LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Describe the domains of business and commercial knowledge (BCK).
- Explain the importance of BCK for a Chartered Accountant.
- Enhance BCK Quotient (BQ).
- Distinguish the business from the myriad of human activities, more so from employment and profession perspectives.
- Distinguish between proprietary and corporate forms of business organisations.
Business and Commercial Knowledge (BCK)

**Domains of BCK**

**Human Activities**

**Economic Activities**

**Non Economic Activities**

**Forms of Business Organisation**

- Sole Proprietorship
- Hindu Undivided Family (HUF)
- Partnership
- Limited Liability Partnership (LLP)
- Company

**Business**

**Profession**

**Employment**

**Activities: Industry-Trade-Commerce**

**Size/Scale: Micro**

**Small-Medium-Large-Trade-Commerce**

**Geographic Scope: Local-National-Multinational**

**Ownership: State Owned/Public Sector-Private-Proprietary Corporate**

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1.1 INTRODUCTION

Humans engage themselves alternatively between work and life. We work to earn income. We spend (and also save) the income for the sustenance of the self and the family. In the process, daily we engage in numerous transactions and exchange our income for buying various goods and services. Being social and socially aware, we also live a family life and engage in social activities, charities and the like. In this chapter, we elaborate on human activities whilst focusing on business and the domains of business and commercial knowledge.

In today’s world, both earning of income as well as its spending has increasingly become dependent on business and commerce. To begin with, let us view business and commerce as comprising an array of activities for the production, distribution and exchange (buying and selling) of goods and services. Now, whether we work as employees or free lancers or as entrepreneurs, our world of work is made of business organisations. And even if we do not work for a business organisation, much of our spending takes place buying various goods and services that have been produced or provided by business organisations. In all probability, most of the goods that we buy, we do not buy these straight from the producer, but indirectly from second, third or even later intermediary or reseller. Take a Minute #1.

Take a Minute#1

Following picture presents the two views of the same room. List the items identifiable from the picture. Imagine if the said item would have been purchased directly from the producer or some reseller. You may use the observation card whose format is given below the picture to organise your thought process with pen and paper or as an mental activity.

Format–Observation Card

<table>
<thead>
<tr>
<th>Points of Observation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group of Item / Industry</td>
<td></td>
</tr>
<tr>
<td>Whether procured directly from the producer</td>
<td></td>
</tr>
</tbody>
</table>

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Now, it should be possible to elaborate the scope of Business and Commercial Knowledge or BCK that this course is all about. Table 1.

### Table 1: BCK Domains- An Overview

<table>
<thead>
<tr>
<th>Domains</th>
<th>Illustrative list</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities</td>
<td>Manufacturing, Trading (Domestic, Foreign), Commerce (Aids to Trade or Auxiliaries to Trade) Services</td>
</tr>
<tr>
<td>Scale</td>
<td>Micro Enterprises, Small Enterprises, Medium Enterprises, Large Enterprises</td>
</tr>
<tr>
<td>Geographic Scope</td>
<td>Local, National, Multinational</td>
</tr>
<tr>
<td>Ownership</td>
<td>State owned/Public Sector, Private Sector (Sole Proprietorship, Partnership, Company/Corporate Sector)</td>
</tr>
<tr>
<td>Markets</td>
<td>[Natural] Resources, Equipments, Commodities, Capital, Labour, Product Markets</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Entrepreneurs, Promoters, Customers, Investors, Business Owners, Directors, Shareholders, Managers, Employees, Suppliers, Laws &amp; Regulators/Policy makers, Supporting / Facilitating Organisations, Society at large</td>
</tr>
<tr>
<td>Functions</td>
<td>Production/Operations, Marketing, Accounting Finance &amp; Taxation, Human Resource</td>
</tr>
<tr>
<td>Focus</td>
<td>Company/Enterprise wide, A particular business line, A particular function</td>
</tr>
<tr>
<td>Concerns</td>
<td>Survival, Profitability, Growth, Sustainability, Social Responsibilities, Governance, Values &amp; Ethics</td>
</tr>
<tr>
<td>Mode</td>
<td>Traditional/Physical/Brick &amp; Mortar/In-store, Digital/Online</td>
</tr>
<tr>
<td>Underlying disciplines</td>
<td>Economics, Laws, Philosophy, Psychology, Sociology</td>
</tr>
</tbody>
</table>

