

BUSINESS STUDIES

CLASS-11th

Ch-1 ,Notes

Question 1. Explain the characteristics of business.

Answer : Business refers to any occupation in which people regularly engage in an activity with an objective of earning profit. The activity may consist of production or purchase of goods for sale, or exchange (If goods or supply of services to satisfy the needs of other people in the society, Business has the following characteristics

1. **Economic Activity** Business is considered to be an economic activity because it is undertaken with the aim of earning money or livelihood and not because of any sentimental reason like love, affection or sympathy.
2. **Production or Procurement of Goods and Services** Goods are offered to consumers after they are either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or it acquires them from other producers, to be further sold to consumers or users. Goods may be consumer goods like television, tea, pen, etc or capital goods like machinery, furniture, etc Services may include facilities offered to consumers in the form of transportation, banking electricity. etc.
3. **Sale or Exchange of Goods and Services** Business involves transfer or exchange of goods and services for value addition. If goods are produced for self consumption and not for selling purpose, it cannot be called a business activity Cooking food at home for the family is not business, but cooking food and selling it to others in a restaurant is business. Thus, one essential characteristic of business is that there should be sale or exchange of goods or services between the seller and the buyer.
4. **Regular Dealings in Goods and Services** Business involves dealings in goods or services on a regular basis Therefore, one Single transaction of sale or purchase does not constitute business.
e.g., if a person sells his/her old washing machine even at a profit. it will not be considered a business activity. But if he/she sells washing machines regularly it will be termed as a business.
5. **Profit Earning** One of the main objectives of business is to earn profit. No business can survive for long without earning profit. It is a source of income for business persons and a source of finance for meeting expansion requirements of business. Hence, businessmen make all possible efforts to maximise profits, by increasing the sales revenue or reducing costs.
6. **Uncertainty of Return** Uncertainty of return refers to the lack of surety relating to the amount of money-that the business is going to earn in a given period. Every business invests capital in its activities with the objective of earning profit. But it is not certain as to what amount of profit will be earned. There is even a possibility of losses being incurred even after the best efforts.
7. **Element of Risk** Risk involves the possibility of inadequate profits or even losses due to uncertainties or unexpected events. It is caused by some unfavourable or undesirable event. The risks are related with certain factors like changes in consumer tastes and fashions, changes in methods of production, strike or lockout in the work place, increased competition in the market, fire, theft, accidents, natural calamities, etc. No business can eliminate risks altogether.

Question 2. Compare business with profession and employment.

Solution Economic activities may be divided into three major categories

1. **Business** Business refers to those economic activities, which are connected with the production or purchase and sale of goods or supply of services with the main object of earning profit. People engaged in business earn income in the form of profit.
2. **Profession** Profession includes those activities, which require special knowledge and skill to be applied by individuals in their occupation. Those engaged in professions are known as professionals and are generally subject to guidelines or codes of conduct laid down by professional bodies. e.g., lawyers are engaged in the legal profession, governed by the Bar Council of India and Chartered Accountants belonging to the accounting profession are subject to the regulations of the Institute of Chartered Accountants of India.
3. **Employment** Employment refers to the occupation in which people work for others and get remunerated in return. Those who are employed by others are known as employees. Thus, people who work in factories, offices of banks, insurance companies or government department, etc at various posts are the employees of these organisations. They receive wages and salaries.

Comparison of Business, Profession and Employment

Basis	Business	Profession	Employment
Mode of establishment	Entrepreneur’s decision and other legal formalities if Necessary.	Membership of a professional body and certificate of Practice.	Appotnment letter and service agreement.
Nature of work	Provision Of goods and services to the public	Rendering of Personalised, expert services.	Performing work as per servrce contract or rules of service.
Qualification	No rrunimum qualification is necessary.	Expertise and training In a specific field is a must.	Qualification and training as prescribed by the Employer
Reward or return	Profit earned.	Professionnal fee.	Salary or wages.
Capital investment	Capital Investment required as per size and nature of business.	Limited capital needed for establishment.	No capital required.

