

Revision Notes

Class - 11 Business Studies

Chapter 1 - Business, Trade and Commerce

We indulge in multifarious activities in our daily lives. Hence before understanding what business is, Let's understand the types of activities:

Classification of Activities

- 1. Economic Activities:** Economic activities are any activities that are carried out with the goal of earning money and livelihood. For example, a worker working in a factory, a teacher teaching in school.

It is majorly of three types:

- Business
- Profession
- Employment.

- 2. Non Economic activities:** Activities which are performed out of love, affection, sympathy, etc, and without the aim of earning profit are called non economic activities. For Example social work, religious activities etc.

Role of business in the development of economy:

Business activities have been undertaken since the ancient era. There existed transfer of goods both within and outside the country, and the income received from such economic business activities were used for further investments.

One such example is of:

Hundi: It is an instrument of exchange used in old times which involved a contract that warrants the payment of money, a promise or order which is unconditional, and can be exchanged through transfer by valid negotiation.

In ancient times many trade centres were developed for the import and export of goods like Patliputra, Peshawar, Taxila, Indraprastha, Mithila, Maduram, Surat etc.

Hundi as practiced by Indian merchant Communities

Dhani-jog	Darshani	Payable to any person- no liability over the receiver.
Sah-jog	Darshani	Payable to a specific person- Liability created.
Firman-jog	Darshani	Payable to order.
Dekhan -har	Darshani	Payable to presenter or bearer.
Dhani-jog	Muddati	Payable to any person over a fixed term- no liability over who received the payment.
Firman-jog	Muddati	Payable to order following a fixed term.
Jokhmi	Muddati	It is drawn against dispatched goods. Drawer bears the costs if goods get lost in transit.

BUSINESS

Any economic activity that is undertaken regularly and continuously to satisfy the societal needs as well as to earn profit through the mechanism of sale and purchase of goods and services is called a business.

Characteristics of Business Activities

- 1. An economic activity:** Business consists of sale or exchange of goods and services with the primary objective of earning money. Hence it is an economic activity.
- 2. Sale or exchange of goods and services for creating value:** In business there should be transfer or exchange of goods or services for value. Production of goods for the purpose of personal consumption is not termed as business.
- 3. Regularity in dealings:** To constitute a business there should be dealings in goods and services on regular intervals. Doing one single transaction does not constitute business. For example selling your old books, or furniture and purchasing a new one is not termed as business.
- 4. Production or procurement of goods and services:** In every business enterprise before the consumption, production takes place. As a result, a

business either manufactures the goods on its own or purchases them from producers, and then sells them to end customers.

- 5. Profit earning :** The primary objective of every business is to earn more and more profit. No business can survive without earning profit. Hence all the efforts of the businessman are directed towards the earning of sufficient profit.
- 6. Uncertainty of return:** It's not certain how much profit a business is going to earn, as there is a possibility of losses as well because of the changing environment. Every business has to handle both losses as well as profits.
- 7. Risk:** Every business is exposed to certain risks, these risks can either be due to natural factors, human factors, financial factors, or personal factors. Therefore, both profit and losses walk hand in hand and every business has to take some risk in order to survive.

Profession:

Any economic activity which is carried out by a person with specialised knowledge and skills in order to serve society is called profession.

Employment

Any economic activity which involves doing work for someone else in consideration of money is termed as employment.

Comparison of Business , Profession and Employment

Basic	Business	Profession	Employment
Mode of establishment	Establishes after fulfilling some required legal formalities.	A certificate of practice required.	Starts after receiving an appointment letter.
Nature of work	Selling and buying of goods and services.	Rendering specialized services	Work is as per the contract and the rules of service.
Qualification	No minimum qualification required.	Formal qualification and training from a	Qualification requirements differ with job type.

		professional body is a must.	
Reward or return	Profit	Professional fee	Wages or salary earned
Capital investment	It is dependent upon the type and size of business.	Limited capital needed.	No capital.
Risk	High uncertainty and risk.	Little or limited risk	No risk
Transfer of interest	Possible	Not possible	Not possible
Code of conduct	No code of conduct is prescribed.	Professional code of conduct is there.	Rules set by the employer are to be followed.
Example	A person having his shop, factory etc.	Chartered Accountants, Lawyers, Doctors are all professionals.	Jobs in banks, companies etc.

