

# SHORT ANSWER QUESTIONS

Q1] DEFINE BUSINESS. WHAT ARE ITS CHARACTERISTICS?

ANS. DEFINITION OF BUSINESS: ACCORDING TO L.H. HANEY, BUSINESS CAN BE DEFINED AS A “HUMAN ACTIVITY DIRECTED TOWARDS PRODUCING OR ACQUIRING WEALTH THROUGH BUYING AND SELLING OF GOODS.”

THEREFORE BUSINESS CAN BE DEFINED AS AN ECONOMIC ACTIVITY WHICH INVOLVES REGULAR EXCHANGE OF GOODS OR SERVICES FOR A PRIZE WITH AN OBJECTIVE OF EARNING PROFITS AND ACQUIRING WEALTH BY SATISFYING HUMAN WANTS.

CHARACTERISTIC FEATURES OF BUSINESS: FOLLOWING ARE THE CHARACTERISTIC FEATURES OF BUSINESS

1. CREATION OF UTILITIES: BUSINESS MAKES GOODS MORE USEFUL TO SATISFY HUMAN WANTS. IT ADDS TIME, PLACE, FORM AND POSSESSION UTILITIES TO VARIOUS TYPES OF GOODS. IT CARRIES GOODS FROM PLACE OF PRODUCTION TO PLACE OF CONSUMPTION (PLACE UTILITY). IT MAKES GOODS AVAILABLE FOR USE IN FUTURE THROUGH STORAGE (TIME UTILITY).
2. DEALS WITH GOODS AND SERVICES: EVERY BUSINESS ENTERPRISE PRODUCES OR BUYS GOODS AND SERVICES FOR SELLING THEM TO OTHERS FOR A PROFIT. GOODS CAN BE CONSUMER GOODS OR PRODUCER GOODS.
  - A. CONSUMER GOODS: CONSUMER GOODS ARE MEANT FOR DIRECT USE BY ULTIMATE CONSUMERS. EG: BREAD, TEA, SHOES.
  - B. PRODUCER GOODS ARE USED FOR PRODUCTION OF CONSUMER OR CAPITAL GOODS LIKE RAW MATERIAL, MACHINERY ETC.

SERVICES LIKE TRANSPORT, BANKING, WAREHOUSING, INSURANCE ETC MAY BE CONSIDERED AS IN TANGIBLE AND INVISIBLE GOODS. SERVICES FACILITATES BUYING AND SELLING OF GOODS BY OVERCOMING VARIOUS HINDRANCES IN TRADE.

3. CONTINUITY IN DEALINGS: DEALINGS IN GOODS AND SERVICES BECOMES BUSINESS ONLY IF UNDERTAKEN ON A REGULAR BASIS. A SINGLE TRANSACTION OF PURCHASE OR SALE DOES NOT CONSTITUTE BUSINESS, IT SHOULD BE RECURRING. FOR INSTANCE, IF A PERSON SELLS HIS OLD CAR IT IS NOT BUSINESS THOUGH THE SELLER GETS MONEY IN EXCHANGE. BUT IF HE OPENS A SHOP AND SELLS CARS REGULARLY, IT WILL BECOME BUSINESS. THEREFORE REGULARITY OF DEALINGS IS AN ESSENTIAL FEATURE OF BUSINESS.

4. SALE, TRANSFER OR EXCHANGE: ALL BUSINESS ACTIVITIES INVOLVES TRANSFER OR EXCHANGE OF GOODS AND SERVICES FOR SOME CONSIDERATION. THE CONSIDERATION, CALLED PRICE, IS USUALLY EXPRESSED IN TERMS OF MONEY. FOR EXAMPLE, IF A PERSON COOKS AND SERVES FOOD TO HIS FAMILY, IT IS NOT BUSINESS. BUT WHEN HE COOKS FOOD IN A RESTAURANT AND SELL IT TO OTHERS FOR A PRICE, IT BECOMES BUSINESS.
5. PROFIT MOTIVE: THE PRIMARY OBJECTIVE OF BUSINESS IS TO EARN PROFITS. PROFITS ARE ESSENTIAL FOR SURVIVAL AS WELL AS GROWTH OF BUSINESS. HOWEVER PROFITS MUST BE EARNED THROUGH LEGAL AND FAIR MEANS. BUSINESS SHOULD NEVER EXPLOIT SOCIETY TO MAKE MONEY.
6. RISK AND UNCERTAINTY: RISK IS A PART AND PARCEL OF BUSINESS CHANGES IN CUSTOMERS TASTE AND FASHION, DEMAND, COMPETITION, GOVERNMENT POLICIES ETC., CREATE RISK. FLOODS, FIRE, STRIKE BY EMPLOYEES, EARTHQUAKES, THEFT ETC ALSO CAUSES LOSS. A BUSINESS MAN CAN REDUCE RISK THROUGH CORRECT FORECASTING AND INSURANCE BUT ALL RISKS CANNOT BE ELIMINATED.
7. ECONOMIC ACTIVITY: BUSINESS IS PRIMARILY AN ECONOMIC ACTIVITY AS IT INVOLVES PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES FOR EARNING MONEY. HOWEVER IT IS ALSO A SOCIAL INSTITUTION BECAUSE IT HELPS TO IMPROVES LIVING STANDARD OF PEOPLE THROUGH EFFECTIVE USE OF SCARCE RESOURCES OF SOCIETY. ONLY ECONOMIC ACTIVITIES ARE INCLUDED IN BUSINESS. NON ECONOMIC ACTIVITIES DO NOT FORM PART OF A BUSINESS.
8. ART AS WELL AS SCIENCE: BUSINESS IS AN ART BECAUSE IT REQUIRES PERSONAL SKILLS AND EXPERIENCE. IT IS ALSO A SCIENCE BECAUSE IT IS BASED ON CERTAIN PRINCIPLES AND LAWS.

THE ABOVE MENTIONED CHARACTERISTICS ARE COMMON TO ALL BUSINESS ENTERPRISES IRRESPECTIVE OF THEIR NATURE, SIZE AND FORM OF OWNERSHIP.

Q2] EXPLAIN THE OBJECTIVES OF BUSINESS.

ANS. OBJECTIVES OF BUSINESS:

EVERY BUSINESS ENTERPRISE HAS CERTAIN OBJECTIVES. OBJECTIVES OF BUSINESS ARE CLASSIFIED INTO FOUR CATEGORIES.

A. ECONOMIC OBJECTIVES    B. SOCIAL OBJECTIVES.    C. HUMAN OBJECTIVE

D. HUMAN OBJECTIVES

A. ECONOMIC OBJECTIVES: BUSINESS IS BASICALLY AN ECONOMIC ACTIVITY THEREFORE ITS PRIMARY OBJECTIVES ARE ECONOMIC IN NATURE WHICH ARE AS FOLLOWS.

1. EARNING PROFITS: A BUSINESS IS FORMED FOR EARNING SOME INCOME. IT IS THE HOPE OF EARNING PROFITS THAT INSPIRES PEOPLE TO START A BUSINESS JUST AS A PERSON CANNOT LIVE WITHOUT FOOD, A BUSINESS FIRM CANNOT SURVIVE WITHOUT PROFITS THEREFORE PROFITS ARE ESSENTIAL FOR THE SURVIVAL OF BUSINESS. PROFITS ARE ALSO NECESSARY FOR EXPANSION AND GROWTH OF BUSINESS.

2. CREATING CUSTOMER: A BUSINESSMAN CAN EARN PROFITS ONLY WHEN THERE ARE ENOUGH CUSTOMERS TO BUY AND PAY FOR HIS GOODS AND SERVICES. THE CUSTOMER IS THE FOUNDATION OF THE BUSINESS AND IT IS HE (CUSTOMER) WHO KEEPS BUSINESS IN EXISTENCE NO BUSINESS CAN SUCCEED WITHOUT PROVIDING VALUE FOR CUSTOMERS MONEY. TO EARN PROFITS, BUSINESS MUST SUPPLY GOOD QUALITY GOODS AND SERVICES AT REASONABLE PRICES.THEREFORE CREATION AND SATISFACTION OF CUSTOMERIS AN IMPORATANT ECONOMIC OBJECTIVE OF BUSINESS.

3. INNOVATION: INNOVATION REFERS TO CREATION OF NEW THINGS RESULTING FROM STUDY AND EXPERIMENTATION, REASEARCH AND DEVELOPMENT. INNOVATION IS NOT CONFINED TO INVENTION OF NEW MACHINES BUT ALSO COMPRISES ALL EFFORTS TO MAKE THE PRODUCT PERFECT, MINIMISE THE CAUSE AND MAXIMISE BENEFITS TO THE CUSTOMERS. BUSINESS FIRMS INVEST MONEY, TIME, AND EFFORTS IN RESEARCH AND DEVELOPMENT (R&D) TO INTRODUCE INNOVATION.

B. SOCIAL OBJECTIVES: BUSINESS IS A PART OF SOCIETY. IT CANNOT SURVIVE AND GROW WITHOUT THE SUPPORT OF SOCIETY. THEREFORE BUSINESS SHOULD DISCHARGE ITS SOCIAL RESPONSIBILITY TOWARDS SOCIETY IN ADDINTION TO EARNING PROFITS. ACCORNING TO HENRY FORD “THE PRIMARY OBJECTIVE OF BUSINESS SHOULD BE SERVICE AND SECONDARY OBJECTIVE SHOULD BE EARNING OF PROFITS.” SOCIAL OBEJCTIVE OF BUSINESS ARE AS FOLLOWS.

1. SUPPLYING DESIRED GOODS AT REASONABLE PRICES: BUSINESS IS EXPECTED TO SUPPLY THE GOODS AND SERVICES REQUIED BY THE SOCIETY. GOODS AND SERVICES SHOULD BE OF GOOD QUALITY AND ALSO BE SUPPLIED AT REASONABLE PRICES. IT IS ALSO SOCIAL RESPONSIBILITY OF BUSINESS TO AVOID MALPRACTICES LIKE SMUGGLING, BLACK MARKETING, AND MISLEADING ADVERTISING.

2. FAIR REMUNERATION TO EMPLOYEES: EMPLOYEES MUST BE GIVEN FAIR COMPENSATION FOR THEIR WORK. IN ADDITION TO WAGES AND SALARIES A REASONABLE PART OF PROFITS SHOULD BE DISTRIBUTED AMONG EMPLOYEES BY WAY OF BONUS. SUCH SHARING OF PROFIT WILL HELP TO MOTIVATE EMPLOYEES. IT IS ALSO THE RESPONSIBILITY OF BUSINESS TO PROVIDE HEALTHY AND SAFE WORK ENVIRONMENT FOR EMPLOYEES. EMPLOYEES WORK DAY AND NIGHT FOR SMOOTH FUNCTIONING OF BUSINESS HENCE IT IS THE DUTY OF THE EMPLOYERS TO PROVIDE GOOD WORKING CONDITION FOR WORKERS.
  3. EMPLOYMENT GENERATION: BUSINESS SHOULD PROVIDE OPPORTUNITIES FOR EMPLOYMENT FOR THE MEMBERS OF THE SOCIETY. IN A COUNTRY LIKE INDIA WHERE UNEMPLOYMENT HAS BECOME A SERIOUS PROBLEM AND WHERE NO GOVERNMENT CAN PROVIDE JOBS TO ALL, BUSINESS SHOULD TRY TO PROVIDE GOOD EMPLOYMENT OPPORTUNITIES TO SOCIETY.
  4. SOCIAL WELFARE: BUSINESS SHOULD PROVIDE SUPPORT TO SOCIAL, CULTURAL AND RELIGIOUS ORGANISATIONS. BUSINESS ENTERPRISES CAN BUILD SCHOOLS, COLLEGES, LIBRARIES, HOSPITALS, SPORTS BODIES, RESEARCH INSTITUTIONS AND DHARAMSHALAS ETC. BUSINESS CAN HELP NON GOVERNMENT ORGANISATIONS (NGOs) LIKE CRY (CHILD RELIEF AND YOU), HELP AGE AND OTHERS WHICH RENDER SERVICES TO WEAKER SECTIONS OF SOCIETY.
  5. PAYMENT OF GOVERNMENT DUES: EVERY BUSINESS ENTERPRISE SHOULD PAY TAX DUES (INCOME TAX, SALES TAX, EXCISE DUTY, CUSTOMS DUTY ETC) TO THE GOVERNMENT HONESTLY AND AT THE RIGHT TIME. THESE DIRECT AND INDIRECT TAXES PROVIDE REVENUE TO THE GOVERNMENT FOR SPENDING ON PUBLIC WELFARE. BUSINESS SHOULD ALSO COMPLY WITH LAWS OF THE COUNTRY.
- C. HUMAN OBJECTIVES: BUSINESS IS RUN BY THE PEOPLE AND FOR THE PEOPLE. LABOUR IS A VALUABLE HUMAN ELEMENT IN BUSINESS. HUMAN OBJECTIVES OF BUSINESS ARE CONNECTED WITH WELL BEING OF LABOUR AND ARE DISCUSSED AS FOLLOWS:
1. LABOUR WELFARE: BUSINESS MUST RECOGNISE DIGNITY OF LABOUR AND HUMAN SHOULD BE GIVEN IMPORTANCE NECESSARY FACILITIES SHOULD BE MADE FOR HEALTH, SAFETY AND SOCIAL SECURITY OF EMPLOYEES.
  2. DEVELOPING HUMAN RESOURCES: HUMAN RESOURCE IS THE MOST VALUABLE ASSET OF THE BUSINESS AND DEVELOPMENT OF HUMAN RESOURCE LEADST TO GROWTH OF BUSINESS. THIS CAN BE DONE BY TRAINING TO EMPLOYEES AND CONDUCTING WORKSHOPS ON SKILL DEVELOPMENT AND ATTITUDE. DEVELOPMENT OF SKILLED MAN POWER IS NECESSARY FOR ECONOMIC DEVELOPMENT OF THE COUNTRY.
  3. PARTICIPATIVE MANAGEMENT: EMPLOYEES SHOULD BE ALLOWED TO TAKE PART IN DECISION MAKING PROCESS OF BUSINESS, THIS WILL HELP IN DEVELOPMENT OF EMPLOYEES.

4. LABOUR MANAGEMENT CO OPERATION: BUSINESS SHOULD STRIVE FOR CREATING AND MAINTAINING CORDIAL EMPLOYER-EMPLOYEE RELATIONS SO AS TO ENSURE PEACE AND PROGRESS IN INDUSTRY.

D. NATIONAL OBJECTIVES: FOLLOWING ARE NATIONAL OBJECTIVES OF BUSINESS.

1. OPTIMUM UTILISATION OF RESOURCES: BUSINESS SHOULD USE NATIONS RESOURCES IN BEST POSSIBLE MANNER. WASTAGE OF SCARCE RESOURCES IS A LOSS NOT ONLY TO BUSINESS BUT ALSO TO THE NATION. BUSINESS SHOULD PRODUCE GOODS IN ACCORDANCE WITH NATIONAL PRIORITIES AND SHOULD MINIMISE WASTAGE OF SCARCE NATURAL RESOURCES.

