

Revision Notes
CHAPTER – 1
NATURE AND PURPOSE OF BUSINESS

ECONOMIC AND NON ECONOMIC ACTIVITIES

All Human beings have different types of needs. So, in order to fulfill those needs they have to perform some or the other activity. Human activities are classified into Economic & non-economic activities.

Basic Meaning	Economic	Non-Economic
Purpose/ Notice	Those activities whose Objective is to earn money and to create wealth.	Those activities whose aim is not to earn money, but to satisfy social, psychological and emotional needs. For example love, sympathy, patriotism.
Examples	People work in factories Cooking food in restaurant. A teacher teaching in a school.	A housewife cooking food for her family. A teacher training his daughter at home.

Concept of Business: - Business refers to those economic activities involving the purchase production and / or sale of goods and services with a motive of earning profit by satisfying human needs in society.

Characteristics of Business:

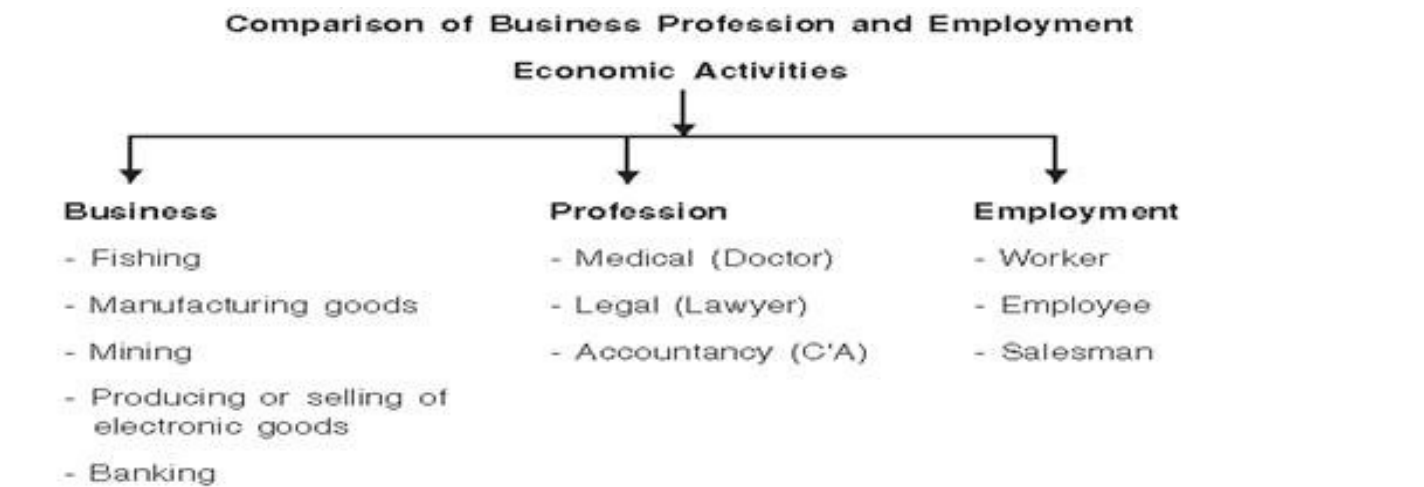
- 1. An economic activity:** Business is considered as an economic activity because it is undertaken with the objective of earning money.
- 2. Production or procurement of goods and services:** Business includes all the activities concerned with the production or procurement of goods & services for sales. Services include transportation, banking, Insurance etc. Goods may consist of consumable items.
- 3. Sale or exchange of goods & services** - There should be sale or exchange of goods and service between the seller & the buyer.
- 4. Dealing in goods & services at a regular basis:** There should be regularity of dealings or

exchange of goods & services. One single transaction of sale or purchase does not constitute business.

5. Profit Earning: The main purpose of business is to earn profit. A business cannot survive without making profits.

6. Uncertainty of return: Every business invests money with the objective of earning profit but the amount of profit earned may vary. Also there is always a possibility of losses.

