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Class 11 (B.A) Organization of Commerce and Management

Chapter-1 Nature, Purpose and Scope of Business Solution



1. Select the correct alternative and write answers to the following questions

:

Question 1. What is the objective of economic activity?

(A) Service (B) Financial return (C) Love (D) Emotion

Answer: (B) Financial return

Question 2. What is necessary to continue the business?

(A) Non-economic activity (B) Service to country (C) Profit (D) Re-export

Answer: (C) Profit

Question 3. Which is the yard stick for the efficiency of business?

(A) Profit (B) Management (C) Production (D) Sales

Answer: (A) Profit

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Question 4. Which utility is created when finished goods are manufactured from the raw-materials?

(A) Place (B) Time (C) Economic (D) Form

Answer: (D) Form

Question 5. With what is the objective of maximization of wealth of business connected?

(A) Manager (B) Employee (C) Owner (D) Customer

Answer: (C) Owner

Question 6. What is the reward of employment?

(A) Salary (B) Fees (C) Profit (D) Capital

Answer: (A) Salary

Question 7. What type of activity is trade?

(A) Economic (B) Non-economic (C) Religious (D) Social

Answer: (A) Economic

Question 8. What is meant to produce by adding utility to the natural wealth?

(A) Trade (B) Auxiliary services (C) Commerce (D) Industry

Answer: (D) Industry

Question 9. Which types of Industries are agriculture, animal husbandry, fisheries?

(A) Primary (B) Secondary (C) Tertiary (D) Capital intensive

Answer: (A) Primary

Question 10. Which type of economic activity is performed by a government servant getting salary in return of his labour?

(A) Business (B) Professions (C) Employment (D) Commerce

Answer:

(C) Employment



2. Answer the following questions in one sentence each :

Question 1. What is an economic activity?

Answer: When a person does an activity with the aim of -earning money or some economic benefit the activity is called economic activity.

Question 2. Which utility is created when goods are carried out from the place of production to consumer?

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Answer: When goods are carried from place of production to place of consumption i.e. to the customers, we say 'place utility' is created. For example, when we transport food grains from farms to market yards/ consumers we say we have created 'place utility'

Question 3. What is profession?

Answer: A person possessing specialized skills, knowledge, training and specific professional qualification is capable of providing certain specific services to the society. Such a person is called a professional and the work he does is called his profession.

Question 4. What is employment?

Answer: An economic activity done under an individual or an organization in return for a fixed salary or wage is called an employment.

Question 5. What is required to be a professional?

Answer: For example, doctors, lawyers, chartered accountants, etc. are all called professionals.

Question 6. What is trade?

Answer: Trade refers to the exchange of commodities or services from one person to another in exchange of other commodities or services or money. The objective of trade is either to gain some benefits or earn a profit.

Question 7. With what is primary industry connected?

Answer: Primary industries are connected with sea, land and air based activities. For example, farming, fishing, etc.

Question 8. Which industry is helpful to primary industry and secondary industry?

Answer: Tertiary industry.

3. Answer the following questions in short :

Question 1. Why business be called an economic activity?

Answer: Business is done with the motive of earning profit and creating and maximizing wealth. As per the definition of economic activity whenever a person does a work these objectives it can be called an economic activity. Hence, business is called an economic activity.

Question 2. State any two characteristics of employment.

Answer: (a) Employee gets fixed salary at a fix interval,
(b) He may get other allowances such as conveyance, medical, etc.

Question 3. What is the objective of social responsibility of business?

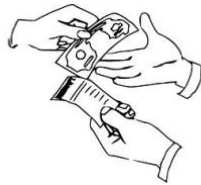
Answer: Business exists due to existence of society, With this respect, a business needs to acknowledge the existence of society and try to fulfill certain social objectives other than pure objective of profit. These social objectives could be following fair trade practices, providing employment opportunities, providing quality goods and services, etc.

4. Answer the following questions in brief :

Question 1. What is the economic and non-economic activity? Explain with illustration.

Answer: With respect to commerce activities can be divided in two parts. They are:

- (I) Economic activity,
- (II) Non-economic activity



(I) Economic activity:

When a person does an activity with the aim of earning money or some economic benefit the activity is called economic activity.

Explanation: Man needs money to satisfy his daily needs.

In order to get money he needs to perform certain activities that earn him money.

A man thus performs an act that can satisfy the needs of others and in return earns money or say economic benefit.

