

CHAPTER 1	BUSINESS AND COMMERCIAL KNOWLEDGE – AN INTRODUCTION
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DOMAIN OF BCK [a specified sphere of knowledge.]

BCK is Vast	BCK is Eclectic (Multidisciplinary)	BCK is ever-expanding
- cover wide range of activities - include manufacturing, trading and services. - e.g. domestic retail include street vendors, weekly bazars, neighborhood shops, malls, company chain stores and online retail.	- adapts the vocabulary from various disciplines viz., Marketing, Accounting & Finance, - Military (e.g. Strategy, Logistics) - Biology (e.g. Bulls, Bears)	- technology has introduced several terms like 24X7, B2B, B2C, BPO - evolution in the decline of old and the emergence of new businesses - rate of knowledge out-datedness is high and hence need to stay updated.

An OVERVIEW of BCK DOMAIN

Domain Areas	Illustrative List
1. Activities	Manufacturing, Trade, Commerce (Aids to Trade or Auxiliaries to Trade), Services, etc.
2. Scale	Micro, Small, Medium, Large Enterprises,
3. Geographic Scope	Local, National, Multinational
4. Ownership	State-owned/ Public Sector, Private Sector
5. Markets	Natural Resources, Equipments, Commodities, Capital, Labour, Product Markets
6. Stakeholders	Entrepreneurs, Customers, Investors, Business Owners, Directors, Shareholders, Managers & Employees, Suppliers, Society at large.
7. Functions	Production, Marketing, Accounting Finance & Taxation, Human Resources.
8. Focus	Enterprise wide, Product-specific, Function or Department-specific.
9. Concerns	Survival, Profitability, Growth, Sustainability, Social Responsibilities, Governance, Values & Ethics
10. Mode	Traditional/ Physical/ Brick & Mortar, In-Store, Digital/ Online

11. Academics	Economics, Law, Philosophy, Psychology, Sociology
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IMPORTANCE OF BCK FOR CHARTERED ACCOUNTANTS

- CAs are the **custodian of nation's resources**
- Each Business has its own peculiarities, legal / compliance requirements etc.
- CAs will be able to conduct the audit diligently only when they understand the **nuances** of the business whose accounts they prepare or audit.

SOURCES OF ENHANCING OF BCK

The following Methodologies to increase the level of BCK Quotient-

- slightly more conscious of various activities around us (Observation and Experience)
- Sources of BCK include - (a) News Papers - both General News and Business News, (b) Business Magazines, (c) Business Channels.

ECONOMIC VS NON-ECONOMIC ACTIVITIES

Economic Activity	Non- Economic Activity
- Activity related to production and consumption of goods and services for economic gain. - Motive is livelihood i.e. to earn money, - driven by self-interest - backed by Pragmatic philosophy - Creation of Wealth and Assets	- Activity performed with the aim of providing services to others without any monetary gain. - driven by Emotional and sentimental reasons - backed by Idealistic philosophy - Mental Satisfaction and Happiness.
Note- non-economic activities also have an economic dimension	

CHARACTERISTICS OF ECONOMIC ACTIVITIES

1. Economic activities are Income-Generating - Economic activities (business, profession or service) help in earning money income. - A living is possible with money income earned from economic activities. - Income earned may be in cash or non-cash	2. Economic Activities are productive - Earning of a livelihood implies participation in the process of production. - Productive Activities includes Farming, textiles, Manufacturing, Rendering of Services. - Production may be done either for self-consumption or for market. - Market oriented Production represents the supply side of economics
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3. Even consumption is an economic activity - Consumption represents the demand side of economics - Every unit of demand is like a vote in favour of a product and a signal to its producer	4. Savings, Investment and Wealth - Income (-) Spending = Savings - savings are converted into investment and investment by generating returns create wealth
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BUSINESS - DIFFERENT MEANINGS

