December 2011

ECO-01 Business Organisation

PART – A

1. Distinguish between any two of the following : (5+5=10)

a) Business and commerce

Ans:

Business	Commerce
Business refers to all those activities which are done with the aim of earning profits.	Commerce refers to all activities which facilitates the exchange of goods from producer to end consumer.
Huge amount of capital is needed.	Requires less capital.
It is a connectivity between owner and client.	It is connectivity between producer and consumer.
Business is a wider concept.	It is just a part or a subset of business.
It focuses on planning, advertising, selling, marketing, accounting and supervising manufacturing.	It focuses on buying and selling part of a business

(b) Equity shares and preference share

Ans: Difference between Equity shares and Preference shares:

Equity Shares	Preference Shares
Equity shares are ordinary shares of a company that represent ownership of the company.	Preference shares are ones that carry preferential rights in terms of dividend payment and repayment of capital.
Equity Shares are the shares that carry voting rights and the rate of dividend also fluctuate every year as it depends on the amount of profit available to the company.	**Preference Shares** are the shares that do not carry voting rights in the company as well as the amount of dividend is also fixed.
Equity shares cannot be converted into preference shares.	Preference shares could be converted into equity shares.
Equity shares are irredeemable	preference shares are redeemable.
Equity shareholders are at high risk in comparison to preference shares.	In comparison to equity shareholders, the risk is low in the case of preference shares.
In the case of equity shares, the dividend rate is not fixed. The rate of dividend on these shares depends on profits available and the discretion of directors.	Dividend is payable on preference shares at a fixed rate and is payable only if there are profits.

Equity shareholders are entitled to receive bonus stocks from the company.	Preference shareholders are not entitled to receive bonus shares.
Lower costs of equity shares make them easily accessible to any investor, specifically a small investor.	Higher costs of preference shares makes them accessible to medium and large investors.
It is mandatory for companies to issue equity share capital.	It is not mandatory for every company to issue preference share capital.
Equity shares serve as means for long-term financing.	Preference shares serve as means for mid-term and long-term financing.

(c) Indoor advertising and outdoor advertising.

Ans: In an indoor environment, the advertisers and the products to be advertised are protected from people entering the room or around the space. But when it comes to outdoor advertising, the clients are exposed to the product or the service for long periods of time. And that is the main reason why there is a big difference between indoor and outdoor advertising venues.

When an indoor venue is being used for advertisement of goods and services, it has to be protected from the elements. It has to have a protected surface, which can protect from spills, dirt and other harmful elements that could ruin the sale. But the same protection cannot be offered for outdoor spaces, because the presence of people and traffic in outdoor advertising space could spoil the message that is being conveyed by the ad.

Moreover, the same protection has to be given to outdoor advertisements so that the message is not spoiled by the change of weather. The advertisers prefer using indoor and outdoor advertising venues because they give the best return on the advertising budget. However, both have their own set of advantages and disadvantages. While using indoor spaces, the clients can be reached by email, phone calls or even postal mails. This means that the clients do not have to travel outside the building to receive the message.

However, this facility does not apply to outdoor spaces. When an indoor venue is used, the client will have to go out of the house and go to the venue to place the order. In some cases, the company may have to travel to the outdoor location because the infrastructure does not allow the installation of equipment in the outdoor locations. The installation of the product may also be delayed. If the company does not want the client to go out of the house, there is no option for offering this facility.

Indoor space is static and the product cannot be moved from one location to another. The client cannot take the product with him if he moves. However, the outdoor advertisement is flexible because it can be relocated from one place to another. The same message can be displayed in different places.

Outdoor advertising is mainly targeted to the average consumer who may or may not already be aware of the brand. It relies on catching the attention of someone passing by and maintaining that attention

despite other distracting surroundings. On the other hand, indoor advertising is targeted to customers who are already invested in the brand and who need more information about the product or service.

The goal of outdoor advertising is to create initial awareness. On the other hand, the goal of indoor advertising is to maintain awareness or create top-of-mind awareness.

(d) Bonded warehouse and public ware house.