2. NATIONAL SELF – RELIANCE: IT IS THE DUTY OF THE BUSINESS TO HELP THE GOVERNMENT FOR INCREASING EXPORTS AND TO DECREASE DEPENDENCE ON IMPORTS. THIS WILL HELP A COUNTRY TO ACHIEVE ECONOMIC INDEPENDENCE.

3. DEVELOPMENT OF SMALL SCALE INDUSTRIES: BIG BUSINESS FIRMS ARE EXPECTED TO ENCOURAGE GROWTH OF SMALL SCALE INDUSTRIES WHICH ARE NECESSARY FOR GENERATING EMPLOYMENT. SMALL SCALE FIRMS CAN BE DEVELOPED AS ANCILLARIES WHICH PROVIDE INPUTS TO LARGE SCALE INDUSTRIES.

4. DEVELOPMENT OF BACKWARD AREAS: BUSINESS IS EXPECTED TO GIVE PREFERENCE TO INDUSTRIALISATION OF BACKWARD REGIONS OF THE COUNTRY. BALANCED REGIONAL DEVELOPMENT IS NECESSARY FOR PEACE AND PROGRESS OF THE COUNTRY. THIS WILL ALSO HELP TO RAISE STANDARD OF LIVING IN BACKWARD AREAS. GOVERNMENT ALSO OFFERS SPECIAL INCENTIVES TO BUSINESSMEN WHO SETUP FACTORIES IN NOTIFIED BACKWARD AREAS.

Q3] WHAT IS INDUSTRY. EXPLAIN VARIOUS TYPES OF INDUSTRIES?

ANS. MEANING OF INDUSTRY: THE PRODUCTION SIDE OF BUSINESS ACTIVITY IS REFERRED TO AS INDUSTRY. IT IS A BUSINESS ACTIVITY, WHICH IS RELATED TO EXTRACTING, PRODUCING, PROCESSING OR MANUFACTURING OF GOODS.

THE GOODS MAY BE CONSUMER GOODS OR PRODUCER GOODS. CONSUMER GOODS ARE THE GOODS, WHICH ARE USED FINALLY BY CONSUMER E.G. FOOD GRAINS, TEXTILES, COSMETICS, VCR ETC. PRODUCER'S GOODS ARE THE GOODS USED BY MANUFACTURERS FOR PRODUCING SOME OTHER GOODS. E.G. MACHINERY, TOOLS, EQUIPMENTS ETC.

CLASSIFICATION/TYPES OF INDUSTRY: THE VARIOUS TYPES OF INDUSTRIES ARE AS FOLLOWS:

- 1) PRIMARY INDUSTRY: PRIMARY INDUSTRY IS CONCERNED WITH PRODUCTION OF GOODS WITH THE HELP OF NATURE. IT'S A NATURE ORIENTED INDUSTRY, WHICH REQUIRE VERY LITTLE HUMAN EFFORT. E.G. AGRICULTURE, FARMING, FORESTRY, FISHING, HORTICULTURE ETC.
  
- 2) GENETIC INDUSTRY: GENETIC INDUSTRIES ARE ENGAGED IN RE-PRODUCTION AND MULTIPLICATION OF CERTAIN SPECIES OF PLANTS AND ANIMALS WITH AN OBJECT OF SALE. THE MAIN AIM IS TO EARN PROFIT FROM SUCH SALE. E.G. PLANT NURSERIES, POULTRY, CATTLEBREEDING ETC.
  
- 3) EXTRACTIVE INDUSTRY: EXTRACTIVE INDUSTRY IS CONCERNED WITH EXTRACTION OR DRAWING OUT GOODS FROM SOIL, AIR OR WATER. GENERALLY PRODUCTS OF EXTRACTIVE INDUSTRIES COME IN RAW FORM AND THEY ARE USED BY MANUFACTURING AND CONSTRUCTION INDUSTRIES FOR PRODUCING FINISHED PRODUCTS. E.G. MINING INDUSTRY, COAL, MINERAL, OIL INDUSTRY, IRON ORE, EXTRACTION OF TIMBER AND RUBBER FROM FORESTS ETC.
  
- 4) MANUFACTURING INDUSTRIES: MANUFACTURING INDUSTRIES ARE ENGAGED IN CONVERTING RAW MATERIALS INTO FINISHED PRODUCTS WITH THE HELP OF MACHINES AND MANPOWER. THE FINISHED GOODS CAN BE EITHER CONSUMER GOODS OR PRODUCER GOODS. E.G. TEXTILES, CHEMICALS, SUGAR INDUSTRY, PAPER INDUSTRY ETC.

A] ANALYTICAL: IN AN ANALYTICAL INDUSTRY THE BASIC RAW MATERIAL IS BROKEN INTO SEVERAL USEFUL MATERIALS. FOR INSTANCE, IN AN OIL REFINERY, CRUDE OIL IS REFINED AND SEVERAL PETROLEUM PRODUCTS ARE OBTAINED.

B] SYNTHETIC: IN THIS TYPE OF MANUFACTURING INDUSTRY TWO OR MORE MATERIALS ARE MIXED TO FORM A NEW PRODUCT. FOR INSTANCE, COSMETICS, SOAP, FERTILIZERS, PAINT INDUSTRY ETC.

C] PROCESSING: IN THE PROCESSING INDUSTRY, MATERIAL IS PROCESSED THROUGH VARIOUS STAGES. FOR EXAMPLE, IN THE TEXTILES INDUSTRY, COTTON PASSES THROUGH THE SPINNING, WEAVING, DYING, BLEACHING AND PRINTING PROCESSES.

D] ASSEMBLING: IN THIS TYPE OF INDUSTRY, MANUFACTURED COMPONENTS OR PARTS ARE COMBINED TOGETHER MECHANICALLY OR CHEMICALLY TO PRODUCE A NEW PRODUCT. MANUFACTURE OF T.V. SETS, WATCHES AND AUTOMOBILES ARE THE EXAMPLES OF ASSEMBLING INDUSTRIES.

5) CONSTRUCTION INDUSTRY: CONSTRUCTION INDUSTRIES TAKE UP WORK OF CONSTRUCTION OF BUILDINGS, BRIDGES, ROADS, DAMS, CANALS ETC. THIS INDUSTRY IS DIFFERENT FROM ALL OTHER TYPES OF INDUSTRIES BECAUSE IN CASE OF OTHER INDUSTRIES GOODS CAN BE PRODUCED AT ONE PLACE AND SOLD AT ANOTHER PLACE WHEREAS GOODS PRODUCED AND SOLD BY CONSTRUCTIVE INDUSTRIES ARE ERECTED AT ONE PLACE.

6) SERVICE INDUSTRY: IN MODERN TIMES, SERVICE SECTOR PLAYS AN IMPORTANT ROLE IN DEVELOPMENT OF NATION AND THEREFORE IT IS NAMED AS SERVICE INDUSTRY. HOTEL INDUSTRY, TOURISM INDUSTRY, ENTERTAINMENT INDUSTRY ETC ARE SOME OF THE MAIN INDUSTRIES WHICH FALL UNDER THE CATEGORY OF SERVICE INDUSTRY.

Q4] WHAT ARE THE FEATURES OF JOINT HINDU FAMILY. EXPLAIN THE MERITS AND DEMERITS OF JOINT HINDU FAMILY.

ANS. MEANING OF JOINT HINDU FAMILY BUSINESS: THE JOINT HINDU FAMILY (JHF) BUSINESS IS A FORM OF BUSINESS ORGANISATION RUN BY HINDU UNDIVIDED FAMILY (HUF), WHERE IN FAMILY MEMBERS OF THREE SUCCESSIVE GENERATIONS OWN THE BUSINESS JOINTLY. THE HEAD OF THE FAMILY IS KNOWN AS “KARTA” AND OTHER MEMBERS ARE CALLED AS “CO-PARCENERS”. ALL OF THEM HAVE EQUAL OWNERSHIP RIGHT OVER PROPERTIES OF BUSINESS.

FEATURES: ESSENTIAL FEATURES OF JOINT HINDU FAMILY BUSINESS ARE AS UNDER –

- A) FORMATION: IN JHF BUSINESS, THERE MUST BE ATLEAST TWO MEMBERS IN THE FAMILY HAVING SOME ANCESTRAL PROPERTY. IT IS NOT CREATED BY AN AGREEMENT BUT BY OPERATION OF LAW.
- B) LEGAL STATUS: JHF IS A JOINTLY OWNED BUSINESS AND IS GOVERNED BY HINDU SUCCESSION ACT, 1956.
- C) MEMBERSHIP: OUTSIDERS ARE NOT ALLOWED TO BECOME COPARCENERS IN JHF BUSINESS. ONLY MEMBERS OF UNDIVIDED FAMILY ACQUIRE COPARCENERSHIP RIGHTS BY BIRTH.
- D) PROFIT SHARING: ALL COPARCENERS HAVE EQUAL SHARE IN PROFITS OF BUSINESS.
- E) MANAGEMENT: BUSINESS IS MANAGED BY SENIOR MOST MEMBER OF THE FAMILY KNOWN AS KARTHA. OTHER MEMBERS DO NOT HAVE RIGHT TO PARTICIPATE IN MANAGEMENT. ONLY KARTHA HAS AUTHORITY TO MANAGE BUSINESS AS PER HIS WILL. KARTHA CANNOT BE QUESTIONED AND IF ANY COPARCENERS ARE NOT SATISFIED, THEY CAN GET JHF STATUS DISSOLVED BY MUTUAL AGREEMENT.
- F) LIABILITY: LIABILITY OF COPARCENERS IS LIMITED TO THE EXTENT OF THEIR SHARE IN BUSINESS. BUT KARTHA HAS UNLIMITED LIABILITY. HIS PERSONAL PROPERTY CAN ALSO BE UTILISED TO MEET BUSINESS LIABILITY.
- G) CONTINUITY: DEATH OF ANY COPARCENERS DOES NOT AFFECT CONTINUITY AND EVEN ON DEATH OF KARTHA, BUSINESS CONTINUES TO EXIST AS THE ELDEST OF THE COPARCENERS TAKES THE POSITION OF KARTHA. HOWEVER JHF CAN BE DISSOLVED THROUGH MUTUAL AGREEMENT OR BY PARTITION SUIT IN COURT.

ADVANTAGES/MERITS OF JHF:

- 1) CONTINUITY: IT IS NOT DISSOLVED BY DEATH OR INSANITY OF A COPARCENER.
- 2) CENTRALISED AND EFFICIENT MANAGEMENT: MANAGEMENT IS VESTED IN HANDS OF KARTHA ONLY. THIS RESULTS IN UNITY OF COMMAND AND DISCIPLINED MANAGEMENT.
- 3) NO LIMIT TO MEMBERSHIP: BY BIRTH EVERY COPARCENER WILL AUTOMATICALLY BECOME A MEMBER IN A HINDU UNDIVIDED FAMILY. HENCE THERE IS NO LIMIT TO MEMBERSHIP.
- 4) BETTER CREDIT: CREDITWORTHINESS OF JHF IS BETTER THAN A SOLE TRADER.



DISADVANTAGES/DEMERITS OF JHF:

- 1) NO DIRECT CORRELATION BETWEEN EFFORTS AND REWARDS: KARTHA ALONE LOOKS AFTER BUSINESS OF JOINT HINDU FAMILY. BUT BENEFITS ARE SHARED AMONG ALL COPARCENERS. QUALITIES LIKE IDLENESS AND LAZINESS AND STAYAT HOME ARE CULTIVATED AMONG COPARCENERS.
- 2) LIMITED MANAGERIAL ABILITY: FOR EXPANSION AND GROWTH OF BUSINESS IN JOINT HINDU UNDIVIDED FAMILY, MANAGEMENT AND CONTROL OF BUSINESS BECOMES DIFFICULT, AS KARTHA ALONE HAS TO MANAGE.

Q5A] WHAT ARE THE SOURCES OF SHORT TERM FINANCE?

- A. ANS. SHORT TERM SOURCES OF FINANCE: THE SHORT TERM LOANS AND CREDITS ARE RAISED BY A FIRM FOR MEETING ITS WORKING CAPITAL REQUIREMENTS. THESE ARE GENERALLY FOR A SHORT PERIOD NOT EXCEEDING ACCOUNTING PERIOD I.E., ONE YEAR. THE MAIN SOURCES OF SHORT TERM FUNDS ARE AS FOLLOWS:
- I. BANK CREDIT: COMMERCIAL BANKS EXTEND THE SHORT TERM FINANCIAL ASSISTANCE TO BUSINESS FIRMS BY MEANS OF BANK CREDIT. BANK CREDIT MAY BE PROVIDED IN THE FOLLOWING FORMS:
- A. LOANS: BANK LOANS ARE PROVIDED FOR A SPECIFIC SHORT PERIOD. THE AMOUNT OF LOAN DEPENDS UPON THE SIZE AND GOODWILL OF THE FIRM. SUCH ADVANCE IS CREDITED TO A SEPARATE LOAN ACCOUNT AND THE BORROWER HAS TO PAY INTEREST ON THE WHOLE AMOUNT OF LOAN IRRESPECTIVE OF THE AMOUNT OF LOAN ACTUALLY GRANTED. BANK LOANS ARE USUALLY GRANTED AGAINST THE SECURITY OF ASSETS.
- B. CASH CREDIT: BANK GRANTS THE CASH CREDIT UP TO A SPECIFIED LIMIT. BUSINESS FIRMS CAN WITHDRAW ANY AMOUNT WITHIN THAT LIMIT. INTEREST IS CHARGED ON THE ACTUAL AMOUNT DRAWN AND LIST ON THE FULL AMOUNT OF THE SPECIFIED LIMIT.
- C. OVERDRAFT: UNDER OVERDRAFT FINANCING FACILITY, BANK ALLOWS THE BUSINESS FIRM TO WITHDRAW THE AMOUNT EVEN MORE THAN THE CUSTOMERS BALANCE IN THE BANK. THE LIMIT OF EXTRA WITHDRAWAL IS ALSO FIXED BY THE BANK. THIS LIMIT IS DECIDED ON THE BASIS OF CREDIT WORTHINESS OF THE BORROWER. INTEREST IS CHARGED ON THE OVERDRAWN MONEY. INTEREST IS CHARGED ON THE OVERDRAWN MONEY.
- II. TRADE CREDIT: TRADE CREDIT IS THE CREDIT EXTENDED BY ONE TRADER TO ANOTHER FOR THE PURCHASE OF GOODS AND SERVICES. TRADE CREDIT FACILITATES THE PURCHASE OF SUPPLIES WITHOUT IMMEDIATE PAYMENT. SUCH CREDIT APPEARS IN THE RECORDS OF THE BUYER OF GOODS AS 'SUNDRY CREDITORS' OR 'ACCOUNTS PAYABLE'. TRADE CREDIT IS COMMONLY USED BY BUSINESS ORGANISATIONS AS A SOURCE OF SHORT TERM FINANCING. IT IS GRANTED TO THOSE CUSTOMERS WHO HAVE REASONABLE AMOUNT OF FINANCIAL STANDNG AND GOODWILL.
- III. INSTALLMENT CREDIT: THIS IS ANOTHER METHOD BY WHICH ASSETS ARE PURCHASED AND POSSESSION OF GOODS IS TAKEN IMMEDIATELY BUT THE PAYMENT IS MADE IN INSTALLMENT OVER A PRE-DETERMINED PERIOD OF TIME. GENERALLY, INTEREST IS CHARGED ON THE UNPAID PRICE OR IT MAY BE ADJUSTED IN THE PRICE. BUT, IN ANY CASE, IT PROVIDES FUNDS FOR SOMETIMES AND IS USED AS A SOURCE OF SHORT TERM WORKING CAPITAL BY MANY BUSINESS ORGANIZATIONS WHICH HAVE DIFFICULT FUNDS POSITIONS.