7. Element of risk: All business activities carry some elements of risk because future is uncertain and business has no control over several factors like, strikes, fire, theft, and change in consumer taste etc.



Business: Refers to Purchase, production and/ or sale of goods & services with the objective of earning profit.

Profession: Includes those activities which require special knowledge & skills in the occupation.

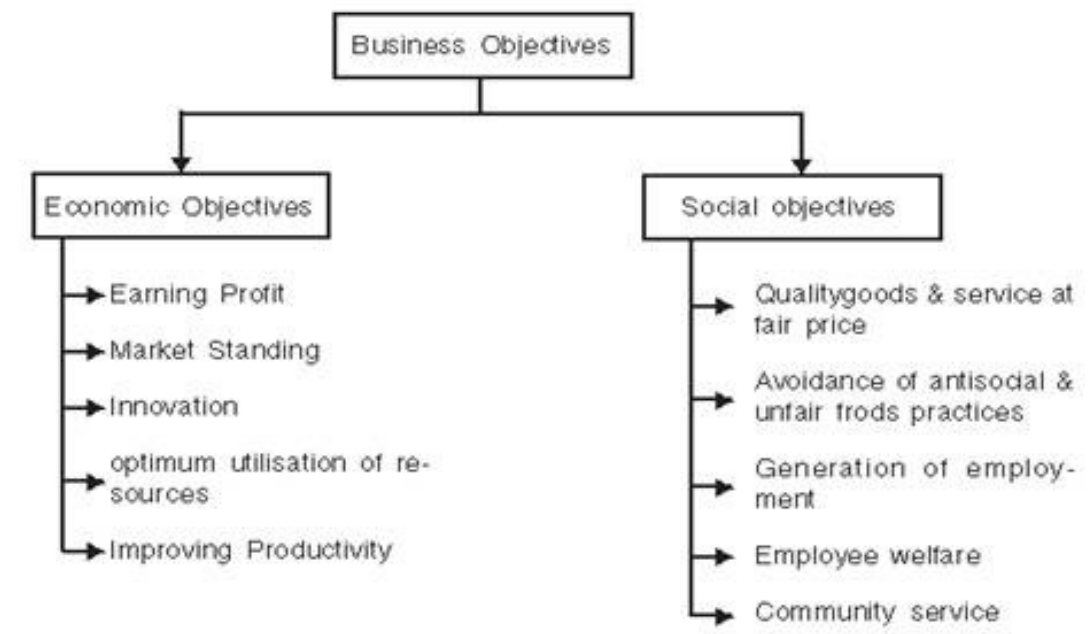
Employment: Refers to the occupation in which people work for others and get remuneration in return.

Basis of Destruction	Business	Profession	Employment
Mode of establishment	Starts after completing some legal formalities if needed.	Membership of a professional body and certificate of practice required.	Start after getting appointment letter.
Nature of work	Provision of goods and service to the public.	Personalized services of expert nature.	Work allotted by the employer according to the

			contract.
Qualification	No minimum qualification is necessary.	Professional Qualification and training required.	Qualification and training as prescribed by the employer.
Capital investment	Capital needed according to its size and capacity.	Limited capital for established	No capital required.
Reward/ Returns	Profits	Professional fee	Salary or wages
Risk	High Risk	Low Risk	No Risk
Code of Conduct	No code of conduct	Professional code of conduct	The terms and conditions of services contract are to be allowed.

Objectives of Business: The objective of business means the purpose for which a business is established and carried on. Proper selection of objectives is essential for the success of a business.

The businessmen always have multiple objectives. All objective may be classified into two broad categories. These are (1) Economic objectives and (2) Social Objectives



1. Economic Objectives

Business is an economic activity and therefore, its purpose is to show economic results. The economic objectives of business are follows:

(i)Earning profit: Profit means excess of income over the expenditure. The foremost and prime objective of every businessman is to earn profit. A business cannot service without earning profit. Not only for survival but it is also required for growth and expansion of business.