Ans: Bonded warehouses: Bonded warehouses are those which are located in or near ports where imported goods are stored till importers fulfill all formalities and take delivery of them. When an importer is unable to take delivery of the goods by paying the required customs duty, the customs authorities permit the goods to be kept in a bonded warehouse, and allow delivery as and when the duty is paid. The bonded warehouses are licensed specially for storing imported cargo on which customs duty is yet to be paid. Goods stored in a bonded warehouse are said to be ‘in a bond’. These warehouses are usually owned by Government, but can also be privately owned in which case they are subject to government supervision and control. Bonded warehouses enable importers to pay customs duty on the goods as and when it is convenient. The import duty is not required to be paid on the entire lot at the same time. Delivery of a part of the goods be taken on payment of the proportionate amount of duty. Besides, these warehouses also can provide services of branding, blending and packaging, thereby, facilitate reexport of the same. Moreover, buyers are allowed to inspect the goods there. Thus, importers can recover the amount of duty included in the price when the goods are delivered directly to the buyers.

Public warehouses: Public warehouses are those which provide warehousing facilities to manufacturers, producers, as well as traders on payment of specified charges. These warehouses are located at favourable sites on railway routes and highways and near ports. Public warehouses are privately owned by organisations, as well as by the central and state governments. Public warehouses run by dock authorities facilitate storing of goods which cannot be immediately shipped on reaching the port, or imported goods where importer is not able to take immediate possession. Mechanical handling of heavy goods is also possible at warehouses on railway routes and at ports. Small scale manufacturers and traders cannot afford to build warehouses of their own and can Transport and Warehousing make use of public warehouses located in different regions. The warehouses also provide the facilities of grading, blending and packaging. These warehouses also undertake loading and unloading of goods, and arrange delivery according to the owner's direction.

2. Write short notes on any two of the following :(5+5)

(a) Clearing and forwarding agents

Ans: Clearing and forwarding agents are generally engaged by importers and exporters to comply with various formalities prescribed by the customs and port authorities for goods to be imported or exported. Clearing agents not only undertake to complete all the formalities for receiving , delivery of the imported goods, but also to deliver the goods at the importer's warehouse. They charge a commission for all their services. Importers find it worthwhile to entrust the work to clearing agents instead of employing separate staff for the purpose.

Forwarding agents are similarly engaged by exporters to comply with the customs formalities and other requirements of the port and dock authorities in connection with shipping goods for export. Forwarding

agents are also engaged to look after the arrangements for transportation of goods from the exporter's premises to the dock or ship. Consignment and dispatch of goods within the country are often arranged by merchants with the help of forwarding agents. Their services are rendered for a commission on fixed charge which vary with the volume and nature of goods.

(b) Pricing Policy of Public utilities

Ans: Price of a commodity is usually determined by two factors: 1) demand, and 2) supply. This does not apply in the case of all goods and services supplied by the public utility undertakings. There are other considerations which play a more important role in fixing the price. In the case of public utility concerns, price is not fixed on the basis of cost involved in the production or supply of such services i.e., cost of service principle. It is determined on the basis of the purchasing capacity of the consumers, which is called the principle of what the traffic will bear.

The goods and services provided by public utility concerns are essential services or goods. These products or services are used by the poor and the rich alike. The rich can pay higher price to avail of these services, while the poor may not be able to pay for it if prices are fixed on cost basis. Hence the government takes care of and safeguards the interests of the poor by regulating the prices of such goods and services so that the poorer people may also be able to use them. Consumer will pay a fair price.

Determination of a fair price involves a number of considerations like cost of production, cost of supply, a reasonable rate of profit, paying capacity of the customers, changes in the general price level, and so on. Thus, price determination is not a simple matter. It is to be determined after due consideration and consultation with various interests. However, the following three broad aspects of the price policy of public utility undertakings can be kept in mind.

i) Promotional aspect: This aspect is concerned with the promotion of demand of the services provided by the public utility undertakings. Promotional aspect refers to increasing demand for the products or services. Promotion of demand is necessary to ensure full utilisation of the production capacity of the undertaking. This helps in spreading the overhead costs over large output. For example, transport services such as roadways and railways issue monthly tickets (Season tickets) as a concessional rate to a large number of regular passengers.

ii) Price discrimination: The demand for the products of a public utility undertaking is elastic in some markets and inelastic in other markets. For example, in the case of transport services, general public or tourists demand for bus service is elastic (they do not solely depend on public buses, they may also hire auto or taxi). The demand for bus among regular office-goers or students is inelastic (they mainly depend on public buses only. Here the undertakings have lo charge less from the students and officegoers, and more from the tourists and the general public. In some cases, public utilities can demand lower price in one market and higher price in others, or may charge lower price from one category of consumers and higher price from the other category of consumer.

iii) Social considerations: Some of the public utility undertakings touch everyday life of the people and are "affected with public interests". In such cases the price of the product is not fixed purely on economic basis. Considerations of social welfare play an important role in the price fixation, Consumers with low incomes or poor people get the services at concessional or subsidised rates.