- IV. ADVANCES: SOME BUSINESS ORGANIZATIONS GET ADVANCES FROM THEIR CUSTOMERS AND AGENTS AGAINST ORDERS AND THIS SOURCE IS SHORT TERM SOURCE OF FINANCE FOR THEM. IT IS A CHEAP SOURCE OF FINANCE AND IN ORDER TO MINIMISE THEIR INVESTMENT ESPECIALLY MANUFACTURING INDUSTRIES WHERE THEY HAVE LARGE PRODUCTION PREFER TO TAKE ADVANCE FROM THEIR CUSTOMERS.
- V. COMMERCIAL PAPER: COMMERCIAL PAPER EMERGE AS A SOURCE OF SHORT TERM FINANCE IN OUR COUNTRY IN EARLY 90'S. COMMERCIAL PAPER IS A UNSECURED PROMISORY NOTE ISSUED BY A FIRM TO RAISE FUND FOR SHORT PERIOD VARYING FROM 90 DAYS TO 364 DAYS. IT IS ISSUED BY ONE FIRM TO ANOTHER, INSURANCE COMPANIES, PENSION FUNDS, AND BANKS. THE AMOUNT RAISED BY COMMERCIAL PAPER IS GENERALLY VERY LARGE. AS THE DEBT IS TOTALLY UNSECURED THE FIRM HAVING GOOD CREDIT RATING CAN ISSUE COMMERCIAL PAPER. ITS REGULATIONS COME UNDER PER VIEW OF RESERVE BANK OF INDIA.

Q5 b] WHAT ARE THE SOURCES OF MEDIUM TERM FINANCE.

B. ANS. MEDIUM TERM SOURCES OF FINANCE:

- 1. PUBLIC DEPOSITS: THE DEPOSITS THAT ARE RAISED BY ORGANISATION DIRECTLY FROM THE PUBLIC ARE KNOWN AS PUBLIC DEPOSITS. ANY PERSON WHO IS INTERESTED IN DEPOSITING MONEY IN AN ORGANISATION CAN DO SO BY FILLING UP A PRESCRIBED FORM. THE ORGANISATION IN RETURN ISSUES A DEPOSIT RECEIPT AS ACKNOWLEDGEMENT OF THE DEBT. PUBLIC DEPOSITS CAN TAKE CARE OF BOTH MEDIUM AND SHORT TERM FINANCIAL REQUIREMENTS OF A BUSINESS. THE DEPOSITS ARE BENEFICIAL TO BOTH THE DEPOSITOR AS WELL AS THE ORGANISATION BECAUSE THE DEPOSITOR GETS HIGHER RATE OF INTEREST THAN OFFERED BY BANK AND THE COST OF DEPOSIT TO THE COMPANY IS LESS THAN THE COST OF BORROWING FROM BANK. COMPANIES GENERALLY INVITE PUBLIC DEPOSITS UP TO THREE YEARS. THE ACCEPTANCE OF PUBLIC DEPOSITS IS REGULATED BY RESERVE BANK OF INDIA.

MERITS OF PUBLIC DEPOSITS:

- 1. THE PROCEDURE FOR OBTAINING DEPOSITS IS SIMPLE AND NOT SO COMPLICATED AS A LOAN AGREEMENT.
- 2. THE COST OF PUBLIC DEPOSITS IS GENERALLY LOWER THAN THE COST OF BORROWING FROM BANK AND FINANCIAL INSTITUTIONS.
- 3. PUBLIC DEPOSITS DO NOT CREATE ANY CHARGE ON THE ASSETS OF THE COMPANY. THE ASSETS CAN BE USED AS SECURITY FOR RAISING LOANS FROM OTHER SOURCES.
- 4. AS THE DEPOSITOR DO NOT HAVE VOTING RIGHTS, THE CONTROL OF THE COMPANY IS NOT DILUTED.
- 5.

LIMITATIONS OF PUBLIC DEPOSITS: THE MAJOR LIMITATIONS OF PUBLIC DEPOSITS ARE AS FOLLOWS:

1. NEW COMPANIES FIND IT DIFFICULT TO RAISE FUNDS THROUGH PUBLIC DEPOSITS.
2. IT IS AN UNRELIABLE SOURCE OF FINANCE BECAUSE PUBLIC MAY NOT TURN UP WHEN THE COMPANY IS IN THE NEED FOR MONEY.
3. COLLECTION OF PUBLIC DEPOSITS IS DIFFICULT WHEN SIZE OF DEPOSITS REQUIRED IS LARGE.

- I. COMMERCIAL BANKS: COMMERCIAL BANKS PLAY A VITAL ROLE AS THEY PROVIDE FUNDS FOR DIFFERENT PURPOSES AS WELL AS DIFFERENT TIME PERIODS. BANKS EXTEND LOANS TO FIRMS OF ALL SIZES AND IN MANY WAYS LIKE CASH CREDIT, OVERDRAFT, TERM LOANS, PURCHASING AND DISCOUNTING BILLS, AND ISSUE OF LETTER OF CREDIT. THE LOAN IS REPAYED EITHER IN LUMP SUM OR IN INSTALLMENT. THOUGH BANKS HAVE STARTED EXTENDING LOANS FOR LONGER PERIOD, GENERALLY SUCH LOANS ARE USED FOR MEDIUM TO SHORT PERIODS. THE BORROWER IS REQUIRED TO PROVIDE SOME SECURITY OR CREATE A CHARGE ON THE ASSETS OF THE FIRM BEFORE A LOAN IS SANCTIONED BY A COMMERCIAL BANK.

MERITS OF COMMERCIAL BANKS:

1. BANK PROVIDE FUNDS AS AND WHEN NEEDED.
2. SECRECY OF BUSINESS CAN BE MAINTAINED AS THE INFORMATION SUPPLIED TO THE BANK BY THE BORROWER IS KEPT CONFIDENTIAL.
3. FORMALITIES SUCH AS ISSUE OF PROSPECTUS AND UNDERWRITING ARE NOT REQUIRED FOR RAISING LOANS FROM A BANK.
4. LOAN FROM A BANK IS FLEXIBLE SOURCE AS THE LOAN AMOUNT CAN BE INCREASED ACCORDING TO BUSINESS NEEDS AND CAN BE REPAYED IN ADVANCE WHEN FUNDS ARE NOT NEEDED.

DEMERITS OF COMMERCIAL BANKS:

1. FUNDS ARE GENERALLY AVAILABLE FOR SHORT PERIOD AND ITS EXTENSION OR RENEWAL IS DIFFICULT.
2. BANKS MAKE DETAILED INVESTIGATIONS OF THE COMPANIES FINANCIAL STRUCTURE.
3. BANK MAY ALSO ASK FOR SECURITY OF ASSETS AND PERSONAL SURETIES. THIS MAKES THE PROCEDURE OF OBTAINING FUNDS SLIGHT DIFFICULT.

LEASE FINANCING: A LEASE IS A CONTRACTUAL AGREEMENT WHERE BY ONE PARTY I.E. OWNER OF AN ASSET GRANTS THE OTHER PARTY THE RIGHT TO USE THE ASSET IN RETURN FOR A PERIODIC PAYMENT. IN OTHER WORDS IT IS A RENTING OF AN ASSET FOR SOME SPECIFIC PERIOD. THE OWNER OF THE ASSETS IS CALLED AS LESSOR WHILE THE PARTY THAT USES THE ASSET IS KNOWN AS LESSEE.

THE LESSEE PAYS FIXED AMOUNT PERIODICALLY CALLED LEASE RENT TO THE LESSOR FOR THE USE OF THE ASSET. THE TERMS AND CONDITIONS REGULATING THE LEASE ARRANGEMENTS ARE GIVEN IN LEASE CONTRACT. AT THE END OF THE LEASE PERIOD, THE ASSET GOES BACK TO THE LESSOR. LEASE FINANCE PROVIDES IMPORTANT MEANS OF MODERNISATION AND DIVERSIFICATION TO THE FIRM. WHILE MAKING THE LEASING DECISIONS, THE COST OF LEASING AN ASSET MUST BE COMPARED WITH COST OF OWING THE SAME.

Q6] BRIEFLY EXPLAIN TYPES OF CO-OPERATIVE SOCIETIES.

ANS. COOPERATIVE SOCIETY IS A VOLUNTARY ASSOCIATION OF PERSONS WHO WORK TOGETHER TO PROMOTE THEIR ECONOMIC INTERESTS. IT WORKS ON THE PRINCIPLES OF SELF-HELP AND MUTUAL HELP. THE MOTTO OF THE COOPERATIVE SOCIETY IS "EACH FOR ALL AND ALL FOR EACH"

TYPES OF COOPERATIVE SOCIETIES:

- 1) CONSUMER COOPERATIVE SOCIETIES: THESE ARE FORMED TO PROTECT THE INTEREST OF CONSUMERS BY MAKING THEM AVAILABLE GOODS OF GOOD AND HIGH QUALITY AT REASONABLE PRICES.
- 2) PRODUCERS COOPERATIVE SOCIETY: THESE ARE FORMED TO PROTECT INTEREST OF SMALL PRODUCERS BY MAKING AVAILABLE GOODS FOR PRODUCTION LIKE RAW MATERIALS, TOOLS AND EQUIPMENTS ETC.
- 3) MARKETING COOPERATIVE SOCIETIES: SMALL PRODUCERS FORM TOGETHER MARKETING COOPERATIVE SOCIETIES TO SOLVE MARKETING PROBLEMS OF THEIR PRODUCTS.
- 4) HOUSING COOPERATIVE SOCIETIES: THESE ARE FORMED TO PROVIDE RESIDENTIAL FACILITIES IN URBAN AREAS TO THEIR MEMBERS.
- 5) FARMING COOPERATIVE SOCIETIES: THESE ARE FORMED BY SMALL FARMERS TO GET BENEFITS OF LARGE SCALE FARMING.
- 6) CREDIT COOPERATIVE SOCIETIES: THESE SOCIETIES ARE STARTED BY PERSONS WHO ARE IN NEED OF CREDIT. THEY ACCEPT DEPOSITS FROM MEMBERS AND GRANT LOANS AT REASONABLE RATE OF INTEREST.

Q7] WHAT ARE THE FEATURES OF PARTNERSHIP FIRMS?

ANS. SECTION 4 OF PARTNERSHIP ACT,1932 DEFINES PARTNERSHIP AS “THE RELATION BETWEEN PERSONS WHO HAVE AGREED TO SHARE PROFITS OF BUSINESS CARRIED ON BY ALL OR ANY OF THEM ACTING FOR ALL”. THE PERSONS WHO FORM PARTNERSHIP ARE INDIVIDUALLY CALLED AS ‘PARTNERS’ AND COLLECTIVELY CALLED AS A ‘FIRM’ OR ‘PARTNERSHIP FIRM’.

FEATURES OF PARTNERSHIP: FOLLOWING ARE THE FEATURES OF PARTNERSHIP FIRM.

- 1) FORMATION: THE PARTNERSHIP FORM OF BUSINESS IS GOVERNED BY PROVISIONS OF INDIAN PARTNERSHIP ACT, 1932. IT COMES INTO EXISTENCE THROUGH A LEGAL AGREEMENT WHEREIN TERMS AND CONDITIONS RELATING TO SHARING OF PROFIT AND LOSSES, MANNER OF CONDUCTING BUSINESS ARE SPECIFIED. HOWEVER, TWO PEOPLE COMING TOGETHER FOR CHARITABLE PURPOSE WILL NOT CONSTITUTE A PARTNERSHIP.
- 2) UNLIMITED LIABILITY: THE PARTNERS OF A FIRM HAVE UNLIMITED LIABILITY. PERSONAL ASSETS OF THE PARTNERS MAY BE USED FOR REPAYING DEBTS IN CASE IF THE BUSINESS ASSETS ARE INSUFFICIENT. FURTHER ALL THE PARTNERS ARE JOINTLY AND SEVERALLY LIABLE FOR PAYMENTS OF DEBTS.
- 3) EXISTENCE OF LAWFUL BUSINESS: THE BUSINESS WHICH THE PERSONS HAVE AGREED TO SHARE THE PROFITS THEREFROM MUST BE LAWFUL. ANY AGREEMENT INVOLVING SMUGGLING, BLACK MARKETING ETC; CANNOT BE CALLED AS PARTNERSHIP BUSINESS IN THE EYES OF LAW.
- 4) MUTUAL AGENCY: THERE MUST EXIST MUTUAL AGENCY RELATIONSHIP BETWEEN PARTNERS. EVERY PARTNER IS PRINCIPAL AS WELL AS AGENT OF THE FIRM. WHENEVER A PARTNER DEALS WITH OTHER PARTIES HE/SHE ACTS AS AN AGENT OF OTHER PARTNERS AND AT THE SAME TIME OTHER PARTNERS BECOME PRICIPAL.
- 5) VOLUNTARY REGISTRATION: THE REGISTRATION OF PARTNERSHIP FIRM IS NOT COMPULSORY BUT AN UNREGISTERED FIRM SUFFERS FROM SOME LIMITATIONS WHICH MAKES IT COMPULSORY TO BE REGISTERED.

Q8] EXPLAIN DIFFERENT TYPES OF PARTNERS.

ANS. TYPES OF PARTNERS: A PARTNERSHIP FIRM CAN HAVE DIFFERENT TYPES OF PARTNERS WITH DIFFERENT ROLES AND LIABILITIES WHICH ARE DESCRIBED AS FOLLOWS:

- 1) BASED ON EXTENT OF PARTICIPATION IN DAY TO DAY MANAGEMENT OF THE FIRM, PARTNERS CAN BE CLASSIFIED AS ACTIVE PARTNER OR WORKING PARTNER AND SLEEPING PARTNER.
  - A) ACTIVE PARTNERS OR WORKING PARTNERS: THE PARTNERS WHO ACTIVELY PARTICIPATE IN DAY TO DAY AFFAIRS OF THE BUSINESS ARE KNOWN AS ACTIVE PARTNERS OR WORKING PARTNERS.
  - B) SLEEPING PARTNERS: PARTNERS WHO DO NOT PARTICIPATE IN DAY TO DAY AFFAIRS OF THE BUSINESS ARE KNOWN AS SLEEPING OR DORMANT PARTNERS. SUCH PARTNERS SIMPLY CONTRIBUTE CAPITAL AND SHARE PROFITS AND LOSSES.
  
