B.Com

Economics

<u>Essential Features of Business:</u>

Business refers to the human activities engaged in production and/or exchange of want satisfying goods and services carried with the intention of earning profits. We can list the following five broad features of business:

1 Dealings in goods and services: Business deals with goods and services. The goods maybe consumer goods such as sweets, bread, cloth, shoes, etc: They may be producer's goods such as machinery, equipment, etc., which are used to produce further goods for consumption. Business also deals with services such as transport, warehousing, banking, insurance, etc., which are intangible and invisible goods.

2 Production and/or exchange: You can call an economic activity a 'business' only when there is production or transfer or exchange or sale of goods or services for value. If goods are produced for self-consumption or presentation as gift, such activities shall not be treated as business. In a business activity, there must be two parties i.e., a buyer and a seller. Such activity should concern with the transfer of goods or exchange of goods between a buyer and a seller. The goods may be bartered or exchanged for money.

3 Continuity and regularity in dealings: A single transaction shall not be treated as business. An activity is treated as business only whon it is undertaken continually or at . least recuriently. For example, if a person sells his residential house, it is not contidered as business. If he repeatedly buys houses and sells to others, such activity comes under business. But how frequently the transaction should occur depends on the nature of the activity. For example, a ship building company takes a long time to manufabure and sell a ship. At the same time, a vegetable vendor purchases vegetables from the market in the morning and sells out to his customers by evening. But both these activities are treated as business.
4 Profit motive: Earning profit is the primary motive of business. This is not to undermine the importance of the element of service in business activity. In fact a business will flourish only when it is able to serve its customers to their satisfaction. Profits are essential to enable the business to survive, to grow, expand, and to get recognition.

5 Element of risk: In every business, there is a possibility of incurring loss. This possibility of incurring loss is termed as risk. The element of risk exists due to a variety of factors which are outside the control of the business enterprise. There are two kinds of risks:-
(1) Risks whose probability can be calculated and can be insured. Losses due to fire, floods, theft, etc., are some examples.

(2) Risks whose probability cannot be calculated and which cannot be insured against, e.g., changing technology, fall in demand, changing fashions, short supply of raw materials, etc. These risks are to be completely born by the enterprise.

According to urwick, "profit can no more be the objective of a business than eating is the objective of living". Thus, serving the Community is regarded as another important objective of business. Therefore, while profit is necessary for the businessman to stay in business, he ought to aim at something more for its survival and growth. Basically being an economic activity, primary objectives of business are economic. Business, being a part of the society, has obligations towards the society also. Business activity is, generally, carried out through employees who are human beings. In fact, the efficiency and the success of the business enterprise depends on the motivation and ability of its employees. Therefore, business must also have some human objectives to safeguard the interests of its employees. Thus the objectives of business could be listed under three broad headings:

1. Economic objectives:
Earning of satisfactory profits.
Exploring new markets and creation of more customers.
Growth and expansion of business operations of the firm.

2. Social objectives:
Providing more and more employment opportunities to the people in the country.
Supply of quality goods to the community.
Providing goods at reasonable prices.

3. Human objectives:
Fair deal to employees in terms of wages and incentives.
Providing better working conditions and environment to the employees.
Provide job satisfaction.

Before issuing the prospectus inviting public subscription for shares and debentures, the promoters of a company generally make arrangements whereby public response to the issue may be encouraging. Otherwise, the promoters cannot be sure that the shares or debentures would be fully or substantially subscribed by the public and ,necessary finance would be available. Similarly , when any existing company decides to raise additional finance by issuing shares or debentures, it has to be reasonably sure that there is adequate response to the issue. Underwriting refers to an agreement between the promoters or directors of a company on the one hand, and an individual, firm or institution (known as underwriter) on the other, whereby the latter agrees to take up the whole or part of the shares or debentures issued which may no1 be subscribed by the public. In consideration of the undertaking given by the underwriter, the company agrees to pay a commission which is known as 'underwriting commission. The commission agreed upon is generally a percentage of the issue price of the shares or debentures underwritten.

Terms and Conditions of Underwriting:

There is a written agreement between the company and the underwriter known as the 'Underwriting Agreement' (or Contract). Usually the following aspects are specified in this agreement.

i) The number of shares or debentures which are agreed to be underwritten.
ii) An undertaking by the underwriters to take up such of the shares or debentures as are not subscribed by the public.
iii) An undertaking by the company that the terms of issue given in the prospectus will not be changed without the consent of underwriters.
iv) Authority of the underwriters to the company to allot them the balance of shares or debentures not taken up by the public.
v) The rate of commission to be paid to the underwriters and the mode of payment.