(c) Doctrine of subrogation

Ans: The doctrine of subrogation applies only to contracts of indemnity. According to the doctrine of subrogation, after the insured is compensated for the loss, the right of ownership of such damaged part of the property passes on to the insurer. If the damaged property has any value left or the lost property is recovered, such property cannot be allowed to remain with the insured because in that case the insured will realise more than the actual loss, which is against the principle of indemnity. For example, if a car belonging to Mr. Satish is damaged due to negligence of Mr. Raju, and Mr. Satish is fully compensated by the insurer. In that case Mr. Satish can not sue Mr. Raju to recover any compensation. In fact the insurer can sue Mr. Raju for negligence. Here if insurer recovers from Mr. Raju more than the compensation already paid to Mr. Satish, insurer must pass on the surplus to Mr. Satish. Similarly an insurer who has paid on a burglary claim is entitled to the stolen goods when they are recovered. You should note that, as stated earlier, this doctrine of subrogation applies only to the contracts of indemnity.

(d) Functional middlemen

Ans: Functional middlemen or mercantile agents: A functional Middleman who undertakes specific functions of sale or purchase of goods as agent of the owner without having ownership right. These functional middlemen operate on behalf of owners. They perform a specific function or undertake general functions relating to purchase and sale. These middlemen are also called 'mercantile agents'. Depending on the functions performed, the functional middlemen may be classified into five categories.

i. Factors: A middleman who keeps the goods of others and sells them with the approval of the owner is known as a 'factor'. The goods are normally in his possession or under his control. With the approval of the owner the factor can sell the goods as agent, or sell in his own name, or pledge goods in his possession, or can do all such acts as can be done by the owner of the goods. After the sale of goods, he receives the payment from the buyer. He receives commission at a fixed percentage on sales from his principal.

ii. Brokers: Middlemen who bring together the buyers and sellers and negotiate the terms and conditions oi sale on behalf of either the buyer or seller are known as brokers. When a broker acts on behalf of the buyer, he is known as buying agent. If the owner of goods employs a broker for sale of the goods, the broker is known as a selling agent. For his services, the broker receives a fixed percentage of the value of transaction as brokerage from the employer i.e., either buyer or seller.

iii. Commission Agent: The commission agent is a middleman who sells goods as an agent of the owner. He takes the, possession of the goods, negotiates the terms of sale with the - intending buyers, and arranges transfer of title of the goods to the buyer. If necessary, the -. commission agent also performs various other functions like storage, grading, packaging, etc. For his services, the commission agent receives remuneration from his, principal as a percentage of the value of goods sold.

iv. Del credere Agents: Generally if any mercantile agent sells goods on credit with the approval of the owner, he is not responsible for any loss which may arise due to nonpayment by the buyer. The owner or principal has to bear the risk of loss on account of such bad debts. When a mercantile agent sells the goods on credit and assumes the risk of bad debts, he is known as a del credere agent. For bearing,such risk of bad debts, additional commission as a fixed percentage of the amount of credit sales is given to

him. This additional commission is called del credere commission. In other words, the delcredere agent bears the loss which may arise on account of bad debt and the owner is protected against the loss.

v. Auctioneers: Middlemen appointed as agents to sell goods by auction are known as auctioneers. They assemble goods from different parties and act on their behalf to sell them to intending buyers. The date and time of auction are announced in advance. Goods are displayed for inspection by interested buyers, Bids are then invited by the auctioneer from those present at the time of auction. Sometimes a minimum price is fixed for specific items known as reserve price and bids are not accepted below that reserve price. The goods are sold to the highest bidder. The auctioneer gets commission from the principal (seller) as a percentage on the sale price.

3. Explain the factors that determine the choice of the form of business organisation. (10)

Factors affecting the choice of form of business organisations:

Choice of a suitable form of business organisation assumes great importance at the time of initiating or launching a new business enterprise because it is the form of organisation which ultimately determines the power and responsibility of the entrepreneur. The choice is dependent on the following factors.

1) Nature of business: Choice of a suitable form of organisation is dependent on the nature of the proposed business. The organisational requirements are different for different types of business. For example, a big cement manufacturing activity and a retail cement shop cannot have the same form of organisation. Similarly, the form of organisation suitable for a textile mill is not suitable for a tailoring shop.