Risk	Profit are uncertain and irregular; risk is present.	Fee is generally regular and certain; some Risk	Fixed and regular Pay; no or little risk.
Transfer of interest	Transfer possible with some Formalities.	Not possible.	Not possible.
Code of conduct	No code of conduct is prescribed.	Professional code of conducts is to be followed.	Norms of behaviour laid down by the employer are to be Followed.

Question 3. Explain with examples the various types of industries.

Answer : Industry refers to economic activities, which are connected with conversion of resources into useful goods. Industry is concerned with the production or processing of goods and materials as well as breeding and raising of animals. The term industry is used for activities in which mechanical appliances and technical skills are involved. The term industry is also used to mean groups of firms producing similar or related goods. SeNices such as banking and transport are also referred to as industries sometimes. Industries may be divided into three broad categories namely primary, secondary and tertiary.

(i) Primary Industries These Include all those activities, which are connected with the extraction and production of natural resources and reproduction and development of living organisms, plants etc.

These industries may be further subdivided as follows

- **Extractive Industries** These industnes extract or draw out products from natural sources Extractive Industries are suppliers of basic raw malenals that are mostly products of the geographical or natural environment products of these Industries are usually transformed into useful goods by manufactunng mdustnes Farming, mining. lumbering. hunting and fishing-operations are some important extractive industries.
- **Genetic Industries** These industries- are concerned with breeding of plants and animals for their use in further reproducton Seeds and nursery companies canle breeding farms. poultry farms, and fish hatchery are examples of genetic Industries

(ii) Secondary Industries These are concerned with USing and processing the materials. which have already been extracted by the primary sector to produce goods for final consumption or for further processing by other industrial units e g., the iron ore extracted by mining which is a primary industry. is processed Into steel and hence. steel Industry is a secondary industry Secondary industries may be further divided as follows

(a) **Manufacturing Industries** These industries are engaged In producing goods for Intermediate or linal consumption through processing of raw materials and thus creating form utilities. Manufacturing industries may be further divided Into four categories on the basis of method of operation for production.

- Analytical Industry Which analyses and separates different elements from the same materials, e.g. oil refinery
- Synthetical Industry Which combines various Ingredients Into a new product. e.g. cement industry
- Processing Industry Which involves successive stages for manufacturing finished products, e.g. sugar and paper industries.
- Assembling Industry Which assembles different component parts to make a new product. e.g. car and computer industries.

(b) Construction Industries These industries are Involved in the construction of buildings, dams, bridges, roads, tunnels and canals. Engineering and architectural skills play an Important role in construction industries. These Industries are Important for infrastructure development.

(iii) Tertiary Industries These comprise of support services to primary and secondary industries as well as activities relating to trade These industries provide service facilities. These may be considered as a part of commerce because as auxiliaries to trade they assist trade. Transport, banking, insurance, warehousing, communication, packaging and advertising are examples of tertiary industries.

Question 4. Describe the activities relating to commerce.

Answer : Commerce includes two types of activities, viz., (i) trade and (ii) auxiliaries to trade. Buying and selling of goods is termed as trade. On the other hand, activities that are required to facilitate the purchase and sale of goods are called services or auxiliaries to trade. The various activities included in commerce are discussed below
 (i) Trade The hindrance of persons is removed by trade thereby making goods available to the consumers from the producers. Trade is an essential part of commerce. It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to ultimate consumers or users. Businessmen are engaged in trading activities as middlemen like wholesalers and retailers to make the goods produced at a large scale in one place, available to consumers in different markets. Trade may be internal or external.