- 2) BASED ON SHARING OF PROFITS: PARTNERS CAN BE CLASSIFIED AS NOMINAL PARTNERS, PARTNERS IN PROFITS.
  - A) NOMINAL PARTNERS: NOMINAL PARTNERS ARE THOSE PARTNERS WHO ALLOW THE FIRM TO USE THEIR NAME AS PARTNER. THEY NEITHER INVEST ANY CAPITAL NOR PARTICIPATE IN DAY TO DAY AFFAIRS. THEY ARE ALSO NOT ENTITLED TO ANY SHARE IN PROFITS OF THE FIRM. HOWEVER THEY ARE LIABLE TO THIRD PARTIES FOR ALL THE ACTS OF THE FIRM.
  - B) PARTNERS IN PROFITS: A PERSON WHO SHARES THE PROFITS OF A BUSINESS WITHOUT BEING LIABLE FOR LOSSES IS KNOWN AS PARTNER IN PROFITS. THIS IS APPLICABLE ONLY TO MINORS WHO ARE ADMITTED TO THE BENEFITS OF THE PARTNERSHIP FIRM AND THEIR LIABILITY IS LIMITED TO THE EXTENT OF THEIR CAPITAL CONTRIBUTION.
  
- 3) BASED ON LIABILITY: PARTNERS ARE CLASSIFIED AS LIMITED PARTNERS AND GENERAL PARTNERS.
  - A) LIMITED PARTNERS: THE PARTNERS WHOSE LIABILITY IS LIMITED TO THE EXTENT OF THEIR CAPITAL CONTRIBUTION ARE TERMED AS LIMITED PARTNERS. THESE KIND OF PARTNERS ARE FOUND IN LIMITED PARTNERSHIP FIRM IN SOME EUROPEAN COUNTRIES AND USA. IT IS NOW ALLOWED IN INDIA SO FAR. HOWEVER, LIMITED LIABILITY PARTNERSHIP ACT IS UNDER CONSIDERATION OF PARLIAMENT.
  - B) GENERAL PARTNERS: THESE ARE THE PARTNERS HAVING UNLIMITED LIABILITY. THE PARTNERS ARE CALLED AS GENERAL PARTNERS OR PARTNERS WITH UNLIMITED LIABILITY. IT MAY BE NOTED THAT EVERY PARTNER WHO IS NOT A LIMITED PARTNER IS TREATED AS A GENERAL PARTNER.
  
- 4) BASED ON BEHAVIOUR AND CONDUCT: PARTNERS ARE CLASSIFIED AS PARTNER BY ESTOPPEL AND PARTNER BY HOLDING OUT.



A) PARTNER BY ESTOPPEL: A PERSON, WHO BEHAVES IN PUBLIC IN SUCH A WAY TO GIVE AN IMPRESSION THAT HE/SHE IS A PARTNER OF THE FIRM IS CALLED PARTNER BY ESTOPPEL. SUCH PARTNERS ARE NOT ENTITLED TO SHARE PROFITS OF THE FIRM BUT ARE FULLY LIABLE IF SOMEBODY SUFFERS BECAUSE OF HIS/HER FALSE REPRESENTATION.

B) PARTNER BY HOLDING OUT: A PARTNER OR PARTNERSHIP FIRM DECLARES THAT A PARTICULAR PERSON IS A PARTNER OF THE FIRM AND SUCH A PERSON DOES NOT DISCLAIM IT, THEN HE/SHE IS KNOWN AS PARTNER BY HOLDING OUT. SUCH PARTNERS ARE NOT ENTITLED TO PROFITS BUT ARE FULLY LIABLE FOR FIRMS DEBTS.

Q10] WHAT ARE THE ADVANTAGES AND DISADVANTAGES OF EQUITY SHARES.

- (a) ANS. EQUITY SHARES: EQUITY SHARES ARE THE MOST IMPORTANT SOURCE OF RAISING LONG TERM CAPITAL BY A COMPANY. EQUITY SHARES ARE ALSO KNOWN AS ORDINARY SHARES AND REPRESENT OWNERSHIP OF THE COMPANY AND THE CAPITAL RAISED BY ISSUE OF EQUITY SHARES IS KNOWN AS OWNERSHIP CAPITAL OR OWNERSHIP FUND. EQUITY SHARE HOLDERS DO NOT GET A FIXED DIVIDEND, BUT ARE PAID ON THE BASIS OF EARNINGS BY THE COMPANY. THEY ARE REFERRED TO RESIDUAL OWNERS SINCE THEY RECEIVE WHAT IS LEFT AFTER ALL OTHER CLAIMS ON THE COMPANY'S INCOME AND ASSETS HAVE BEEN SETTLED. THEY ENJOY THE REWARD AS WELL AS BEAR THE RISK OF OWNERSHIP. THEIR LIABILITY HOWEVER IS LIMITED TO THE EXTENT OF CAPITAL CONTRIBUTED BY THEM IN THE COMPANY. THESE SHARE HOLDERS HAVE A RIGHT TO PARTICIPATE IN THE MANAGEMENT OF THE COMPANY.

MERITS OF EQUITY SHARES: THE IMPORTANT MERITS OF ISSUING EQUITY SHARES ARE AS FOLLOWS:

1. EQUITY SHARES DO NOT CREATE AN OBLIGATION TO PAY A FIXED RATE OF DIVIDEND.
2. EQUITY SHARES CAN BE ISSUED WITHOUT CREATING ANY CHARGE OVER THE ASSETS OF THE COMPANY.
3. IT IS PERMANENT SOURCE OF CAPITAL AND COMPANY NEED NOT REPAY IT EXCEPT UNDER LIQUIDATION. EQUITY SHARE HOLDERS ARE THE REAL OWNERS OF THE COMPANY WHO HAVE VOTING RIGHTS.
4. IN CASE OF PROFITS EQUITY SHARE HOLDERS ARE THE REAL GAINERS BY WAY OF INCREASED DIVIDENDS AND APPRECIATION IN VALUE OF SHARES.

DEMERITS OF EQUITY SHARES: FOLLOWING ARE THE MAJOR LIMITATIONS OF EQUITY SHARES:

1. INVESTORS WHO WANT FIXED INCOME MAY NOT PREFER EQUITY SHARES AS THESE EQUITY SHARES GET FLUCTUATING RETURNS.
2. THE COST OF EQUITY SHARES IS GENERALLY MORE AS COMPARED TO COST OF RAISING FUNDS THROUGH OTHER SOURCES. ISSUE OF ADDITIONAL EQUITY SHARES DILUTES THE VOTING POWER AND EARNINGS OF EXISTING EQUITY SHARE HOLDERS.
3. MORE LEGAL FORMALITIES ARE INVOLVED WHILE RAISING FUNDS TO EQUITY SHARES.

Q 11] DIFFERENTIATE BETWEEN EQUITY SHARES AND PREFERENCE SHARES.

ANS. EQUITY SHARES: EQUITY SHARES ARE THE MOST IMPORTANT SOURCE OF RAISING LONG TERM CAPITAL BY A COMPANY. EQUITY SHARES ARE ALSO KNOWN AS ORDINARY SHARES AND REPRESENT OWNERSHIP OF THE COMPANY AND THE CAPITAL RAISED BY ISSUE OF EQUITY SHARES IS KNOWN AS OWNERSHIP CAPITAL OR OWNERSHIP FUND.

PREFERENCE SHARES: THE CAPITAL RAISED BY ISSUE OF PREFERENCE SHARES IS CALLED AS PREFERENCE SHARE CAPITAL. THE PREFERENCE SHARE HOLDERS ENJOY PREFERENTIAL POSITION OVER EQUITY SHARE HOLDERS IN TWO WAYS ONE RECEIVING A FIXED RATE OF DIVIDEND OUT OF THE PROFITS OF THE COMPANY BEFORE ANY DIVIDEND IS DECLARED TO EQUITY SHARE HOLDERS AND ANOTHER IS RECEIVING THEIR CAPITAL AFTER THE CLAIMS OF THE COMPANY'S CREDITORS HAS BEEN SETTLED AT THE TIME OF LIQUIDATION PRIOR TO THE CAPITAL OF EQUITY SHARE HOLDERS.

FOLLOWING ARE THE DIFFERENCES BETWEEN EQUITY SHARES AND PREFERENCE SHARES:

DIFFERENCES BETWEEN PREFERENCE SHARES AND EQUITY SHARES:

BASIS OF DIFFERENCE	EQUITY SHARES	PREFERENCE SHARES
1. CHOICE OF ISSUE OF THESE SHARES	ISSUE OF EQUITY SHARES ARE COMPULSORY.	ISSUE OF PREFERENCE SHARES ARE NOT COMPULSORY.
2. PAYMENT OF DIVIDEND	DIVIDENDS ARE PAID AFTER PAYING DIVIDENDS ON PREFERENCE SHARES.	DIVIDENDS ARE PAID BEFORE PAYING DIVIDENDS ON EQUITY SHARES.
3. RATE OF DIVIDEND	RATE OF DIVIDEND IS NOT FIXED AND IS RECOMMENDED BY BOARD OF DIRECTORS OF COMPANY.	RATE OF DIVIDEND IS PREFIXED AND PRECOMMUNICATED.
4. RETURN OF CAPITAL	IN THE EVENT OF LIQUIDATION, CAPITAL IS REFUNDED AFTER THE PAYMENT OF PREFERENCE SHARE CAPITAL.	IN THE EVENT OF LIQUIDATION, CAPITAL IS REFUNDED BEFORE THE PAYMENT OF EQUITY SHARE CAPITAL.
5. VOTING RIGHTS	EQUITY SHARE HOLDERS ARE THE REAL OWNERS OF THE COMPANY AND HAVE VOTING RIGHTS.	DO NOT HAVE ANY VOTING RIGHTS.
6. RISK PROFILE	IT IS HIGH RISKY AS COMPARED TO PREFERENCE SHARES.	IT IS LESS RISKY AS COMPARED TO EQUITY SHARES.
7. SPECULATION	SCOPE FOR SPECULATION.	NO SCOPE FOR SPECULATION.
8. BONUS SHARES	BONUS SHARES ARE OFFERED TO EQUITY SHARE HOLDERS.	BONUS SHARES ARE NOT OFFERED TO PREFERENCE SHARE HOLDERS.

Q12] EXPLAIN THE DIFFERENCES BETWEEN SHARES AND DEBENTURES.

ANS. DIFFERENCES BETWEEN SHARES AND DEBENTURES:

SHARES	DEBENTURES
1. A SHARE IS A PART OF OWNED CAPITAL.	A DEBENTURE IS AN ACKNOWLEDGEMENT OF A DEBT.
2. SHARE HOLDERS ARE PAID DIVIDENDS ON THE SHARES HELD BY THEM.	DEBENTURE HOLDERS ARE PAID INTEREST ON DEBENTURES.
3. THE RATE OF DIVIDEND DEPENDS UPON THE AMOUNT OF DIVISIBLE PROFITS AND THE POLICY OF BOARD OF DIRECTORS.	A FIXED RATE OF INTEREST IS PAID ON DEBENTURES IRRESPECTIVE OF PROFITS OR LOSSES.
4. SHARE HOLDERS HAVE VOTING RIGHTS AND HAVE CONTROL ON THE MANAGEMENT OF THE COMPANY.	DEBENTURES HOLDERS ARE ONLY CREDITORS OF THE COMPANY.
5. SHARES ARE NOT REDEEMABLE DURING THE LIFE OF THE COMPANY (EXCEPT FOR REDEEMABLE PREFERENCE SHARES).	DEBENTURES ARE REDEEMED AFTER CERTAIN PERIOD.
6. AT THE TIME OF LIQUIDATION OF COMPANY, SHARE CAPITAL IS PAYABLE AFTER ALL OUTSIDE LIABILITIES ARE PAID OFF.	DEBENTURES ARE PAYABLE IN PRIORITY OVER SHARE CAPITAL.

Q13] DEFINE MSME'S. EXPLAIN SIGNIFICANCE AND PRIVILEGES ENJOYED BY MSME'S.

ANS. THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006 IS THE LATEST INITIATIVE TAKEN BY THE GOVERNMENT FOR PROMOTING DEVELOPMENT OF SMALL SCALE INDUSTRIAL SECTOR. SMALL SCALE INDUSTRIES HAVE BEEN BACK BONE OF OUR COUNTRY'S ECONOMY AND HAVE ALWAYS BEEN A MAJOR AREA OF CONCERN FOR THE GOVERNMENT.

DEFINITION OF MICRO, SMALL AND MEDIUM ENTERPRISES: IN ACCORDANCE WITH PROVISIONS OF MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006, THE MICRO, SMALL AND MEDIUM ENTERPRISES ARE CLASSIFIED INTO TWO CLASSES. THEY ARE MANUFACTURING ENTERPRISES AND SERVICE ENTERPRISES.

SIGNIFICANCE OF MSMEs: MICRO, SMALL AND MEDIUM ENTERPRISES (MSME) CONTRIBUTE NEARLY 8% OF COUNTRY'S GDP, 45% OF MANUFACTURING OUTPUT AND 40% OF EXPORTS. AFTER AGRICULTURE THEY PROVIDE LARGEST SHARE OF EMPLOYMENT. THEY ARE WIDELY DISPERSED ACROSS THE COUNTRY AND PRODUCE DIVERSED RANGE OF PRODUCTS AND SERVICES TO MEET THE NEEDS OF LOCAL MARKET, GLOBAL MARKET, NATIONAL AND INTERNATIONAL MARKETS.

THE MINISTRY OF MSME HAS UNDERTAKEN NUMBER OF PROGRAMS TO HELP AND ASSIST ENTREPRENEURS AND SMALL BUSINESSES. THE SIGNIFICANCE OF MSMEs CAN BE UNDERSTOOD FROM THE FOLLOWING:

1. 90% OF MSMEs IN INDIA ARE UNREGISTERED (OUT OF WHICH NEARLY 80% ARE SOLE PROPRIETOR FIRMS).
2. 40% OF EXPORTS IN INDIA ARE THROUGH MSME CHANNEL.
3. 40% OF EMPLOYMENT OPPORTUNITY IN INDIA IS PROVIDED BY MSME SECTOR.
4. MSMEs PROVIDE INVESTMENT OPPORTUNITIES TO ENTREPRENEURS ACCORDING TO THEIR CLASS OF INVESTMENT.
5. MSMEs PROVIDE A GOOD MARKET FOR FOREIGN COMPANIES TO START BUSINESSES IN INDIA.