### 1.2 DOMAINS OF BUSINESS AND COMMERCIAL KNOWLEDGE (BCK)

Oxford online dictionary defines the term ‘domain’ as ‘a specified sphere of knowledge. The sphere of knowledge about business and commerce is vast, eclectic and ever evolving and expanding.

**BCK is Vast:** The universe of business is vast. Take for example the range of business activities. It includes manufacturing, trading and services. Just contemplate on any of the activities. Countless instances would come to mind. Take domestic trade, and within it retail trade. Now, door-to-door direct sellers, street vendors, weekly haats or bazars, neighbourhood shops, market places, malls, company chain stores and online retail (e-tail) etc. all comprise retail trade. Thus, to know about retail trade one needs to be aware of its various forms. Further one needs to know the functions that the retailers perform. For example, the neighbourhood retailers provide a variety of goods of daily needs, various brands of the same item, in smaller quantities and a host of other services such as home delivery, weekly/monthly credit, etc. Malls provide a very different kind of shopping experience. And the online retailing provides 24X7 convenience. Note we have just enumerated some of the benefits from the point of view of the customers. What about their services to the wholesalers and as an intermediary in the chain of distribution from the producer to the consumer?
**BCK is Eclectic (Multidisciplinary):** BCK is eclectic i.e., it derives from various disciplines e.g. marketing, accounting & finance, operations, human behaviour (psychology, sociology), laws, economics, ethics etc. Each discipline has a vocabulary of its own and thus contributes toward BCK vocabulary. Further the BCK adapts the vocabulary of such diverse fields as military and such unrelated fields as biology! Building the BCK Vocabulary #1.

### Building the BCK Vocabulary#1

<table>
<thead>
<tr>
<th>BCK Vocabulary</th>
<th>Original Discipline</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Military</td>
<td>Just as the armies at war develop strategies to outsmart each other, likewise businesses draw their strategies to beat their competitors.</td>
</tr>
<tr>
<td>Logistics</td>
<td>Military</td>
<td>In military, logistics means movement of troops, military supplies and equipment. In business it implies the detailed coordination of a complex operation involving many people, facilities, or supplies. Typically inbound logistics imply the movement of inputs and the outbound logistics means the movement of outputs.</td>
</tr>
<tr>
<td>Bulls</td>
<td>Biology (Animal Psychology)</td>
<td>Because bulls throw up their enemies in combat, like wise bulls imply the stock market players who raise the stock prices through building a buy pressure. Being bullish implies optimistic expectations that the economy/market/business is likely to do well</td>
</tr>
<tr>
<td>Bears</td>
<td>Biology (Animal Psychology)</td>
<td>Bears have the tendency to embrace and push downwards their enemies in a combat. Thus, bears are the stock market players that have pessimistic expectations.</td>
</tr>
</tbody>
</table>

**BCK is Ever Evolving and Expanding:** BCK domains are ever evolving and expanding. For example, information and communications technology has introduced several terms in the lexicon of BCK e.g. 24X7, B2B, B2C, BPO, chips, etc. An important aspect of this evolution is the decline and demise of old businesses and old ways of doing business and the emergence of new businesses and newer ways of doing the businesses. These changes may be aided or impeded by changes in the technology, society, economy and the like—collectively referred to as business environment. In a fast evolving and expanding sphere of knowledge, the rate of knowledge obsolescence (outdatedness) is high. Thus, we need to stay updated and develop the capability to learn, unlearn and relearn at a fast pace.