(ii) Auxiliaries to Trade Activities which are meant for assisting trade are known as auxiliaries to trade. These activities are generally, referred to as services because these are in the nature of support service facilitating the activities relating to industry and trade. These activities help in removing various hindrances which arise in connection with the production and distribution of goods. Auxiliaries to trade are briefly discussed below

- Transport and Communication Transport removes the hindrances of place. Transport facilitates through road, rail or coastal shipping facilitate movement of raw material to the place of production and the finished products from factories to the place of consumption. Along with the transport facility, there is also a need for communication facilities to enable the producers, traders and consumers to exchange information with one another. Thus, postal services and telephone facilities are also regarded as auxiliaries to business activities.

- Banking and Finance Capital required to acquire assets and meeting the day-to-day expenses is provided by banking and financing institutions. Commercial banks lend money to business organisations by providing: loans and advances. Banks also undertake collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders. In foreign trade, payments are arranged by commercial banks on behalf of importers and exporters.
- Insurance The risk of loss or damage to the factory building, machinery, furniture, goods held in stock or goods in course of transport due to theft, fire, accidents, etc is removed by insurance of goods. By payment of a nominal premium, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.
- Warehousing Storage and warehousing activities remove the hindrance of time by facilitating holding of stocks of goods to be sold as and when required. Warehousing helps business firms to overcome the problem of storage to prevent loss or damage and facilitates the availability of goods when needed Continuous supply of goods and thus stable prices can thus be maintained
- Advertising Advertising makes it possible for producers and traders to promote the goods and services available in the market thus removing the hindrance of information. It is practically impossible for producers and traders to contact each and every customer Advertising helps in providing information about the goods available its features, price, etc, and Inducing customers to buy particular items.

Question 5. Why does business need multiple objectives? Explain any five such objectives.

Answer : Need for Multiple Objectives It is generally believed that profit earning is the primary objective of business. However, as per modern thinking, business needs to have several objectives. Consistent and sustainable profit can be earned only if the business performs useful services to society BUSINESS requires multiple objectives since it has to balance a number of needs and goals related to various aspects of society. Following only one objective cannot lead business towards excellence. Objectives are needed in every area where performance and results affect the survival and prosperity of business. Five of the objectives of business are described below
 (i) Profit Maximisation Profit is defined as excess of revenue over cost Profitability refers to profit in relation to capital Investment Although earning profit cannot be the only objective of business, its importance cannot be ignored. Every business makes an attempt to reap maximum profit as possible in the given market conditions. Profit may be regarded as an essential objective of business for various reasons

- It is a source of income for business persons.
- It can be a source of finance for meeting expansion requirements of business.
- It indicates the efficient working of business.
- It can be taken as society's approval of the utility of business. (e) It builds up the reputation of a business enterprise.

(ii) Market Standing Market standing refers to the position of an enterprise in relation to its competitors. A business enterprise must aim at standing on stronger footing in terms of offering competitive products to its customers and provide customer satisfaction.

(iii) Innovation Innovation is the introduction of new ideas or methods.

There are two kinds of innovation in every business

- **Product Innovation** In product innovation a new product or service or an improved version of existing product is developed
- **Process Innovation** This involves innovation in the methods, skills and activities needed to produce or supply products.

Product demand starts declining after a span of time. At this stage, the business must introduce a new innovation to create fresh demand for the existing product by introducing new features in it or bring out a new product to sustain in the market.

(iv) **Productivity** Productivity is calculated by comparing the value of outputs with the value of inputs. It is used as a measure of efficiency. Higher productivity leads to reduction in costs as the same amount of output is produced with lesser amount of inputs. This ensures survival and growth of the enterprise.

(v) **Social Responsibility** Every business operates within a society. It uses the resources of the society and depends on the society for its functioning. This creates an obligation on the part of business to look after the welfare of society. So, all the activities of the business should be such that they will not harm, rather they will protect and contribute to the interests of the society. The activities of business towards the welfare of the society earn goodwill and reputation for the business in the eyes of consumers as well as government.

Question 6. Explain the concept of business risk and its causes.