2) Volume of business: The expected volume of business also influences the decision about the suitable form of organisation. If the volume of business is small, you need small amount of capital and run less risk. In that case sole proprietorship may be quite suitable. But if the volume of business is large, you need more capital and runs more risk, which a single owner may find it difficult to cope with. So, partnership form or a company form would be considered more suitable.

3) Area of operation: The area of operation of the business also influences the choice of form of organisation. If the area is limited and confined to a particular locality, the suitable form of organisation may be sole proprietorship. If the area is widespread, the suitable form may be a joint stock company.

4) Desire for control: The extent of control and supervision will also determine the choice of organisation. If it is desired to have a direct control over the business operations, a sole proprietorship or a partnership form of business should be adopted. 1n case if you feel that there is no need for direct control, the company form of organisation is the best.

5) Capital requirements: The form of organisation will also depend on the extent of financial requirements of the business. A business which requires a small amount of capital can be organised on sole proprietorship or partnership basis. But if the financial requirements are huge, then the joint stock company form of organisation may be preferred.

6) Extent of risk and liability: You know business operations involve risk. If the promoters of a business enterprise are deterred by the risk involved, they will start the business on the basis of a limited liability. That means they can go for a company. In case they have capacity to bear the risk involved, it can be organised on sole proprietorship or partnership basis.

7) Government regulations: Governmental controls and regulations are more in company form and cooperative form of organisations compared to the remaining two forms. If you do not want too much government control and regulation, you should choose either sole proprietorship form or partnership form.

Growth is a normal phenomenon in business. When your business is successful, naturally, you may plan to expand it. The expansion programmes may have the following implications:

i) Need for larger financial resources.

ii) Need for internal reorganisation and control.

iii) Need for specialised services like communication, accounting, marketing, etc.

iv) Increase in governmental controls and regulations.

v) Increase in tax liability.

vi) Increase in the problem of control and coordination.

4. What is capital structure ? Discuss various factors to be kept in mind while deciding capital structure of the company.(2+8)

Ans: The proportion of fixed interest-bearing capital in the total capital is known as capital gearing. The capital is, thus, said to be highly geared if borrowed. capital is, proportionately very high in relation to the ownership capital. Correspondingly, low gearing of capital signifies a smaller proportion of borrowed capital compared with the ownership capital. The composition of the total capital consisting partly of long-term funds with fixed charge and partly of ownership funds is known as the capital structure. Thus, capital structure refers to the relative proportion in which various sources of long-term finance are used to meet the total financial requirements, like debentures and long-term loans, preference share capital, and equity capital (including reserves and surplus).

Factors determining the capital structure of a firm are:

1.Nature of the business: If a company is engaged in business activities in which sales are subject to wide fluctuations, it is desirable to have a smaller proportion of borrowed funds. Companies manufacturing televisions, refrigerators, machine tools and capital goods are normally subject to fluctuations in sales from time to time. Companies dealing in essential consumer goods of daily use are products having inelastic demand generally have stable earnings, and thus may depend to a greater extent on borrowed capital.

2. Characteristics of the company: The size of a company as well as its credit standing also determines the extent to which equity or debt capital should be raised. Small firms have to depend more on owners' funds as it is difficult for them to raise long-term loans. This is because investors consider lending to small firms to be riskier. In contrast, large companies must make use of different sources of raising funds as no single source can meet their total financial requirements. Normally investors prefer to lend money to large companies as they believe that their money is safe and the risk is less with big business firms.

3. Cost of finance: Since interest paid on borrowings is chargeable to profits before tax calculation, the cost of debt financing is inevitably lower than the expected rate of earnings (i.e., profitability) on equity capital. Hence, it is always beneficial to raise part of the total financial requirement through long-term loans. With lower cost of debt financing, the overall (average) cost of financing is reduced, and the return on equity capital is higher. This is one of the important determinants of the capital structure.

4. Flexibility of capital structure: The capital structure decision is usually made by management keeping in view their ability to adjust the sources of funds. The scope of changing the capital structure in future happens to be a basic consideration. For instance, in case additional funds are needed, a firm which is already financed with heavy debt may be forced to issue equity shares with a higher cost of finance involved. Or, again if funds raised are to be refunded on account of declining business, a firm may be unable to do so if it earlier relied heavily on equity capital.