(ii)Market standing/creation of customer: Business can survive for a longer period only if is able to capture a big share in the market & has market standing. It is possible only when business provides goods and services to satisfy the needs & wants of customers. Therefore, creation and satisfaction of customers (market) is an important objective of business.

(iii)Innovations: Innovation means making new products or adding new features of old products for making it more useful, improving methods of production & distribution exploring new markets, etc. In these days of competition, a business can be successful only when it creates new designs, better machines, improved techniques, new varieties etc.

(iv)Optimum utilization of resources: It refers to the best use of men, material, money and machinery employed in business. The resources of business are scarce so these must be utilized in the best possible manner so that the business can get maximum benefit from their resources.

(v)Improving productivity: It is used as a measure of efficiency. Every business enterprise must aim at greater productivity - to ensure continuous survival and growth. This objective can be achieved by reducing wastages and making efficient use of machines and equipments, human resources, money etc.

2.Social Objectives

Business is an integral part of society. It makes use of resources of society. It earns profit by selling its products or services to members of society. So it becomes obligatory on the part of the businessman to do something for the society. The important social objectives of business are as follows:



(i) Quality goods and services at Fair Price: The first social objective of business is to provide better quality product at reasonable price and in proper quantity on continuous basis to consumers examples.

Example: Consumers look for ISI mark on electrical goods, FPO mark on food products. Hallmark on Jewellery.



(i) Avoidance of Anti-Social and Unfair trade practices: Anti-Social practices include hoarding, black marketing and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Business should not indulge in such practices.

(ii) Generation of Employment: Now days, employment is the biggest problem of society. Business should provide employment to more and more people living in the country. Handicapped and disabled people should be given extra care.

(iii) Employee Welfare: Employees are a valuable asset and they make significant contributions towards the success of business. Another social objective of business, therefore, is to ensure welfare of employees by providing good working conditions, fair wages and facilities such as housing, medical and entertainment etc. such welfare facilities help to improve physical and mental health of employees.

(iv) Community service: Business should contribute something to the society where it is established and operated Library, dispensary, educational institutions etc. are certain contributions which a business can make and help in the development of community.

Role of Profit in Business

Business is established for the purpose of earning profit. Profit plays a very important role in business. The role of profit in business can be brought out by the following facts :-