Advantages and Limitations of Underwriting:-

TO the promoters of a company the most important advantage of underwriting is that the funds required for the enterprise become available whether or not there is adequate public response to the issue of shares and debentures. The underwriters ensure the availability of finance. A now company has to invariably enter into various contract with different parties for purchase of fixed assets and other arrangements. before the commencement of business. The promoters can confidently proceed with the preliminary steps after the underwriting agreement. They do not have to wait for the public response and actual subscription to the issue of shares and debentures. Thus, precious time may be saved and business activities started on a sound basis as a result of underwriting. Another advantage of underwriting is that the company gets the benefit of expert advice from the underwriters. Every underwriter, before entering into an agreement, carefully examines the scheme of financing the business ventures prepared by the company. The underwriter signs the contract only when the scheme is sound. While examining the scheme, the underwriter may suggest improvements in the scheme and thus enable the company to avoid future setbacks. If a reputed firm has underwritten the issue of shares or debentures, it creates confidence in the public and helps the company to raise the necessary amount of finance from the public.

The only disadvantage of underwriting is that it adds to the cost of raising finance. Thus, the rate of return on investment proposed to be made with the funds raised must be sufficiently high so as to absorb the additional cost of floating shares and debentures. But the significance of underwriting arrangement is such that even well-established profitable companies cannot avoid it while issuing additional shares or debentures to the public. Smaller companies often find the cost involved quite heavy.

Commercial banks are the oldest institutions having a wide network of branches throughout the country. A commercial bank is a monetary institution which serves the interest of its depositors by utilising their funds in profitable ventures and provide a variety of services to its customers. Commercial banks may either be owned by the Government or may be run in the private sector.
Commercial banks play a very important role in the economic development of the country. Banks are the nerve centre of trade, commerce and business in any country. The following are the role of commercial banks:

1. Collection of Deposits: Accepting deposits from the customers is one of the main function of the banks, By mobiling deposits the commercial banks help in the development of savings habit in the public. Bank deposits are not only safe but bank also earn interest on it.
2. Facilitate Payments: Banks facilitate Payments through cheques which is a very convenient and safe mode of making payments. Cheques serve as a ready proof of the fact that the payment has been made. When payments are made by cheques, there is no need of carrying large amounts of cash and the trouble of counting is avoided.

3. Provide Loans and Advances: Commercial banks grant loans and credit facilities to the public. Banks also allow overdraft facilities to its customers, thus providing them instant credit. Banks issue letters of credit, thus enabling businessmen to deal with strangers because payment is guaranteed.
4. Provide Credit Information: Commercial banks provide vital information relating to the credit worthiness of their customers. Whenever a businessman deals with another businessman for the first time, he would like to know the financial position of the other person. In such case if he refers it to his banker, who provides the necessary information.

5. Discounting of Bills: The banks lend money by discounting bills. Discounting a bill of exchange means the advancing of a loan against a promise to pay in future. This is a very popular method of lending as the loans are self liquidating.

6. Collection of Cheques, etc.: Banks also undertake to collect the amount of cheques, drafts, bills of exchange etc. on behalf of its customers.

7. Safety of Valuables: The banks provide safe deposit vaults (lockers) wherein valuables such as jewelry, ornaments, documents, etc., can be kept safely.

8. Remittance of Money: If money is to be remitted to any other place, it can be done quickly through banks, Now some of the banks provide 24 hours service, wherein by giving your personal identity number, you can withdraw money at any hour of the day.

Following are the salient features of the relationship between banker and customer:

Contractual Relationship: The primary relationship between a banker and a customer arises from a contract between the two, so it is a contractual relationship. The contract takes place the moment an account is opened by a customer with a bank and this contract remains valid till the customer operates his account as per the terms and conditions agreed between them.

Debtor and Creditor Relationship: The relation of a banker and customer is primarily that of a debtor and creditor. When a customer opens an account with a bank and maintains e credit balance, the banker assumes the position of a debtor and the customer assumes the role of a creditor. Money deposited with the bank becomes a debt due from him to the customer. The banker can use the money deposited with him by the customers in any manner according to his discretion, his only obligation being to repay the debt as and when demanded by the customer.