### 1.3 IMPORTANCE OF BCK FOR CHARTERED ACCOUNTANTS

The Chartered Accountants are the custodians of a nation’s resources. They are responsible for putting in place a credible system of truthful and fair accounting and reporting of the society’s resources, their deployment and utilisation. Business and commercial sector comprises a large share of their work arena. In this context BCK is likely to make them more aware and responsive. Each business has its own peculiarities and associated variation in notions of product, inventory, revenue, profit, etc. For example, a fast moving consumer goods (FMCG) business pertains to manufacture, distribution and sale of a large variety of staples (groceries, bakery, confectioneries, etc.), personal care and home care products such as soaps and detergents, toiletries and cosmetics etc. The Chartered Accountant can easily develop notions of cost, inventory, revenue, profits etc. However, in hotels & restaurants these notions change. Moreover, in addition to certain common laws that all businesses are subject to, each business is subjected to a host of

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1.6 BUSINESS AND COMMERCIAL KNOWLEDGE

laws specific to it. The Chartered Accountants shall be able to conduct the audit diligently only when they understand the nuances of the business whose accounts they prepare or audit.

Getting conversant with and updating BCK

We have noted that BCK domains are vast, eclectic and ever expanding. We are also convinced that BCK is important for a successful education & career as a Chartered Accountant. Now, how do we get to terms with BCK especially if we do not have a prior background e.g. 10+2 or degree in commerce? The task indeed seems Herculean! And to top it there is a constant dilemma whether to focus on specialisation / core discipline i.e. accounting and taxation or diffuse our energy to such a wide topic as “business?” Take a trip to the tips for enhancing one’s BCK Quotient (BQ) #1.

**Enhancing BQ #1**

<table>
<thead>
<tr>
<th><strong>Self Assurance</strong></th>
<th>Business is all around. We encounter it, engage with it in numerous transactions on a daily basis.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-commerce background is not a handicap</strong></td>
<td>If you had science, use the bridge of technology to crossover to business. If you had humanities then there are several bridges connecting with business: economics for sure; history of daily lives and livelihoods; geography- the resources, the occupations; psychology &amp; sociology- understanding of human behaviour and so on. Leverage the eclectic nature of BCK.</td>
</tr>
<tr>
<td><strong>Observation and Experience are the best guides</strong></td>
<td>It is all about becoming slightly more conscious of our sensory activities. May be an article in a newspaper, a TV Commercial or a Business News, a visit to a Market or a Mall, Browsing of the Net or a smartphone App.</td>
</tr>
</tbody>
</table>
| **Each one of us have six honest servants** | Yes! Rudyard Kipling reminds us:
I keep six honest serving men
(They taught me all I knew);
Their names are What and Why and When
And How and Where and Who.  

Excerpted from ‘Elephant’s Child’ |
| **Practice and Improvement via Reflective Thinking leads to perfection** | We may therefore wear our looking glasses and set out on an exploratory journey. |
| **An Illustrative List of Sources of Enhancing BCK** | We may maintain a daily journal of BCK wherein we record our observations and organize our readings, viewings, listenings etc. |

Note: Its not an inclusive list but a convenient sampling

**News Papers**

- mint
- Business Standard
- ET
- The Financial Express
Having elaborated the BCK domains, their importance for a Chartered Accountant and the means of enhancing BCK, let us turn our attention to rest of the objectives stated at the beginning of this chapter.