Classification of business activities

The business activities are mainly classified into:

- Industry
- Commerce
 - Trade
 - Auxiliaries to Trade

A. INDUSTRY

It is basically concerned with the production of goods and services for an economic motive. It is further divided into following categories:

- Primary
- Secondary
- Tertiary

1. Primary industry:

It includes all those activities which are concerned with the extraction and production of natural resources and development of plants, etc.

It is further divided into two parts:

- a. **Extractive industries:** These industries provide some basic raw materials that are mostly products of the natural environment. It includes farming, mining, etc.
- b. **Genetic industries:** These industries do breeding of plants and animals for their use in further reproduction. Example- cattle breeding, poultry farms.

2. Secondary industries

These industries are concerned with further processing of the material extracted at the primary sector so as to convert them into a finished product. Example, Mining of iron ore.

It is further divided into two parts:

- a. **Manufacturing industries:** These industries engage in producing goods through processing of raw materials and creating utilities.

It is further divided into four parts:

- i. **Analytical industry:** These industries separate and bifurcate different elements from the basic material, so as to produce various by-products from the same element. For example, petrol, diesel etc all are made from one basic material that is crude oil
- ii. **Synthetical industry:** These industries bring together materials and ingredients from varied sources and combine them to form a new product. For example, the cement industry.
- iii. **Processing industry:** These industries are involved in the extraction and processing of resources and raw materials, so as to produce semi-finished or finished products. For example, the sugar industry, paper industry, textile industry etc.
- iv. **Assembling industry:** These industries bring together different components of various firms to form a new product. For example, different components of various industries are brought together to assemble them and convert it into a television, computer, car etc.

b. Construction industries: These industries are involved in the construction sector, and it involves constructive works such as building dams, bridges , buildings,etc.

3. Tertiary industry

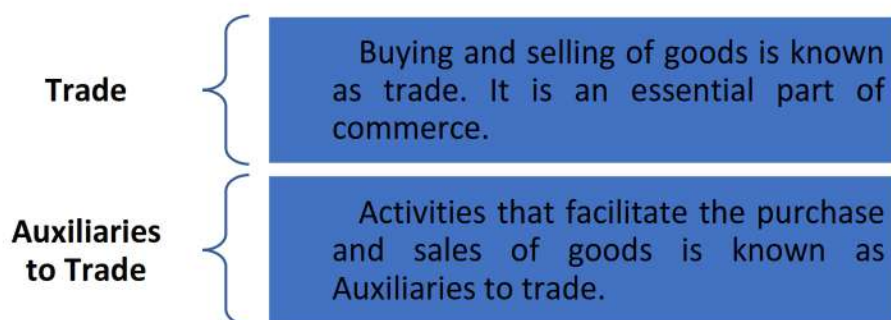
These industries provide support services to primary and secondary industries so that they can perform their work without any hindrances. For Example, banking industry, transportation industry, communication industry, etc.

B. COMMERCE

Commerce includes all the activities which are required for the exchange of goods and services. It also involves all the activities that assists in removal of hindrances of people, place, time, finance, risk, information faced during the exchange of goods and services.

It includes two types of activities:

- Trade
- Auxiliaries to Trade



- **Trade**

The buying and selling of goods and services with an aim to earn profit is termed as trade. The people who are involved in trade are referred to as traders.. Trade can be bifurcated as:

a. Home Trade: It involves buying and selling within the domestic country. It can be:

i. Local Trade: Buying and selling within a local area.

ii. State Trade: Buying and selling within a single state. That is intra-state trade.

iii. National Trade: Buying and selling between the states. That is Inter-state trade.

b. Foreign Trade: It involves buying and selling of goods and services outside the domestic borders of a country. it involves:

i. Imports: It refers to the purchase of goods and services from other countries.

ii. Exports: Selling goods and services to other countries.

iii. Entreport: Importing goods and services from one country and exporting to some third country

- **Auxiliaries to Trade**

Auxiliaries to trade assists the buying and selling of the goods and services by removing the hindrances of place, people, time, finance, risk and information.

