December 2022

ECO-01 Business Organisation

1. What is a Government Company ? How is it different from a Non-Government Company ? (4+6)

Ans: A government company is a company in which 51 per cent or more of the total paid-up capital is held by the central government or any state government or by many state governments or partly central government and partly by one or more state governments. Any company which is subsidiary of such a company is also considered a government company. Thus a government company is an enterprise wherein government is a predominant shareholder having the bulk of controlling interests, Government company is registered under Indian Companies Act. A government company is a legal entity. It is an 'artificial person' which exists in the eyes of law. Like a living being it can file a suit in a court of law or be sued, can enter into contract and acquire property in its own name.

It is managed by the Board of Directors. All the directors or the majority of them, depending on the extent of private participation, are appointed by the government. While constituting the Board the government may give representation to various interests like technocrats, labour, consumers, foreign . collaborators, etc.

Government company can use and reuse the revenue derived from the sale of its goods and services. If necessary, it can borrow money from the financial institutions and the general public.

Its employees are not civil servants. They are appointed by the company on its own terms and conditions. It regulates its personnel policies according to its Articles of Association.

The government company can be created without specific approval of Parliament. Parliament does not discuss the reasons for setting up a government company or its constitution. Thus it evades constitutional responsibility. The directors of a government company are mostly appointed by the government. So, these enterprises fail to achieve business efficiency found in similar enterprises in the private sector.

These companies are exempted from the accounting and audit rules and procedures. An auditor is appointed by the central government. By providing goods and services at reasonable prices these companies are able to control the market and curb unhealthy business practices.

Difference between Government company and Non-Government Company:

There are certain differences between a government companies and non-government company. 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.

2. Examine the problems that are involved in Foreign trade.(10)

Ans: Foreign trade involves certain problems which do not arise in connection with home trade.

The problems of foreign trade are:

i) Suitability of the product for the market: Securing information about the suitability of products in the foreign market is a challenging task for every international marketer. This involves heavy expenditure and requires special skill and knowledge. Besides, the quality and price of goods must be more attractive as compared with similar products manufactured abroad. This requires intensive market research on the potential sale of goods to be exported.

ii) Changes in supply and demand conditions: International markets are often subject to changes in the supply and demand for particular products due to the entry of new competitors, or increased competition of local producers, or because of changes in buyers preferences. These changes cannot be easily anticipated by the exporters.

iii) Frequent price changes : The price of products in the international market may be affected by different factors. The changes may be due to changes in exchange rates of the currencies of importing and exporting countries, higher import duties, or freight rates. These factors increase the risks of foreign trade a great deal.

iv) Credit risk: International trade which is generally on a large scale involves heavy amounts to be paid by the importer. The exporters often sell their products on credit and therefore have to bear the credit risk arising from the buyer's default, bankruptcy, etc.

v) Changes in exchange rate: An additional risk of foreign trade is the risk of changes in exchange rates. The rate at which the currency of importing countries can be converted into the currency of exporter may cause losses to the exporter or the importer.

vi) Rules, regulations and procedures: Every country imposes certain restrictions in the export and import of goods to protect its economic and political interests. The rules and regulations differ from country to country and are changed from time to time.

vii) Credit worthiness of importer and reliability of exporters: The value of goods involved in external trade is fairly high and the exporter has to grant credit facilities to the importer. Since there is no direct contact between exporter and importer, it is necessary that the exporter must take steps to verify the credit worthiness of the importer and importer should check the reliability of the exporter for supply of goods. This may take a long time and cause delay in the availability of gods.

viii) Transportation and cargo risks: International trade takes place either by land, air or water transport, and goods have to be transported over long distances. Water transport occupies a predominant place in transporting goods across the national boundaries because ships can carry large volumes of cargo at low cost. In spite of dl developments in transportation, the risks of loss or damage to cargo by fire, storm, collision, leakage, explosion, spoilage, etc. Exist.

ix) Time gap: The distance involved is usually greater in transporting goods from one country to another country, and hence the transit time is longer. This time gap involves exporter's capital being locked up over a long period.

x) Political and legal problems: Political risks may arise as a result of changes in governments or capture of cargo by enemies, etc. Commercial laws may be different between the trading countries.