### 1.4 HUMAN ACTIVITIES- ECONOMIC AND NON-ECONOMIC

Our waking lives are all about activities. Many activities we engage in are purposeful. Usually we dichotomise these activities as work and play. These days it is more common for adult, working persons to talk about work and life (the latter implying family time, time for one’s hobbies, causes etc.); and, strive toward balancing the two. We work to earn a living. All that we do to earn a living comprise economic activities. Rest are referred to as non-economic activities. Interestingly, while the economic activities are distinguishable merely by the presence of the livelihood motive, a variety of motives are attributed to non-economic activities, viz., concern for fellow beings, affection & love for family, passion about some hobby or cause such as animal rights, forest/ nature conservation, street children & destitutes etc. Usually economic activities are said to be driven by rationality – what do I get in return or what is in it for me - or self-interest. Non-economic activities are driven by emotional or sentimental reasons or altruism i.e. selfless concern for the welfare of others. Thus, human engagements in all social, religious, cultural, personal, recreational, charity and patriotic activities are bundled together as non-economic activities. See, Roving Eye#1.
### Roving Eye #1: Economic and Non-Economic Activities

<table>
<thead>
<tr>
<th>Economic Activities</th>
<th>Non-Economic Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>A chef preparing food</td>
<td>A woman bailing water</td>
</tr>
<tr>
<td>Men playing a board game</td>
<td>An ancient tree with people beside it</td>
</tr>
<tr>
<td>Children eating snacks</td>
<td>A pot hanging from the ceiling</td>
</tr>
<tr>
<td>A group of people celebrating</td>
<td>A jug on the floor</td>
</tr>
<tr>
<td>Women sewing cloth</td>
<td>A man in a traditional dress</td>
</tr>
<tr>
<td>People singing and dancing</td>
<td></td>
</tr>
</tbody>
</table>

Economic activities are those that involve the exchange of goods and services for money. Non-economic activities are those that do not involve monetary exchange.

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Roving Eye #1 above provides a pictorial glimpse into some economic and non-economic activities. Are not these distinguishable?

It is interesting to note that **even non-economic activities have an economic dimension** e.g. time, money and material resources are needed to make these happen- both in terms of large initial expenditure as well as their day-to-day operations and management. However, neither the investors nor those who volunteer to work in these activities seek any material gain or regular income from these activities. In fact, **the motive or the intent behind any activities is such a singularly strong determinant of the economic and non-economic dichotomy** that, say, if I engage in home making (cooking, housekeeping, etc.) for my family it would be deemed as a non-economic activity. If I do so for others for an income, the same activity would be deemed as an economic activity. However, the world needs to understand that if we wish the best minds, hearts and souls to work for the solution of the problems facing the humanity, we must find ways of offering them the best rewards and compensations.

**1.4.1 Distinguishing Characteristics of Economic Activities**

Economic activities have several distinguishing characteristics other than the motive of earning a livelihood. Let us be more aware of these. In the process, we shall also be able to situate business as an economic activity.

- **Economic activities are income generating:** One may earn a livelihood in several ways. For example, income earned by rendering personal time, physical and psychic energy, in other words through one’s sweat and intellect is called earned income. And, the income earned by letting out one’s property is called property income. In economics, individuals comprise as possessors of one or more of ‘factors of production,’ labour, land, capital and entrepreneurship. The corresponding income characterisations in exchange of or compensation for their factor services are wages (& salaries), rent, interest and profit. **It is not necessary that all these incomes may be earned in the form of money only. These may be earned in kind too.** For example, a landowner may compensate the tiller of the land in the form of food grains. The nomadic pastors who brought their herds to graze the stubs left of the harvest were often paid in the form of food grains. How much each factor will earn? The factors earn according to their contribution to the production. In other words income is generated in the process of production.

- **Economic activities are productive:** Man cannot create matter. But using ingenuity, man can transform matter variously to produce the goods and services for the satisfaction of various needs. Production essentially is the process of creation of need satisfying goods and services. As a corollary, **earning of a livelihood implies participation in the process of production.** When the early man set out to hunting the animals and gathering the fruit and firewood, he engaged in productive activities. **Farming** is productive too. Practice of the **crafts** – pottery, textiles- is an instance of productive activities. Generation of electricity, **manufacture** of automobiles and **writing of software programs** are all instances of productive activities. **Teaching, medicine, law, accountancy** are all productive activities. Production may be done either for subsistence i.e. self-consumption or for market. Production represents the supply side of economics, more so if it is for market. Here its scope is broadened not only to include the place where it takes place but also the entire range of activities and occupations devoted to delivering the production to the markets- transport, warehousing, intermediaries (e.g. wholesalers/ dealers, retailers etc.) and so on.

