December 2021

ECO-01 Business Organisation

PART A

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

(a) Profession and Employment

Profession	Employment
The profession may commence on completion of a degree course, by getting a certificate of practice and become a member of concerned professional body.	Employment commences only by entering into a service agreement (contract) with the employer.
A profession is an economic activity that includes activities requiring special skills and knowledge in their occupation.	An employment is an economic activity including occupation in which individuals work for their superiors with the motive of earning renumeration in return.
For example teachers, doctors, lawyers etc.	For example clerks, managers, peons etc.
Limited capital investment is required for equipment and establishment of office.	No capital investment is required.
There is little risk present. Possibility of not getting enough fee to meet the expenditure on establishment	In employment, there is no risk involved. Employee gets wage or salary regularly as long as the firm continues in operation.
The main objective of a profession is to provide service.	The main objective of employment is to earn income in the form of salary by satisfying the employer.
It involves the rendering of personalized services of specialized nature.	It involves performing the work as assigned by the employer.

(b) Bonded warehouse and Public warehouse

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.

(c) Publicity and Advertisement

Ans: Ans: The activity of generating advertisements of products and services to commercialize them is known as Advertising. It is what the company says about its product. Whereas the activity of providing information about an entity, i.e., a product, an individual or a company to make it popular is known as Publicity. It is what others say about the product. There is a huge investment to be made in advertising a single product. On the other hand, Publicity does not require any kind of investment. The key people behind advertising are the company and its representatives. On the contrary, Publicity is done by a third party which is not related to any company. Advertising is under the control of the company. However, publicity is not under the control of the company. Advertising repeatedly occurs to grab the attention of the customers. Oppositely, Publicity is done only one-time act. Advertising is always customer focused, i.e., the more creative the advertisement, the more are the customers attracted to it. On the other hand, publicity is not done keeping customers in mind. Advertising always speaks the goodness about a product, to persuade the target audience to buy it. Oppositely, Publicity, is unbiased, and so it will speak the reality, no matter whether it is goodness or illness. The company has to pay money to the media for the space or time used. There is an identifiable sponsor. Normally a company sponsors it for its product or service. In contrast to this, the company does not make any payment to the media for the time or space used for publicity. There is no identifiable sponsor. Media presents the information voluntarily.

2. Write short notes on any two of the following : 5+5=10

(a) Internal Trade and External Trade

Ans: Internal trade is also known as domestic trade or home trade. Trade within the borders of the country is internal trade. There is little restriction on trade between people within a country. In internal trade, payment made by the buyer and received by the seller of goods is in the same units of money. Payment can be made either in cash or by cheque on a national bank. Generally, has fewer transportation costs and risks to transfer the goods. It depends upon the network and internal transport systems like roads, railways, etc.. It involves fewer documentations and approvals from the government to transfer the goods. It usually have less time gap between the goods dispatched and goods received and payment received for the consignment. It only involves the trade of the goods and services which are available in the country.

External trade is also known as international trade or foreign trade. Trade between two or more countries is external trade. The restrictions are numerous. A firm requires permission from Government authorities before goods can be imported or exported. Involves the exchange of currencies between the nations which are involved in the trade. Payment can be made only through bank. It involves very high transportation costs and risky situations to transfer goods from one country to another. It depends upon the seaways and the airways between the countries involved in the trade. It involves more documentations and approvals from government and it is a long process to get approvals from government. It involves wide time gap between the goods dispatched from the home country and goods received by the other country. It facilitates countries to export the goods which they have surplus and import goods which are short in supply.

(b) Partnership Deed

Ans: Ans: A partnership is formed by an agreement. Such agreement may be either written or oral. To avoid misunderstanding and unnecessary litigations, it is always desirable to have a written agreement. When the written agreement is duly stamped and registered, it is known as 'Partnership Deed'. After registration, each partner is given a copy of the partnership deed. A partnership deed, generally contains the following particulars:

1. Name of the firm.

2. Nature of the business to be carried out.

3. Names of the partners.

4. The town and the place where business will be carried on.

5.The amount of capital to be contributed by each partner.

6. The profit and loss sharing ratio of each partner.

7. Loans and advances by partners and the interest payable on them.

8. The amount of drawings by each partner and the rate of interest allowed thereon.

9. The rate of interest on capital.

10. Duties, powers, and obligations of partners.

11. Remuneration , if any, payable to the active partner.

12. Maintenance of accounts and arrangements for audit.

13. Settlement in the case of dissolution of partnership.

14. The methods of evaluation of goodwill on admission or death or retirement of a partner.

(c) Methods of Raising Capital

Ans: There are different purposes for which funds have to be raised for periods ranging from very short to fairly long duration. The size and nature of business determine the total amount of financial needs. The scope of raising funds depends on the sources from which funds may be available.

To raise long-term and medium-term capital, companies have the following options:

1. Issue of shares : Issue of shares is the most important method of raising long-term capital for companies. There are two types of shares: i) equity shares and ii) preference shares. In the case of shares, the liability of shareholders is limited to the face value of shares, and also they are easily transferable. For these reasons investors prefer to invest their money in shares. Moreover, shares issued are generally of small face value viz., Rs. 10 or Rs. 100.

Equity shares: There are several advantages of issuing equity shares to raise ownership capital. The rate of dividend on these shares depends on profits available and the discretion of directors. There is, therefore, no fixed burden on the company. The shareholders expect high rates of dividend in profitable years.

Preference shares: Issue of preference shares is another method of raising long -term capital. It has certain merits. Dividend is payable on preference shares at a fixed rate and is payable only if there are profits. Hence, there is no compulsory burden on the company's finances. Secondly, preference shareholders do not have voting right. So they cannot take part in the management of the company and thus are not a threat' to the promoters. Another advantage of preference shares is that the company can declare higher rates of dividend for equity shareholders in good years because the rate of preference dividend is fixed. Besides, permanent use of preference share capital is also not essential. A company may issue redeemable preference shares and have the flexibility of paying off the amount if necessary and replace it by some other type of capital.