Bailee and Bailor Relationship: When a bank accepts deposits of money, he does not act as a bailee. This is so because a bailee accepts the bailment of goods on the condition that the things bailed will not be utilised by him and the identical goods will be returned. But a bank does not accept money from customer on the condition that it will not utilise the money and that the identical money (the same currency notes or coins deposited by customer) will be returned. A banker provides for safe deposit vaults and accepts documents and valuables for safe custody. Here the bank is acting as a bailee and the relationship is that of bailee and bailor.

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

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

A partnership is formed by an agreement. Such agreement may be either
Written or oral. To avoid misunderstanding and unnecessary litigations,-it is always desirable To have a written agreement. When the written agreement is duly stalnped and registered, it Is known as 'partnership deed'. After registration, each partner is given a copy of the Partnership deed. A partnership deed, generally contains the following particulars.

1 Name of the firm.
2 Nature of the business to be carried out.
3 Names of the partners.
4 The town and the place where business will be carried on.
*5T*he amount of capital to be c0ntributed.b~e ach partner.
6 he profit and loss sharing ratio of each partner.
7 Loans and advances by partners and the interest payable on them.
8The amount of drawings by each partner and the rate of interest allowed thereon.
9 The rate of interest on capital. ,
10 Duties, powers, and obligations of partners.
11 Remuneration, if any, payable to the active partner.
12 Maintenance of accounts and arrangements for audit.
13 Settlement in the case of dissolution of partnership.
14 The methods of evaluation of goodwill on admission or death or retirement of a partner.
15 The method of revaluation of assets and liabilities on admission or death or retirement of a partner.
16 The method of retirement of a partner, and the arrangement for the payment of the dues of a retired or deceased partner.
17 Arbitration in case of disputes among partners.
18 Arrangements in case a partner becomes insolvent.

Primarily, issues can be classified as a Public, Rights or preferential issues (also known as private placements). Public issues can be further classified into Initial Public offerings and further public offerings. In a public offering, the issuer makes an offer for new investors to enter its shareholding family. The issuer company makes detailed disclosures as per the DIP guidelines in its offer document and offers it for subscription. The significant features are illustrated below:

Initial Public Offering (IPO) is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer’s securities.

A Further public offering (FPO) is when an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public, through an offer document. An offer for sale in such scenario is allowed only if it is made to satisfy listing or continuous listing obligations.

Public corporation is corporate body created by the Parliament or State Legislature as the case may be, by a special Act which defines its powers. duties, functions, immunities and the pattern of management. Public corporation is also known as statutory corporation. The capital is wholly subscribed by the government. It is managed by the management committee constituted according to the provisions of the Act. It is answerable to the Parliament or State Legislature as the case may be.
As stated by Roosevelt, public corporation is an organisation which is clothed with the power of the government but is possessed of the flexibility of private enterprise.Thus the public corporation device is an attempt to combine public interest with the flexibility of operation most prominently found in a company form of orgartisation working in the private sector.
Normally, the public corporations are constituted for any of the following purposes:
i) To transfer the business of a nationalised undertaking to the corporation.
ii) To facilitate the acquisition of undertakings belonging to an existing company.
iii) To promote, develop and operate certain schemes.
iv) To extend certain social services and utility-services.
V) To provide for regulation and control of the working and operations of an institution or for other matters connected therewith or incidental
thereto.

Foreign direct investment is an investment that is made to serve the business interests of investor in a company, which is in a different nation different from the investor's country of origin. Foreign direct investment (FDI) in India has played e very important role in developing the Indian economy. FDI in India has - in many ways - enabled India to achieve a certain degree of financial growth, stability and financial development. It has allowed India to focus on areas that needed economic attention, and address various issues that continue to challenge the country.
FDI in India has increased over a period of time due to the efforts been made by the Indian government. The increased flow of FDI in India has given major boost to the country's economy and hence steps should be taken to make sure that the flow of FDI in India continues to grow.
India has always sought to attract FDI from major investors of the world. In 1998 and 1999, the Indian national government declared a number of reforms designed to encourage FDI & present a favorable scenario for the investors.
FDI investments are permitted through private equity or preferential allotments, financial collaborations, through capital markets in form of Euro issues, and in joint ventures. FDI is not permitted in the nuclear, railway, arms, coal and lignite or mining industries.
Numbers of projects have been announced in areas like distribution and transmission, electricity generation and the development of roads and highways, with opportunities for foreign investors.
The Indian national government has also provided permission to FDIs to provide up to 100% of the financing needed for the construction of bridges and tunnels, with a limit on foreign equity

of INR 1,500 crores [approximately $352.5m]