3. What are the services that are provided by retailers in a business ? Discuss with example. (10)

Ans: As middlemen engaged in the distribution of goods, retailers deal with wholesalers and consumers. Manufacturers as well as wholesalers depend a great deal on retailers for reaching the ultimate consumers to supply various products. Retailers provide the necessary outlet for goods and thus render very useful service to the wholesalers and also to the producers indirectly. Like the wholesalers, retailers also perform a variety of functions connected with the buying and selling of goods. Briefly stated, they perform the following functions.

i. Holding ready stocks : By holding stocks, retailers supply varieties of goods of daily use to consumers. Besides, consumers are also given opportunity to make their choice from several varieties produced by different finns.
ii. Display of goods : By displaying goods on shelves or in show-cases, retailers bring new products to the notice of customers. They also keep the customers informed about the latest varieties of goods available for sale by explaining their qualities and prices. Customers are also given demonstration of new products on the sales counter.
iii. Advice to consumers : Very often retailers help the customers to make their decision to buy certain goods by advising them on the merits and use of particular varieties of products.
iv. Personal services : Apart from meeting the needs of different types of customers, retailers also offer a variety of services like home delivery, sale on credit, etc.
v. Risk bearing: A retailer has to bear different type of risks in relation to goods. While in stores, goods are exposed to various risks like deterioration in quality, spoilage and perishability etc. The products are confronted to natural risks viz; fire, flood, earthquake and other natural calamities. Other type of risks like change in customer's tastes also adversely affects the sales.
vi. Credit facilities: He caters to the needs of the customers even by supplying them goods on credit. He bears the risk of bad debts on account of non-payment of amount by the customers.

vii. Buying and Assembling: A retailer deals in different variety of goods which he purchases from different wholesalers for selling to the customers. He tries to locate best and economical source of the supply of goods.
viii. Warehousing or storing: After assembly of goods from different suppliers, the retailers preserve them in stores and supply these goods to the consumers as and when required by them. The goods are kept as reserve stocks in order to ensure uninterrupted supply to the consumers.
ix. Grading and packing: The retailer grades the goods which are left ungraded by the manufacturers and the wholesalers. He packs the goods in small packages and containers for the convenience of the customers.
x. Helps in Introducing new Products: Without the services of retailers, new products cannot be introduced properly in the market. This is so because a retailer has a direct link with the consumer. He can explain nicely about the utility and the characteristics of a new product to the customer.
xi. Window Display and Advertising: The retailer displays the products in show windows in order to attract the customers. This leads to immense publicity for the product.
xii. Estimating the demand : All retailers-big or small-have to make an estimate of the demand for different products and have to determine the nature of products that consumers need to be supplied.
xiii. Transportation : Usually the retailers are to arrange the transportation of goods procured from the wholesalers' place. Sometimes delivery is also arranged by the wholesalers on the basis of orders placed with their salesmen.

4. Describe the role of commercial banks in the economic development of a country. (10)

Ans: Commercial banks play a very important role in the economic development of the country. Banks are the nerve centre of trade, commerce and business in any country. The role of commercial banks in the economic development of a country are:

i. Collection of Deposits: Accepting deposits from the customers is one of the main function of the banks. By mobiling deposits the commercial banks help in the development of savings habit in the public. Bank deposits are not only safe but bank also earn interest on it.
ii. Facilitate Payments: Banks facilitate Payments through cheques which is a very convenient and safe mode of making payments. Cheques serve as a ready proof of the fact that the payment has been made. When payments are made by cheques, there is no need of carrying large amounts of cash and the trouble of counting is avoided.
iii. Provide Loans and Advances: Commercial banks grant loans and credit facilities to the public. Banks also allow overdraft facilities to its customers, thus providing them instant credit. Banks issue letters of credit, thus enabling businessmen to deal with strangers because payment is guaranteed.
iv. Provide Credit Information: Commercial banks provide vital information relating to the credit worthiness of their customers. Whenever a businessman deals with another businessman for the fust time, he would like to know the financial position of the other person. In such case if he refers it to his banker, who provides the necessary information.
v. Discounting of Bills: The banks lend money by discounting bills. Discounting a bill of exchange means the advancing of a loan against a promise to pay in future. This is a very popular method of lending as the loans are self liquidating.

vi. Collection of Cheques, etc.: Banks also undertake to collect the amount of cheques, drafts, bills of exchange etc. on behalf of its customers.
vii. Safety of Valuables: The banks provide safe deposit vaults (lockers) wherein valuables such as jewellery, ornaments, documents, etc., can be kept safely.
viii. Remittance of Money: If money is to be remitted to any other place, it can be done quickly through banks, Now some of the banks provide 24 hours service, wherein by giving your personal identity number, you can withdraw money at any hour of the day.