2. Issue of debentures : Companies generally have powers to borrow and raise loans by issuing debentures as securities of specified face value. The rate of interest payable on debentures is fixed at the time of issue, and they are recovered by a charge on the property or assets of the company, which provide the necessary security for payment. Debentures are mostly issued to finance the long -term requirements of business. There are certain advantages of issuing debentures.

i) Because of the fixed interest on debentures, companies with stable income can secure higher returns on equity capital by trading on equity.

ii) The rate of interest is usually lower than the expected rate of return on share 14 capital. This is because debenture holders do not bear any risk.

iii) Debentures do not carry any voting right. Hence management by promoters or existing directors remains unaffected.

However, if the earnings of the company are uncertain or unpredictable, issue of debentures may pose serious problems for the company due to the fixed obligation to pay interest and repay the principal. The company is liable to pay interest even if there is no profit. If there is default in payment of interest or repayment of the principal, assets can be attached by order of the court. Trading companies which generally do not have large fixed assets, cannot provide adequate security for issue of debentures. Even for manufacturing companies the capacity to raise loans is limited by the value of their properties and assets.

3. Loans from financial institutions : Long-term and medium-term loans can be secured by companies from financial institutions like the Industrial Finance Corporation of India, Industrial Credit and Investment Corporation, State-level Industrial Development Corporations, etc.

6. Thesc financial institutions grant loans for a maximum period of 25 years against approved schemes or projects. Loans agreed to be sanctioned must be covered by securities by way of mortgage of the company's property or hypothecation or assignment of stocks, shares, gold, etc. Usually the financial institutions nominate one or two directors to have some degree of control over the functioning of the company. These nominee directors may not allow decisions to be made by the Board of Directors affecting the interest of the lending institution. The loan agreement may also provide for conversion of loans into equity capital after a stated period if the lending institution so desires. The most important advantage of this method of raising finance is that the rate of interest payable is lower than the market rate. But there is a close security of the investment project before loan is sanctioned. Preference is given to companies which submit projects in accordance with the priorities of industrial development laid down in the five year plan. The potential profitability of the project and the potential ability of the company to discharge its interest and repayment obligations are strictly evaluated. Also the companies are required to comply with number of legal and technical formalities. Hence a long time is taken in the process of negotiating a loan from the financial institutions.

4. Loans from commercial banks : Medium-term loans can be raised by companies from commercial banks against the security of properties and assets. Thus, funds required for modernisation and renovation of assets can be borrowed from banks. Generally 50% to 75% of the value of industrial assets are granted as loan after the bank is satisfied about the earning capacity of the company and its ability to generate sufficient cash flows. The bank does not interfere with the management of the company. Also this method of financing does not require any legal formality except that of creating a mortgage on the assets. Besides, the loan can be repaid in parts and interest saved to that extent. Short-term loans can also be obtained from banks on the personal security of the directors of the company. These are known as clean advances.

5. Public deposits : Companies often find it convenient and necessary to raise funds by inviting their . shareholders, employees and the geqeral public to deposit their savings with the company. The Companies Act permits such deposits to be received for a period up to 3 years at a time. Thus, public deposits can be raised by companies to meet their short-term and medium-term financial needs. It is a simple method of raising finance for which the company has only to advertise in the newspapers giving particulars about its financial position as prescribed by the Companies Act. The deposits are not required to be covered by mortgaging assets or by other securities. Moreover deposits can be invited by offering a higher rate of interest than the interest on bank deposits.

But companies are not permitted to raise unlimited amounts of fund through public deposits. The aggregate of all outstanding deposits cannot exceed 25&0f the paid up capital and free reserves of the company. Interest to be allowed on deposits must also be in accordance with the rate fixed by the Government. Further, it is laid down in the Companies Act that at the beginning of each year, the company must deposit in a bank at least 10% of the deposits maturing during that year, or invest an equivalent amount in Government securities for repayment of deposits. Besides, the company has to file a return or statement every year with the Registrar of Companies giving all information relating to the deposits.

However, small scale industries (i.e. manufacturing companies with investment in plant and machinery not exceeding Rs. 35 lakhs) are exempted from the restrictions as to the maximum limit of deposits if the following conditions are satisfied.

i)The amount of deposit does not exceed Rs. 8 lakhs or the amount of paid up capital whichiever is less.
ii) The paid up capital does not exceed Rs. 12 lakhs.

iii) The number of depositors is not more than 50%.

iv) There is no invitation to the public for deposits.

6. Retention of profits : Retained profits: An important source of long-term finance for ongoing profitable companies is the amount of profit which is accumulated as general reserve from year to year. To the extent profits are not distributed as dividend to the shareholders, the retained can be reinvested for expansion or diversification of business activities. It be used for renovation of assets or modernisation of plant and equipment. It may be interpreted that the existing shareholders provide the finance. Hence, the company must decide to reinvest profits only when the rate of return is comparable with that of other similar companies. A part of the profits must be distributed as dividend keeping in mind shareholders expectation and the effect of dividend rate on the market price of shares. Retained profit is an internal source of finance. Hence it does not involve any cost of floatation which has to be incurred to raise finance from external sources. Further, the company does not have to face the uncertainties of external financing. The only drawback of this source of long-term finance is that it depends on the availability of adequate profits for retention.

The following methods may be used to finance short-term capital:

1. Trade credit : Just as companies sell goods on credit, they also buy raw materials, components, stores and spare parts on credit from different suppliers. Hence, outstanding amounts payable to trade creditors as well as bills payable relating to credit purchases are regarded as sources of finance. Generally, suppliers grant credit for a period of 3 to 6 months, and thus provide short-term finance to the company. Availability of this type of finance is closely connected with the volume of business.

When the production and sale of goods increase, there is automatic increase in the volume of purchases, and more of trade credit is available. On the other hand, if sales decline there-is a corresponding decline in purchases of materials, and consequent decline in trade credit as a source of finance. Thus, creditors' balances (accounts payable) and bills payable help companies to finance current assets, i.e., stock of materials and finished goods as well as book debts. However, trade credit also involves loss of cash discount which could be earned if payments were made within 7 to 10 days from the date of purchase. This loss is regarded as the cost of trade credit.