All the securities issued by companies and other bodies are not permitted to be quoted on a recognised stock exchange. Only the listed securities are permitted to be traded. Only members of the stock exchange or their authorised agents can buy or sell securities on the floor of the stock exchange. Listing means addition of new securities to the existing list of securities being traded on a stock exchange. If a joint stock company or any other body who has issued new securities want them to be traded on the floor of stock exchange and their prices duly published, it has to get the securities included in the list of the stock exchange. For listing, the company has to make an application and furnish the prescribed information to the stock exchange. Section 19 of the Securities Contracts (Regulation) Rules 1957 lays down the minimum requirements with respect to the listing of securities on a stock exchange. Listing implies that the
securities have met the satisfaction of stock exchange authorities, in respect of certain prescribed standards of legality, security and work-manship. When a security is admitted to dealings on a stock exchange, it does not guarantee the soundness or profitability of the company, in any manner. It is also not a certificate of the stock exchange for consideration by the investors. However, it indirectly gives an impression to the investor that the quoted security can be considered for investment, as the issuing company has satisfied the management of the stock exchange by fulfilling the required conditions and that there is no concealment. Listing provides a reasonable basis upon which the investor may assure himself about the genuineness of the company.

The term 'Channel of Distribution' refers to the route taken by goods as they flow from the producer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channel of distribution is mainly concerned with the transfer of title to a product which may be effected directly or through a chain of intermediaries. Thus the channel of distribution is a network of institutions that perform a variety of inter-related and coordinated functions in the movement of goods from producers to consumers.

Manufacturers produce the goods. In the distribution system this is the starting point for the goods. The second category of participants i.e., intermediaries, are involved in direct negotiation between buyers and sellers whether or not they take title to goods. These intermediaries locate the manufacturers who produce various products, identify the needs of the consumers and distribute the goods. In the process they perform various functions like buying, selling, assembling, standardisation and grading, packing and packaging, risk bearing, etc. Facilitating agencies are the independent business organisations other than 'intermediaries. They help the distribution of goods from originators to users. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are advertising agencies, banking institutions, insurance companies, transportation agencies, and warehousing
companies. These agencies are an 'aid to trade'. The fourth category of participants in the distribution system, i.e. consumers, are the final destination for goods in the distribution system.

Sometimes advertisement and publicity are wrongly interpreted to mean one and the same-thing. In fact, advertisement is different
from publicity.

Publicity refers to the communication of any non-sponsored commercially significant information about a company or its product to the public through non-personal media without any financial charge to the company. It includes following four expressions:

i) Non-sponsored
ii) Commercially significant information
,iii) Through non-personal media
iv) Without a financial charge to the company

The American Marketing Association has defined advertising as "any paid form of non-personal . presentation of ideas, goods or services by an identified sponsor". This definition includes the following four expressions:

i) Paid form
ii) Non-personal presentation
iii) Ideas, goods and services
iv) . Identified sponsor

Government company is a corporate body registered under Indian Companies Act in which not less than 5 1 % of the paid-up share capital is held by the central government or any state government or by several state governments or partly by the central government and partly by one or more state governments. Any company which is a subsidiary of such a company is also considered a government company. For establishing a government company, the government need not go to the legislature. In (his form of organisation there is scope for private participation in the capital as well as management. It is managed by the Board of Directors consisting of members nominated by the government and the elected members of the private shareholders, if any. It has financial autonomy and independent staffing system. It is free from auditing, accounting and budgetary controls applicable to departmental organisations. The major advantage of the government company is that: while taking care of all the disadvantages of the departmenla1 form, it provides all the benefits of the.public, corporation. It is easy to form and also easy to bring changes in its constitution whenever needed. There is scope for private participation in capita1 and management. It facilitates taking over a running enterprise by the government or transferring the ownership to private enterpreneurs. Being autonomous in financial, staffing and accounting aspects, government company has more operational flexibility. The major limitation of this form of organisation is that it evades parliamentary probe. It also suffers from lack of professional management, government interference, fear of public accountability among top executives, and so on.