Answer : The term 'business risk' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. e.g., decline in demand for a product due to change in tastes and preferences of consumers resulting in lesser sales and profits; shortage of raw materials in the market leading to rise in its price and in turn raising cost for the business which uses them thereby reducing profits.

Business risk is of two types

(i) **Speculative Risks** involve both the possibility of gain as well as the possibility of loss. Speculative risks arise due to changes in market conditions including fluctuations in demand and supply, changes in prices or changes in fashion and tastes of customers.

(ii) **Pure Risks** involve only the possibility of loss or no loss. The chance of fire, theft or strike is example of pure risks. Their occurrence may result in loss whereas non-occurrence may explain absence of loss, instead of gain.

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

- **Natural Causes** Natural calamities like flood, earthquake, lightning, heavy rains, famine etc are beyond human control. They result in heavy loss of life, property and income.
- **Human Causes** Human causes include such unexpected events like carelessness, negligence or dishonesty of employees, stoppage of work due to power failure, strikes, riots, management inefficiency etc.

- **Economic Causes** These include uncertainties caused due to economic fluctuations such as changes in demand for goods, competition, price, collection of dues from customers, change of technology or method of production, etc. Financial problems like rise in interest rate and higher taxation, etc. also come under economic causes as they raise the cost of operation of business unexpectedly.
- **Other Causes** These are unforeseen events like political disturbances, mechanical failures, fluctuations in exchange rates, etc. which lead to the possibility of business risks.

Question 7. What factors are important to be considered while starting a business? Explain.

Answer : Business firms encounter some basic problems while starting a business. Various decisions have to be taken regarding the business while starting it. Some of the basic factors to be considered while starting a business are as follows

1. **Selection of Line of Business** The first thing to be decided by any entrepreneur of a new business is the nature and type of business to be undertaken. One should enter an industry which is in growth phase and thus has a higher possibility of profits. Technical knowledge and interest the entrepreneur has for producing a particular product is also important in this regard.
2. **Size of the Firm** Size of the firm refers to the scale of its operation. Business can be started at a large scale if the entrepreneur is confident that the demand for the proposed product is likely to be high over time and he has the necessary skills and capital for business. Business should be started at a small or medium scale if the market conditions are uncertain and risks are high.
3. **Form of Ownership** There are various forms of ownership in a business organisation like sole proprietorship, partnership or a joint stock company. The choice of the suitable form of ownership will depend on such factors as the capital requirements, liability of owners, division of profit, transferability of interest and so on.
4. **Location of Business Enterprise** Plant location is an important factor to be considered at the start of the business. Availability of raw materials and labour; power supply and services like banking, transportation, communication, warehousing, etc. are important factors while making a choice of location.
5. **Financing Decisions** Financing is concerned with providing the necessary capital for starting as well as for continuing the proposed business. Capital is required for investment in fixed assets and current assets. Proper financial planning must be done to determine the requirement, source and allocation of funds.
6. **Physical Facilities** Availability of physical facilities including machines and equipment building and supportive services is a very important factor to be considered at the start of the business. The decision relating to this factor will depend on the nature and size of business, availability of funds and the process of production.
7. **Plant Layout** Plant layout refers to a layout plan showing the arrangement of physical facilities such as machines and equipments for production. It should be drawn by the entrepreneur after deciding about the scale of operation and physical facilities to be acquired.
8. **Competent and Committed Employees** In present time, the most crucial resource for a business is the human resource. Every business depends on the competence and commitment of its work force to perform various activities so that physical and financial resources are converted into desired outputs in an efficient and effective manner.

9. Tax Planning Every business has to pay certain taxes as levied by the government. Tax planning and management for reducing tax liability as far as possible is acceptable both legally and ethically. The entrepreneur must consider in advance the tax liability under various tax laws and its impact on business decisions.
10. Launching the Enterprise After the decisions relating to the above-mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise which would mean mobilising various resources, fulfilling necessary legal formalities, starting the production process and initiating the sales promotion campaign.