2. Factoring : The amounts due to a company from customers on account of credit sale generally remain outstanding during the period of credit allowed i.e., till the dues are collected from the debtors. By this arrangement the responsibility of collecting the debtors' balances is taken over by the bank on payment of specified charges by the company. This is a method of raising short-term capital and known as 'factoring'. It helps companies to secure finance against debtors' balances before the debts are due for realization, and incidentally also helps in saving the effort of collecting the book debts. The disadvantage of factoring is that customers who are in genuine difficulty do not get the facility of delaying payment which they might have otherwise got from the company.

3. Discounting bills of exchange : Discounting of a bill of exchange is a method of short-term financing provided by banks. When goods are sold on credit, bills of exchange are generally drawn for acceptance by the buyers of goods. The bills so drawn are payable after 3 or 6 months depending on the prevailing practice among traders. Discounting of the bill refers to the encashment of the bill before the date of its maturity. Instead of holding the bills till the date of maturity, companies generally prefer to discount them with commercial banks on payment of a charge known as bank discount. This process of encashing the bill with the bank is called discounting the bill. Bills are endorsed in favour of the bank so that the bank gets the amount from the drawee on the due date. The amount of discount is deducted from the value of bills at the time of discounting. The rate of discount to be charged by banks is prescribed by the Reserve Bank of India from time to time. It really amounts to the interest for the period from the date of discounting to the date of maturity of the bill. If any bill is dishonoured on maturity, the bank returns it to the company which then becomes liable to pay the amount to the bank. The cost of raising finance by this method is the discount charged by the bank.

4. Bank overdraft and cash credit : Cash credit refers to an arrangement on a continuing basis whereby the commercial bank allows money to be drawn as advance from time to time within a specified limit known as cash credit limit. This facility is granted against the security of goods in stock, or promissory notes bearing a second signature, or other marketable instruments like Government bonds. The company is allowed to draw whatever amount is required at different times within the limit agreed upon. The cash credit limit may be revised according to the value of securities. The money drawn can be repaid as and when possible. Interest is charged on the actual amount withdrawn. It is offered for maintaining the working capital of the business. The loan duration is generally 1 year. An overdraft is a temporary arrangement with the bank which permits the company to overdraw from its current deposit account with the bank up to a certain limit. The overdraft facility is also granted against securities as in the case of cash credit. Interest is charged only on the amount actually overdrawn. Overdraft facility is offered for meeting short-term obligations of individuals or businesses. The loan duration can vary and it can be monthly, quarterly, half yearly or yearly.

5. Public deposits : Companies often find it convenient and necessary to raise funds by inviting their . shareholders, employees and the general The Companies Act permits such deposits to be received for a period up to 3 years at a time. Thus, public deposits can be raised by companies to meet their shortterm and medium-term financial needs. It is a simple method of raising finance for which the company has only to advertise in the newspapers giving particulars about its financial position as prescribed by the Companies Act. The deposits are not required to be covered by mortgaging assets or by other securities. Moreover deposits can be invited by offering a higher rate of interest than the interest on bank deposits. C public to deposit their savings with the company. But companies are not permitted to raise unlimited amounts of fund through public deposits.

(d) Factors Affecting Choice of Media

Ans: Ans: The following factors influence the choice of media:

i) Character of the media

ii) Nature of the product to be advertised

iii) Type of audience

iv) Coverage

v) Cost

i) Character of the media: To judge the suitability of any medium, the characters of different types of media should be analysed on a factual basis. The following aspects of the media are to be considered before choosing any particular medium.

a) The geographical coverage of the medium i.e. national, regional or local.

b) The frequency and duration of exposure of the message to the audience.

c) Method of communication i.e., visual, oral, both visual and oral, etc.

d) Production quality of the media.

e) Degree of permanence or durability in the sense that how long the advertisement can remain before prospective customers' eyes or within their grasp. A TV advertisement disappears within a few seconds whereas an hoarding continues delivering the same message to the passing public for a year or more.

f) Scheduling flexibility is another factor. Producing a TV advertisement takes more time than producing a newspaper advertisement. Similarly, withdrawal of advertisement with a short notice is not possible with some media.

g) Power of the medium to reach special categories of audience e.g., children, ladies, business executives, etc. This is also called audience selectivity.

ii) Nature of the product: Consumer goods need to be advertised with different types of appeal for effectiveness. Familiar goods of daily consumption do not require elaborate description, while industrial machinery may require technical details to be explained. The size of advertisement and the time of exposure required vary according to the nature of the products. Again, advertisement for consumer goods can reach the largest possible number of people through mass media like newspapers, radio and television. But industrial goods may be more effectively advertised through trade and technical magazines. Advertisement of garments is best done in multi-colour printing in magazines.

iii) Type of audience: Media habits of the target audience to be reached is one of the important factors to be considered while selecting the medium. If the target audience are illiterate, press medium (newspapers and magazines) is ineffective. Similarly, if the target customers are in villages where there are no TV sets, advertising by TV is a waste. The most effective medium to reach housewives in the urban areas may be the radio or television, and for-business executives it may be a professional magazine. Therefore, the characteristics of the target customers with respect to media are very important in selecting proper medium.

iv) Coverage: How many and what percentage of the potential buyers can be approached through each possible medium are also determining factors in the choice of a medium. One medium may be able to reach more number of target customers than the other media. Therefore, a medium which can reach the maximum number of target customers should be preferred. For instance, if target audience are illiterate and do not have TV sets, short films in the cinema halls may be more effective. Similarly, the number of doctors who can be reached through direct mail is expected to be more than the number who can be reached through any other medium. To advertise sewing machines to the urban customers, women's magazines may be more appropriate as the appeal will reach many more ladies through this medium.

v) Cost: The most important factor determining the choice of a medium is the cost involved. Cost of a medium may be analysed in two ways: 1) absolute cost, and 2) cost related to audience size. Absolute cost is the actual charge for buying a certain amount of time or space in a medium. If the small firm had set aside a small amount for advertising, it cannot afford to use an expensive medium. For instance TV is a very expensive medium whereas newspaper advertising is relatively cheaper. However, what is important is not the absolute cost of using each medium but the size of the target, audience reached in relation to the cost. Relative cost is a comparative cost. It is the absolute cost related to the size of the audience served by the chosen medium. For instance, charges for a full page advertisement in two different magazines may be exactly the same. But if one magazine has a circulation of 3 lakh and the other has a circulation of 4 lakh, advertisers choose the second magazine as it reaches more number of customers for the same money.