- **Even consumption is an economic activity:** Consumption represents the demand side of economics, i.e. the goods & services on which the people will spend their income. Production is
organised in response to the demand. Different products compete for buyer’s attention and spending. In fact every unit of demand is like a vote in favour of a product and a signal to its producer.

- **Savings, Investment and Wealth**: Unspent income comprises savings. The financial sector - banks, non-banking financial companies, mutual funds, dealers in stock markets, real estate, gold, etc. are the channels through which the savings are converted into investment and wealth. The corporate sector and the government borrow these savings and invest these into creating and operating civil, military and business infrastructure and other productive pursuits.

### 1.4.2 Business as an Economic Activity

We have seen that market oriented production (better than production for self-consumption) represents supply side of economics. It is common to refer to shift from subsistence driven production toward market driven production as commercialisation of production or production on a commercial scale. We have also seen that for the production to occur at a commercial scale a wide array of interconnected activities need to be put in place for linking production (supply side) with consumption (demand side). With this background, we can now attempt a three-tier definition of business.

From the broader perspective, **business may be defined as an economic activity comprising the entire spectrum of activities pertaining to production, distribution and trading (exchange) of goods and services**. As such it refers to the aggregate of all the businesses - industry (construction and manufacturing), trading or service enterprises; state-owned / Public Sector or private enterprises; proprietary or corporate sector enterprises; micro, small, medium, or large enterprises; domestic or multinational enterprises (we will take up a brief discussion of these terms later in the chapter). It is usual to classify business into industry, trade and commerce; the latter incorporating all the industry/trade related services or auxiliaries/aids to trade such as banking, general insurance, transport, warehousing, etc.

Here a question arises: **Is agriculture an industry and hence a business?** Its answer is “it depends.” In India, much of the agriculture is subsistence agriculture. Moreover, agriculture income, under the Income Tax Act, is characterised separately (from income from Business & Profession) and is exempt from tax. Thus, for our purpose agriculture does not comprise industry and hence business. However, the manufactures where agriculture produce is processed and whose key material ingredient is agricultural produce do comprise an industry. For example, the extraction of edible oil from rice bran, mustard, coconut, soybean etc., represents agro-based industries.

From the medium perspective, business refers to a particular type of activity or industry such as Retail Business, Real Estate Business, and IT Business, Iron & Steel Industry, Transport Business, etc. Thus, a firm may introduce itself as follows: “we are a food processing” unit.

From a narrow perspective, **business may be defined as one’s usual occupation of creating, owning and actively operating an economic organisation i.e., a firm**. The phrase ‘usual occupation’ is important for infrequent, isolated transactions even if these might result in profit or loss, cannot be called business.

Let us see if we indeed can comprehend the three levels of analysis of the definition of business (Reality Check # 1).
Reality Check #1

Here are a few headlines from News channels/ Newspapers. Let us see if these pertain to the definition of business in its broadest, intermediate or micro level.

<table>
<thead>
<tr>
<th>Headline</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME IPOs raise Rs. 514 crore this year, The Hindu, Apr 24, 2017</td>
<td><a href="http://www.thehindubusinessline.com/markets/sme-IPOs-raise-rs-514-cr-this-year/article9659818.ece">http://www.thehindubusinessline.com/markets/sme-IPOs-raise-rs-514-cr-this-year/article9659818.ece</a></td>
</tr>
</tbody>
</table>

1.4.3 Distinguishing Characteristics of Business vis-à-vis Other Economic Occupations

Whilst business as an economic occupation is vastly diverse, yet only a small portion of population, more so urban educated population engages in it. For example, of all of you pursuing Chartered Accountancy, only a small percentage is going to start a business. Since CA is a professional qualification, most likely you are going to practice as an independent professional or would take up a paid employment somewhere. We have thus introduced two other distinct occupations, viz., employment and profession. A brief description of these two occupations would be in order before we elaborate the distinguishing characteristics of business.

