

CHAPTER - 1

NATURE AND PURPOSE OF BUSINESS

- **Introduction:**

All Human beings where ever they may be require different type of goods and services to satisfy their needs. Business is a major economic activity in all modern societies concerned with production and sale of goods and services required by the people. It is aimed at earning money by satisfying human demands.

- **Meaning:**

Literal meaning of Business is “BUSY”.

Business is defined as an economic activity



involved in the production and sales of goods and services



undertaken with the motive of earning profit



by satisfying human needs in the society.

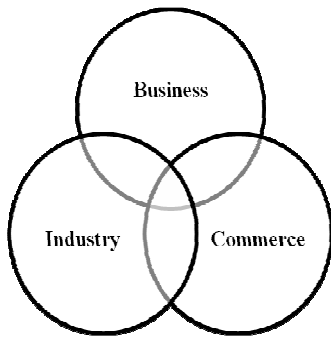
- **Characteristics of Business activities:**

- ❖ An Economic activity: It means an activity aimed at earning money. Business is also aimed at earning money or livelihood by satisfying human needs.
- ❖ Production and procurement of goods and services: Every business enterprise must either manufacture the goods or it acquires from producers. Goods may be consumer goods or Capital goods. Services means facility offered to consumers like banking, insurance etc.
- ❖ Sale or exchange of goods and services: Business involves transfer or exchange of goods and service for value.
- ❖ Dealing in goods and services on a regular basis: It should be a regular activity. One time sale or exchange will not be considered as business.
- ❖ Profit earning: Business always aims at earning profit.
- ❖ Uncertainty of earning: There is always a possibility of less amount of profit or even loss in business.
- ❖ Element of Risk: There is always a possibility of Uncertainty of earnings.

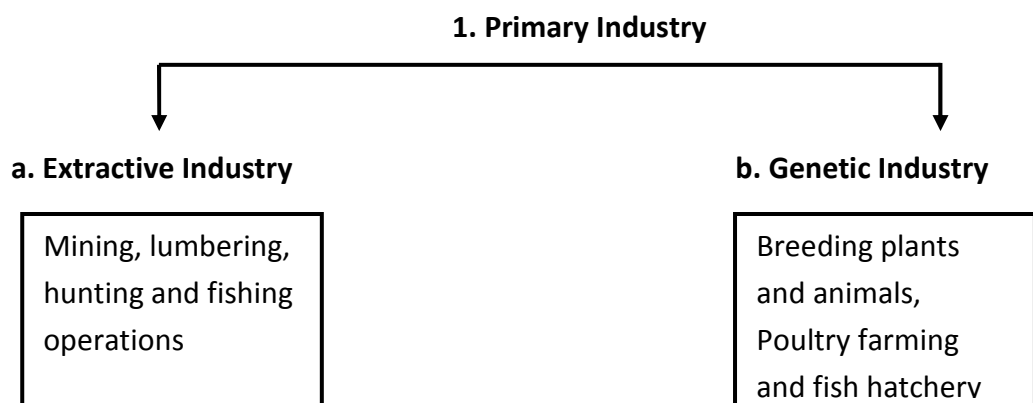
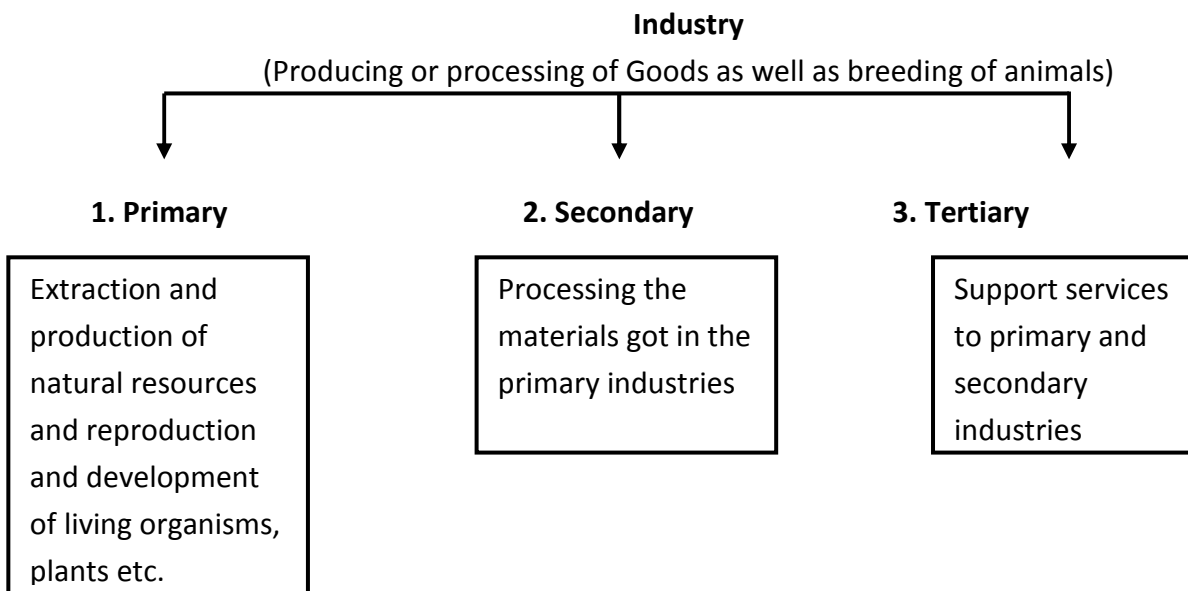
- **Comparison of Business, Profession and Employment:**