3. Explain the term Entrepreneurship. What are the characteristics of an entrepreneur ? Mention their functions.(3+4+3)

Ans: Entrepreneurship is the act of being an entrepreneur. Entrepreneurship is derived from a French word 'entrepreneur' which means to undertake, to pursue opportunities, to fulfil needs and wants of people through innovation and starting business. The entrepreneur is the person who does all this. He undertakes a venture, organises it, raises capital to finance it and assumes the whole or major part of the risk of business. Thus, 'entrepreneurship is the process of giving birth to a new business'.

Innovation and risk bearing are the two basic elements of entrepreneurship.

Innovation: If a business activity does not require anything special to be done, it is not entrepreneurship. In fact a person cannot be called an entrepreneur unless he introduces something new, something different, in his venture. This is known as innovation, that is, doing something different from others. In a competitive market, an entrepreneur can succeed in his business only through innovation. An innovation need not necessarily be something big or dramatic. A simple adjustment to something old, or giving a service without extra charge while selling a product, or a colourful packaging, or selling a product in packets of different weights, and such types of steps may be profitable innovations. An entrepreneur must have imagination and also the ability to think creatively.

Risk Bearing: Risk bearing is another aspect of entrepreneurship that every entrepreneur has to cope with. One who is an entrepreneur must be a risk taker, not a risk-avoider. In fact. starting a new business always involves risk because money is invested for profits in future. To try anything new is also risky. A new venture may not bring the expected profits or may fail and run into losses. It may happen because of increasing competition, a change in customer preferences, shortage of raw material supply, or sudden unexpected calamities. But an entrepreneur is bold enough to assume the risks. He is prepared to take risks for the reward.

Characteristics of an Entrepreneur are:

i. Independence: Many entrepreneurs who started their businesses resisted being pigeonholed or following routine habits. In fact, entrepreneurs become frustrated when they have to follow someone else's direction. They have to be the boss. They like to be in control. They find it difficult to work under the direction of others.

ii. Hard Work: Willingness to work-and work hard-is an outstanding trait of entrepreneurs. A successful entrepreneur described his early experiences that they worked endless, twelve hour days and sometimes seven days a week.

iii. Desire-to Achieve Goals: They have a strong desire to overcome problems and setting up successful business ventures which eventually give adequate profits. They considered profit as measure of their achievement and performance rather than making money alone.

iv. Foresight arid Dynamic Outlook: Basically, these people have wide knowledge about business environment i.e., market, consumer attitude, technological development, etc. Further, they ore dynamic in forecasting business uncertainties and risks, accordingly, they take quick and sound decisions.

v. Open-mindedness: They are intelligent in predicting changes in business environment. However, they never resist changes because they know that they cannot stop it. Therefore, they are habituated to open-mindedness even though sometimes they lose crores of' rupees due to changes in consumer tastes which ultimately forced them to change their technology, etc.

vi. Optimistic Outlook: They are generally inclined to believe that present problems are of it temporary nature and conditions will be more favourable in due course. Entrepreneurs are always eager to achieve their goals in the best possible manner, to get outstanding results which they can be proud of.

vii. Working Relationship : The success of a business mostly depends upon its workers first rind then their links with other business undertakings. Most of the successful business entrepreneurs have had harmonious relationships with others. This builds up their reputation in the market.

viii. Good Organisers : They are good at bringing together different types of resources needed for starting a business and making it operationally efficient. They can convince people about the prospects of business, get their cooperation, raise funds, procure machinery, arrange supply of materials, select right type of employees and coordinate various activities relating to the business.

ix. Innovative Aptitude: Most of the successful entrepreneurs have innovative aptitude. They spend part of their income on research and innovative activities so that they offer suitable products to meet the demands of consumers. Some of our industrialists like Tata, Birla, Kirloskar, etc. have established their own research centres.

Functions of entrepreneurs:

i) Develops an idea and explores opportunities: The idea of forming a business unit is first formed in the creative mind of the entrepreneur. On the basis of the idea explores the prospects of starting Business Organisation a manufacturing enterprise.

ii) Product analysis and market survey: He collects data on consumer preferences and needs through market research techniques and to find out the saleability of the proposed product. Further, he collects consumer preferences in respect of design, colour, size, 2nd shape. In addition, the entrepreneur gathers the total demand and the degree of competition for the proposed product.

iii) Decides form of organisation: He decides the form of business ownership, i.e., whether it should be a sole proprietorship, a partnership firm, a company or a cooperative society.

iv) Decides location: He decides location of the factory at a suitable place taking into account the available facilities of transport, power-supply, fuel, water, labour, supply of raw-materials, nearness of market, etc.

v) Collects necessary capital: He makes available sufficient amount of capital for the initiation and continuation of the business. He gives personal guarantees to the financiers who contribute capital. Otherwise, he promises to invest capital himself or arrange the necessary amounts from friends and relatives.

vi) Places orders for machinery: He places orders for machinery, equipment and other requirements. He takes decision about the installation of equipment and machinery in the process of production.

viii) Designs internal organisation structure: He designs internal organisation structure for his proposed concern. This involves breaking up of the total work of the enterprise into major functions like production, marketing, finance, personnel, purchase, engineering, etc. and the dividing of each of them into sections. He stipulates the functions of different departments and their inter-relationships.

4. Explain the role of different ‘special financial institutions’ for raising long-term finance for business.(10)

Ans: Special financial institutions: After independence many financial institutions have been established in India with the primary objective to provide medium and long-term financial assistance to industrial enterprises. Institutions like Industrial Finance Corporation of India (IFCIs), Industrial Reconstruction Bank of India, State Financial Corporation (SFCs), State Industrial Development Corporation (SIDCs), have been established to provide financial support to set up new enterprises as well expansion and modernisation of the existing enterprises. On the other hand, at the state level there are State Financial Corporations (SFCs) and Industrial Development Corporations (SIDCs). These state level institutions mainly provide long-term finance to relatively smaller companies. These institutions (both national level and state level) are known as 'Development Banks' because their main objective is to provide financial assistance to industrial enterprises for investment projects, expansion or modernisation of plants in accordance with the priorities laid down in the Five Year Plans.