Example:

- A farmer gets economic benefit by producing food grains, a weaver by weaving cloth, a blacksmith by producing iron articles.
- All these people are satisfying the needs of our society and in turn are earning money or say gaining economic benefits.
- Similarly, doctors, lawyers, engineers, etc. also fulfill the needs of society and earn economic gains.

Economic activity lies at the centre of modern world.

(II) Non-economic activity:

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- When a person does an activity without the aim of earning money or gaining any economic benefit, the activity is called non-economic activity.
- The motivation behind these activities could be serving the country in needs, serving the society, compassion, love towards nature, etc.

Example:

- Social workers who conduct various activities for the betterment of society
- A mother performing nursing activity like taking care of her child when he is sick
- Volunteers working for maintaining unity in the community and society
- Volunteers extending their help to people affected by. natural calamities like earthquake, tsunami, etc.

Question 2. Explain the meaning of profession and state its characteristics.

Answer: Profession:

- A person possessing specialized skills, knowledge, training and specific professional qualification is capable of providing certain specific services to the society. Such a person is called a professional and the work he does is called his profession.
- For example, doctors, lawyers, chartered accountants are all called professionals.
- Over and above acquiring skills and education, a professional also needs to get himself registered with the body governing that profession. For example, a chartered accountant (CA), needs to take membership of the Institute of Chartered Accountants of India (ICAI), get registered and he then work as per the code of conduct established by such bodies.
- A professional provides professional services to its clients and in return receives fees as his profit.
A person can also obtain professional qualification and work as an employee and earn salary rather than fees. For example, a doctor may join a hospital, a lawyer may join a law firm, etc.

Characteristics of profession are as follows:

- A professional needs to obtain specialized knowledge, skills and professional education. For example, a doctor needs to medically learn how to treat a patient.

- A professional working independently charges fees for services he provides to his clients. The amount of fees depends on type of profession, types of skill, knowledge and experience.
- The primary objective of a professional is to provide services.
- Profession can be called as an independent economic activity.
- A professional does not produce tangible products but provides services. For example, a lawyer fighting a case for his client (customer) is providing this service to his client. In this regard, a customer pays for fighting a case, getting cured of a disease, getting income tax returned filed, etc.
- A professional has to abide by the code of conduct established by the professional association where he is registered.
- Just like business, monetary return is uncertain in profession because it depends on the number of customer that goes to a professional to take his service.

Question 3. Explain the difference between trade and commerce.

Answer:



Points of difference	Trade	Commerce
Meaning	It is exchange of goods or service in return of money	Commerce includes trade and auxiliary services that help to trade
Scope	Scope of trade is limited	Scope of commerce is wider. Also, commerce includes trade
Parties	Generally, both the parties know each other and reside in near vicinity.	Both the parties may be at a very large distance and may not even know each other, still they can obtain auxiliary services.

5. Answer the following questions in detail :

Question 1. What is business? State the objective of business.

Answer:Business:

An economic activity done with the motive of earning profit and creating and maximizing wealth is known as business.

Objectives of business can be classified in two parts. They are:

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(A) Economic objectives

(B) Social objectives

(A) Economic objectives:

1. Objective of profit:

- Earning profit, is one of the key objectives of business.
- Earning profit is necessary for both survival and growth of business.
- Profit can be called the motivating force, barometer of efficiency and life blood of business.
- However in today's time rather than just maximizing the profits the concept of fair (reasonable) profit is more accepted.
- It is highly essential for a business to focus on earning 'fair profit' i.e. a reasonable profit in order to survive and get acknowledged in the society.

2. Maximization of wealth:

- In shorter runs say at the end of year the objective of business can be annual income, i.e. net profit. However in longer run say about at the end of five years or so a businessman aims at creating wealth and maximize.
- In order to achieve the long term goals of wealth creation and maximization, the business should adopt a broader view and give up the sole focus of profit, especially in times of depression like situations in the market.

3. Other economic objectives:

Business also has other economic objectives like economic growth and development of business, market expansion, optimum utilization of resources, adopting modern technology and practices, etc. to boost the business.

(B) Social objectives of business:

Business exists due to existence of society. With this respect, a business needs to acknowledge the existence of society and try to fulfill certain social objectives other than pure objective of profit. These social objectives could be following fair trade practices, providing employment opportunities, providing quality goods and services, etc.