From the above we can conclude that the commercial banks play a very important role in the business world. The banks are playing a pioneering role in lending, particularly to the priority sector, constituting agriculture, small scale industries and small business.

5. “Risk is pervasive in business.” Elaborate with example. (10)

Ans: Risk is an inherent part of doing business, and it can manifest in various forms, such as financial, operational, strategic, and reputational risks. Pervasive risk is an unavoidable aspect of operating a business, and it is crucial for companies to have a robust risk management framework in place to mitigate and manage these risks.

This is how risk prevails in all the following main aspects of business:

(i) property and personnel,

(ii) marketing,

(iii) finance,

(iv) production, and

(v) environment.

(i)Property and Personnel Risks: 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.

(ii) Marketing risks: 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 example, 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 example, the fire due to electric short circuit may cause extensive damage to the goods in the storage.

(iii) Finance: 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.

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

(v) Environmental Risks: Business environment is a crucial factor for every enterprise. Environmental factors such as competition, changing tastes and preferences of consumers, technological developments, governmental policies, ecological issues, political developments, etc., have lot of impact on each and every business firm. All these environmental problems pose risks to business firms.

Risk is pervasive in business, and it is a reality that all organisations must face.

6. Discuss briefly insurable risks and non-insurable risks with suitable example. (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 Non insurable 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 Non insurable 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. Differentiate between life insurance and other forms of insurance.(10)

Term of contract: One major distinction between the two is the duration of the policy. Life insurance plans are long-term plans and require policyholders to either pay a lump sum premium, or regular monthly, quarterly, or yearly premiums for a significant amount of time. For example, 15-20 years or up to a lifetime. Other forms of insurance, on the other hand, is a short-term plan that is generally renewed yearly.

Premium payment: The premium for a life insurance policy is paid at regular intervals like monthly, quarterly, or yearly. In contrast, the premium for other types of insurance policy is paid at once, either when the policy is bought or when it is renewed.

Life insurance is an insurance related to human lives. On the other hand, other forms of insurance mostly related to property.

In life insurance, the event (ie., attainment of certain age or death of insured) is certain to happen. On the other hand, the peril may or may not occur in case of other forms of insurance.

Life insurance premiums are generally higher compared to other types of insurance due to the extended duration of coverage and the potential payout upon the policyholder's death. On the other hand, other insurances may have lower premiums but offer benefits tailored to the specific risks they cover.

Insurable interest: Life insurance typically requires an insurable interest, meaning the policyholder must have a financial interest in the insured person's life. This requirement ensures that life insurance is not used for speculative purposes and is generally limited to close family members, business partners, or individuals with a financial dependence on the insured person. In contrast, other types of insurance, like property or casualty insurance, may not have such strict requirements for insurable interest.
Life insurance does not work on the principle of indemnity whereas other forms of insurance follow principle of indemnity (compensation in the event of loss or damage).

The benefit of the policy in general insurance is enjoyed by the insured himself. In the case of life insurance, the benefit of the claim goes towards the family member nominated by the policyholder at the time of signing the contract.

8. Write short notes on any two of the following : 5+5

(a) Promoter vs. Entrepreneur

Ans: Those who are innovators and risk-bearers are strictly known as 'entrepreneurs' while those who take steps to set up the business and make it operational are known as 'promoters'. The entrepreneur is someone who comes up with the idea/solution and/or develops a business around it. Those who take steps to set up the business and make it operational are known as 'promoters'. Entrepreneurs may or may not be specialists in the field of business. Promoters are basically specialists who work to set up a new business, expand an existing business or combine two or more business firms. An entrepreneur can be a promoter but a promoter may or may not be an entrepreneur. In actual practice, such distinction does not hold well because Entrepreneurship (act of Entrepreneurs) does not remain confined only to identifying a business opportunity and his preparedness to do something new. It does not end with the entrepreneur undertaking to bear the risks of business. It also extends to planning for the business and taking necessary steps to put it into operation. After all, a business becomes a business only when it gets going. An entrepreneur is basically someone who has founded the company. A promoter, on the other hand, is someone who promotes the business. An entrepreneur is fully responsible for the company's success or failure. Promoter is responsible for getting others to invest into the business venture.