Besides the development banks, there are several other institutions known as investment companies or investment trusts which subscribe to the shares and debentures offered to the public by companies. For example, the Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), the Unit Trust of India (UTI), etc., come under this category.

Functions of some of the major development banks and investment companies:

i. Industrial Finance Corporation of India (IFCI): This was set up in 1948 under the Industrial Finance Corporation Act, 1948. Its primary objective is to provide long-term and medium-term finance to large-scale industrial concerns particularly when bank loans were not suitable or funds could not be raised from the capital . market by issue of shares. The IFCI deals only with industrial enterprises registered as limited companies or cooperative societies. Nonmanufacturing concerns, private limited companies, partnership or sole traders cannot get assistance from this institution. The IFCI can grant loans or subscribe to debentures issued by companies repayable in not more than 25 years. It can also guarantee loans raised from other sources or debentures issued to the public. Further, companies can secure loans in foreign currency from the IFCI or get such loans guaranteed by the Corporation.

ii. Industrial Credit and Investment Corporation of India (ICICI): It was incorporated under the Indian Companies Act in 1955. It provides financial assistance to companies in two ways: i) by providing long-term loans for a period upto 15 years, and ii) by subscribing to the shares and debentures issued by companies. However, proprietory and partnership concerns are also entitled to secure loans from the ICICI. Loans are granted against proper securities. Like the IFCI, the ICICI also guarantees loans raised by companies from other sources, besides underwriting the issue of shares and debentures by companies. Foreign Currency Loans can also be secured by companies from the ICICI.

iii. Industrial Development Bank of India (IDBI): This was set up by Government of India in 1964 and is a subsidiary of the Reserve Bank of India. The IDBI can provide financial assistance to all types of industrial enterprises which are registered under the Companies Act or any other law. There is no restriction on the types of finance and the amount of funds that may be available from this institution. It has the unique role of not only providing financial assistance directly to industrial units, but also to refinance loans granted by other financial institutions. Further, it is required to coordinate the functions of all development banks, scheduled commercial banks and state cooperative banks as regards industrial financing. Thus, the some functions of the IDBI include the following:

i) It refinances (a) term-loans to industrial concerns granted by IFCI and other financial institutions repayable between 3 and 25 years; (b) loans repayable between 3 and I0 years given by scheduled banks or state cooperative banks; (c) export credit granted by specified financial institutions maturing between 6 months and 10 years.

ii) It subscribes directly to the issue of shares and debentures made by industrial concerns.

iii) It grants loans and advances to companies repayable between 8 to 10 years.

iv) It guarantees loans raised by industrial concerns from the capital market or scheduled banks.

iv. State Financial Corporations (SFCs): These institutions are set up in different states by the respective state governments under the provisions of the State Financial Corporation Act, 1951. All types of enterprises - proprietory and partnership concerns as well as limited companies - can seek financial assistance from the SFCs. The primary objective of these corporations is to accelerate the pace of industrial development in their respective states.

SFCs provide finances in the form of long-term loans or advances or through subscription of debenture issues repayable within 20 years. But the maximum amount of loan or advance granted to any single enterprise is not to exceed 10% of the paid up capital of the SFC or Rs. 10 lakhs, whichever is less. Loans raised by industrial concerns from other sources and repayable within 20 years can be guaranteed by the SFCs. SFCs also take up underwriting public issue of shares and debentures made by companies. They cannot directly subscribe to the shares issued by companies.

Investment institutions: Investment corporations' or 'investment trusts' or 'investment companies' which provide long-term finance. These institutions promote the savings habit among individuals and households with an assurance that the amount of savings entrusted to them would be invested in profitable channels and help in earning adequate return for the savers.

Investment Corporations: The most important investment corporations in India are: i) Life Insurance Corporation of India, and ii) General Insurance Corporation of India. The Life Insurance Corporation of India (LIC) which undertakes life insurance business, guarantees payment of the amount of policy on the death of the insured person or on the expiry of a certain period. The amount of premium received from the policy-holders are invested by the LIC in different types of securities, e.g. Government bonds, shares and debentures of public limited companies, etc. Similarly, the General Insurance Corporation of India (GIC) invests its funds in Government securities, and shares and debentures of companies. The GIC undertakes general insurance business including fire, marine, accident, burglary and so on. Thus, the LIC and GIC may be regarded as sources of long-term finance for industrial enterprises.

Investment Companies: A number of investment companies registered under the Companies Act have been engaged in financing industrial concerns by subscribing to the shares and debentures of other companies. These investment companies issue their own shares and debentures to individuals, and borrow money from other institutions. The funds so raised are invested in the shares and debentures of other companies. Companies should not exceed 30% of the subscribed capital of the investing company. Some of the well-known investment companies in India are: Investment Corporation of India Ltd., Sri Ram Investment Co. Ltd., Eastern Investment Ltd.. Shree Sun Investment and Trading Co. Ltd., Shree Rishav Investment Co. Ltd., etc.

Investment Trusts: Another category of investment institutions which provide long-term finance to companies is investment trusts. Investment trusts specifically refer to those investment companies which are established for the investment of funds obtained from individuals and institutions. The investors receive shares (or ' units) issued by the investment trusts. These investment trusts are also known as Unit Trusts. The Unit Trust of India (UTI) is the largest organisation of this type in our country. The UTI was set up under the Unit Trust Act of 1962, and started its operation in 1964. Its initial capital was subscribed by the Reserve Bank of India, LIC, State Bank of India and other financial institutions.