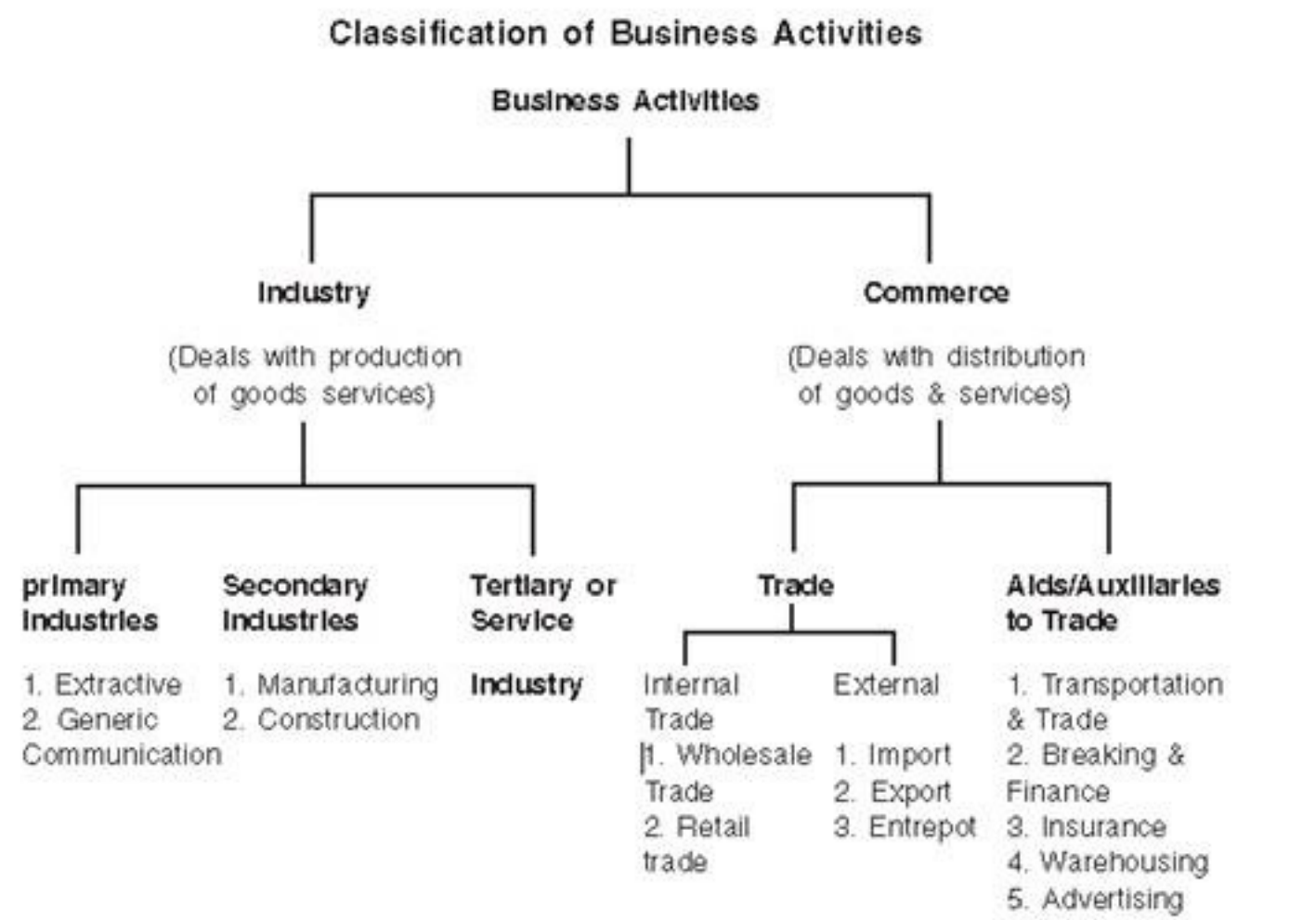
(1) **For Long Survival:** Profit alone help a business to continue to exist for a long period. In the absence of profit the establishment of a particular business loses its justification.

(2) **For growth & Expansion:** All businessmen want their business to expand and to grow. For development of business additional capital is needed. Retained earnings is a very good

source of capital.

(3) **For increasing efficiency:** Profit is that power which motivates both the parties - owner and workers to do their best. As they know that in case of good profits they will get good compensation for their efforts so it finally helps in increasing the efficiency of business.

(4) **For Building prestige and Recognition:** For gaining prestige in the Society, Business had to satisfy all the parties concerned. It has to supply good quality product/service at reasonable price to customers, adequate remuneration to employees, to pay sufficient dividend to the shareholder setc. and all these are possible only if the business is earning good profit.



Primary Industry: The primary industry includes those activities through which the natural resources are used to provide raw material for other industries Primary industries are of two types.

Extractive Industry refers to those industries under which something is extracted out of the earth, water or air e.g., coal, iron, gas etc. Farming, mining, lumbering, hunting & fishing

come under this category of industry

Genetic Industry refers to those industries under which the breed of animals and vegetables are improved and made more useful e.g., poultry farms, dairy farming, fish hatchery, cattle breeding etc.

Secondary Industry: Under this industry new products are manufactured by using the previously produced things e.g., producing cotton is a primary industry and manufacturing cloth out of cotton is a secondary industry. It is of two types.

Manufacturing: These industries convert raw materials or semi-finished products into finished products e.g., paper from bamboo, sugar from sugar cane. It is further divided into four parts.

(i) Analytic: Different things are manufactured out of one material e.g., petrol, diesel, gasoline out of crude oil.