Work View	Entity View	Area of Activity – View	Process View
Business = state of being busy, i.e. one's regular occupation or profession.	Business = Any Entity, Company or Corporation, created and managed by people.	Business = a particular type of activity or industry, e.g. Civil Construction Business, IT Business, Iron & Steel Industry, Transport Business, etc.	Business = any economic activity consisting of purchase, sale, manufacture, processing and/ or marketing, distribution, trading of products and/ or services.
Note:- Agriculture is not an industry and hence not a Business? ➤ In India, much of the agriculture is for self-consumption, it is not a business. ➤ Agriculture income is exempt from income tax. So, agriculture does not comprise industry. ➤ If agriculture produce is processed then it comprises an industry. e.g. the extraction of edible oil from rice bran,			

CHARACTERISTICS OF BUSINESS

1. Business is Job creator, not job seeker Business creates- • job opportunities for job seekers and • other opportunities for suppliers of goods and services.	2. Business provides momentum to economic growth and economic development Business output Comprehensive contributes towards- • economic growth (represented in terms of GDP) • economic development (represented in terms of improvement in quality of lives of people)	3. Entrepreneurship Skills Entrepreneurs are better characterised to business person by their problem solving, new opportunity, for their creativity and innovation.
4. Investment intensive	5. Gestation and uncertainties	6. Systematic, Organized &

MSME based Investment of funds in a fixed assets and net Working capital are required for- • For starting a new business and • for technological up gradation, modernisation and expansion	Gestation Period- Time taken by Investment to fructify results. Uncertainty- whether it will yield the returns as expected. Risk can be calculated in advance, uncertainty cannot.	Efficiency oriented activity -Business is a unified and integrated system -All respective functions are well and in sync with each other like production, sales, marketing. -Business is an open system as it interacts with the environment for customer feedback, product modification.
7. Objective- oriented -Profit is the basic motive of a business -Profit is the residue to the business owners after all other factors of production have been paid off. -Profits are essential for the survival as well as growth of business.	8. Interdependence Business draws its resources of production from the society and is dependent on it for the sale of its goods & services.	9. Multiple stakeholders Business has multiple stakeholders viz. owners, investors /lenders, employees, customers, suppliers, competitors, Government the community and society at large etc.
10. Primacy of Customer For a Business, creation and maintenance of customers through product quality is the price mechanism by which Competitive advantage can be gained.		

BUSINESS VS PROFESSION VS EMPLOYMENT

Point	Business	Profession	Employment
1. Meaning	Economic Activity concerned with the production or purchase and sale of goods and rendering of services with the purpose of earning profit.	Special skills, knowledge and expertise is required to be applied by the person, in his occupation, as an Independent Service.	Rendering of Services under a contract of employment, to a specified Employer.
2. Source of Livelihood	Profit	Professional Fees	Wages & Salaries
3. Prescribed Qualification	No minimum qualification.	Prescribed as per Professional Body's	As prescribed by Employer for each type of job.

		Requirements.	
4. Capital Investment Required	As per the size and nature of business.	Limited Capital is required - Furniture, Office Chamber, etc.	No Capital Requirement as such.
5. Reward	Profit	Professional Fees	Wages and Salaries
6. Code of Conduct	No prescribed Code of Conduct. Only the Founders' Values are relevant.	Code of Conduct as given by the Professional Body	Employers' Code of Conduct is relevant.
7. Advertisement	Products and Services are advertised to increase sales.	Advertisement is prohibited as per Professional Code of Conduct.	Resumes/Profiles are sent to prospective Employers.
8. Risk Factor	High Risk	Less risky than Business, but more risky than Employment.	Least Risk, due to certainty of Incomes/ Cash Flows.
9. Transfer of Interest/ succession	Permissible , subject to legal compliance.	There is no concept of transfer of interest as such.	There is no concept of transfer of interest as such.
10. Freedom	Highest levels of Freedom / Autonomy.	Reasonably high levels of independence.	Not much independence or personal autonomy.