5. What do you understand by the term ‘Foreign Trade’ ? Briefly explain the export-import procedure. (4+6)

Ans: Foreign trade is the process of buying, selling, and exchange of goods and services between different countries. : Nations, like individuals, do not possess everything they need to fulfil their requirements. Even countries like the USA, USSR and China, which are rich in natural and human resources have to look to other countries for supply of some of their requirements. For instance, consumers in USA obtain their supply of sugar and coffee from other countries. Moreover, different countries possess different types of resources. Those which have a surplus of certain resources find it beneficial to sell the surplus items to some other countries and buy other items which they need. Such exchange of goods and services between people, across national boundaries is called 'foreign trade' or 'international trade*. Foreign trade can ' be bilateral or multilateral. When there is tr3de between people of any two nations, it is bilateral: foreign trade is multilateral when people of any country buy from and sell to people of more than one country.

Production of goods and services requires different resources like men, materials, money, machines and management. If we compare the resources possessed by nations it will be found that no country is self sufficient and there are differences in the quality and quantity of domestic resources available in different countries.

Indeed, it is this difference in the relative abundance or shortage of resources in different countries that has given rise to foreign trade involving exchange of goods and services between countries. Through international trade, it is possible for a country to avail of goods which it cannot produce or cannot produce as economically as other countries. Hence, a country's well-being is determined to a great extent by the nature and extent of its foreign trade. Let us discuss the importance of foreign trade to people in different countries.

The restrictions are numerous in a foreign trade . A firm requires permission from Government authorities before goods can be imported or exported. It involves the exchange of currencies between the nations which are involved in the trade. Payment can be made only through bank. It involves very high transportation costs and risky situations to transfer goods from one country to another. It depends upon the seaways and the airways between the countries involved in the trade. It involves more documentations and approvals from government and it is a long process to get approvals from government. It involves wide time gap between the goods dispatched from the home country and goods received by the other country. It facilitates countries to export the goods which they have surplus and import goods which are short in supply.

The general procedure for exports from India involves the following stages:

1. 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 gpods 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.

2. 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.

3. Obtains export licence : The development and regulation of fareign 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.

4. 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 contain 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. The specifications and instructions to be intimated to the supplier of goods must be in accordance with those given in the export order.

5. Fulfils exchange regulations : Every exporter precedent to export of any goods dire~tly 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.

6. 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.

7. 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.

8. 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. In addition, the gross weight, the tare (the weight of the package itself) and the net weight along with the measurements should be marked on the package. The marking may be done in the form of a rectangle, a square, a triangle or a circle. The package should also have suitable lables for different classes of goods to facilitate the handling of goods. For fragile goods, handling instructions like handle with care or this side up could also be marked on the package.

9. Appoints clearing and forwarding agents : Sometimes, 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.

10. 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 dutiable 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. The customs house will then direct the examining office or the appraiser to cany out the physical examination of the goods at the dock. After the exporter has gone through all formalities to the satisfaction of the customs authorities, a customs export pass or an endorsement 'let ship' is issued to the exporter on the duplicate copy of the shipping bill., Then the loading of goods will take place on the board.

11. Insurance of goods and ECGC cover: 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 despatched, they must be insured for the various types of risks involved in' transit by the exporter. The commercial and political risks, like insolvency of the buyer, rebellion ,or civil war in the importing country can be covered by insuring the shipment with the Export Credit Guarantee Corporation (ECGC). This will help the exporter in securing export finance from banks.

12. 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'. The mate issues a clean receipt if he is satisfied with the packing of the goods. If he is not satisfied he will make a remark to the effect of the mate's receipt. A mate's receipt with such a remark is considered a 'foul' or 'claused receipt'. This remark is transferred to the bill of lading when the exporter gets it in exchange for the mate's receipt.

The exporter should, therefore, take proper care in packing the goods so as to avoid any remarks on the mate's receipt.

13. 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 a freightment 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 foreign port, the bill must be produced before they can be claimed. The bill can be made out to a certain person only, or order, when it can be endorsed and passed on, to transfer ownership of the goods to another. However, it is not negotiable, because the bearer's claim to the goods can never be better than the claim of the person who passed on the bill to him. If a bill were stolen before being passed on, it would not confer a legal right to the goods. 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.

14. Collects necessary documents and despatches 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.

Taking the possession of these documents, the importer or his clearing agent arrhges for the clearance of goods from the customs office in whose custody the goods lie after being unloaded from the ship. The importer or his clearing agent approaches the shipping company, pays the dues, if any, and gets the possession of goods after submitting the bill of lading and other documents needed by the shipping company. The commercial invoice is the bill stating what goods have been sent, their weights, markings, prices and values. The importer needs the invoice to see what he owes and to check it with his copy of the indent. He must have the bill of lading to claim the goods and insurance policy to enable him to claim from the insurance company the value of damage, if any, suffered by the goods during the voyage.

15. 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 exchanke 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). Normally, under the DIA bills the exporter waits for payment till the bill is finally paid for. This may take time. But the negotiating banks are very often willing to discount the bills. This enables the exporter to receive payment immediately after shipment of goods.

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. In both the cases, the necessary documents along wifh the bill of exchange drawn on the importer are sent to the importer through the exporter's bank. The negotiating bank scrutinises the documents and thereafter sends the bill of exchange, bill of lading, insurance policy and other documents to the importer's bank for discharge of payment. If the bill is payable at sight, the exporter receives his money immediately. If it is payable certain number of days after sight or date, the bank accepts it and the exporter discounts it.

16. 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.

The general procedure of import trade in India involves the following stages:

1. Trade Enquiry : The intending importer makes trade enquiry from the possible exporters. His enquiry is based on the details of the goods required by him viz., quality, design, size, etc. and seeks information regarding the availability of goads, the price at which they would be available and the tens and conditions regarding delivery and payment. In response to his enquiry, the importer may receive a number of quotations which will contain particulars as of the goods available in ready stock, their quality, size, design, etc. The different quotations will also specify the price at which the goods should be available and the terms and conditions of sale. Once quotations from different suppliers have been received, a thorough comparison should be made of the various quotations before taking the decision to import.