Some of the social objectives are:

1. Objective of social responsibility:

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- Business is not an independent activity. It interacts with various groups/ classes of people of society associated with business directly or indirectly but with different interests. Business interacts with owners, employees, creditors, government, etc.
- It is quite important to take care of the interests of these different groups of society.
- To do so, business has abide by the laws to maintain the business environment, follow the Employee Welfare Act, Factory Act, Consumer Protection Act, etc.
- Factors like rise in consumer awareness, rules and restrictions imposed by state, consumer associations and increased education compel a business to fulfill these social responsibilities.

2. Objective to provide opportunity of employment.

- With increasing unemployment, some business units are established to create new opportunities of employment.
- For example, Khadi and Village Industries Commission (KVIC), a Government of India body encourage those industries that provide ' employment opportunities. KVIC gives preference to those business units that are established in backward/rural areas for providing employment to the unemployed.

3. Objective to provide quality goods and services:

- Business aims at providing quality goods and services to people in order to satisfy their needs.
- For example, units that manufacture spices used for cooking food, food products, cold drinks, etc. need to maintain very high quality standards. Moreover, business units also need to provide quality services. For example, after sales service, installation assistance, setting up service centers, etc.

4. Objective to adopt fair trade practices:

- A business unit should see that it does not fall into practices that are against the well-being of society. For example, black marketing, hoarding, misleading advertisements, creating artificial scarcity, etc. are unfair practices and hence should be avoided.
- A businessman should adopt only fair trade practices in the welfare of customers and society.

5. Other objectives:

- To establish a specific identity in the society.
- Conduct research in production activities.

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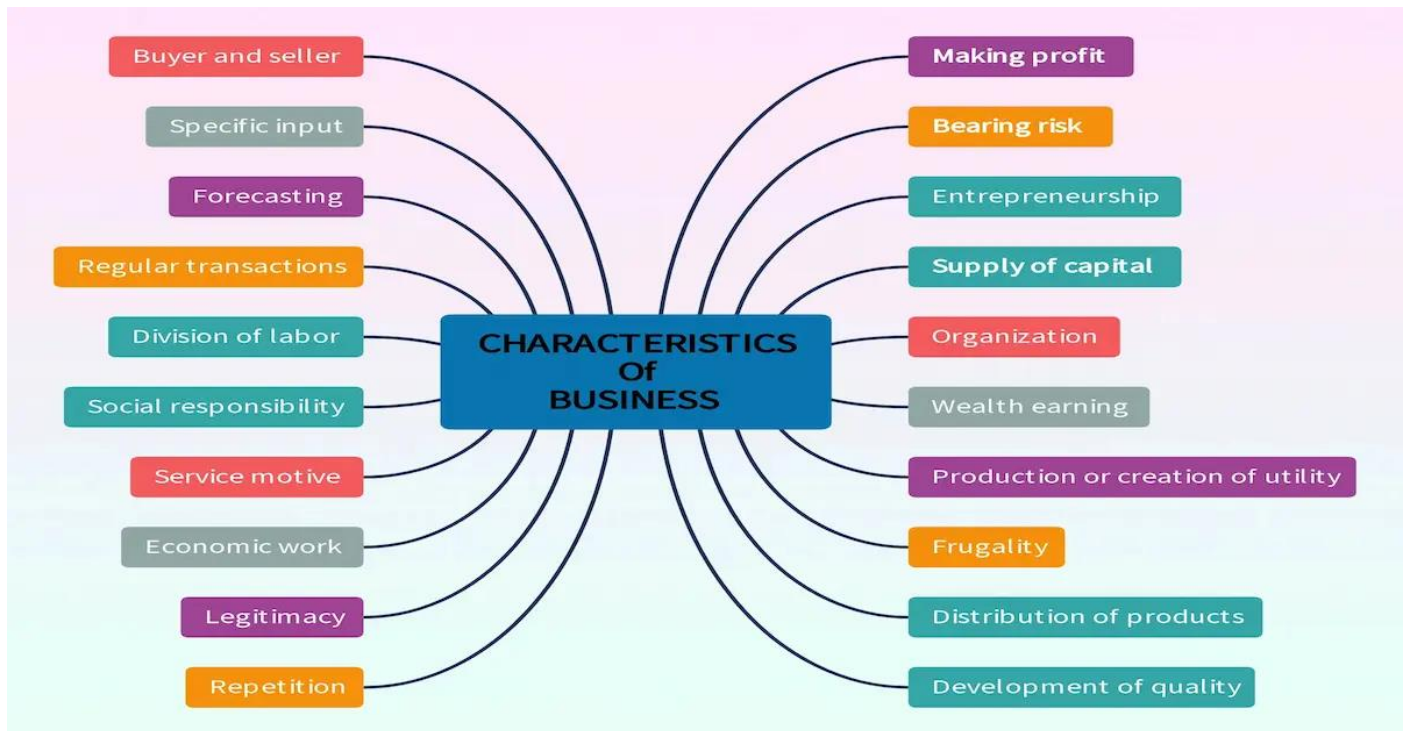
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- Help in the economic development of nation and co-operate with the government.
- Provide various incentives to the employees and execute welfare schemes for them.