CLASSIFICATION OF BUSINESS OBJECTIVES

Type	Examples
Economic Objectives	(a) Turnover (i.e. Sales), (b) Profits, both as Amount and as Percentage, e.g. Return on Capital Employed, (c) Efficiency (e.g. Energy / Resource Conservation, Cost Efficiency / Savings, etc.), (d) Economic Value Added (EVA), Shareholder Value Added (SVA), Market Value Added (MVA), etc.
Organic Objectives	(a) Survival, (b) Growth, (c) Diversification of Capabilities, (d) Health, e.g. Age of Assets, Fitness of Human Resources, Generation of various Profit Reserves, etc.
Social Objectives	(a) Specific Responsibilities towards Employees (fair remuneration), Customers (quality goods at a fair price), Suppliers, Competitors, Investors (Fair returns), etc. (b) General Social Responsibilities, e.g. contribution to Community Service, Education, Health, Sanitation, Heritage Conservation, Community Support during calamities, etc.

Legal Objectives	(a) Respect for Law in letter and spirit, (b) Compliance with legal procedures and requirements, (c) Good Corporate Citizenship
Ethical Objectives	(a) Transparency and Truthfulness, (b) Honesty and Integrity, (c) Fairness and Equity
Environmental Objectives	(a) Use of Green Technologies, Products, and Methods (b) Lower Emissions and Carbon Prints, (c) Effective Waste Handling and Disposal, (d) Preservation of Air, Water and Soil Quality

NOTABLE POINTS ABOUT BUSINESS

1. On the basis of nature of activity, a business may be engaged in industry, trade or other Services
2. On the basis of size and scale of the activity undertaken, business may be classified as micro, small, medium and large.
3. Business may be owned singly (Sole Proprietorship) or jointly (Hindu Undivided Family, or Partnership, Limited Liability Partnership or Company, or Co-Operative Society)
4. Business may be organised as Corporate (Includes Public Companies, Private Companies, LLPs etc) or Non-Corporate Entity (Sole Proprietorship, HUF, Partnership, etc.)
5. Business Ownership is a bundle of rights (right to derive profit, right to run the business, right to dispose off business)

FORMS OF BUSINESS ORGANISATION BASED ON OWNERSHIP

1. A Sole Proprietorship is a type of enterprise that is owned and **run by one natural person** and in which there is no legal distinction between the Owner and the Business Entity.

Features, Merits and Limitations of Sole Proprietorship

Features	Merits	Limitations
1. Individual Ownership 2. Individual Management 3. Individual Financing 4. Individual Autonomy & Accountability 5. Unlimited Liability 6. Minimum Govt. Regulations	1. Easy Formation and Easy Dissolution 2. Full Control & Flexible Management 3. Quick Decisions and Full Secrecy 4. Sole Beneficiary of Profits 5. Suitable for Small Scale Operations	1. Lack of Continuity/ Stability 2. Limited Managerial Skills 3. Limited Financial Resources 4. Unlimited Liability 5. Not Suitable for large scale operations

2. HUF is a Family that consists of all persons lineally descended from a common ancestor (Purvaj), Includes-

(i) Wives and Unmarried Daughters also

(ii) only 3 successive generations.

(iii) Jain or Sikh or Buddhist or Parsi Families also but not include muslims

Features, Merits and Limitations of Hindu Undivided Family

Features	Merits	Limitations
1. Arises by status or Operation of Law 2. Membership merely by birth 3. Separate Entity Status under the Income Tax Act 4. Day to day affairs and decisions handled by "Karta". 5. Fluctuating body with birth or Death	1. Membership without any contract 2. Leads to instant trust among Members 3. Common Pool of Financial Resources Capital 4. Quick Decision Making 5. Members work hard to build family business	1. Unlimited Liability of Karta in case of Insolvency. 2. Going Concern of HUF is uncertain 3. New Member may frustrate outsider (e.g. hired managers)

3. Partnership is a relationship between two or more persons who agree to share the profits of a business. The Parties individually called "**Partners**", and collectively as "**Firm**". In India, the Partnership Act, 1932 provides the legal framework relating to Partnership Firms.