5. Availability of cash (cash flow): The ability of a business to discharge its fixed obligations depends essentially on the availability of liquid cash. Profits earned may be adequate to cover the fixed charges arising out of debt, but the firm may not have sufficient cash to pay as the income gets continually invested in the form of more inventory, book debts or even purchase of equipment. Hence, besides profitability, it is necessary to estimate the cash flows before deciding on the proportion of debt in the capital structure.

6. Expected earnings in relation to interest charges: Another factor determining debt-equity ratio is the estimated coverage of interest by profits. If the average earnings of the company are expected to be three to four times the amount of interest payable on borrowed capital, it may be considered safe to raise long-term loans rather than equity capital. Three to four times coverage of interest by earnings is regarded as a reasonable assurance that interest payment would be possible even if profits decline substantially.

7. Effect of debt financing on the earnings per equity share: The effect of debt on the rate of return on equity (or earning per share) is known as 'trading on equity' or 'leverage effect', Thus in business ventures with assured prospect of rising income, there is greater emphasis on debt capital in the capital structure.

8. Management control: Promoters who had major shareholding and control the management of the company take into account the probable effect of raising funds through the Issue of equity shares. Equity shareholders having voting rights can influence the policy decisions of the company or the selection of directors. But the persons who give loans do not have any right to elect directors or to participate in the management of the company. Hence the existing management group, in order to retain their control over management, prefer to raise additional finance through the issue of debentures and preference shares.

5. "There is no need for the presence of wholesalers in the distribution channel and they should be eliminated." Discuss. (10)

Ans: Arguments against elimination of wholesalers in the distribution channel are:

(i) The services and functions of a wholesaler are numerous and indispensable for the smooth flow of goods from the manufacturer to the ultimate consumer. He is an important link in the distribution chain of goods so the business cannot do without him.

(ii) A wholesaler relieves the producers of the trouble of warehousing and other marketing problems. Hence his services are very important and are always required.

(iii) Wholesalers provide valuable information regarding the customers tastes, fashions and demand to manufacturers so that the latter may adjust their production accordingly and earn more.

(iv) Wholesalers create a better demand for goods than retailers since they deal in fewer goods and also possess specialised knowledge in the products they deal in. Thus a wholesaler's existence is very necessary.

(v)Wholesalers enable retailers to carry on their business efficiently. They deal in fewer goods and also possess specialised knowledge about the products.

(vi) Wholesalers help in price stabilisation- thus their existence is very essential for both retailers and ultimate customers.

(vii) Wholesalers relieve the manufacturers from the distribution function and this enables the manufacturers to concentrate on production activity.

(viii) They are closer to the market. They can concentrate on the localiseh marketing strategies without the distractions of manufacturing problems.

(ix) They have good understanding of holding and handling the inventories which involve heavy investment.

Thus, they believe that it is not possible to eliminate the wholesalers completely in each and every area of business activity. However, they do not rule out the possibility of reducing the I multiplicity of wholesalers in the channel, particularly the functional wholesalers. Some people suggest the cooperative societies as an alternative to the wholesalers. But, in the light of the inherent weaknesses of the cooperative societies in India, one does not feel optimistic about the success of cooperatives in eliminating the wholesalers. Possibly the advent of large scale retailing could solve the problem because the producers prefer to deal directly with them. On account of the valuable services provided by the wholesalers in the distribution of mass consumption items, their elimination can cause hardship to the consumers.

6."All business risks are not insurable." In the light of this statement, explain insurable risks and non-insurable risks. (10)

Ans: Those risks which can be covered up by some type of insurance policy are called insurable risk. Insurable risks are risks in which the insurance provider can calculate potential future losses or claims. The loss causing factor should not be within the control of the insured in the case of insurable risk. Risks

due to war (except cargo at sea) and certain risks such as radio activity arising from nuclear fusion are non-insurable risk. The characteristics of the insurable risks are as follows:

i. The risk should be accidental or random in nature. The loss causing factor should not be within the control of the insured. Thus, the loss which has occurred already or which is very likely to occur cannot be insured. For instance, a building which is on fire or which is already destroyed by fire cannot be insured against fire.

ii. The amount of loss should be measurable and possible to estimate. This condition is necessary to set the premium at appropriate levels.

iii. There should be a sufficiently large number of units exposed to the same risk. In other words, there must be a large number of people interested to insure against the same risk.

iv. The units facing the same risk must be spread over large geographical area. In other words, the risk must be spread over a wide geographical area so that the happening of a single event in a small region may not cause heavy burden to the insurer.