2. Obtains lmport Licence : In order to obtain an import licence, the intending importer makes an application in the prescribed form, to the Licencing Authority. When the licensing authority is satisfied with the claims, he issues the licence. The import licence is issued in duplicate. 'The first copy is presented by the importer to the customs authority at the time of clearance of goods and the second copy is used for obtaining foreign exchange from Reserve Bank of India. Although raw materials, intermediates, capital goods and other items announced by the central government may be imported freely under Open General Licence (OGL) scheme.

3. Obtains foreign Exchange : After obtaining the import licence, the importer makes arrangements for obtaining the necessary amount of foreign currency. In India, the Reserve Bank of India (RBI) is

authorised by the Government to regulate the use of exchange. Every importer has to produce import licence along with the prescribed application form under the Exchange Control Act. The exchange bank of the importer endorses and forwards the application to the Exchange Control Department of RBI. The RBI sanctions the release of the amount of foreign exchange to the importer after scrutinising the application on the basis of the existing Government policy.

4. Places the Order/lndent : After obtaining the import licence and requisite amount of foreign exchange, the next step is to place the order or indent for import of the goods. An indent is a form of order sent abroad for goods to be imported. The indent contains Full details regarding the goods to be imported and the terms and conditions regarding price, shipment, delivery, the method of payment, etc. An indent may be 'open', 'closed' or 'confirmatory'. When the selection of goods and other details are left to the agent's discretion in the foreign country, it is called an 'open indent'. A closed indent contains full particulars of the exact goods required. When an order is placed subject to the confirmation by the importer's agent, it is called confirmatory ' indent. Every importer is free to place the order directly or through the intermediaries, specialised in such trade. These specialised agencies are called indent houses. An indent house refers to an import agent or import firm, which imports goods on orders received from importers. The indent house serves as middlemen between the importers and exporters. , In India many of the big indent houses have their offices in port towns like Bombay, Madras, Calcutta, etc.

5. Arranges Letter of Credit: Depending upon the terms of payment, the importer may have to arrange a letter of credit to be issued by his bank in favour of the exporter. All the terms and conditions agreed upon between the importer and exporter are generally spelt out in the letter of credit. The importer's bank issues the letter of credit authorising the correspondent bank in the exporter's country to buy the bill drawn by the exporter on the importer, or to accept the bill drawn on the bank itself. The importer's bank may require adequate amount to be deposited by the importer so as to cover the amount for which the letter of credit is issued. But such a deposit may not be insisted upon if the importer is an established person or a firm well known to the bank or it maintains a satisfactory deposit account with the bank.

6. Gets Shipping Documents : After receiving order and the letter of credit, the exporter ships the goods and intimates the importer that the goods have been despatched. The exporter draws a bill of exchange on the importer's bank for the full value of goods payable to him. The bill of exchange, accompanied by all the shipping documents viz. commercial invoice, bill of lading, insurance policy, and the certificate of origin (if needed), are forwarded to the importer's bank by the exporter's bank. Under the letter of credit arrangement, the importer's bank will handover the documents to the importer who would take steps for getting the goods cleared from the customs authorities. In the absence of a letter of credit, the bank will follow the instructions of the exporter in the matter of delivering the documents to the importer. If the bill of exchange is marked D/A (documents against acceptance), the documents will be delivered to the importer on the acceptance of the bill. If the bill is marked DIP (documents against payment), the documents will be delivered to the importer only on payment of the amount of the bill.

7. Clears the Goods : After taking possession of the documents of title to the goods, the importer waits for the arrival of the ship. When the ship arrives at the port of destination, the importer arranges clearance of the goods from the customs office in whose custody the goods lie after being unloaded from the ship. This requires a number of formalities to be completed. The importer may appoint a

clearing agent for that purpose. Clearance of goods requires the following steps to be taken: (i) get the bill of lading endorsed by the shipping company for delivery of the goods or a delivery order issued by the shipping company (ii) pay the necessary amount of port trust dues representing the cost of services rendered by the dock authorities in connection with the loading of goods (iii) fill up a 'bill of entry' containing all particulars relating to the imported goods and the customs duty to be paid. After import duty has been paid, the importer has to submit the 'bill of lading ' 'port trust dues receipt' and 'bill of entry' to the shipping company for release of the goods. In case the importer is not in a position to pay the customs duty in full immediately, he may apply to the customs authorities to get them placed in the bonded warehouse. The importer can pay duty for part of the goods as and when he wants to get delivery.

8. Makes Payments : The mode of payment for import depends upon the agreement between the importer and the exporter. If the documents have been received against acceptance (D/A bills), the importer has to honour the bill of exchange on the due date. After the bill is paid, the importer transaction comes to a close. In case of documents against payment (D/P bills), the importer pays immediately or within a short period after presentation, because the importer gets possession of the documents of title to the goods only on payment of the bill.

6. Elaborate the term ‘Business Risks’. Explain the importance of Insurance in overcoming these risks.(5+5)

Ans: The term is used to refer to (a) an insured object such as a home or a car, (b) a peril such as fire or earthquake, (c) the probability of an event which may cause loss, (d) the loss itself, (e) the hazardous condition, (f) the variation in the outcome that could such as fire or earthquake, (c) the probability of an event which may cause loss, (d) the loss itself, (e) the hazardous condition, (f) the variation in the outcome that could occur over a specified period in a given situation, etc. 'Business risk' may be defined as the uncertainty of occurrence of economic loss in the event of any business activity.

Business risks arise due to a variety of causes, which are classified as follows:

(i) Natural causes: Every business firm is confronted by potential loss to its property and personnel through common perils such as fire, explosion, wind storm, flood, theft, business liability damage suits, earth quake and death or disability of its personnel. These perils may cause direct loss by damaging property or killing personnel. Losses may occur to business from the occurrence of some of these perils. Natural calamities like flood, earthquake, lightning, heavy rains, famine are beyond human control. They result in heavy loss of life, property and income.

(ii) Human causes: Human causes include unexpected events like carelessness, negligence or dishonesty of employees, stoppage of work due to power failure, strikes, riots, management inefficiency.

(iii) Economic causes: These include uncertainties caused due to economic fluctuations such as changes in demand for goods, competition, price, a collection of dues from customers, increased cost of raw materials and labour, government policies, market regulations, increasing interest rates, change of technology or method of production. Financial problems like rise in interest rate and higher taxation also come under economic causes as they raise the cost of operation of business unexpectedly.