(ii) Processing: Those industries wherein useful things are manufactured by making the raw material to pass through different production process e.g., steel from iron ore, sugar and paper industries.

(iii) Synthetic: Many raw materials are mixed to produce more useful product e.g., paints, cosmetics, cement.

(iv) Assembling: Where in the parts manufactured by different industries are assembled to produce new and useful product e.g., computers, watches cars, television etc.

2. Construction industries: Industries that are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals.

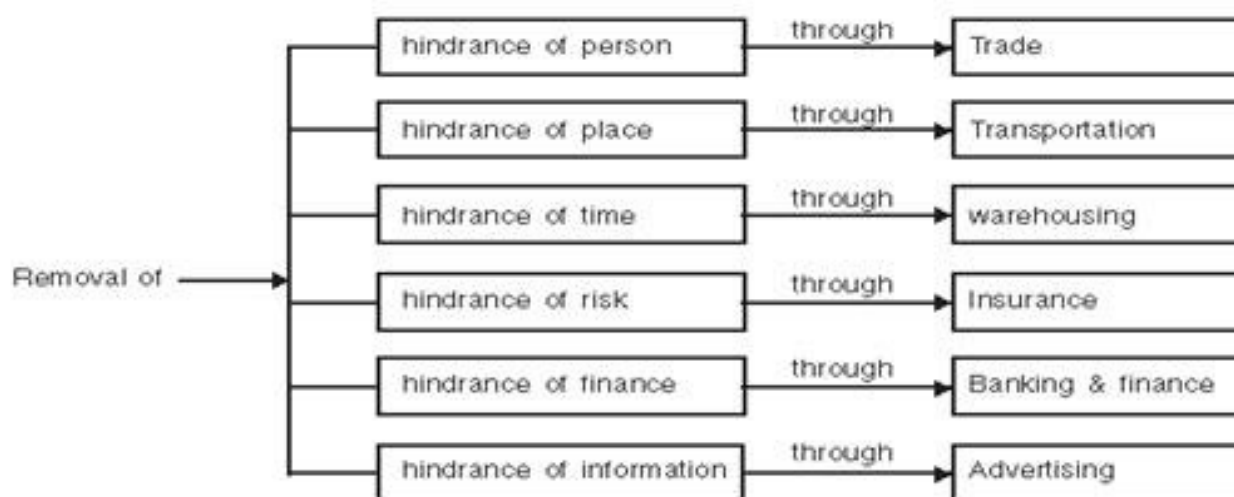
3 Tertiary or Service Industry: Includes those services which help business to move smoothly e.g. transport, bank, Insurance, storage and Advertising.

COMMERCE:

Meaning: Commerce refers to all those activities which are concerned with the transfer of goods and services from the producers to the consumers. It embraces all those activities which are necessary for maintaining a free flow of goods and services.

The functions of commerce are as follows.





1. Removing the hindrance of person by marking goods available to consumers from the producers. through trade.
2. Transportation removes hindrance of place by moving goods from the place of production to the markets for sale.
3. Storage and warehousing activities remove the hindrance of time by facilitating holding of stock of goods to be sold as and when required.
4. Insurance removes hindrance of risk of loss or damage of goods due to theft, fire, accidents etc.
5. Banking removes hindrance of finance-by providing funds to a businessman for acquiring assets, purchasing raw materials and meeting other expenses.
6. Advertising removes hindrance of information-by informing consumers about the goods and services available in the market.

Commerce includes two types of activities:

Trade: Refers to buying and selling of goods and services with the objective of earning profit. It is classified into two categories:

1. **Internal Trade:** Takes place within a country. Internal Trade is classified into two categories:

(i) Wholesale Trade: Refers to buying and selling of goods in large quantities. A wholesaler buys goods in large quantities from the producers and sell them to other dealers. He serves as a connecting link between the producer and retailer.

(ii) Retail Trade: Refers to buying of goods and services in relatively small quantities & selling them to the ultimate consumers.