PRIVILEGES OFFERED TO MSME: FOLLOWING ARE THE PRIVILEGES ON MSME:

1. BUYERS LIABILITY ON TIMELY PAYMENT FOR GOODS AND SERVICES: SECTION 15 ENSURES TIMELY RECEIPT OF PAYMENT FOR THEIR GOODS AND SERVICES BY MICRO AND SMALL ENTERPRISES. IT GIVES AN OBLIGATION UPON BUYER OF ANY GOODS AND SERVICES TO MAKE PAYMENT TO THE SUPPLIER BY SPECIFIED DATE AS FOLLOWS.
  - A. WHEN THERE IS AN AGREEMENT IN WRITING: ON OR BEFORE THE DATE AGREED UPON BETWEEN THEM IN WRITING. FURTHER IN NO CASE, THE PERIOD SO AGREED SHALL EXCEED 45 DAYS FROM THE DATE OF ACCEPTANCE.
  - B. WHEN THERE IS NO AGREEMENT: BEFORE THE APPOINTED DAY, WHICH MEANS THE DAY FOLLOWING IMMEDIATELY AFTER THE EXPIRY OF 15 DAYS FROM THE DAY OF ACCEPTANCE OR DAY OF DEEMED ACCEPTANCE.

THE TERM BUYER MEANS A PERSON BUYING ANY GOODS OR RECEIVING ANY SERVICES FROM A SUPPLIER FOR CONSIDERATION. SUPPLIER MEANS MICRO OR SMALL ENTERPRISE. DAY OF ACCEPTANCE MEANS THE DAY OF ACTUAL DELIVERY OF GOODS OR RENDERING OF SERVICES.

2. INTEREST FOR DELAYED PAYMENT BY BUYER: WHERE A BUYER FAILS TO MAKE PAYMENTS AS REQUIRED ABOVE, HE SHALL BE LIABLE TO PAY INTEREST ON OUTSTANDING AMOUNT. THE INTEREST SHALL BE PAYABLE FOR THE PERIOD OF DELAY FROM THE DATE IMMEDIATELY FOLLOWING THE AGREED DATE. AND THE RATE OF INTEREST PAYABLE SHALL BE THREE TIMES THE BANK RATE AND COMPOUNDED AT MONTHLY REST.

REFERENCE OF DISPUTES: ANY DISPUTES RELATING TO AMOUNT PAYABLE FOR ANY GOODS OR SERVICES AND ANY INTEREST THEREON MAY BE REFERED BY ANY PARTY TO MICRO AND SMALL ENTERPRISES FACILITATION COUNCIL, WHICH SHALL CONDUCT CONCILIATION IN THE MATTER.

Q17] EXPLAIN DIFFERENT KINDS OF DEBENTURES.

ANS. DEBENTURES: DEBENTURES ARE AN IMPORTANT INSTRUMENT FOR RAISING LONG TERM DEBT. A COMPANY CAN RAISE FUNDS THROUGH ISSUE OF DEBENTURES. THE DEBENTURES ISSUED BY A COMPANY IS AN ACKNOWLEDGEMENT THAT THE COMPANY HAS BORROWED A CERTAIN AMOUNT OF MONEY WHICH IT PROMISES TO REPAY ON A FUTURE DATE. DEBENTURES HAS A FIXED RATE OF INTEREST AND THEREFORE DEBENTURE HOLDERS ARE CALLED AS CREDITORS OF THE COMPANY.

TYPES OF DEBENTURES: SOME IMPORTANT TYPES OF DEBENTURES ARE AS FOLLOWS:

1. MORTGAGE DEBENTURES: THEY ARE ALSO KNOWN AS SECURED DEBENTURES BECAUSE THE PAYMENT OF INTEREST AND THE PRINCIPAL AMOUNT IS SECURED BY SOME CHARGE ON ANY PART OR WHOLE OF THE COMPANY.
2. SIMPLE DEBENTURES: THESE DEBENTURES HAVE NO CHARGE ON THE ASSETS OF THE COMPANY. THEY ARE ALSO CALLED AS NAKED OR UNSECURED DEBENTURES. THEY ARE NOT SECURED BY ANY CHARGE OR SECURITY ON ANY ASSET OF THE COMPANY.
3. REDEEMABLE DEBENTURES: THESE ARE THE DEBENTURES WHICH ARE ISSUED FOR A PARTICULAR PERIOD AND AFTER THE EXPIRY OF THAT PERIOD THE PRINCIPAL AMOUNT IS RETURNED. FOR INSTANCE, FIVE YEARS, TEN YEARS, 15 YEARS MATURITY PERIOD, AFTER THAT THE AMOUNT OF DEBENTURE IS PAID BACK TO THE HOLDERS.
4. IRREDEEMABLE DEBENTURES: THEY ARE TO BE PAID BACK ONLY AT THE TIME OF WINDING UP OF THE COMPANY. THEY ARE NOT REFUNDABLE. A COMPANY CAN HOWEVER REDEEM SUCH DEBENTURES WHENEVER IT DEEMS FIT.
5. REGISTERED DEBENTURES: THE NAME OF THE HOLDERS ARE RECORDED IN THE BOOKS OF THE COMPANY. IF SUCH DEBENTURES ARE TRANSFERRED, THE NAME OF TRANSFEREE IS ENTERED IN THE REGISTER AND THE NAME OF THE ORIGINAL HOLDER IS CANCELLED.
6. BEARER DEBENTURE: THE DEBENTURES WHICH ARE NOT RECORDED IN THE REGISTER OF DEBENTURE HOLDERS ARE KNOWN AS BEARER DEBENTURES. THESE DEBENTURES ARE TRANSFERRABLE BY MERE DELIVERY.
7. CONVERTIBLE DEBENTURES: THEY CARRY THE OPTION OF GETTING A PART OR FULL VALUE OF THEIR INVESTMENTS CONVERTED INTO EQUITY SHARES ON A FIXED DATE.
8. NONCONVERTIBLE DEBENTURES: THEY DO NOT ENJOY ANY SUCH RIGHT TO GET THEMSELVES CONVERTED INTO EQUITY SHARES.

Q18] EXPLAIN DIFFERENT TYPES OF PREFERENCE SHARES.

ANS. DIFFERENT TYPES OF PREFERENCE SHARES ISSUED BY A COMPANY ARE AS FOLLOWS:

1. CUMULATIVE PREFERENCE SHARES: UNDER CUMULATIVE PREFERENCE SHARES THE DIVIDEND IS ACCUMULATED IF IT IS UNPAID DURING ANY YEAR AND ARE PAYABLE WITH DIVIDENDS IN FUTURE YEARS.
2. NON-CUMULATIVE PREFERENCE SHARES: UNDER NON-CUMULATIVE PREFERENCE SHARES DIVIDEND DOES NOT ACCUMULATE. IF IN ANY PARTICULAR YEAR DIVIDEND IS NOT PAID THEN THE DIVIDEND IS LOST FOREVER. IT IS NOT PAYABLE IN FUTURE YEARS.
3. PARTICIPATING PREFERENCE SHARES: PARTICIPATING PREFERENCE SHARES ARE THOSE PREFERENCE SHARES WHICH HAVE A RIGHT TO PARTICIPATE IN THE COMPANY'S SURPLUS AFTER PAYING DIVIDEND TO EQUITY SHARE HOLDERS AND PREFERENCE SHARE HOLDERS.
4. NONPARTICIPATING PREFERENCE SHARES: THE HOLDER OF SUCH SHARES DO NOT ENJOY THE RIGHT OF PARTICIPATING IN SURPLUS PROFITS OF THE COMPANY.
5. CONVERTIBLE PREFERENCE SHARES: THESE SHARES CAN BE CONVERTED INTO EQUITY SHARES WITHIN A SPECIFIC PERIOD OF TIME.
6. NON-CONVERTIBLE PREFERENCE SHARES: THESE ARE THE SHARES WHICH CANNOT BE CONVERTED INTO EQUITY SHARES.
7. REDEEMABLE PREFERENCE SHARES: REDEEMABLE PREFERENCE SHARES ARE THE SHARES, THE INVESTMENT ON WHICH IS TO BE PAID BACK TO THE RESPECTIVE HOLDERS AFTER THE COMPLETION OF A CERTAIN TIME PERIOD.
8. IRREDEEMABLE PREFERENCE SHARES: IRREDEEMABLE PREFERENCE SHARES DO NOT CARRY ANY FIXED PERIOD OF REPAYMENT.



Q21] DIFFERENTIATE BETWEEN MEMORANDUM OF ASSOCIATION AND ARTICLES OF ASSOCIATION.

ANS. THE MEMORANDUM OF ASSOCIATION IS THE CONSTITUTION OF THE COMPANY. IT IS THE CHARTER OF THE COMPANY. IT PROVIDES THE FOUNDATION ON WHICH THE COMPANY STRUCTURE IS BUILT. THE PURPOSE OF THE MEMORANDUM IS TO ENABLE THE SHARE HOLDERS, CREDITORS, AND THOSE WHO DEAL WITH THE COMPANY TO KNOW WHAT IS THE PERMITTED RANGE OF ACTIVITIES OF THE ENTERPRISE.

THE RULES AND REGULATIONS FRAMED FOR THE INTERNAL MANAGEMENT OF THE COMPANY, WHICH ARE SET OUT IN A DOCUMENT IS NAMED AS ARTICLES OF ASSOCIATION. IT GIVES THE BYE-LAWS WHICH GOVERN THE CONDUCT OF THE COMPANY. IT ALSO HELPS IN ACHIEVING THE OBJECTIVES SPECIFIED IN MEMORANDUM OF ASSOCIATION. THE ARTICLES PLAY A VERY IMPORTANT ROLE IN THE AFFAIRS OF THE COMPANY. IT IS A SUPPLEMENTARY DOCUMENT TO THE MEMORANDUM OF ASSOCIATION.

DIFFERENCES BETWEEN MEMORANDUM OF ASSOCIATION AND ARTICLES OF ASSOCIATION

ASPECTS	MEMORANDUM OF ASSOCIATION (MOA)	ARTICLES OF ASSOCIATION (AOA)
SCOPE	IT IS A CONSTITUTION OF THE COMPANY. THE COMPANY WORKS IN THE FRAMEWORK GIVEN IN THE MEMORANDUM.	THE ARTICLES CONTAIN BYE-LAWS FOR THE DAY-TO-DAY WORKING OF THE COMPANY AS SET OUT IN THE MOA.
NEED	MOA MUST BE PREPARED BY ALL THE COMPANIES AND FILED WITH THE REGISTRAR.	PUBLIC COMPANIES MAY NOT HAVE THEIR OWN ARTICLES. THEY CAN ADOPT TABLE A OF SCHEDULE I AS ITS ARTICLES.
RELATIONSHIP	IT DEFINES THE RELATIONSHIP BETWEEN THE COMPANY AND OUTSIDE WORLD.	IT DEFINES THE RELATIONSHIP BETWEEN THE COMPANY AND THE MEMBERS AMONG THEMSELVES.
ALTERATION	IT CANNOT BE CHANGED EASILY.	IT CAN BE ALTERED EASILY BY THE SPECIAL RESOLUTION OF SHARE HOLDERS.
PROVISIONS	IT IS SUB-ORDINATE ONLY TO THE ACT. THE COMPANY WOKS WITH IN THE LEGAL PROVISIONS OF MOA.	IT IS SUBORDINATE TO THE MEMORANDUM AND COMPANIES ACT AND CANNOT CONTAIN ANYTHING CONTRARY TO BOTH.
LEGAL EFFECTS	ANY ACT OF THE COMPANY	ANYTHING IS DONE

	BEYOND THE SCOPE OF MEMORANDUM WILL BECOME VOID.	BEYOND THE SCOPE OF THE ARTICLES WILL NOT BE VOID AND IT CAN BE RATIFIED Y PASSIN A SPECIAL RESOLUTION.
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Q22] DISCUSS SOCIAL RESPONSIBILITIES OF BUSINESS.

ANS. SOCIAL RESPONSIBILITY OF BUSINESS: BUSINESS ORGANISATIONS ARE UNDER OBLIGATION TO CONSIDER SOCIAL IMPACT OF THEIR DECISIONS. THE OBLIGATION OF ANY BUSINESS TO PROTECT AND SERVE PUBLIC INTEREST IS KNOWN AS SOCIAL RESPONSIBILITY.

NECESSITY OF SOCIAL RESPONSIBILITY OF BUSINESS: EVERY BUSINESS OPERATES WITHIN A SOCIETY. IT USES RESOURCES OF SOCIETY AND DEPENDS ON SOCIETY FOR ITS FUNCTIONING. THIS CREATES AN OBLIGATION ON THE PART OF BUSINESS TO LOOK AFTER WELFARE OF SOCIETY. THEREFORE ALL ACTIVITIES OF BUSINESS SHOULD BE SUCH THAT THEY WILL NOT HARM, RATHER WILL PROTECT AND CONTRIBUTE TO WELFARE OF THE SOCIETY.

CONCEPT OF SOCIAL RESPONSIBILITY: PEOPLE ARE ENGAGED IN BUSINESS TO EARN PROFITS. HOWEVER PROFIT MAKING IS NOT SOLE FUNCTION OF BUSINESS. IT PERFORMS A NUMBER OF SOCIAL FUNCTIONS AS IT IS A PART OF SOCIETY IT TAKES CARE OF THOSE WHO ARE INSTRUMENTAL IN SECURING ITS EXISTENCE AND SURVIVAL LIKE OWNERS, INVESTORS, EMPLOYEES, CUSTOMERS AND GOVERNMENT IN PARTICULAR AND SOCIETY AND COMMUNITY IN GENERAL. EVERY BUSINESS MUST CONTRIBUTE IN SOMEWHERE OR THE OTHER FOR THEIR BENEFIT. FOR EXAMPLE, EVERY BUSINESS MUST ENSURE A SATISFACTORY RATE OF RETURN TO INVESTORS, PROVIDE GOOD SALARY, SECURITY AND PROPER WORKING CONDITION TO EMPLOYEES, MAKING AVAILABLE QUALITY GOODS AT REASONABLE PRICES ETC.

HOWEVER, WHILE DOING SO TWO THINGS NEEDS TO BE CONSIDERED TO VIEW IT AS A SOCIAL RESPONSIBILITY.

1. FIRST, ANY SUCH ACTIVITY IS NOT CHARITY. IT MEANS THAT IF ANY BUSINESS DONATES SOME AMOUNT OF MONEY TO ANY SCHOOL, COLLEGE, HOSPITAL, PLACE OF WORSHIP ETC. IT IS NOT CONSIDERED AS DISCHARGE OF SOCIAL RESPONSIBILITY BECAUSE CHARITY DOES NOT IMPLY FULLFILLING RESPONSIBILITY
2. SECOND ANY SUCH ACTIVITY SHOULD NOT BE SUCH THAT IT IS GOOD FOR SOMEBODY AND BAD FOR OTHERS. SUPPOSE A BUSINESS MAN MAKES A LOT OF MONEY BY SMUGGLING OR BY CHEATING CUSTOMERS AND THEN RUNS A HOSPITAL TO TREAT POOR PATIENTS AT LOW PRICES. HIS ACTIONS CANNOT BE SOCIALLY JUSTIFIED.