Whereas those risks which cannot be covered up by some type of insurance policy are called Noninsurable risk. Non-insurable risks are risks which insurance companies cannot insure because the potential losses or claims cannot be calculated. The risk should be accidental or random in nature. The risks which do not fulfill the above mentioned (characteristics of insurable risks) characteristics are noninsurable risks. Non-insurable risks include:

i. Risks due to war(except cargo at sea) and certain risks such as radio activity arising from nuclear fusion.

ii. Risks incapable of measurement such as unforeseen changes in fashion, marketing of new products etc.

iii. Risks too small and recuring too frequently, or risks so large and recurring so infrequently.

7.

(a) Differentiate between a Government company and a public limited company.

Ans: There are certain differences between a government companies and public limited companies. They are as follows:

i. Paid-up capital : In the case of a government company not less than 51%of the paidup share capital is held by the central government or by the state government or jointly by the central or one or more state governments. There can be any combination of the shares owned by the central and state governments. But the total paid-up capital owned by one or more governments should be 51% or more, to make it a government company. It may be noted that there are a few government companies which have private participation in the equity. In the case of non-government companies, major share of the paid-up capital is held by the private individual.

ii. Auditor appointment : The auditor of a government company is appointed by the government on the advice of the Comptroller and Auditor General of India (CAG). He is also empowered to direct the

auditor about the manner and method of auditing. Sometimes, the CAG himself carries out the audit of government companies under the Companies Act. The Auditor of a non-government company is appointed by the General Body of the company.

iii. Annual reports : The annual reports along with audit reports of government companies are laid before Parliament if it is a central government company, and before the state legislature in case of a state government company. In case of a non-government company, the audit reports are laid before its General Body.

iv. Provisions of the Companies Act : Central government has the power to exempt any provision of the Companies Act from applying to a government company except the provisions regarding audit. But, central government has nothing to do with regard to the provisions of the Companies Act relating to a non-government company.

(b) What are the problems of public enterprises ?

Ans: Problems of public enterprises are:

i. Even though public enterprises are often registered as joint stock companies like any other private sector companies, their way of working is not fully commercial. It is so because these enterprises being close to the government system, often adopt the procedures, practices and attitudes prevalent in government departments.
ii. The Board of Directors of public enterprises are not fully professional. Often there is no continuity in the job of the top men.
iii. There is too much job security at all managerial levels below the board and this affects the level of performance in public enterprises.
iv. There is too much job security at all managerial levels below the board and this affects the level of performance in public enterprises.
v. Many important and large public enterprises are in areas where technology is difficult and new. And also the location is not always decided from the economic point of view.
vi. The workers unions are strong and well-organised. So, they are able to extract from these enterprises more than their rightful share.
vii. Most public enterprises show poor performance due to surplus manpower and low productivity of the personnel, almost at all levels, particularly so at lower levels.
viii. Public enterprises are very large in size as compared to private enterprises. Of the first 20 largest industrial enterprises in the country (in terms of assets), not leis than 16 are public enterprises. The complexity of managerial problems increase in geometric progression with increase in size. The public enterprises, by and large, have not been able to adequately cope with their complex managerial and administrative problems.
ix. Many constraints are also caused due to the public enterprises being subject to the government type audit by the Comptroller and Auditor General of India, and Parliament's scrutiny of their affairs.

8. State the documents that must accompany an export shipment. Describe them briefly. (10)

Ans: When goods are exported to a foreign country, the exporter has to follow the procedure prescribed by the government. The procedure involved in exporting goods differs from country to country and

depends on the existing policy of that country. The general procedure for exports from India involves the following stages:

i. Receives enquiry : The first stage in the export trade is the receipt of an enquiry by the exporter from an importer or his agent. An enquiry is a request by a foreign buyer for information regarding , the specifications and the price of the goods he intends to purchase. The reply to an enquiry is in the form of a quotation or proforma invoice which contains particulars like name and address of the buyer, full description of the goods offered, price, and terms of sale, and other details such as validity period of the offer, delivery schedule, payment terms, etc.

ii. Receives 'and scrutinices the order from importer : When the importer accepts the quotation, he places an order (also called indent) with the exporter. The exporter should take care to scrutinise the terms and conditions of sale as they determine all subsequent actions with regard to the export transaction. It should be ensured that the contract has been entered into in accordance with the prevailing export policy and foreign exchange regulations of India, Particular attention has to be paid to the terms of payment. If the terms and conditions of the order are acceptable, a confirmation in writing giving the details of the order, terms and conditions, etc, should be forwarded to the buyer at the earliest.

