



Business Studies Notes PDF

On

Nature and Purpose of Business

(Class - 11 / Chapter- 1)

CONCEPT OF BUSINESS: The term business means being busy. It refers to an occupation in which people engage in activities that may consist of production or purchase of goods for sale, or exchange of goods or supply of services with a view to earning profits and to satisfy the needs of other people.

There are two types of activities:-

1. **ECONOMICS ACTIVITIES-** Economics activities are those activities which are performed with the aim of earning money and their livelihood. For example: workers working in a factory, a doctor operating in his clinic etc. are doing so to earn their livelihood.

Economics activities are divided into three categories:-

- Business
- Profession
- Employment

2. **NON- ECONOMICS ACTIVITIES-** These are those Activities which are performed out of love, affection, sympathy, etc. and without the aim of earning money. For example: religious activities, social work, helping someone, etc.

CHARACTERISTICS OF BUSINESS ACTIVITIES:-

1. **An economic activity:** This activity consists of purchase or sale of goods and services to earn money or livelihood. This activity can be undertaken either at small as well as individual level.

2. **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.

3. **Sale or exchange of goods and services:** Directly or indirectly, business means transfer or exchange of goods and services for value. For example: if any goods are produced for the purpose of personal use and not for the sale then it cannot be called as business activity.

4. **Dealings in goods and services on a regular basis:** To constitute a business there should be dealings in goods and services on regular basis. One single transaction of sale purchases does not constitute business. For example: selling your old radio or furniture and purchasing a new one is not termed as business.

5. **Profit earning:** The main goal of any business is to earn profit. Businesses can't survive without earning 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 as because of the changing environment. Every business has to handle both losses as well as profits.

7. **Risk:** It is an uncertainty associated with exposure to loss. The risks are related with certain factors such as natural factors like fire, accidents, or by human factors like changing in consumers tastes and fashions, increased competition in the market, etc.

COMPARISON OF BUSINESS, PROFESSION AND EMPLOYMENT:-

BASIC	BUSINESS	PROFESSION	EMPLOYMENT
1. Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice	Appointment letter and service agreement
2. Nature of work	Provision of goods and services to the public	Rendering of Personalized , expert services	Performing work as per service contract or rules of service
3. Qualification	No minimum qualification is necessary	Qualifications, expertise and training in a specific field as prescribed by the professional body is a must	Qualification and training as prescribed by the employer
4. Reward or return	Profit earned	Professional fee	Salary or wages
5. Capital investment	Capital investment required as per size and nature of business	Limited capital needed for establishment	No capital required
6. Risk	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no or little risk

CLASSIFICATION OF BUSINESS ACTIVITIES:

1. INDUSTRY

Industry refers to economic activities, which are connected with conversion of resources into useful goods. These include activities relating to producing or processing of goods as well as breeding and raising of animals.

Industry may divided into three categories-

(a) Primary industries: These include all those activities which are connected with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc. These industries may be further sub- divided as well:-

(i) Extractive industries: These industries supply some basic raw materials that are mostly products of geographical or natural environments. Products of these industries are usually transformed into many other useful goods by manufacturing industries.

(ii) Genetic industries: These industries remain engaged in breeding plants and animals for their use in further reproduction. For the breeding of plants, the seeds and nursery companies are typical examples of genetic industries.

(b) Secondary industries: These are concerned with using the materials, which have already been extracted at the primary stage. These industries process such materials to produce goods for final consumption or for further processing by other industrial units. These industries may be further divided as follows:-

(i) Manufacturing Industries: These industries are engaged in producing goods through processing of raw materials and thus creating form utilities. They bring out diverse finished products that we consume, or use through the conversion of raw materials or partly finished materials in their manufacturing operations. This industry may be further divided into four categories:-

- Analytical industry
- Synthetical industry
- Processing industry
- Assembling industry

(ii) Construction industries: These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals. Engineering and architectural skills are an important part in construction industries.

(C) Tertiary industries: These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. These industries provide service facilities.

2. 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.

This includes two types of activities:-

- Trade
- Auxiliaries to trade

Trade: It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to ultimate consumers or users. These days goods are produced on a large scale and it is difficult for producers to themselves reach individual buyers for sale of their products. Internal, domestic or home trade is concerned with the buying and selling of goods and services within the geographical boundaries of a country.

This may further be divided into wholesale and retail trade.

Wholesale- When goods are purchased and sold in bulk , it is known as wholesale trade.

Retail trade- When goods are purchased and sold in comparatively smaller quantities, for final consumption it is referred to as retail trade.

Auxiliaries to trade

These activities are generally referred to as services because these are in the nature of facilitating the activities relating to industry and trade. Transport, banking, insurance, warehousing and advertising is regarded as auxiliaries to trade. It assists the buying and selling of the goods and services by removing the hindrances of place, people, time, finance, risk and information.

Auxiliaries to trade are-

- **Transport and communication:** Transports helps in movement of raw material to the place of production and the finished products from factories to the place of consumption. There is also a need for communication facilities so that producers, traders and consumers may exchange information with one another.
- **Banking and Finance:** banking helps business activities to overcome the problem of finance. Commercial banks generally lend money by providing overdraft and cash credit facilities, loans and advances. Businesses can't survive if funds are not available for procuring materials.
- **Warehousing:** Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed.
- **Advertising:** Advertising is one of the most important methods of promoting the sale of products, particularly, consumer goods like electronic goods, automobiles, soaps, detergents etc. Advertising helps in providing information about available goods and services and inducing customers to buy particular items.
- **Insurance:** Business involves various types of risks. Factory building, machinery, furniture etc. must be protected against fire, theft and other risks. It provides protection to businesses.

Objectives of business

(1) Market standing: Market standing refers to the position of an enterprise in relation to its competitors. Every business must give quality products at reasonable prices to earn better goodwill.

(2) Innovation: Innovation is the introduction of new ideas or methods in the way something is done or made. There are two kinds of innovation in every business i.e.

- innovation in product or service;
- innovation in various skills and activities needed to supply products and services.

(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: Each and every business objective is to earn more and more profit. Without profit business will not survive and cannot be able to grow.

(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 to maintain their reputation and also do social work and contribute some resources.

BUSINESS RISK

It refers to the possibility of inadequate profit or even losses due to uncertainties or unexpected events.

Nature of business risk

- Risk is an essential part of every business. It can only be reduced but not eliminated fully.
- It arises due to uncertainties like natural factors such as earthquake, floods, tsunami, etc. which are unavoidable.
- Profit is reward for risk taking.

Causes of business risks

- **Natural causes:** By this kind of cause businesses have to face a big amount of loss. This kind of cause like floods, earthquake, etc. are unexpected
- **Human causes:** It includes such unexpected events like dishonesty, carelessness, etc.
- **ECONOMIC CAUSES:** This includes uncertainty relating to demand for goods, competition, price, collection of dues from customers, etc.

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Commerce

CLASSES