Question 2.Explain the characteristics of business.



Answer: The characteristics of business are as follows:

(a) Objective of profit:

- Profit is the primary motive of business.
 - Profit is necessary for the survival and continuity of the business.
 - In absence of profit the business is quite likely to shut down.
 - Moreover, how well is the business performing can be known by measuring the profits it earns.
- Profit is the barometer of business.

(b) Exchange of goods and services:

Business is done by exchanging goods and services.

- This exchange then leads to profit.
- A manufacturer produces goods and sells them to buyers. In addition to selling the goods he also provides several after sales services such as installation, repair, return, etc. to his buyers.
- Apart from manufacturers there also exists seller of services i.e. service providers who sells the services and earn profit.

- For example, Samsung Company manufactures mobile phones and sells them to earn profit whereas Vodafone sells mobile services to customers and earns profit.
- Thus, business involves exchange of tangible (physical) goods and intangible services.

(c) Risk and uncertainty:

- There always lies risk of uncertainty in business.
- Risk can be either man-made or natural.
- Man-made risks include fire, accident in factory, strike of employees, riots, robbery, thefts, change in preferences of customers, decreased demand, changes in life-style, taste or habits, competition, changes in technology, etc.
- On the other hand natural risks could be earthquake, flood, tsunami, etc.
- A business may get badly affected, may make huge losses and may even get shut down due to such risks.

Utility:

(d) Creation of utility:

- In commerce, utility ' can be defined as the 'capacity of goods or services to satisfy human wants'.
- Creation of utility (OR creating utilities):**
- One of the major characteristics of a business is to create utility (i.e. usefulness) for a product or a service. This is called 'creation of utility'.

A business can create utility in three ways:

1. Form utility:

-
- If a person changes the form (i.e. shape, size, etc.) of a commodity to make it sellable we say he has created 'Form utility'.
- For example, making ice-cream from milk.

2. Place utility:

-
- When goods are carried from place of production to place of consumption i.e. to the customers, we say 'Place utility' is created.
- For example, when we transport food grains from farms to market yards/ consumers we say we have created 'Place utility'.

3. Time utility:

-
- When a manufacturer produces goods and stores them when it is not the right time to use such goods and sells them at the right time we say he has created Time utility’.
- For example, selling umbrellas in monsoon is creation of time utility.

(e) Continuance of activity:

- The various activities, processes and financial transactions of a business should keep on going continuously. This is called continuance of activity. This means business is not a one-shot process.
- For example, if a trader/producer constructs a building for his residence and later sells it and earns profit, it is not business. The reason is this is not a business activity because there is no continuity in it.

(f) Need of money (capital):

Business needs capital (money) all the time. Money is needed to buy raw material, machinery, to give salary, etc. _

A trader needs money to purchase and store goods.

(g) Economic activity:

Business is a part of economic activity with the motive of earning profit and creating wealth.

Question 3. “Existence of business is not possible without society” Explain the statement with reference to social objectives of business.

Answer: The objective of social responsibility:

- Business is not an independent activity. It interacts with various groups/ classes of people of society associated with business directly or indirectly but with different interests. Business interacts with owners, employees, creditors, government, etc.
- It is quite important to take care of the interests of these different groups of society.
- To do so, business has abide by the laws to maintain the business environment, follow the Employee Welfare Act, Factory Act, Consumer Protection Act, etc.
- Factors like rise in consumer awareness, rules and restrictions imposed by state, consumer associations and increased education compel a business to fulfill these social responsibilities.

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Question 4. What is business risk? State the causes of business risk.

Answer: Business risk:

The risk of uncertain profit or loss in the business is termed as business risk.

Causes of business risks:



1. Changes in technology:

- In order to increase quality and productivity of products/services man continuously invents new methods of production.
- New methods of production may require changing existing machinery or addition of new equipments or machinery.
- For example, with invention of smart phones manufacturers were forced to stop producing old fashioned phones and set-up new machineries and technology to produce smart phones.