(iv) Financial causes: All business firms borrow money and also extend credit to customers. There is always scope for loss from both credit received as well as credit extended. Bad debts due to insolvency of customers is a continuous problem in business. Similarly, creditors like banks and financial institutions may fail or cancel the loans due to bad business conditions. This can cause financial loss to the firm due to curtailed operations. Similarly, unexpected rise in interest rates on bank loans may reduce profits. Business firms investments in stocks and bonds always face risk.

(v) Production causes: Manufacturing enterprises face the problems such as production losses due to breakdown of machinery, defective products due to faulty machinery or poor quality of raw material, under utilisation of installed capacity, inventory buildup to levels much higher than current demand, improper plant layout, uneconomical plant capacity, etc. Such production risks may be minimized by careful planning.

(vi) Marketing Risks: Marketing activity includes all those business activities necessary to move goods from producers to consumers. The major functions include buying, selling, transportation and storage. Activities like standarization, market information and research are also other important functions of marketing activities. There is an element of risk in all these activities. For instance, you may not be able to sell your products at the prices you want. Due to market conditions, you may be forced to sell at lower prices and incur losses. Similarly, due to sudden spurt in the raw material prices, your cost of production may go up and you may incur losses. Goods may be stolen, damaged or destroyed in transit from perils for which the transporter is not - liable. Similarly, improper facilities for storage may cause unexpected losses. Normal perils such as fire, floods, storm, explosion, theft, etc., can cause extensive damage to goods in the storage. For instance, the fire due to electric short circuit may cause extensive damage to the goods in the storage.

Risk management involves five basic steps:

i) Risk identification is the first step and also the most difficult function. Failure to identify all the loss exposers of the firm means you will not be in a position to deal with those risks.

ii) After identifying the risks, next step is to assess the intensity of financial loss associated with each of those risks. We have to determine two aspects: I) probability of the occurrence of each of the perils or risk identified in the first stage, and II) extent of financial loss to the firm, if that peril occur. With this assessment, we can identify the relatively more serious risks and pay more attention to them.

iii) Third step is to decide on various tools of risk management and decide upon the best combination of the tools to be used. There are six tools for risk management :

I)assumption(or retension)

II) loss prevention

III)avoidance

IV)transfer(insurance)

V)separation

VI)combination

Risk is born out of uncertainty and it is inseparable from business. The business risks can not be eliminated, but they can be controlled to some extent by adopting appropriate measures. One of such risk control measure is risk transfer by means of insurance.

Importance of insurance:

Insurance is a device by which a loss likely to be caused by uncertain event is spread over a large number of persons who are exposed to it and who voluntarily join to insure themselves against such an event.

For example, It is common that every year a certain number of houses are destroyed by fire, but no body can predict which particular house will be destroyed. Thus, all house owners run the risk of loss through' fire. If all of them pay a small sum into a find every year, anyone who does lose his house can claim money from such fund to build a new house. In the absence of such a fund, the owner of the house has to bear the whole loss by himself. In the case of insurance, in the similar way, loss is being shared by a large number of persons instead of being borne by one. People are willing to lose a small sum in order to be certain that they will not lose a much bigger sum. In the above illustration the persons who got their houses insured are known as 'Insured'. The agency which helped them in entering into this arrangement is known as 'Insurer' or the Insurance Company. The agreement or contract between the insurer and insured is known as 'Policy'. The amount paid by the insured in return of which the insurer undertakes to make good the loss is known as 'Premium'.

Insurance has developed as a means of protecting people's assets from loss and confusion. It can be viewed as a social device that helps to minimize or remove the chance of death or property loss.

The following are the reasons for the importance of Insurance in a business:

- The Risk of company losses is reduced : Insurance offers financial assistance and mitigates the risks that people and companies face throughout their existence. It's an excellent risk-mitigation tool against incidents that could inflict financial hardship for people and businesses.
- Insurance improves the productivity of a company : When a business owner is no longer concerned with losses, he will undoubtedly devote more time to the company. The unconcerned owner will act more efficiently to maximize benefit. The fear of losing money may harm businessmen's minds. However, by minimizing the doubt, Insurance encourages business people to work harder and thus increase productivity.
- Promotes Economic Growth: By mobilizing domestic investments, the insurance industry has a direct effect on the overall economy. It is because insurance converts accrued funds into profitable investments. Insurance also allows for loss prevention, financial security, and the promotion of trade and commerce practices, both of which contribute to long-term economic growth and prosperity. As a result, Insurance is extremely important.
- Credit improvement: The policy may be used as collateral to secure a loan for the company. Because of the guarantee of reimbursement at death, insured people are receiving more loans. As a result, Insurance will assist the corporation in obtaining additional credit.
- Business continuity: In any company, especially a relationship business, the business may cease to exist if one partner dies. While the remaining partners may resume the business, both the business and the partners of the deceased will lose financially. At the time of death, the

insurance plans have sufficient money. Each partner's stake in the relationship must be secured, and his dependents may receive compensation.

7. What is 'Containerisation' ? How is it different from warehousing ? Explain. (5+5)

Ans: Containerisation refers to the technique of using specially made containers for transportation of goods. It involves carriage of goods in large box like containers that can be loaded and unloaded to and from trains, trucks, ships and air crafts by mechanical devices instead of manual labour being engaged in transferring packaged lots. Actually, containerisation is intended to eliminate Transport and Warehousing manual handling of cargo, mechanising the operation and ensuring automatic control over transfer of goods in containers from storage to carriers and from one type of carrier to another. Containers can be hauled by trucks to railway yards, docks or airports and can be transferred readily to rakes, flatcars, ships or airplanes, thus, the main advantage of containerisation is its adaptability to efficient transfer between different modes of transportation. The transfer can be made by mechanical devices with minimum use of manual labour. For sea transport, operation of larger and faster general cargo vessels has become possible due to containerisation. Specialised container ships are required for the purpose, and it involves heavy capital expenditure. Even then it is found economical since loading big containers is easier, less time consuming and less costly compared with loading of small boxes or pieces.