June 2021

ECO-01 Business Organisation

PART A

1. Distinguish between any two of the following: 5+5

(a) Commerce and Trade

Ans:

Commerce	Trade
Commerce involves all the activities that aid in promoting the exchange of goods and services from the manufacturer to the last customers. Primarily, the activities are banking, transportation, advertising, warehousing, insurance, etc.	Trade is referred to as a basic economic activity that involves buying and selling of different goods and services between two or more parties involved in the transaction.
commerce includes all the activities vital to making a trade happen.	Trade has a much narrower range compared to commerce. It mainly deals with the selling and purchasing of products and does not include anything else.
The primary aim here is to generate revenue	Main purpose of trade is to satisfy the needs of both and seller and buyer.
commerce is more economical.	It has a more social perspective attached to it.
It provides a link between manufacturers and consumers.	trade provides a direct link between buyers and sellers.
commerce is a regular affair, and it occurs on a daily basis.	Trade is mostly a single time affair. It may or may not frequently occur between parties.
commerce requires less capital in scalable terms	Trade needs more scaled capital as it requires an inventory.

(b) Fixed capital and Working capital

Ans:

Fixed Capital	Working Capital
Fixed capital includes the assets or investments needed to start and maintain a business, like property or equipment.	Working capital is the cash or other liquid assets that a business uses to cover daily operations, like meeting payroll and paying bills.
Money has to be invested in some fixed or durable assets like land, buildings, machinery, equipment, furniture, etc.	Working capital is the difference between a company's current assets (what you have) and liabilities (what you owe)
Fixed capital is not at all liquid	Working capital is highly liquid.
It is not possible to convert fixed capital into cash.	Working capital can be converted into cash.
It supports the business indirectly.	It supports the business directly.

Fixed capital is invested in long-term assets.	Working capital is invested in current assets.
It is required before the business starts.	It is required after the business gets started.
Fixed capital serves the business for a very long period.	Working capital serves the business for a brief period.

(c) Bill of Lading and Shipping Bill

Ans:

Bill of Lading	Shipping Bill
Document issued by the ship owner or captain of the ship in acknowledgement of the goods taken on board the ship under the terms specified in it.	A document which contains the order passed by the Customs office for export of goods.
A bill of lading is a document that is used to acknowledge the receipt of goods and states that the goods will be delivered to the specified party.	A shipping bill is a document that is used to declare the value, quantity, and type of goods that are being shipped.
This is a document which is issue1by the master of the ship or the ship owner or an agent, stating that the goods mentioned in it have been taken on board the ship for transportation as per terms and conditions specified in it	When the goods are loaded, the Shipping Order and the Shipping Bill are to be handed over to the Mate, the captain's assistant

(d) Public Enterprise and Public Limited Company

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

(a) Relationship between banker and customer

Ans: The relationship between a banker and a customer is as follows:

i. Contractual Relationship: The primary relationship between a banker and a customer arises from a contract between the two, so it is a contractual relationship. The contract takes place the moment an account is opened by a customer with a bank and this contract remains valid till the customer operates his account as per the terms and conditions agreed between them.
ii. Debtor and Creditor Relationship: The relation of a banker and customer is primarily that of a debtor and creditor. When a customer opens an account with a bank and maintains e credit balance, the banker assumes the position of a debtor and the customer assumes the role of a creditor. Money deposited with the bank becomes a debt due from him to the customer. The banker can use the money deposited with him by the customers in any manner according to his discretion, his only obligation being to repay the debt as and when demanded by the customer.
iii. Bailee and Bailor Relationship: When a bank accepts deposits of money, he does not act as a bailee. This is so because a bailee accepts the bailment of goods on the condition that the things bailed will not be utilised by him and the identical goods will be returned. But a bank does not accept money from customer on the condition that it will not utilise the money and that the identical money (the same currency notes or coins deposited by customer) will be returned. A

banker provides for safe deposit vaults and accepts documents and valuables for safe custody. Here the bank is acting as a bailee and the relationship is that of bailee and bailor.

iv. Trustee Beneficiary Relationship: Banks also act as trustees and executors of will of customers. A trustee is required to hold property and money and use the trust money in accordance with the trust deed and use it for the benefit of some other person known as beneficiary. A customer may deposit some money with the bank for a specific purpose with specific instructions to the bank regarding its use. In such cases, the banker is the trustee of the customer's money, and the banker cannot employ them for any other purpose other than the purpose specified by the customer. The legal position of a banker as a trustee is different from that of a debtor to the customer. The relationship is determined by the particular circumstances in each case. For instance, when a bank receives a cheque from the customer for collection from another bank, the bank becomes a trustee till the amount of cheque is realised. Once the amount is credited to the customer's account, the banker assumes the position of a debtor.