(b) Public Limited Company

Ans: A public limited company is one which is not a private limited company. A company having the following characteristics should be called a public limited company:

i) The right of the shareholder to transfer his shares is not restricted

ii) The minimum number of shareholders is 7 but there is no limit to the maximum number of members.

iii) It can invite public to subscribe for its shares and debentures.

The minimum number of members in the case of a private limited company is two and can be formed more easily as compared to a public company. It is exempted from various regulations of the Companies Act and thus combines the advantages of limited liability and the facilities of a partnership organisation. It is considered suitable for a medium sized business.

As there is no limit to the maximum number of shareholders in a public limited company, expansion of business is easy by issuing new shares and debentures. Companies normally keep part of their profits as reserve and use them for expansion.

The shares of the public limited company can be sold at any time in the stock exchange. Shareholders can sell their shares whenever they want. There is no need to take the consent of other shareholders. Thus, shareholders can convert their shares into cash at any time without much difficulty.

The member of a public limited company enjoys a statutory right to sell his shares to others without the consent of other shareholders. But for transferring the shares he has to follow the procedure laid down in the Companies Act.

A public limited company is a business that is managed by directors and owned by shareholders.

(c) Joint Hindu Family Firm

Ans: Joint Hindu Family firm is a unique form of business organisation prevailing only in India. This is the firm belonging to joint hindu family and governed by the provisions of the Hindu Law.

In Hindu Law there are two schools :

a) Mitakshara: : 1t'lis applicable to the whole of India except Bengal and Assam. According to this school, a Hindu inherits property from his father, grand father, and great grand father. Thus, three successive generations in the male line (son, grandson, and great grandson) inherit the ancestral property. They are called coparceners and the senior most member of the family is called 'Karta'.

b) Dayabhaga: It is applicable in Bengal and Assam. According to this, the male heirs become members only on the death of the father.

According to Hindu Law, a business is an inheritable asset. After the death of Hindu, the business will be jointly owned by all the coparceners. The elder person among the coparceners becomes the new Karta and manages the business. If any property is inherited from any other relative, or acquired from personal resources, such property is regarded as personal property and treated as distinct from ancestral property.

Important features of the Joint Hindu Family Firm are :

i) Business is managed by the senior member of the family called Karta. Other members do not have the right to participate in the management of the firm.

ii)Other members cannot question the authority of the Karta. Their only remedy is to get the family dissolved by mutual agreement.

iii) Karta has the power to borrow funds for the business. The liability of the Karta is unlimited whereas the other coparceners are liable only to the extent of their share in the business.

iv) If the Karta has misappropriated the funds of the business, he has to compensate the other coparceners to the extent of their shares in the joint property.

v) The death of any member of the family does not dissolve the business or the family.

vi) Through mutual agreement the joint hindu family firm can be dissolved.

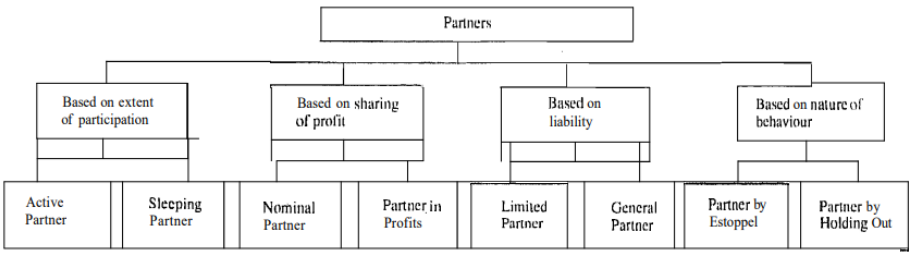
(d) Partnership Form of Organisation

Ans: A partnership is a form of business organisation in which two or more persons upto a maximum of twenty join together to undertake some form of business activity".

The persons who own the partnership business are individually called 'partners' and collectively known as the 'firm’ or 'partnership firm'. On an agreed basis, partners contribute to capital and share the responsibility of running the business.

Different partners play different roles in the operations of the firm. One partner may contribute more capital while another partner may spend more time in managing it. Depending on the role played, we can classify the partners into various categories.

