.

Merits

1. Easily Available – Based on supplier-buyer relationship.
2. No Immediate Cash Outflow – Helps manage working capital.
3. No Interest Cost – If payment is made within the credit period.
4. Encourages More Business – Good credit terms improve purchasing power.

Demerits

1. Limited Availability – Depends on supplier's trust.
2. Loss of Cash Discounts – If payment is delayed beyond the discount period.
3. Possibility of Overbuying – May lead to excess stock.
4. Can Affect Credit Rating – Delays in payment harm reputation.