v. Principal-Agent Relationship: Banks perform many agency functions such as collection of cheques or drafts or bills, collection of interest and dividends on securities, arranging for remittances and payment of insurance premiums, etc., as per the instructions of the customers. In all such cases, the bank is acting as an agent of the customer. In these cases the position of a customer is that of the principal and the position of the banker is that of the agent. Here the bank has to act according to the instructions of the customer.

(b) Direct channels of distribution

Ans: Direct Channels: When the producers sell their goods directly to the consumers it is called a direct channel. No middlemen is present between the producer and the consumer. They establish direct link with the consumers through travelling salesmen or through their own retail shops or showrooms. The producer or manufacturer may employ salesmen to book orders by contacting the potential users, and supply may be arranged from the stock held by the producer himself.

Alternatively, the producer may set up retail shops/show rooms in different localities and sell goods directly to the customers as shown below.

1. Producer --> Travelling Salesman -->Consumer

2. Producer --> Retail shop/showroom --> Consumer

(c) Listing of securities on a stock exchange

Ans: All securities issued by companies and other bodies are not traded in stock exchanges but only the listed securities are traded. Listing means addition of new securities to the existing list of securities being traded on a stock exchange. If a joint stock company or any other body who has issued new securities wants them to be traded on the floor of stock exchange and their prices duly published, it has to get the securities included in the list of the stock exchange. For listing, the company has to make an application and furnish the prescribed information to the stock exchange.

Advantages of Listing:

The main advantage of listing of securities is that the investor gets all the required information about the securities he wants to buy or sell. Certain other advantages of listing are:

1. It provides a continuous market for securities.

2. It enhances the prestige of the company.

3. It provides an indirect check against manipulation of prices by the management.

From the point of view of a company, listing of securities is beneficial in two ways:

i) it enhances credit worthiness of the company, and

ii) it widens the market of the securities. From the point of view of investors, listing provides safety of dealing and liquidity.

(d) Characteristics of an entrepreneur

Ans: 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.

PART B

Attempt any three of the following questions :

3. ‘‘Partnership form of business organisation overcomes the limitations of sole proprietorship form of organisation.’’ Discuss. (10)

Ans: Partnership organisation emerged essentially because of the limitations and failures of sole proprietorships. The sole trader organisations have limited financial resources, limited managerial ability and skills, and unlimited liability. In case of expansion more capital and more managerial skills are required. At the same time, the risk will also increase. A sole proprietor may not be able to fulfil all these requirements. A person who lacks, managerial skills may be having capital. Another person who is a good manager may not be having sufficient capital. This calls for a situation where two or more persons come together, pool their capital and skills, and organise the business. This type of business organisation is called partnership organisation. It grew essentially because of the limitations and failure of the sole proprietorships.

Limited resources: The sole trader has to depend on his own earnings or he can borrow from relatives and friends. This is because a sole trader has got limited capital and resources.

Limited managerial capacity: To carry on a modem business, knowledge and skills regarding production, finance etc., are required. His decisions may not be balanced and it is impossible for a single person to possess expertise in all the areas mentioned above.

Less stability: The business continues and remains stable till the sole trader remains alive. If he dies, there is a chance of closure of business.

No check and control: No checks and controls are there on the proprietor. As he is the only proprietor of the business, one cannot question him on his acts and deals.

Not suitable for large scale operations: Due to the limited resources, it is appropriate for small business and not for carrying out large scale operations.

Less scope for scale economies: As the sole trader operates on small scale, he cannot enjoy benefits of large scale buying or selling.

These limitations brought sole proprietorship to an end and it gave birth to partnership organizations. Partnership is an association of two or more persons who have joined together to share the profits of business carried on by all or any of them acting for all. Partners are the persons who own the partnership business. All the persons are collectively called the firm or partnership firm. Because of the merits of partnership organization, it came into existence.

More capital available: Unlike sole proprietorship, there are two or more partners in partnership firms. So, in partnership firm does not have to rely on a single individual as the source or its funds. The added financial strength of the partners increases the borrowing capacity of the firm.