Features, Merits and Limitations of Partnership

Features	Merits	Limitations
1. Valid Agreement (whether written or oral) 2. Partners- Min. 2 and Max. 100 3. Must be exist for Business purpose only 4. Operates on "Mutual Agency" Principle	1. Artificial Person can also become partner 2. More Funds compare to Proprietorship 3. Risks are shared by many persons 4. All Partners work in common interest	1. Unlimited Liability of Partners 2. One Partner's misdeeds can impact going concern of Firm 3. Firm is treated as unorganized/ unregulated sector 4. Notice of severance of a partner may impact continuity of Business.

4. LLP is a form of Partnership where the liability of partners is limited formed under LLP Act, 2008. Thus, it combines the advantages of Partnerships and Corporate Entities.

Features, Merits and Limitations of LLP

Features	Merits	Limitations
1. Separate legal entity (Name) and identity (LLPIN). 2. LLP has perpetual succession i.e. has a life of its own 3. Partners- Min. 2 and Max. No Limit 4. Partner may be Natural Person or Artificial Person	1. Better pooling of Capital compare to sole proprietorship firm 2. Risk shared amongst many persons 3. No Personal Liability of Partner, except in case of fraud 4. considered as part of the organized / regulated sector since registration is compulsory 5. Every Partner is only Agent hence Absence of Mutual Agency 6. Death or insolvency of member does not affect its existence	1. More regulatory compliance like annual filings, etc. 2. Cost of ensuring Compliance, e.g. in terms of Annual Filing Fees, heavy late filing fees, etc.

5. Under the Companies Act, 2013 **a company** may be is defined as “a company incorporated under companies Act, 2013 or under previous company law”. A company has to file a Memorandum of Association (MoA- spells out the objectives of the company) and Article of Association (AoA- focuses on its internal regulation) along with application for incorporation.

Features, Merits and Limitations of Company

Features	Merits	Limitations
1. Separate legal existence as a distinct name, address (Registered Office) & identification number 2. Perpetual succession since end to its existence only by law 3. Liability of a Member is Limited to nominal value of shares 4. Free Transferability of shares 5. Capacity to own & hold Property 6. Capacity to sue & to be sue 7. Government exercises control through company law or SEBI 8. Law provides for the incorporation OPC, a Small Company and a Dormant Company	1. Large capital resources 2. Limited liability 3. Stability 4. Efficient management 5. Transferability of shares 6. Economies of scale 7. Democratic management 8. Public goodwill 9. Social utility	1. Legal formalities- to meet stringent criteria of both the Companies Act and the SEBI. 2. Lack of motivation 3. Delay in decisions 4. Economic oligarchy 5. Corrupt management 6. Excessive Government control 7. Unhealthy speculation 8. Conflict of interests 9. Social evils

6. Distinction Between Private and Public Companies

	Point of Distinction	Private Company	Public Company
1.	Number of Members	Minimum-2, Maximum-200	Minimum-7, Maximum- No limit
2.	Name	The name must include the words "Private Limited".	The name must include the word "Limited".
3.	Prospectus	Need not issue and file a prospectus	Must issue and file a prospectus or a statement in lieu of prospectus.
4.	Allotment of shares	No restrictions on allotment of shares. No binding on further issue of shares	Cannot allot shares without raising minimum subscription and without complying with other legal formalities. Further issues of shares must in the first instance, be offered to the existing members.
5.	Share Warrants	Cannot issue share warrants	Can issue share warrants per bearer
6.	Minimum Capita	One lakh	Five lakh
7.	Listing on stock exchange	Cannot be listed	Can be listed
8.	Managerial Remuneration	No restrictions on director's remuneration	Total annual remuneration must not exceed 11 per cent of the net profits. In case of insufficiency of profits the maximum limit is ₹ 50,000 per annum
9.	Filing	Need not send the list of Directors and their consent to the Registrar	Must sent list of directors, their consent to the Registrar
10.	Quorum at annual general meeting	Two members personally present	At least five members personally present