THUS, THE CONCEPT OF SOCIAL RESPONSIBILITY DISCOURAGES BUSINESSMEN FROM ADOPTING UNFAIR MEANS LIKE BLACK MARKETING, SMUGGLING, ADULTERATION, TAX EVASION AND CHEATING CUSTOMER ETC TO EARN PROFITS. INSTEAD IT ENCOURAGES THEM TO EARN PROFITS BY PROVIDING QUALITY PRODUCTS, AFTER SALES SERVICES ETC TO ITS CUSTOMERS AND ALSO TO CONTROL POLLUTION AND CONSERVE NATURAL RESOURCES.

## LONG ANSWER QUESTIONS

Q1] DEFINE SOLEPROPRIETORSHIP. EXPLAIN ITS MERITS AND DEMERITS?

ANS. SOLE PROPRIETORSHIP: IT'S A FORM OF BUSINESS ORGANISATION IN WHICH SINGLE INDIVIDUAL INTRODUCES HIS OWN CAPITAL, SKILL AND INTELLIGENCE IN MANAGEMENT AND IS SOLELY RESPONSIBLE FOR RESULTS OF ITS OPERATION. IT IS ALSO KNOWN AS "INDIVIDUAL ENTREPRENUERSHIP" AND IS EASIEST AND SIMPLEST ORGANISATION.

KIMBALL AND KIMBALL DEFINED "SOLE PROPRIETORSHIP IS A FORM OF BUSINESS WHERE INDIVIDUAL PROPRIETOR IS SUPREME JUDGE OF ALL MATTERS PERTAINING TO HIS BUSINESS"

MERITS/ ADVANTAGES OF SOLE PROPRIETORSHIP:

- A) EASY TO FORM AND WIND UP: IT IS VERY EASY AND SIMPLE TO FORM A SOLE PROPRIETORSHIP. LESS LEGAL FORMALITIES ARE REQUIRED AND BUSINESS CAN BE WOUND UP ANY TIME THE PROPRIETOR DECIDES.
- B) QUICK DECISIONS AND PROMPT ACTIONS: AS THERE IS ONLY ONE OWNER, NOBODY INTERFERES IN THE AFFAIRS OF THE BUSINESS AND HE/SHE CAN TAKE QUICK DECISIONS ON VARIOUS ISSUES AND PROMPT ACTIONS CAN BE TAKEN.
- C) DIRECT MOTIVATION: UNDER SOLE PROPRIETORSHIP, ENTIRE PROFIT BELONGS TO THE OWNER. THIS MOTIVATES HIM TO WORK HARD AND RUN THE BUSINESS EFFECTIVELY AND EFFICIENTLY.
- D) FLEXIBILITY IN OPERATIONS: IT IS VERY EASY TO INITIATE AND IMPLEMENT CHANGES AS PER REQUIREMENTS OF BUSINESS. THE EXPANSION OR CURTAILMENT DOES NOT REQUIRE MANY FORMALITIES AS IN CASE OF OTHER FORMS OF BUSINESS.
- E) MAINTENANCE OF BUSINESS SECRETS: BUSINESS SECRETS ARE KNOWN ONLY TO PROPRIETOR. HE IS NOT REQUIRED TO DISCLOSE ANY INFORMATION TO OTHERS UNLESS AND UNTILL HE HIMSELF DECIDES SO. AND HE IS ALSO NOT BOUND TO PUBLISH HIS BUSINESS ACCOUNTS.
- F) PERSONAL TOUCH: AS ALL THE AFFAIRS OF BUSINESS ARE HANDLED BY OWNER HIMSELF, IT IS EASY TO MAINTAIN GOOD RELATIONS AND PERSONAL CONTACTS WITH CUSTOMERS AND EMPLOYEES. BY KNOWING CUSTIMERS LIKES AND DISLIKES, TASTES AND PREFERENCES, SOLE TRADER CAN ADJUST HIS OPERATIONS ACCORDINGLY. ALSO HARMONIOUS RELATION CAN BE MAINTAINED WITH EMPLOYEES WHICH HELPS FOR SMOOTH CONDUCT OF BUSINESS.

DEMERITS/LIMITATIONS OF SOLE PROPRIETORSHIP:

- A) LIMITED RESOURCES: THE RESOURCES OF SOLE TRADER ARE ALWAYS LIMITED. BEING SINGLE OWNER, IT IS NOT POSSIBLE TO ARRANGE SUFFICIENT FUNDS FROM HIS OWN SOURCE AND AGAIN HE NEEDS TO DEPEND ON BORROWINGS FROM FRIENDS AND RELATIVES OR FROM BANKS.
- B) LACK OF CONTINUITY: THE CONTINUITY OF BUSINESS IS LINKED WITH LIFE OF PROPRIETOR. ILLNESS, DEATH OR INSOLVENCY OF PROPRIETOR CAN LEAD TO CLOSURE OF BUSINESS. THUS CONTINUITY OF BUSINESS IS UNCERTAIN.
- C) UNLIMITED LIABILITY: IN THE EYES OF LAW, PROPRIETOR AND THE BUSINESS ARE ONE AND THE SAME. SO PERSONAL PROPERTIES OF OWNER CAN ALSO BE UTILISED TO MEET BUSINESS OBLIGATIONS AND DEBTS.
- D) NOT SUITABLE FOR LARGE SCALE OPERATIONS: SINCE RESOURCES AND MANAGERIAL SKILLS ARE LIMITED, SOLE PROPRIETORSHIP FORM OF BUSINESS IS NOT SUITABLE FOR LARGE SCALE BUSINESS.
- E) LIMITED MANAGERIAL EXPERTISE: A SINGLE PERSON CAN NOT BE EXPERT IN ALL FIELDS LIKE PURCHASING, SELLING AND FINANCING ETC. AS THE SIZE OF BUSINESS IS ALSO SMALL, IT IS NOT POSSIBLE TO ENGAGE PROFESSIONAL MANAGERS IN SOLE PROPRIETORSHIP FORM OF BUSINESS.

Q2] DEFINE PARTNERSHIP. EXPLAIN ITS MERITS AND DEMERITS.

ANS. SECTION 4 OF PARTNERSHIP ACT, 1932 DEFINES PARTNERSHIP AS “THE RELATION BETWEEN PERSONS WHO HAVE AGREED TO SHARE PROFITS OF BUSINESS CARRIED ON BY ALL OR ANY OF THEM ACTING FOR ALL”. THE PERSONS WHO FORM PARTNERSHIP ARE INDIVIDUALLY CALLED AS ‘PARTNERS’ AND COLLECTIVELY CALLED AS A ‘FIRM’ OR ‘PARTNERSHIP FIRM’.

ADVANTAGES OF PARTNERSHIP FIRM:

- 1) EASY TO FORM: A PARTNERSHIP CAN BE FORMED EASILY WITHOUT MANY LEGAL FORMALITIES. SINCE IT IS NOT COMPULSORY TO GET THE PARTNERSHIP REGISTERED AND A SIMPLE AGREEMENT WHETHER ORAL OR WRITTEN OR IMPLIED IS SUFFICIENT TO FORM A PARTNERSHIP FIRM.
- 2) AVAILABILITY OF LARGE RESOURCES: SINCE TWO OR MORE PARTNERS JOIN HANDS TO START PARTNERSHIP FIRM, IT MAY BE POSSIBLE TO POOL MORE RESOURCES AS COMPARED TO SOLE TRADER.
- 3) BETTER DECISIONS: UNDER PARTNERSHIP FIRM EACH PARTNER HAS A RIGHT TO TAKE PART IN MANAGEMENT OF THE BUSINESS. ALL THE MAJOR DECISIONS ARE TAKEN IN CONSULTATION WITH AND WITH THE CONSENT OF ALL PARTNERS.
- 4) FLEXIBILITY: THE PARTNERSHIP FIRM IS A FLEXIBLE ORGANISATION. AT ANY TIME THE PARTNERS CAN DECIDE TO CHANGE THE SIZE OR NATURE OF BUSINESS OR AREA OF ITS OPERATION AFTER TAKING THE NECESSARY CONSENT OF ALL THE PARTNERS.
- 5) SHARING OF RISKS: THE RISKS OF THE FIRM ARE SHARED BY ALL THE PARTNERS EQUALLY O AS PER AGREED RATIO.
- 6) BENEFITS OF SPECIALISATION: ALL PARTNERS ACTIVELY PARTICIPATE IN BUSINESS AS PER THEIR SPECIALISATION AND KNOWLEDGE. IN PARTNERSHIP FIRM PROVIDING LEGAL CONSULTANCY TO PEOPLE, ONE PARTNER MAY DEAL WITH CIVIL CASES, ONE IN CRIMINAL CASES AND ANOTHER IN LABOUR CASES AND SO ON AS PER THEIR AREA OF SPECIALISATION.
- 7) SECRECY: BUSINESS SECRETS OF THE FIRM ARE KNOWN TO PARTNERS ONLY. IT IS NOT REQUIRED TO DISCLOSE ANY INFORMATION TO OUTSIDERS. IT IS ALSO NOT MANDATORY TO PUBLISH THEIR ANNUAL ACCOUNTS.
- 8) INTEREST: SINCE ALL PARTNERS SHARE PROFITS AND BEAR LOSSES, THEY TAKE KEEN INTEREST IN THE AFFAIRS OF THE BUSINESS.

#### DISADVANTAGES OF PARTNERSHIP FIRM:

- 1) UNLIMITED LIABILITY: THE MOST IMPORTANT DRAWBACK OF PARTNERSHIP FIRM IS THAT THE LIABILITY OF PARTNERS IS UNLIMITED I.E. PARTNERS ARE PERSONALLY LIABLE FOR THE DEBTS OF THE FIRM.
- 2) INSTABILITY: EVERY PARTNERSHIP FIRM HAS AN UNCERTAIN LIFE. DEATH, INSOLVENCY, INSANITY, OR RETIREMENT OF ANY PARTNER BRINGS THE PARTNERSHIP FIRM TO AN END. ANY DISSENTING PARTNER CAN GIVE NOTICE AT ANY TIME FOR DISSOLUTION OF PARTNERSHIP FIRM.
- 3) LIMITED CAPITAL: SINCE THE TOTAL NUMBER OF PARTNERS CANNOT EXCEED 20, THE CAPACITY TO RAISE FUNDS REMAINS LIMITED AS COMPARED TO JOINT STOCK COMPANY WHERE THERE IS NO LIMIT ON NUMBER OF SHARE HOLDERS.
- 4) NO TRANSFERABILITY OF SHARES: NO PARTNER CAN TRANSFER THE SHARES TO OTHER PARTNERS OR OUTSIDERS. SO IT CREATES INCONVENIENCE FOR THE PARTNERS WHO WANTS TO TRANSFER HIS SHARES TO OTHERS FULLY AND PARTLY.
- 5) POSSIBILITY OF CONFLICTS: EVERY PARTNER IN THE FIRM HAS AN EQUAL RIGHT TO PARTICIPATE IN MANAGEMENT. EVERY PARTNER CAN PLACE HIS/HER OPINION BEFORE THE MANAGEMENT REGARDING ANY MATTER AND AT ANY TIME. BECAUSE OF THIS, SOMETIMES THERE IS A FRICTION AND QUARREL AMONG PARTNERS ARISING BY DIFFERENCE OF OPINION LEADING TO DISSOLUTION OF THE FIRM.

Q3] WHAT IS CO-OPERATIVE SOCIETY. EXPLAIN ITS FEATURES/PRINCIPLES OF CO-OPERATIVE SOCIETY?

ANS. COOPERATIVE SOCIETY: THE TERM "COOPERATION" IS DERIVED FROM LATIN WORD "CO-OPERARI". THE WORD 'CO' MEANS 'WITH' AND 'OPERARI' MEANS 'TO WORK'. THUS COOPERATION MEANS WORKING TOGETHER. SO THOSE WHO WANTS TO WORK TOGETHER WITH SOME COMMON OBJECTIVE CAN FORM A SOCIETY, WHICH IS TERMED AS "CO-OPERATIVE SOCIETY"

COOPERATIVE SOCIETY IS A VOLUNTARY ASSOCIATION OF PERSONS WHO WORK TOGETHER TO PROMOTE THEIR ECONOMIC INTERESTS. IT WORKS ON THE PRINCIPLES OF SELF-HELP AND MUTUAL HELP. THE MOTTO OF THE COOPERATIVE SOCIETY IS "EACH FOR ALL AND ALL FOR EACH"

FEATURES OF COOPERATIVE SOCIETY:

- 1) VOLUNTARY ASSOCIATION: MEMBERS JOIN SOCIETY VOLUNTARILY I.E. ON THEIR OWN CHOICE. PERSONS HAVING COMMON ECONOMIC OBJECTIVES CAN JOIN THE SOCIETY AS AND WHEN THEY LIKE, CONTINUE AS LONG AS THEY LIKE AND LEAVE THE SOCIETY AS AND WHEN THEY WANT.
- 2) OPEN MEMBERSHIP: THE MEMBERSHIP IS OPEN TO ALL THOSE HAVING ECONOMIC INTEREST. ANY PERSON CAN BECOME MEMBER IRRESPECTIVE OF HIS/HER CASTE, CREED, RELIGION, COLOUR, SEX ETC.
- 3) NUMBER OF MEMBERS: A MINIMUM OF 10 MEMBERS ARE REQUIRED TO FORM A COOPERATIVE SOCIETY. IN CASE OF A MULTI-STATE COOPERATIVE SOCIETIES, THE MINIMUM NUMBER OF MEMBERS SHOULD BE 50 FROM EACH STATE IN CASE THE MEMBERS ARE INDIVIDUALS. THE COOPERATIVE SOCIETY ACT DOES NOT SPECIFY MAXIMUM NUMBER OF MEMBERS FOR ANY COOPERATIVE SOCIETY. HOWEVER, AFTER FORMATION OF SOCIETY, THE MEMBERS MAY SPECIFY FOR MAXIMUM NUMBER OF MEMBERS.
- 4) STATE CONTROL: REGISTRATION OF COOPERATIVE SOCIETY IS COMPULSORY, EVERY COOPERATIVE SOCIETY COMES UNDER CONTROL AND SUPERVISION OF GOVERNMENT. THE COOPERATIVE DEPARTMENT KEEPS A WATCH ON FUNCTIONING OF THE SOCIETIES. EVERY SOCIETY HAS TO GET ITS ACCOUNTS AUDITED FROM COOPERATIVE DEPARTMENT OF GOVERNMENT.