Flexibility: Like sole proprietorship, the partnership business is also owned and run by the partners themselves. They can easily appreciate and quickly respond to the changing conditions.

Protection: The rights of all partners are fully protected. If a partner is not comfortable with the firm's working, he can ask for the firm's dissolution and withdraw himself from the business.

More diverse skills and expertise: A good partnership brings together those partners who complement one another and not those who have the same background and experience. One partner could be a specialist in finance, another in marketing and the third one could be in manufacturing. If all the partners give a combined judgment, the decisions would be better and balanced, and not hasty and reckless. More partners are there, that is why, partnership involves more people in decision making.

Keen interest: As the partners are liable to losses and risks of a business, they take proper and keen interest in the business affairs.

Checks and controls over careless decisions: In this form of organization, there are fewer chances for hasty and reckless decisions. This is due to the reason that a firm is run on collective basis and all the partners take part in major decisions.

Diffusion of risk: In this, one doesn't have to bear the whole amount of the loss. It is so because the losses of the firm are shared by all the partners.

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

Easy formation: 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. The partners agree to do business together and draw up and sign the partnership agreement. After that there are no complex government laws regulating the establishment of the partnership.

If more people come together they can not only pool their capital and skills but organize the business properly. A sole proprietor may not have both capital and skills to fulfill the requirements.

4. What are the main features of a Government Company? How is a Government Company different from a statutory corporation?(5+5)

Ans: According to the Indian Companies Act. 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 01. 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. k of controlling interests, Government company is registered under Indian Companies Act. When the government applied to the Registrar of Joint Stock Companies for setting up a new company, it has to follow all the rules and procedures as are applicable to private persons.

Features of a company are:

i) Created under Indian Companies Act : Government company is a corporate body created under the Indian Companies Act, 1956, like any other joint stock company in the private sector. With regard to registration, memorandum, articles, meetings, capital structure, accounts, audit, etc., it is governed by the provisions of the Companies Act. But the government has the authority to exclude or modify certain provisions of the Companies Act by special notifications duly approved by the legislature.

ii) It is a corporate body: 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 br be sued, can enter into contract and acquire property in its own name.

iii) Scope for private participation in the capital : A government company may be , wholly or partly owned by the government. In any case, the share of the government is not less than 51%. In case it is partly owned by the government, the private persons (individuals as well as corporate bodies) can also participate in the capital. Thus, there is scope for the private sector to participate in the capital.

iv) Managed by a Board of Directors : 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, labor, consumers, foreign . collaborators, etc.

v) Enjoys financial independence : Government company can use and reuse the revenue derived from [he sale of its goods and services. If necessary, it can borrow money from the financial institutions and the general public.

vi) Independent staffing : 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.

vii) Independent accounting and auditing system : It is exempted from the accounling and audit laws and procedures applicable to government departments. Its accounting practices are more akin to those of commercial enterprises and its auditors are chartered accountants appointed by the government on the advice of the CAG.

viii) Annual reports : Its annual reports and accou'nts alongwith the audit reports are to be presented to the legislature, as per the Companies Act.

Difference between Government Company and Statutory Corporation :

Government Company	Statutory Corporation
Government company is a corporate body that is created under the Indian Companies Act, 1956. It is governed by provisions of Companies Act.	Statutory corporation is a corporate body created by either Parliament or State Legislature by a special act which defines its powers, duties and functions.
Government company is managed by Board of Directors consisting of members that are nominated by the government and the elected shareholders.	Statutory corporation is managed by the Board of Directors nominated by the government .
Government pays a minimum of 51% of capital in case of government company.	Government subscribes the full capital
there is a scope for private participation in the capital if the company is partly owned by the government.	There is no scope of private participation

A government company runs on commercial principles like a private enterprise and enjoys higher degree of freedom from government interference.	A statutory corporation works as an autonomous body within the permissions of the Act. It enjoys considerable degree of autonomy with no interference of government in day-to-day activities.
It enjoys more freedom from government control. Not subject to audit budget and accounting procedures of the government.	It is subject to some restrictions of the government. It is not subject to budget, audit and accounting procedures of the govt.
government and the concerned ministry are accountable to the public.	It is accountable to the public through legislature

5. Briefly discuss various sources of long term finance of the company. (10)

Ans: To raise long-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.

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.

6. Discuss various problems of foreign trade in the Indian context. (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 goods.

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.

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.

7. ‘‘All types of business risks are insurable.’’ Comment.(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.