The auxiliaries to trade are:

a. Transport and Communication: Transportation helps in the movement of raw material and finished products from the place of production to the place of consumption. Communication enables easy interaction by one party with the another who are far away from each other. It assists in removal of the hindrance cause due to place.

b. Banking and finance: It helps business activities to overcome the problem of finance by lending loans and credit facilities since business can't survive if funds are not available for procuring material. It assists in removal of the hindrance cause due to finance.

- c. Insurance:** It provides protection to businesses from various types of risks such as due to fire, theft etc. It assists in curbing hindrances of risk.
- d. Warehousing:** It helps business firms to overcome the problem of storage and facilitates the availability of goods. It assists in curbing hindrances of time.
- e. Advertising and Public Relations:** It helps them to increase the sales and widen the customer base by promoting business products or services at a wide spectrum. It is a tool to influence customers. It assists in curbing hindrances caused due to information
- f. Middlemen:** These people act as mediators between the producer and consumers. These include wholesalers, retailers etc. It assists in curbing hindrances of persons.

Objectives of Business

- 1. Market standing:** For every business, goodwill is the most important aspect to stand out from its competitors. Every business must give quality products at reasonable prices to earn better goodwill.
- 2. Innovation:** It means developing new products or modification in existing products. Every business in order to survive in a competitive environment should innovate its products or develop new ideas to tackle competition.
- 3. Productivity:** It is a measure of efficiency. Every business must aim at increasing its productivity through the efficient use of resources.
- 4. Earning profit:** Every business objective is to earn more and more profit in order to survive and also for growth purposes.
- 5. Physical and financial resources:** Every business enterprise must acquire physical resources like land, plant and financial resources like funds according to their requirements and use them efficiently.
- 6. Social responsibility:** Every business must work in a socially desirable manner and contribute some resources for solving social problems.

Business Risk

The risk caused due to inadequate profits or losses as a result of uncertainties or unexpected events is called business risk.

Nature of Business Risks

- Risk is an essential part of every business. It can only be reduced but not eliminated in full.
- It arises due to uncertainties like natural calamities such as earthquakes, floods etc., which are unavoidable.
- The extent of risk depends upon the nature and size of business.
- 'No risk, no gain' is applicable to every business. Hence, profit is the reward for risk taking.

Causes of business risks

- **Natural causes:** These are due to natural causes such as floods, earthquakes, etc. Every person has little control or no control over these causes.
- **Human causes:** These causes include unexpected events caused by man, such as negligence of employees, power failure, employee's or customer's dishonest practices etc.
- **Economic causes:** The economic causes involve the changes and variations taking place in the economy such as uncertainties due change of technology and method of production, political disturbances, change in prices, tax rates etc.
- **Other causes:** All those causes which cannot be considered under the above causes are the other causes, such as exchange rate fluctuations etc.

Factors for Starting a business:

1. **Selection of type of business:** First step is to decide the nature and size of business which person wants to do. It depends upon customer requirements in the market and also the knowledge that person has about the product. A person can enter primary, secondary or tertiary industry, based on the possibility of profit, demand, customer preference etc.
2. **Size of Business:** Every person has to decide whether it wants to operate on a large scale or at a medium scale. It depends upon demand for the product and the necessary capital that person has. If a person is optimistic about all the factors, he can open up his business on a large scale, and vice versa.
3. **Location of business enterprise:** It's another important factor while starting a business. The location of business is dependent on the easy availability of raw

materials and labour, banking services, transportation services nearby etc. Any mistake in this can result in high losses to business.

- 4. Financing the proposition:** For every business, availability of capital or funds is an important factor while starting a business. Because capital is needed in each activity and aspect of business, such as in investment in fixed assets, stocks, meeting day to day expenses, etc.
- 5. Physical facilities:** Availability of machines, equipment, building is also considered while starting a business. The extent of physical facilities depends upon the nature and size of business and availability of funds.
- 6. Competent and committed workforce:** Every business needs competent workforce to run its business operations smoothly. Proper planning and training should be done for hiring employees at the right position and at the right time and cost.
- 7. Tax planning:** Because of increasing tax laws in the country every business has to do proper tax planning in advance to save itself from any problem in future.
- 8. Launching the enterprise:** After all these steps, a person can go ahead with starting a business. It can be a partnership firm, a sole proprietorship firm, a company etc.