- 5) CAPITAL: CAPITAL OF COOPERATIVE SOCIETY IS CONTRIBUTED BY ITS MEMBERS. SINCE MEMBERS CONTRIBUTION IS LIMITED AND HAS TO DEPEND ON LOANS FROM GOVERNMENT AND APEX COOPERATIVE INSTITUTIONS OR ASSISTANCE FROM STATE AND CENTRAL GOVERNMENT.
- 6) DEMOCRATIC SET UP: COOPERATIVE SOCIETIES ARE MANAGED IN A DEMOCRATIC MANNER. EVERY MEMBER HAS A RIGHT TO TAKE PART IN MANAGEMENT OF SOCIETY. SOCIETY ELECTS A MANAGING COMMITTEE AND ITS MEMBERS ARE ELECTED ON THE BASIS OF 'ONE-MAN ONE-VOTE' IRRESPECTIVE OF NUMBER OF SHARES HELD BY ANY MEMBER.
- 7) SERVICE MOTIVE: PRIMARY OBJECTIVE OF ALL COOPERATIVE SOCIETIES IS TO PROVIDE SERVICES TO ITS MEMBERS.
- 8) RETURN ON CAPITAL INVESTED: MEMBERS GET RETURN ON THEIR CAPITAL INVESTED IN THE FORM OF DIVIDENDS.
- 9) DISTRIBUTION OF SURPLUS: AFTER GIVING A LIMITED TO THE MEMBERS OF SOCIETY, THE SURPLUS PROFITS IS DISTRIBUTED IN FORM OF BONUS KEEPING ASIDE A CERTAIN PERCENTAGE AS RESERVE AND FOR GENERAL WELFARE OF SOCIETY.
- 10) REGISTRATION OF SOCIETY: IN INDIA, COOPERATIVE SOCIETIES ARE REGISTERED UNDER THE COOPERATIVE SOCIETIES ACT 1912 OR UNDER STATE COOPERATIVE SOCIETIES ACT. THE MULTI-STATE COOPERATIVE SOCIETIES ARE REGISTERED UNDER MULTI-STATE COOPERATIVE SOCIETIES ACT 2002. ONCE REGISTERED, A SOCIETY GETS SEPARATE IDENTITY AND GETS FOLLOWING FEATURES: A) IT HAS ITS OWN SEAL. B) IT CAN ENTER INTO AGREEMENTS WITH OTHERS. C) IT CAN SUE OTHERS IN COURT OF LAW. D) IT CAN OWN PROPERTIES IN ITS OWN NAME.

Q4] EXPLAIN MERITS AND DEMERITS OF COMPANY FORM OF ORGANISATION?

ANS. "JOINT STOCK COMPANY IS A VOLUNTARY ASSOCIATION OR ORGANISATION OF MANY PERSONS WHO CONTRIBUTE MONEY OR A MONEY'S WORTH TO A COMMON STOCK AND EMPLOY IT IN SOME TRADE AND WHO SHARE THE PROFIT OR LOSS ARISING THERE FROM."

ADVANTAGES OF JOINT STOCK COMPANY:

1. LIMITED LIABILITY: SHARE HOLDERS OF A COMPANY ARE LIABLE ONLY TO THE EXTENT OF THE FACE VALUE OF SHARES HELD BY THEM. THEIR PRIVATE PROPERTY CANNOT BE ATTACHED TO PAY THE DEBTS OF THE COMPANY. THUS RISK IS LIMITED AND KNOWN. THIS ENCOURAGES PEOPLE TO INVEST THEIR MONEY IN CORPORATE SECURITIES.
2. LARGE FINANCIAL RESOURCES: COMPANY FORM OF ORGANISATION ENABLES TO MOBILISE HUGE FINANCIAL RESOURCES BECAUSE OF LIMITED LIABILITIES AND DIFFUSION OF OWNERSHIP. IT COLLECTS FUNDS IN THE FORM OF SHARES OF SMALL DENOMINATIONS SO THAT PEOPLE WITH SMALL MEANS CAN ALSO BUY THEM. BENEFITS OF LIMITED LIABILITY AND TRANSFERABILITY OF SHARES ATTRACT INVESTORS.
3. CONTINUITY OF EXISTENCE: A COMPANY IS AN ARTIFICIAL PERSON CREATED BY LAW AND POSSESSES INDEPENDENT LEGAL STATUS. IT IS NOT AFFECTED BY DEATH, INSOLVENCY ETC OF ITS MEMBERS THUS IT HAS A PERPETUAL EXISTENCE.
4. BENEFITS OF LARGE SCALE OPERATIONS: A JOINT STOCK COMPANY IS ONLY FORM OF BUSINESS ORGANISATION WHICH CAN PROVIDE CAPITAL FOR LARGE-SCALE OPERATIONS. IT RESULTS IN LARGE-SCALE PRODUCTION LEADING TO INCREASE IN EFFICIENCY AND REDUCTION IN THE COST OF OPERATION.
5. LIQUIDITY: THE TRANSFERABILITY OF SHARES ACTS AS AN ADDED INCENTIVE TO INVESTORS. THE SHARES OF A PUBLIC COMPANY CAN BE TRADED EASILY IN THE STOCK EXCHANGE. THE PUBLIC CAN BUY SHARES WHEN THEY HAVE MONEY. THE PROSPECTIVE INVESTORS CAN INVEST AND CONVERT SHARES INTO CASH WHEN EVER THEY NEED MONEY.
6. PROFESSIONAL MANAGEMENT: COMPANIES, BECAUSE OF THEIR COMPLEX NATURE OF ACTIVITIES AND LARGE VOLUME OF BUSINESS, REQUIRE PROFESSIONAL MANAGERS AT EVERY LEVEL OF THEIR OPERATION.

7. RESEARCH AND DEVELOPMENT: A COMPANY GENERALLY INVESTS A LOT OF MONEY ON RESEARCH AND DEVELOPMENT FOR IMPROVED PROCESSES OF PRODUCTION, DESIGNING AND INNOVATING NEW PRODUCTS, IMPROVING QUALITY OF PRODUCT, NEW WAYS OF TRAINING ITS STAFF, ETC.
8. TAX BENEFITS: ALTHOUGH THE COMPANIES ARE REQUIRED TO PAY TAX AT A HIGH RATE, IN EFFECT, THEIR TAX BURDEN IS LOW AS THEY ENJOY MANY TAX EXEMPTION UNDER INCOME TAX ACT.

#### DISADVANTAGES

1. TOO MANY LEGAL FORMALITIES: FORMATION OF A COMPANY IS A TIME-CONSUMING PROCESS AND ALSO EXPENSIVE. MANY LEGAL FORMALITIES HAVE TO BE OBSERVED AND SEVERAL LEGAL DOCUMENTS HAVE TO BE PREPARED AND FILED. DELAY IN FORMATION MAY DEPRIVE THE BUSINESS THE MOMENTUM OF AN EARLY START.
2. LACK OF MOTIVATION: SEPARATION BETWEEN OWNERSHIP AND CONTROL AND ABSENCE OF DIRECT LINK BETWEEN EFFORT AND REWARD MAY LEAD TO LACK OF PERSONAL INTEREST AND INCENTIVE. IT IS DIFFICULT TO KEEP PERSONAL TOUCH WITH ALL THE CUSTOMERS AND EMPLOYEES.
3. CORRUPT MANAGEMENT: IN A COMPANY, THERE IS OFTEN DANGER OF MISUSE AND FRAUD OF PROPERTY BY DISHONEST MANAGEMENT. FAKE COMPANIES MAY BE FORMED TO DEPRIVE INVESTORS OF THEIR HARD-EARNED MONEY.
4. EXCESSIVE GOVERNMENT CONTROL: AT EVERY STAGE IN THE MANAGEMENT OF A COMPANY, THERE ARE LEGAL RULES AND REGULATIONS. SEVERAL LEGAL PROVISIONS HAVE TO BE FOLLOWED AND MANY REPORTS HAVE TO BE FILED. A LOT OF MONEY AND TIME IS WASTED IN COMPLYING WITH STATUTORY REQUIREMENTS.
5. CONFLICTS OF INTEREST: IN A COMPANY CONFLICTS MAY EXIST AND CONTINUE BETWEEN SHAREHOLDERS AND BOARD OF DIRECTORS OR BETWEEN SHARE HOLDERS AND CREDITORS OR BETWEEN MANAGEMENT AND WORKERS.
6. LACK OF SECRECY: UNDER COMPANIES ACT, A COMPANY IS REQUIRED TO DISCLOSE AND PUBLISH A VARIETY OF INFORMATION ON ITS WORKING. THE ACCOUNTS OF A PUBLIC COMPANY ARE TO INSPECTION FOR PUBLIC.
7. UNHEALTHY SPECULATION: PRICES OF THESE SHARES FLUCTUATE DEPENDING ON FINANCIAL HEALTH, DIVIDENDS, FUTURE REPUTATION OF COMPANY. DIRECTORS MAY INDULGE THEMSELVES IN SPECULATION ON BASIS OF INSIDE INFORMATION FOR THEIR

PRIVATE GAIN. COMPANY FORM OF ORGANISATION ALSO FACES PROBLEM OF CONCENTRATION OF ECONOMIC POWER IN HANDS OF FEW.

#### Q5] DISTINGUISH BETWEEN PRIVATE COMPANY AND PUBLIC COMPANY?

ANS. PRIVATE COMPANY: A PRIVATE COMPANY IS A VERY SUITABLE FORM FOR CARRYING ON THE BUSINESS OF FAMILY AND SMALL CONCERNS IT IS REGISTERED UNDER THE COMPANIES ACT, 1956.

PUBLIC COMPANY: IT IS SUITABLE FORM OF COMPANY FOR CARRYING ON THE BUSINESS AT LARGE SCALE INVOLVING HUGE AMOUNT OF CAPITAL.

#### DIFFERENCES BETWEEN PRIVATE COMPANY AND PUBLIC COMPANY

BASIS OF COMPARISON	PRIVATE COMPANY	PUBLIC COMPANY
1. MINIMUM NUMBER OF MEMBERS	2 MEMBERS	7 MEMBERS
2. MAXIMUM NUMBER OF MEMBERS	50 MEMBERS	NO LIMIT
3. MINIMUM PAID UP CAPITAL	RS. ONE LAKH	RS. FIVE LAKHS
4. IDENTIFICATION	MUST HAVE SUFFIX PRIVATE LIMITED TO ITS NAME	MUST HAVE SUFFIX LIMITED TO ITS NAME
5. TRANSFER OF SHARES	IT CANNOT TRANSFER THEIR SHARES	IT CAN TRANSFER THEIR SHARES FREELY TO OTHERS
6. PUBLIC ISSUE OF CAPITAL	IT CANNOT SECURE CAPITAL FROM PUBLIC	IT CAN SECURE CAPITAL FROM PUBLIC
7. COMMENCEMENT OF BUSINESS	IT CAN START ITS BUSINESS IMMEDIATELY UPON INCORPORATION	IT CANNOT START ITS BUSINESS IMMEDIATELY UPON INCORPORATION. IT HAS TO OBTAIN CERTIFICATE OF COMMENCEMENT OF BUSINESS.
8. BOARD OF DIRECTORS	MINIMUM TWO MAXIMUM NO LIMIT	MINIMUM THREE MAXIMUM TWENTY
9. APPOINTMENT AND RETIREMENT OF DIRECTORS	SINGLE RESOLUTION IS ENOUGH TO APPOINT OR RETIRE THE DIRECTORS	SEPERATE RESOLUTIONS ARE REQUIRED
10. MANAGERIAL FUNCTIONS	THERE ARE NO RESTRICTIONS ON REMUNERATION OF DIRECTORS AND MANAGING DIRECTORS	THERE ARE RESTRICTIONS

Q6] WHAT IS MEMORANDUM OF ASSOCIATION. EXPLAIN ITS CLAUSES?

ANS. THE MEMORANDUM OF ASSOCIATION IS THE CONSTITUTION OF THE COMPANY. IT IS THE CHARTER OF THE COMPANY. IT PROVIDES THE FOUNDATION ON WHICH THE COMPANY STRUCTURE IS BUILT. THE PURPOSE OF THE MEMORANDUM IS TO ENABLE THE SHARE HOLDERS, CREDITORS, AND THOSE WHO DEAL WITH THE COMPANY TO KNOW WHAT IS THE PERMITTED RANGE OF ACTIVITIES OF THE ENTERPRISE.

THE MEMORANDUM OF ASSOCIATION MUST BE SIGNED BY AT LEAST SEVEN MEMBERS IN CASE OF A PUBLIC LIMITED COMPANY AND TWO MEMBERS IN CASE OF A PRIVATE LIMITED COMPANY. IT IS THE BASIC DOCUMENT OF THE COMPANY. IT CANNOT BE CHANGED EASILY. SO IT SHOULD BE PREPARED VERY CAREFULLY.

CLAUSES OF MEMORANDUM OF ASSOCIATION

1. NAME CLAUSE: A COMPANY BEING A SEPARATE LEGAL ENTITY MUST HAVE A NAME. A COMPANY MAY SELECT ANY NAME WHICH DOES NOT RESEMBLE THE NAME OF ANY OTHER COMPANY. IT SHOULD NOT CONTAIN THE WORDS LIKE KING, QUEEN, AND NAME OF THE GOVERNMENT BODIES. THE PROPOSED NAME SHOULD NOT BE OBJECTIONABLE UNDER THE PROVISIONS OF EMBLEMS AND NAMES ACT, 1950. THE WORD "LIMITED" MUST BE USED AT THE END OF THE NAME OF A PUBLIC COMPANY, AND "PRIVATE LIMITED" IS USED BY A PRIVATE COMPANY.
2. REGISTERED OFFICE OR SITUATION CLAUSE: THIS CLAUSE STATES THE PLACE AND ADDRESS OF THE REGISTERED OFFICE OF THE COMPANY. IF THE PLACE IS NOT DECIDED AT THE TIME OF INCORPORATION, IT CAN BE INTIMATED TO THE REGISTRAR WITHIN 30 DAYS FROM THE DATE OF INCORPORATION OR COMMENCEMENT OF BUSINESS WHICHEVER IS EARLIER.
3. OBJECTS CLAUSE: THIS CLAUSE MAY BE CONSIDERED AS THE CORE OF MEMORANDUM OF ASSOCIATION BECAUSE IT SETS OUT THE OBJECTS FOR WHICH A COMPANY IS FORMED. THIS CLAUSE CONTAINS (A) MAIN OBJECTS. (B) OTHER OBJECTS. THIS CLAUSE OFFERS PROTECTION TO THE SHAREHOLDERS AND CREDITORS BY ENSURING THAT THE FUNDS ARE NOT GOING TO BE RISKED.
4. LIABILITY CLAUSE: THIS CLAUSE CONTAINS THE NATURE OF LIABILITY OF ITS MEMBERS. IT STATES THAT THE LIABILITY OF THE MEMBERS IS LIMITED TO THE VALUE OF SHARES HELD BY THEM. IT MEANS THAT THE MEMBERS ARE LIABLE TO PAY ONLY THE UNPAID BALANCE OF THEIR SHARES AND NOT FURTHER ELSE.