2. Threat of substitute products:

- Change in technology, reduced price, price rise customer preference, etc. may divert a customer to use other substitutes of a product available in market.
- For example, when ball pen was invented people started using it more compared to traditional ink pens.
- Other examples are steel vessels instead of copper, dalda ghee instead of desi ghee, etc.

3. Competition:

- When new competitors enter the market, they create threat for the existing businessman.
- To fight this competition and to maintain its position in the market the businessman may have to increase its expenses on marketing like advertisements, reduce sales price of its products, etc. As a result, the profit diminishes.

4. Legislation:

- A business has to abide by the laws framed by the government.

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- For example, laws related to pollution, consumer protection, industrial laws, Minimum wage Act, Factory Act, etc.
- It is necessary to follow these laws or else the business may face legislative problems.

5. Uncertainty of demands:

The demand for a product may change due to several factors. Factors like changes in customer's income, taste, product price, inflation, fashion, etc. can lead to changes in demand as well. Uncertain demand poses risks of diminished profit or even loss in the business.

6. Physical risk:

Physical risk includes damage to assets i.e. machinery, equipment, wear and tear and break-down of equipment and machinery, damage caused to a product while transporting, etc.

Question 5. Distinguish between business, profession and employment.

Answer:



No.	Points of difference	Business	Profession	Employment
1.	Nature of work	Goods and services are sold to customers in exchange of money	Personal and business service is provided to customers in exchange of fees	Person works as an employee, does the designated work as per the rule and contract and earns a salary
2.	Qualification	A businessman does not need any specific qualification.	A professional needs to have professional qualification and training	Qualification may or may not be necessary. It depends on the nature of job
3.	Reward or return	Return is called profit	Return is called fees	Return is called salary or wages
4.	Capital	Every business needs capital. However, the amount of capital depends on the type of business	Limited capital is needed that too mainly at the time of establishment	Capital is not needed
5.	Risk	There lies risk of uncertainty of profit and loss	Risk of uncertainty is less. Moreover, risk of not receiving fees exists	Risk of uncertainty is limited to not getting a regular job
6.	Code of conduct	Rules and laws set by the government are to be followed	Code of conduct is to be followed as established by the respective professional bodies	Rules specified by the employer in agreement are to be followed
7.	Transfer of ownership	Possible	Not possible	Not possible

Question 6. Give the meaning of industry and state its types.

Answer: Industry:

- An economic activity in which raw materials are processed to add utility to the material and convert them into useful products which can satisfy human needs is called an industry.
- For example, when a textile industry owner process cotton and converts it into a product say a shirt he is adding utility to the raw material i.e. cotton, and satisfying the need of humans to wear a shirt.
- Other examples are manufacturer manufacturing furniture from wood, a shoe company that makes shoes from leather, etc.

Characteristics of industry:

- Production, economic activity, changing the form of raw material, producing various articles, adding utility, etc. are all characteristics of an industry.
- Moreover, use of human labour, natural wealth and machineries are also included in characteristics of an industry.

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Industries can be classified as follows:

(A) Primary industry:

- Industries that mainly work on natural elements such as land, sea, air, etc. are called primary industries.
- These industries process various elements of nature and produce useful things.
- For example agriculture, animal husbandry, etc. are based on land, fishing industry is based on sea.
- Primary industries are also called fundamental industries.

(B) Secondary industry:

- The industry that takes raw materials supplied by the primary industry and processes them into consumer goods is called secondary industry.
- For example a textile industry uses cotton as raw material obtained from farming i.e. primary industry and so textile industry is an example of secondary industry.
- Other examples are fertilizer industry, food processing industries, automobile industry, etc.

(C) Tertiary industry:

- The industry that supports primary and secondary industries i.e. assists and provides services is called tertiary industry.
- In this sense we can say that the products obtained from the primary and secondary industries are further made more consumable for a variety of customers.
- For example, growing wheat is a primary industry, converting wheat into flour is a secondary industry. A baker that uses the flour to make bread, biscuits, etc. and sells it to customer is an example of tertiary industry.

- Tertiary industry serves directly to a very large number of consumers and so is quite near to the end-consumers or say end-users.
- Dairy industry, beverage industry, bakeries, etc. are all tertiary industries. Tertiary industry also includes services of banking, insurance, transportation warehousing, agents, communication, etc.

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