2. External Trade: Trade between two or more countries. External trade can be classified into three categories:

(i) Import trade: If goods are purchased from another country, it is called import trade.

(ii) Export Trade: If goods are sold to other countries it is called export trade.

(iii) Entrepot: Where goods are imported for export to other countries e.g. Indian firms may import some goods from America and export the service to Nepal .

Auxiliaries to Trade: All those activities which help in removing various hindrances which arise in connection with the production and distribution of goods are called auxiliaries to trade. An overview of these activities is given below.

(i) Transportation and Communication: The production of goods takes place at one place where as these are demanded in different parts of the country The obstacle of place is removed by the transport. Along with transport communication is also an important service. It helps in exchange of information between producers, consumers and traders. The common communication services are postal service, telephone, fax, internet etc.

(ii) Banking and Finance: Business needs funds for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained from a bank.

(iii) Insurance: It provides a cover against the loss of goods, in the process of transit, storage, theft, fire and other natural calamities.

(iv) Warehousing: There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouses from the time of production till the time they are demanded by customers.

(vi) Advertising: Advertising brings goods and services to the knowledge of prospective buyers. It is through advertising that the customers come to know about the new products and their utility.

Business Risk: Business risk refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. For example: demand for a particular product may decline due to change in tastes preferences of consumers, or increase in competition etc. There are two types of business risks:

Nature of Business Risks



1. Business risks arise due to uncertainties: Lack of knowledge of what is going to happen in future create uncertainties in business. It may be due to natural calamities, change in demand and prices, strikes etc.
2. Risk is an essential part of every business: No business can avoid risk although the amount of risk may vary from business to business. Risk can be minimized but cannot be eliminated.
3. Degree of risk depends mainly upon the nature and size of business:

Level of risk is lower for small scale business while it is higher for large scale organization.
4. Profit is the reward for risk taking: A business gets profit as return for undertaking risk. Greater the risk involved in a business, higher is the chance of profit.

Causes of Business Risks

1. **Natural Causes:** Human beings have little control over natural calamities like flood, earthquake, famine etc. They result in heavy losses of life, property & income in business.
2. **Human Causes:** Human causes include such unexpected events like dishonesty, carelessness or negligence of employees, strikes, riots, management inefficiency etc.
3. **Economic causes:** They are related to a chance of loss due to change in market condition e.g., fluctuations in demand and prices, competition, change in technology etc.
4. **Physical causes:** Mechanical defects or failures may also lead to losses e.g., bursting of boiler or machine may cause death or destruction.
5. **Other causes:** These include unforeseen events like political disturbances, fluctuation in exchange rates etc

Starting a Business: Basic Factors

Selecting the line of business: The first thing to be decided by the entrepreneur is the line and type of business to be undertaken.

1. **Scale or size of business:** After deciding the line of business the businessman must decide whether he wants to set up large scale or small scale business.



2. Choice of form of Business organization: The next decision must be taken is to finalize the form of business i.e., to set up sole proprietorship., partnership or joint stock company.

3. Location of Business Enterprise: The entrepreneur has to decide the place where the enterprise will be located. Before taking this decision he must find out availability of raw materials, power, labour, banking, transportation etc.

4. Financial Requirement: The businessman must analyze the amount of capital he might require to buy fixed assets and for working capital (Day to day expenses) Proper financial planning must be done to determine the amount of funds needed.

5. Physical facilities: include machinery equipment building etc. This decision depends upon the size, scale and type of business activities he wants to carry on.

6. Plant layout: Showing the physical arrangement of machines and equipment needed to manufacture a product.

7. Competent and committed Workforce: The entrepreneur must find out the requirement of skilled and unskilled workers and managerial staff to perform various activities.

8. Tax planning: The entrepreneur must try to analyze the types of taxes because there are a number of tax laws in the country which affect the functioning of business.

9. Setting up of the Enterprise: After analyzing the above mentioned points carefully the entrepreneur can start the business which would mean mobilizing various resources and completing legal formalities.