Basis	Business	Profession	Employment
1. How to Start?	Based on entrepreneurs /owners decision	Getting membership of a professional body	Getting an appointment letter
2. What is its nature?	Providing goods and services to the public	Rendering of personalized expert services	Performing work as per service contract
3. Qualification/Who can start?	No minimum qualification	Requires qualification and training in a specific field	Requires qualification and training
4. Return/What will you get?	Profit	Professional Fees	Salary
5. Capital/How much you need to start?	Requires capital as per the size of the Business	Requires limited capital	No capital required
6. Risk involved	More risk	Less risk	No risk
7. Transfer of Interest – Can you transfer?	Is possible with some formalities	Not possible	Not possible
8. Code of conduct	No code of conduct is prescribed	Professional code of conduct to be followed	Code of conduct is prescribed by the employer to be followed

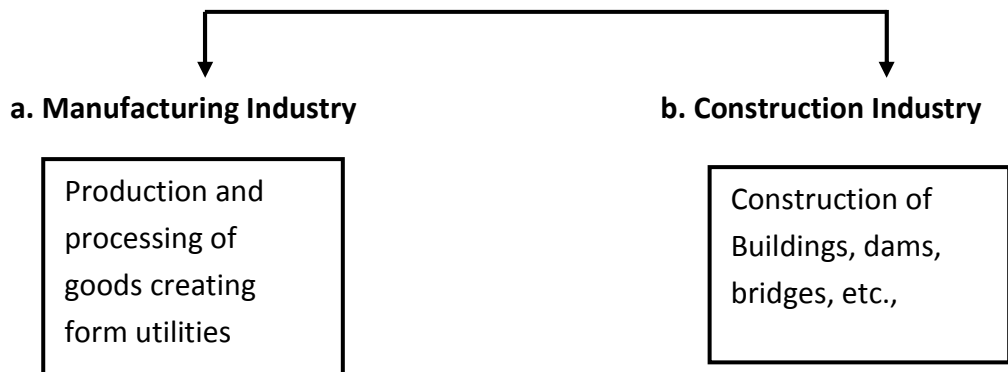
- **Classification of Business Activities:**



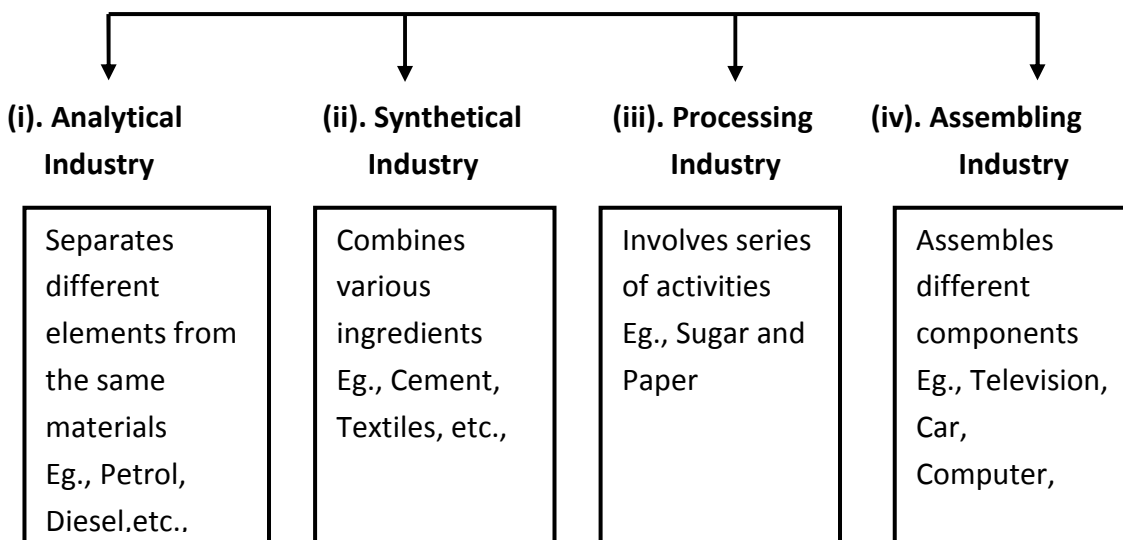
- **Industry:** Production or processing of goods and services. It is concerned with changing the form of the products. It gives form utility to the products. It is classified into the following:



2. Secondary Industry



2.a. Manufacturing Industry



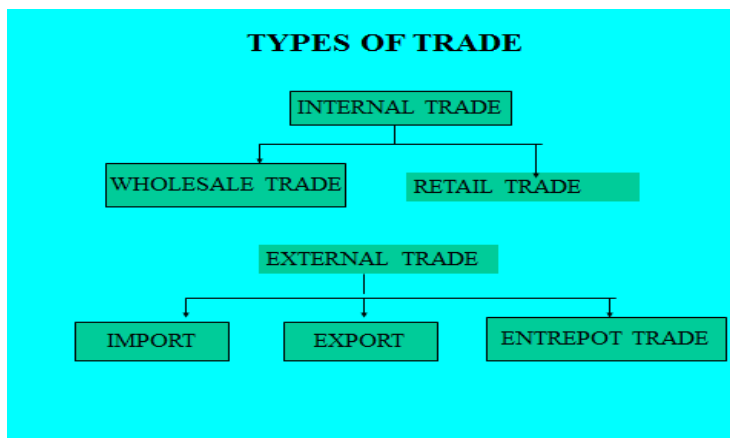
- **Commerce:** It includes all those activities which are concerned with removing all the hindrances in the movement of goods from the manufacturer to the consumers. It includes the following activities.



Commerce includes the following activities :

1. Industry
2. Trade – Export, Import
3. Transport and communication
4. Banking
5. Insurance
6. Advertisement
7. Packaging
8. Warehousing etc.,

- **Trade :** Trade means exchange of goods and services between sellers and buyers with profit motive.



- **Auxiliaries to Trade:**

1. Transport and communication : Physical movement of goods from the place where there is no demand to the place where there is demand. Creates place utility to the product.

2. Banking and Finance : Helps in removing financial hindrances. Facilitates production, buying and selling by providing funds by way of loans.

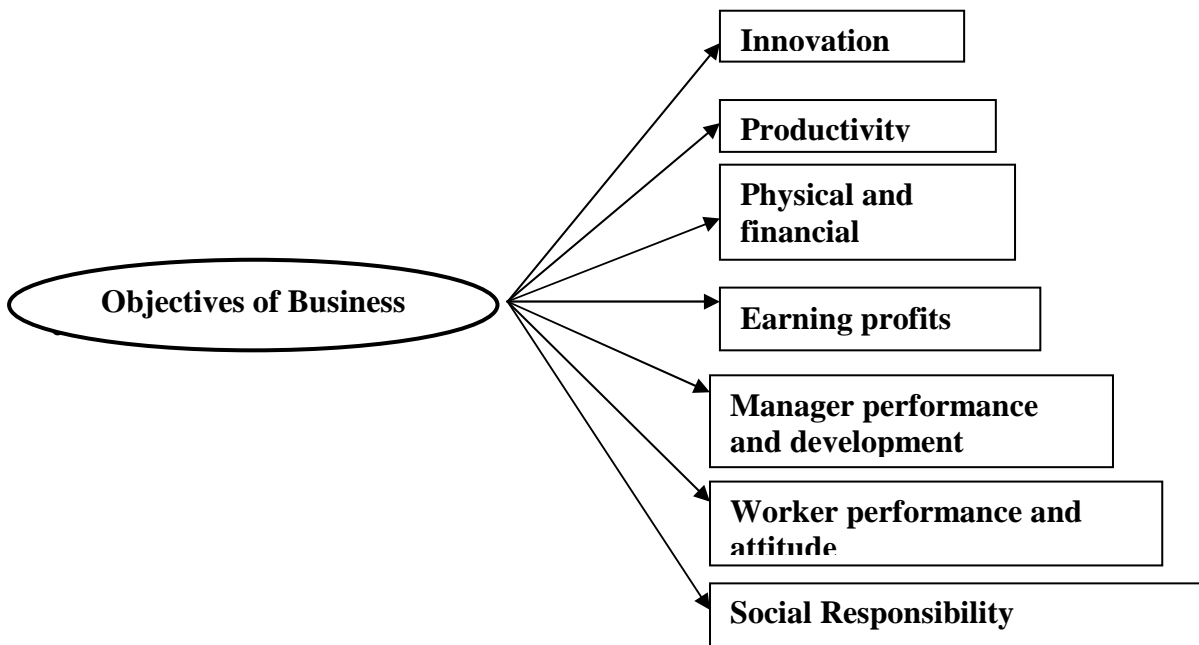
3. Insurance: It facilitates business by ensuring compensation for various types of risks.