- Employment: Employment is a contract of service between the employee and the employer. The contract elaborates job description and the periodic compensation known as wages & salaries (the term wages usually denotes factory workers; salary denotes office staff, managers, etc.). One has to undergo a detailed process of Recruitment & Selection for one’s engagement in employment. Usually minimum qualifications- educational/ technical/ professional and prior work experience are prescribed. Freshers
may be initially recruited as interns and required to undergo training. And one is expected to perform as per the terms of employment and the performance targets assigned from time to time. There is a minimum assured income, tenure certainty and reasonable opportunities for career progression via promotions.

- **Profession**: Profession is rendering of services of a specialised nature, necessitating prescribed qualifications, for a fee under a Certificate of Practice from an established certification / accreditation / examination & assessment body that also imposes a code of conduct. Professions can be pursued as independent practice or under a contract of employment too. Accountancy, Architecture, Designing, Engineering, Law, Medicine and increasingly even Management are assuming the attributes of a profession. In certain professions e.g. medicine, if in employment, the professionals are entitled to ‘non-practising allowance’ too.

The word profession or professional in common parlance is used to distinguish from one’s amateurish/ substandard performance or practice as a parttime/ hobby. **Professionalism is often associated with perfectionism**. The word is also used derogatively to denote that one greedily works for money. Historically however, professions emerged in pursuit of nobility; demonstrated highest level of integrity and ethics; and hence were held in very high esteem and social status /respect. Chartered Accountants for example, represent a noble profession for ensuring truthfulness and fairness in the conduct of business and hence instrumental in ensuring its trustworthiness; and, hence the integrity of the entire economic system. The logo of the Institute from The Institute of Chartered Accountants of India (ICAI) is suggestive of the vigilance expected from the CAs.

Having clarified the meaning and nature of employment and profession as economic occupations, we are now in a position to delve deeper into the nature of business. Before we do that, it would be useful to do a recapitulation of the main points of difference between business, profession and employment (Recap #1).

### Recap #1: Distinction between Business, Profession and Employment

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Basis of distinction</th>
<th>Business</th>
<th>Profession</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Meaning</td>
<td>Entire spectrum of market oriented activities coming under industry, trade and commerce.</td>
<td>Independent rendering of services of specialised nature based on prescribed qualifications under the aegis of a professional body that also prescribes a code of conduct.</td>
<td>Rendering of services under a contract of employment for wages / salaries. Also, called wage-employment.</td>
</tr>
<tr>
<td>2</td>
<td>Mode of establishment</td>
<td>Entrepreneur’s decision and other legal formalities, if necessary</td>
<td>Membership of a professional body and certificate of practice.</td>
<td>Letter of Appointment and service agreement.</td>
</tr>
<tr>
<td>3</td>
<td>Source of livelihood</td>
<td>Profit</td>
<td>Professional Fee.</td>
<td>Wages &amp; Salaries.</td>
</tr>
<tr>
<td>4</td>
<td>Prescribed qualifications</td>
<td>None</td>
<td>Strictly prescribed</td>
<td>Minimum qualifications for each type of job</td>
</tr>
</tbody>
</table>
Job creator, not job seeker: Business as an institution is a source of sustenance directly to the business owners and employees and indirectly to all those who derive opportunities from it. This is a unique characteristic of business that separates it from other occupations. Yes, professionals in practice may also generate some employment but certainly not in numbers that business is capable of generating.