Fig. 2.2
Classification of Partners



Based on the extent of participation in the functioning of the business, we can classify partners into:

(a) active partners, and

(b) sleeping partners.

a) Active partner: If a partner takes an active part in the management of the business, we call him as active partner. He is also known as a 'working partner'.

b) Sleeping partner: If the partner is not actively associated with the working of the partnership firm, we call him a sleeping partner. A sleeping business partner simply invests his capital. He does not participate in the functioning of the firm. Such a partner is also known as a 'dormant partner'.

Based on the sharing of profits, partners may be classified into: (a) nominal partners, and - (b) partner in profits.

a) Nominal partner: A partner who just lends his name to the partnership is known as a nominal partner. He neither invests his capital nor participates in the day-to-day working Business Organisation and management of the firm. Such partners are not entitled to a share of profits, but they are liable to other parties for all the acts of the firm.

b) Partner in profits: A partner who shares the profits of the business without being liable for losses is called a partner in profits. As a rule, he will not take any part in the management of the business.

Based on the behaviour and conduct exhibited, the partners may be divided into: (a) partner by estoppel, and (b) partner by holding out.

a) Partner by estoppel: A person who behaves in the public in such a fashion as to give an impression that he is one of the partners in a partnership firm is called a partner by estoppel. Such partners are not entitled to profits but are fully liable as regards the firms obligations.

b) Partners by holding out: If a particular partner of a firm represents that another person is also a partner of the firm, and if such a person does not disclaim the partnership relationship even after coming to know about it, such person is called a 'partner by holding out'. Such partners are not entitled to profits but are liable as regards the obligations of the firm.

The main features of partnership form of organisation are:

i) Plurality of persons; To form a partnership firm, there should-be at least two persons.. The maximum limit on the number of persons is ten for banking business and twenty for other types of business.

ii) Contractual relationship: Partnership is created by an agreement between persons called 'partners'. In other words, a person can become a partner only on the basis of a contract. This contract could be oral, written or implied.

iii) Unlimited liability: In respect of business debts, each partner has unlimited liability. This means that if the assets of the firms are not sufficient to meet the obligations of the firm, the partners have to pay from their private assets. The creditors can even realise the whole of their dues from one of the partners. Thus, all the partners are jointly and severally liable for all business debts and obligations.

iv) Good faith and honesty: A partnership agreement exists on good faith among the partners. The partners must be honest to each other and trust each other. They must disclose every information about the business and present true accounts to one another.

v) Restriction on transfer of share: A partner cannot transfer his share to an outsider without the consent of all the other partners.

vi) Existence of business: The purpose of the agreement among the partners is to do some lawful business and share profits. If the purpose is something other than business, it should not be treated as partnership.

vii) Profit sharing: There must be an agreement among the partners to share the profits and losses of the business of the partnership firm. This is one of the basic elements of partnership. If two or more persons jointly own some property and share its income, it is not regarded as partnership.

viii) Principal-agent relationship: The business of the firm may be carried on by all or one or more partners acting for all the partners. Every partner is entitled to take part in the operations of the firm. In dealing with other parties, each partner is entitled to represent the firm and other partners in respect of the business of the firm. All partners are bound by his acts done in the ordinary course of business and in firm's name. In this sense a partner is agent of the firm and the other partners.

Although the formation of a partnership firm is not as easy as the sole proprietorship, but it is much less difficult as compared to a company. Tile partners agree to do business together and draw up and sign the partnership agreement. There are no complex government laws regulating the establishment of the partnership.

The partnership business is also owned and run by the partners themselves. They can easily appreciate and quickly respond to the changing conditions.

In partnership firms, some secrecy can be maintained because there is no obligation to publish accounts of the firm.

Since the partnership is run on collective basis and all partners participate in major decisions. There is lesser scope for reckless and hasty decisions.

Limitations of partnership form of organisation:

Limited capital: Since there is a limit of' maximum partners (20 in non-banking firms and 10 in banking firms), the capital raising capacity of the partnership firms is limited as compared to a joint stock company.

Unlimited liability: The most important drawback of a partnership firm is that the liability of the partners is unlimited.

Uncertainty: The sudden death, lunacy or insolvency of a partner leads to the dissolution of partnership. This breeds uncertainty in the continuity of a partnership firm. However, , this could be partly avoided if such matters are specified in the partnership agreement.

Non-transferability of interest: No partner can transfer his interest in a firm without the consent of other partners.