4. Warehousing: It keeps the goods in tact till they are in demand. It creates time utility to the product.

5. Advertising: It provides information about availability of goods and services. It induces the consumers to buy the product.

- **Role of Profit in Business:**

- It is source of income for the business man.
- It provides funds for expansion
- It is an indicator of efficiency of business man.
- It builds up reputation.



- **Business Risk:** It refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

Nature Of Business Risks

- Business risks arise due to uncertainties
- Risk is an essential part of business
- Degree of risk depends upon the nature and size of business
- Profit is the reward for risk taking.

- **Causes of Business Risks:**

1. Natural Causes : Risk may be due to Flood, earth quake, lightning, heavy rains etc.

2. Human Causes: It includes dishonesty, carelessness or negligence of employees, strikes, riots, etc.
3. Economic Causes: It includes uncertainties relating to demand for goods, competition, price, collection of dues from customers, changes in economic policies etc.
4. Other Causes: It includes political disturbances, mechanical failures etc.

- **Basic factors to be considered before starting a Business:**

1. Selection of Line of Business: Based on the requirements in the market nature and type of business to be selected.

2.Size of the Firm: Based on the amount of funds available and demand for the product in the market size of the firm i.e small scale or medium or large scale to be decided.

3.Choice of form of ownership: Based on the amount of capital required, legal formalities to be filled in, liability of the owner, etc. the form of ownership is to be decided.

4.Location of the Business enterprise: Based on the availability of raw material and infrastructure facilities location of the Business is to be selected.

5.Financing the Proposition: Requirement of Capital and its sources must be decided.

6.Physical facilities: Availability of physical facilities including machines and equipment, building and supportive services to be considered before starting a business.

7. Plant layout: Plant layout should draw to show the arrangement of these facilities.

8.Competent and committed worked force.: Every business needs work force. So careful planning should be about selection, training and motivation of employees.

9. Tax Planning: Tax liability and its impact on business to be considered.

10. Launching the enterprise: After fulfilling the formalities entrepreneur can launch the business.

Short Answer type Questions :

1. State the different types of economic activities.

Ans. Business, profession and Employment. (1)

2. Name the trade where the goods are bought from the foreign country.

Ans. Import trade. (1)

3. State examples of Analytical industries.

Ans. Petrol, diesel (1)

4. Which industry provides services to primary and secondary industry?

Ans. Tertiary industry (1)

5. What is meant by Business Risk? Explain the features of it. (3)
Ans. Meaning and Features
6. Describe the meaning of Commerce. (3)
Ans. Meaning of commerce.
- Long Answer type Questions:**
7. Profit play an important role in business. Give four reasons to justify the statement. (4)
Ans. Role of profit in business
8. Give the meaning and two examples of Economic activities. (4)
Ans. Meaning. Ex. A person selling tea and coffee in the railway station 2. Doctor treating patients at his clinic. (4)
9. Explain the meaning and causes of business risk. (5)
Ans. Meaning and causes.
10. Compare the business, profession and employment. (5)
Ans. Table showing the comparison above.
11. Explain the factors to be considered before starting a business. (6)
12. Explain the features of business. (6)

HOTs:

13. Harish produces wheat for personal consumption. Will it be a business activity?

Ans. No.As it is not for performed for earning profit. (1)

14. A person sells his old car at a profit. Can it be termed as a business activity?

Explain. (4)

Ans. No. because business involves dealing in goods on regular basis. Brief Explanation of features of business.

15. Risk is an inherent element of a Business. Do you agree? Explain. (4)

Ans. Meaning and Nature of Business Risks .

• **Gist of the lesson:**

- ❖ ***Concept and characteristics of business.***
- ❖ ***Comparison of business, profession and employment***
- ❖ ***Classification of business activities***
- ❖ ***Classification of industry and commerce***
- ❖ ***Objectives of business***
- ❖ ***Meaning, nature and causes of business risk***
- ❖ ***Factors to be considered before starting a business.***