5. CAPITAL CLAUSE: THIS CLAUSE CONTAINS THE CAPITAL STRUCTURE (TOTAL CAPITAL) OF THE COMPANY. THE DIVISION OF CAPITAL INTO EQUITY SHARES, PREFERENCE SHARES, AND THE NUMBER OF SHARES IN EACH CATEGORY, AND THEIR VALUE SHOULD BE GIVEN.
6. ASSOCIATION CLAUSE: THIS CLAUSE CONTAINS THE NAMES OF THE SIGNATORIES TO THE MEMORANDUM OF ASSOCIATION. THE FULL ADDRESSES AND OCCUPATIONS OF SUBSCRIBERS AND WITNESSES ARE ALSO GIVEN. THE SUBSCRIBERS DECLARE THAT THEY AGREE TO INCORPORATE THE COMPANY AND AGREE TO TAKE THE SHARES STATED AGAINST THEIR NAMES.

Q7] WHAT IS ARTICLES OF ASSOCIATION. EXPLAIN ITS CONTENTS?

ANS. THE RULES AND REGULATIONS FRAMED FOR THE INTERNAL MANAGEMENT OF THE COMPANY, WHICH ARE SET OUT IN A DOCUMENT IS NAMED AS ARTICLES OF ASSOCIATION. IT GIVES THE BYE-LAWS WHICH GOVERN THE CONDUCT OF THE COMPANY.

THE ARTICLES MUST BE PRINTED, DIVIDED INTO PARAGRAPHS, NUMBERED CONSECUTIVELY, STAMPED ADEQUATELY, AND SIGNED BY EACH SUBSCRIBER TO THE MEMORANDUM OF ASSOCIATION. IT IS DULY WITNESSED AND FILED ALONG WITH THE MEMORANDUM OF ASSOCIATION.

THE CONTENTS OF ARTICLES OF ASSOCIATION:

THE ARTICLES OF ASSOCIATION CONTAINS THE FOLLOWING DETAILS.

1. PROCEDURE OF ISSUING SHARE CAPITAL: THE AMOUNT OF SHARE CAPITAL ISSUED, TYPES OF SHARES, NUMBER OF SHARES, CALLS ON SHARES, RIGHTS AND PRIVILEGES OF DIFFERENT CATEGORIES OF SHAREHOLDERS MUST BE MENTIONED IN THE ARTICLES OF ASSOCIATION.
2. PROCEDURE FOR TRANSFER AND FORFEITURE OF SHARES.
3. PROCEDURE FOR ISSUE OF DEBENTURES AND STOCKS.
4. POWERS TO ALTER AS WELL AS REDUCE SHARE CAPITAL AND ITS PROCEDURE FOR ALTERATION.
5. THE APPOINTMENT OF THE DIRECTORS, THEIR POWERS, DUTIES, AND REMUNERATION.
6. THE APPOINTMENT OF THE MANAGING DIRECTOR.
7. PROVISIONS REGARDING CONDUCTING THE GENERAL MEETINGS, SPECIAL MEETINGS, VOTING PROXIES, RESOLUTIONS ETC.,.
8. PROVISIONS RELATING TO DIVIDEDS AND RESERVES.
9. RULES FOR PRELIMINARY CONTRACTS.
10. PROVISIONS REGARDING THE USE OF COMMON SEAL.
11. PREPARATION OF ACCOUNTS AND AUDIT, AND METHOD OF APPROPRIATION OF PROFITS.
12. MAINTENANCE OF BANK ACCOUNTS.
13. PROCEDURE FOR WINDING UP THE COMPANY.
14. OTHER RULES AND REGULATIONS OF THE COMPANY.



Q8] WHAT IS PROSPECTUS. EXPLAIN THE CONTENTS OF PROSPECTUS?

ANS. PROSPECTUS IS AN INVITATION TO THE PUBLIC TO SUBSCRIBE TO THE SHARES AND DEBENTURES OF A PUBLIC COMPANY. THIS BRINGS TO THE NOTICE OF THE PUBLIC THAT A NEW COMPANY HAS BEEN FORMED. AFTER INCORPORATION OF A COMPANY PROMOTERS MAY ISSUE THE PROSPECTS FOR RAISING THE REQUIRED FINANCE.

A PUBLIC COMPANY INVITES THE PEOPLE TO OFFER TO PURCHASE THE SHARES AND DEBENTURES THROUGH AN ADVERTISEMENT. SUCH AN ADVERTISEMENT OR NOTICE CONTAINING DETAILED INFORMATION ABOUT THE COMPANY IS KNOWN AS PROSPECTUS.

A PRIVATE COMPANY CANNOT ISSUE PROSPECTUS TO SECURE ITS CAPITAL, BECAUSE THEY ARE STRICTLY PROHIBITED FROM INVITING THE PUBLIC TO SUBSCRIBE TO THEIR SHARES OR ACCEPTING ANY DEPOSITS.

CONTENTS OF PROSPECTUS

EVERY PROSPECTUS SHOULD DISCLOSE THE MATTER AS SPECIFIED IN PART-I OF SCHEDULE-II TO THE COMPANIES ACT. SOME OF THE CONTENTS WHICH EVERY PROSPECTUS MUST INCLUDE ARE

1. NAME AND FULL ADDRESS OF THE COMPANY.
2. THE PARTICULARS OF THE SIGNATORIES TO THE MEMORANDUM OF ASSOCIATION AND THE NUMBER OF SHARES TAKEN UP BY THEM.
3. NAME, ADDRESSES, AND OCCUPATIONS OF MEMBERS OF THE BOARD OF DIRECTORS.
4. THE MINIMUM SUBSCRIPTION AMOUNT FIXED BY THE PROMOTERS.
5. THE DETAILS OF PROPERTY ACQUIRED IF ANY.
6. THE TIME OF OPENING OF THE SUBSCRIPTION LIST.
7. THE CAPITAL STRUCTURE OF THE COMPANY, AND THE PARTICULARS OF ISSUE.
8. THE AMOUNT PAYABLE ON APPLICATION, ALLOTMENT, AND CALLS.
9. BASIS FOR THE ISSUE PRICE.
10. THE PARTICULARS OF PREFERENTIAL TREATMENT GIVEN TO ANY PERSON FOR SUBSCRIBING SHARES OR DEBENTURES.
11. THE ADDRESSES OF THE UNDERWRITERS IF ANY.
12. PARTICULARS ABOUT RESERVES AND SURPLUSES.
13. AMOUNT OF PRELIMINARY EXPENSES.
14. NAME AND ADDRESS OF AUDITOR.
15. PARTICULARS REGARDING VOTING RIGHTS AT THE MEETING OF THE COMPANY.
16. MANAGEMENT PERCEPTION OF RISK FACTORS.

17. DISCLOSURE OF INVESTOR GRIEVANCES AND REDRESSAL SYSTEM.

Q9] WHAT IS BUSINESS FINANCE. EXPLAIN THE NEED AND SIGNIFICANCE OF FINANCE IN BUSINESS ORGANISATION.

ANS. BUSINESS FINANCE CAN BE DEFINED AS THAT BUSINESS ACTIVITY WHICH IS CONCERNED WITH ACQUISITION AND CONSERVATION OF CAPITAL FUNDS IN MEETING THE FINANCIAL NEEDS AND OVERALL OBJECTIVES OF BUSINESS ENTERPRISE.

NEED AND SIGNIFICANCE OF BUSINESS FINANCE: BUSINESS NEED FINANCE FOR ACQUIRING VARIOUS TYPES OF ASSETS AND TO MEET VARIOUS EXPENSES ON DAY TO DAY BASIS. THERE ARE ALSO MANY OTHER REASONS FOR THE REQUIREMENT OF BUSINESS FINANCE.

THE NEED AND SIGNIFICANCE OF BUSINESS FINANCE IS EXPLAINED AS FOLLOWS FOR ESTABLISHING A NEW BUSINESS:

1. TO MEET FIXED CAPITAL REQUIREMENT OF BUSINESS: TO PURCHASE FIXED ASSETS LIKE LAND AND BUILDING, PLANT AND MACHINERY, FURNITURE AND FIXTURES ETC BUSINESS REQUIRE FINANCE.
2. TO MEET WORKING CAPITAL REQUIREMENTS: WORKING CAPITAL IS USED FOR HOLDING CURRENT ASSETS SUCH AS STOCK OF MATERIAL, PAYMENT OF WAGES, TRANSPORTATION ETC.
3. FOR GROWTH AND EXPANSION: BUSINESS REQUIRE FINANCE FOR ITS GROWTH AS WELL AS EXPANSION ACTIVITIES. FINANCE MAY BE REQUIRED TO INCREASE PRODUCTION OR TO INSTALL MORE MACHINES OR TO SET UP A R&D CENTER ETC.
4. FOR DIVERSIFICATION: BUSINESS FINANCE IS NEEDED TO START ANY NEW ACTIVITY IN BUSINESS. FOR EXAMPLE, ITC DEALING WITH TOBACCO STARTED ITC KAKATIYA (HOTELS), CLASSMATE (NOTE BOOKS AND STATIONERY). ENTERING INTO NEW BUSINESSES AND NEW LINES OF ACTIVITIES IS KNOWN AS DIVERSIFICATION.
5. FOR SURVIVAL: TO CARRY OUT VARIOUS BUSINESS OPERATIONS IN CONTINUITY BUSINESS FINANCE IS NEEDED. WITHOUT THE REQUIRED FINANCE ORGANISATIONS CANNOT SURVIVE FOR A LONG PERIOD.
6. LIABILITIES: TO MEET LIABILITIES OF A BUSINESS BE IT A SHORT TERM OR LONG TERM BUSINESS REQUIRES FINANCE. EXAMPLE FOR PAYMENT OF LOAN INSTALMENT, CREDITORS ETC.
7. FOR PAYMENT OF EXPENSES: FOR PAYING WAGES, SALARIES, TAXES, ADVERTISEMENT, AND RENT FINANCE IS NEEDED.

THEREFORE, BUSINESS NEEDS FINANCE TO EXECUTE ITS VARIOUS PLANS.

Q10] EXPLAIN THE MAIN SOURCES OF FINANCE AVAILABLE TO INDIAN BUSINESSMEN?

ANS. CLASSIFICATION OF SOURCES OF FUNDS: IN CASE OF SOLE PROPRIETORSHIP AND PARTNERSHIP CONCERN, FUNDS CAN BE RAISED EITHER FROM PERSONAL SOURCES OR BORROWINGS FROM BANKERS OR FINANCIAL INSTITUTIONS. IN CASE OF A COMPANY DIFFERENT SOURCES OF BUSINESS FINANCE ARE AVAILABLE IN THE MARKET ON THE BASIS OF PERIOD, ON THE BASIS OF OWNERSHIP, AND ON THE BASIS OF GENERATION.

1. ON THE BASIS OF PERIOD: SOURCES OF FUNDS ARE CLASSIFIED INTO THREE WAYS UNDER BASIS OF PERIOD. LONG TERM FINANCE, MEDIUM TERM FINANCE, AND SHORT TERM FINANCE.

A. LONG TERM FINANCE: THE LONG TERM SOURCES FULFILL THE FINANCIAL REQUIREMENTS OF AN ENTERPRISE FOR A PERIOD EXCEEDING FIVE YEARS AND INCLUDES SOURCES SUCH AS SHARES AND DEBENTURES, LONG TERM BORROWINGS AND LOANS FROM FINANCIAL INSTITUTIONS.

SUCH FINANCING IS GENERALLY REQUIRED FOR ACQUISITION OF FIXED ASSETS SUCH AS LAND AND BUILDING, PLANT AND MACHINERY ETC.

B. MEDIUM TERM FINANCE: WHERE THE FUNDS ARE REQUIRED FOR A PERIOD OF MORE THAN ONE YEAR AND LESS THAN A PERIOD OF FIVE YEARS MEDIUM TERM SOURCES OF FINANCE ARE USED. THESE SOURCES INCLUDE BORROWINGS FROM COMMERCIAL BANKS, PUBLIC DEPOSITS, LEASE FINANCING, AND LOANS FROM FINANCIAL INSTITUTIONS.

C. SHORT TERM FINANCE: SHORT TERM FUNDS ARE THOSE WHICH ARE REQUIRED FOR A SHORT DURATION THAT IS A PERIOD NOT EXCEEDING ONE YEAR. TRADE CREDIT LOAN FROM COMMERCIAL BANKS, BANK OVERDRAFT, CASH CREDIT, AND COMMERCIAL PAPERS ARE SOME OF THE EXAMPLES OF SHORT TERM FINANCE.

2. ON THE BASIS OF OWNERSHIP: ON THE BASIS OF OWNERSHIP, THE SOURCES OF FINANCE CAN BE CLASSIFIED INTO OWNERS FUNDS AND BORROWED FUNDS. OWNERS FUNDS MEANS FUNDS THAT ARE PROVIDED BY THE OWNER OF AN ENTERPRISE WHICH MAY BE A SOLE TRADER OR PARTNERS OR SHARE HOLDERS OF A COMPANY. APART FROM CAPITAL, IT ALSO INCLUDES PROFITS REINVESTED INTO THE BUSINESS. THE OWNERS FUND REMAINS INVESTED INTO THE BUSINESS FOR A LONG DURATION AND IS NOT REQUIRED TO BE REFUNDED DURING THE LIFE PERIOD OF THE BUSINESS. IT IS THE ONLY BASIS ON WHICH OWNERS ACQUIRE THEIR RIGHT TO CONTROL OF MANAGEMENT. ISSUE OF EQUITY SHARES AND RETAINED EARNINGS ARE THE TWO IMPORTANT SOURCES FROM WHICH OWNERS FUND CAN BE OBTAINED.

ON THE OTHER HAND, BORROWED FUNDS ARE REFERRED TO THOSE FUNDS RAISED THROUGH LOANS OR BORROWINGS. THE SOURCES OF RAISING BORROWED FUNDS INCLUDE LOANS FROM COMMERCIAL BANKS, LOANS FROM FINANCIAL INSTITUTIONS, ISSUE OF DEBENTURES, PUBLIC DEPOSITS, AND TRADE CREDIT.

3. ON THE BASIS OF GENERATION: FINANCES CAN BE GENERATED FROM INTERNAL AND EXTERNAL SOURCES. INTERNAL SOURCES OF FUNDS ARE THOSE THAT ARE GENERATED FROM WITHIN THE BUSINESS SUCH AS PLOUGHING BACK OF PROFITS, RETAINED EARNINGS, COLLECTION OF RECEIVABLES, DISPOSING OF SURPLUS INVENTORIES ETC.

EXTERNAL SOURCES OF FUNDS INCLUDE THOSE SOURCES WHICH LIE OUTSIDE AN ORGANISATION SUCH AS SHARES, DEBENTURES, PUBLIC DEPOSITS, SUPPLIERS, LENDERS, INVESTORS, BORROWING FROM COMMERCIAL BANKS AND FINANCIAL INSTITUTIONS.