iii. Obtains export licence : The development and regulation of foreign trade in India is governed by the Foreign Trade (Development and Regulation) Act, 1992, This act helps in facilitating imports into and augmenting exports from India. Goods subject to control can not be exported without a valid export licence. In order to obtain an export licence, the exporter has to apply to the Director General of Foreign Trade (DGFT) or Regional Licensing Authority on the prescribed form. After the Licensing Authority is satisfied; the exporter will be issued an export licence.

iv. Manufactures/procures goods : As soon as the export order is confirmed, preparations for the production/procurement of the goods are started. In the case of manufacturer-exporter, a delivery note (in duplicate) is sent to the works manager or the factory manager. 'The note should kontain the description of the goods as has been given in the export order, and a copy of the instructions given by the importer. 'The dates by which the goods must be manufactured. the date by which necessary formalities are to be completed, and the date of shipment must be clearly intimated to the works manager. A merchant exporter has either to obtain the required goods from the market or has to get them from other manufacturers. Thc specifications and instructions to be intimated to the supplier of goods must be in accordance with those given in the export order.

v. Fulfils exchange regulations : Every exporter precedent to export of any goods directly or indirectly to any place outside India other than Nepal and Bhutan has'to furnish a declaration on the prescribed form to the Reserve Bank of India. The declaration is made about the full value of exportable goods or the prevailing market value of the goods. The full value of exports should be realised on due date for payment or within 180 days from the date of shipment, whichever is earlier. The documents for foreign exchange formalities include, GR form in all shipments other than by Post, VPICOD form used for postal channel and SOFTEX form for Computer Software.

vi. Books shipping space : It is the responsibility of the exporteito arrange transport by entering into an agreement with a shipping company for transporting the goods to the importer. Usually this responsibility is given to a freight broker or agent who specialises in this job. He possesses full

knowledge of the various shipping lines operating on the specific route and is in a position to obtain the lowest possible freight rates. The shipping agent on behalf of the exporter gets shipping order from the Shipping Company. 'The shipping order contains instructions to the captain of the ship to receive the specific quantity of goods from the exporter mentioned therein. If-the consignment is very big, the exporter may charter a whole ship or a major part of the ship. The agre'ement with the shipping company is then known as Charter Party. If it is the buyer's responsibility to arrange transport, he should be advised of the dates the goods would be ready for movement.

vii. Gets excise clearance and pre-shipment inspection : As soon as the goods have been manufactured or procured, steps should be taken by the exporter to obtain clearance from the excise authorities. This can be done in two ways: (i) he can pay the excise duty at the time of removing the export consignment from the factory and then file a claim for refund of the duty after the goods have been exported; (ii) he can secure clearance by executing a bond on such terms and conditions as the collector of excise may decide. At this stage the exporter has to arrange for pre-shipment inspection to ensure conformity with the prescribed specifications. An Inspector is deputed by the Inspection Agency to inspect the export consignment. If the goods conform to the prescribed specifications, all inspection certificate is issued.

viii. Packing and marking : Packing for exports is a highly specialised job. It provides adequate protection for the goods. Packed goods must be in accordance with requirements of the buyer, shipping company and the customs authorities. Packed goods should be marked as per the instructions of the importer. Each package should have distinct shipping marks to identify the consignment easily.

ix. Appoints clearing and forwarding agents : exporters appoint clearing and forwarding agents to look after all shipping and customs formalities and actual loading of the goods on board the ship. The forwarding agents are experts in their line of business and offer valuable services to the expoiter on payment of reasonable charges. In particular, they perform the following functions: (i) negotiation of shipping contract, (ii) customs formalities, and (iii) loading of goods in the ship and securing the Bill of Lading. They may also undertake packing and marking of goods and help in getting the goods insured.

x. Customs formalities : The clearing and the forwarding agent takes delivery of the consignment from the railways and manges for its storage in the warehouse. Thereafter, he takes necessary actioi~ to comply with the customs formalities. He has to prepare the shipping bill which is the main document required by the customs authorities for the purpose of granting permission for exports. The shipping bill is a document showing the exporter's name and address, description of goods such as marks, numbers, quantity and value, etc., the country from which they are exported, the name of the vessel and the port where goods are to be, discharged. There are three types of shipping bills: (i) for duty free goods a white shipping bill, (ii) for dutlable goods, a yellow shipping bill and (iii) When duty drawback is allowed, a green shipping bill.

Besides the shipping bill, the following other documents are also required to be submitted for customs clearance: AR-4 form (regarding excise duty payment), G.R. form (declaring value of goods), original order or letter of credit, commercial invoice, packing list (needed for inspection of goods), and declaration form (a formal announcement by the exporter that the particulars entered in the shipping bill are in conformity with the export order).

'The exporter or the clearing and forwarding agent in his behalf is required to present the required documents. The exporter will be asked to pay the export duty, if any.

xi. Insurance of goods and ECGC cover : Generally, the shipping companies refuse to carry the goods unless they are insured for loss or damage in course of transit. Similarly, the commercial banks refuse to finance or discount the bills of exchange, unless they are accompanied by the insurance policy. Hence, before the goods are dispatched, they must be insured for the various types of risks involved in' transit by the exporter

xii. Places the goods on board the ship : Once the customs export pass is secured, the exporter may deliver his goods directly to the dock or the ship. If the exporter delivers goods to the dock, a dock receipt is given for the goods. When goods are loaded directly in the ship, the Mate (captain's assistant) of the ship issues a receipt in acknowledgement of the goods after examining the packing and counting of the packages. This receipt is called the 'mate's receipt'.

xiii. Obtains bill of lading : A bill of lading is a document by which the shipping company acknowledges the receipt of goods on board the ship. It contains the terms and conditions on which goods are to be delivered to the port of destination. It serves as an evidence of the terms of the contract of afreightment between the exporter and the shipping company. The bill of lading is the document of title to the goods, without which goods cannot be claimed. Thus, when the goods arrive at the foreigri port, the bill must be produced before they can be claimed. The bill can be made out to a certain person only, octo order, when it can be endorsed and passed on, to transfer ownership of the goods to another.

The bill of lading mentions whether the freight has been paid or yet to be paid. When the freight is paid by the exporter, the bill of lading is marked freight paid. When the freight is payable by the importer of the goods, the bill of lading is marked freight forward.

xiv. Collects necessary documents and dispatches shipment advice to the importer : After the goods are placed on board, the forwarding agent returns the following documents to the exporter: (i) A set of 'clean on board' bill of lading, (ii) a copy of invoice duly attested - by the customs authorities, (iii) copies of the shipping bill, (iv) export order in original (v) letter of credit in original (vi) duplicate copy of the AR-form and (vii) duplicate copy of GR form.

As soon as the exporter receives the above documents, he sends a shipment advice to the importer, along with the following documents: (i) commercial invoice (ii) insurance policy, (iii) copies of the bill of lading which are not negotiable, and (iv) the packing list.

xv. Secures payment : There are a number of alternative methods of securing payment of export dues from the importer. The method of payment is however, determined by the contract between 9 exporter and the importer. The two most common methods are described below:

i) Documentary bills of exchange: By drawing a bill of exchange' on the importer, the exporter gets a promise of payment. The exporter sends the necessary documents to the importer along with a bill of exchange drawn on him with specific instructions that the documents would be released to the importer only when he accepts the bill of exchange or pays it. If the documents are released against payment, the arrangement is known as documents against payment (DIP). If the documents are to be released against acceptance of the bill, the arrangement is known as documents against acceptance (D/A).

If the exporter wants to get the amount immediately, he can discount the documentary bills with the local branch of his bank. For this purpose, he has to issue a letter of hypothecation to the bank. A letter of hypothecation is a letter addressed to a bank along with the bill drawn on the importer, by an

exporter for the goods shipped by him. The exporter authorises the bank to sell the goods in case of dishonour of the bill by the importer.

ii) Documentary credit under letter of credit: A safer and quicker method of obtaining payment is that of documentary credit whereby the importer arranges for a bank to open a letter of credit in favour of the exporter. In a letter of credit, the importer's bank branch gives a written undertaking to the exporter that if the exporter presents certain documents relating to the shipment of the goods within a fixed period, the bank will honour the bill of exchange drawn under the credit upto the amount specified in the letter of credit.

xvi. Claims the incentives : An exporter is entitled to claim certain benefits like duty drawbacks, excise rebate; special import licences; tax concessions etc. These incentives are offered by the government to promote exports. The last step in export procedure is to claim these incentives from the government.