Provides momentum to economic growth: What is economic growth? It is persistent increase in a country’s Gross Domestic Product (GDP). What is GDP? It is the value of all the goods & services produced in a country during a particular period. Business output comprehensively contributes toward GDP and economic growth. How is economic growth distinguishable from economic development? Whereas growth merely implies increase in GDP numbers, economic development implies diversification of an economy’s capabilities and improvement in the quality of lives of its people. Business, through research & development, education, and training & development of employees and by sheer guts and courage of experimenting and innovation brings about development. In fact, it is pertinent now to introduce the term entrepreneur here. In common parlance, the terms ‘business person’ and ‘entrepreneur’ are synonymous. Even we shall be using these two terms interchangeably. However, entrepreneurs are better characterised more by their problem solving, new opportunity seeking behaviour that draws on their creativity and innovation.

Investment intensive: Starting a business requires a sizeable investment of funds in accommodation, plant & machinery, inventories, etc. In accounting, investment requirements are estimated as the sum of fixed assets and net current assets. Indeed, investments are necessary for technological upgradation, modernisation and expansion. However, size of investment usually varies with the scale of business. That is why in India Micro, Small, Medium and Large Enterprises are defined with respect to the size of investment- more specifically investment in Plant & Machinery for manufacturing enterprises and investment in Equipment for service enterprises. Many people believe that the lack of investible funds or capital is a strong barrier to start a business.

Gestation and uncertainties: Investment takes time to fructify. And it is uncertain whether it will yield the returns as expected. For example, it will take time to construct and ready a hotel before it is opened for occupancy. And it is uncertain if all the rooms would be occupied all the time. In fact, it is
also uncertain if the occupancy ratio (room nights occupied / room nights capacity) would be adequate. In economics and finance, one distinguishes between risk and uncertainty. Risk can be calculated in advance, uncertainty cannot.

- **Systematic, organised, efficiency oriented activity**: Business is not a random, stray, unorganised and occasional activity. It is a consciously created system of production. Thus, firm infrastructure needs to be in place, supply chain of materials needs to be developed, these materials need to be processed or transformed, products need to be marketed and sold, payments need to be collected, etc. All these tasks have to be divided into specialised functions, means of coordination need be devised so that the business is able to deliver the promised products and services on day-to-day basis efficiently- on time, of consistent quality and exceeding performance expectations. In fact, the phrase ‘business like’ (of a person) means ‘carrying out tasks efficiently without wasting time or being distracted by personal or other concerns; systematic and practical (Oxford Dictionary).’

Business is systematic in the literal sense of the term system- an integrated, unified whole comprising of interrelated, interdependent and interacting parts just as an automobile system. Viewed thus, for the business to perform well, it needs be ensured that all the parts perform their respective functions well and in sync with each other- be it production, sales, marketing and the like. Imagine, if the production function is not in sync with marketing and hence unable to fulfil the orders generated by it? Moreover, whilst each function performs its task it is important that one does not lose sight of the overall objective of the firm. Unlike an automobile, however, business is an open system as it interacts with the environment. For example, business has to interact with the customers to get the vital feedback, product modification and win their continuing patronage.

- **Objective oriented/ purposeful**: Profit is said to the defining motive behind business. In economics, objective of the firm is set as maximisation of profits. Profits characterize income from business just as wages & salaries characterize labour; rent characterizes land; and interest characterizes capital. It is the residue occurring to the business owners after all other factors of production have been paid off. What are the profits for? These are for organizing production, undertaking risks and uncertainty bearing. Let’s reflect deeper on the purpose of business. We have seen above, that business as an institution and more so through its entrepreneurial endeavours brings about a qualitative change called development. We have seen that entrepreneurial businesspersons are efficiency seekers, problem solvers and innovators. These intangible aspects of business’s performance impart deeper meaning to business and its purpose.

**Idealistically, business must** lead the world toward more egalitarian, participative and collective prosperity that is sustainable for generations. **This ideal corresponds to the ideal of sustainable development** that at business level may be interpreted as simultaneous pursuit of **profitability, people** well-being and **planet** sustainability (See Think #1).

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Think why is sustainable development necessary and how business, instead of focusing solely on profits must also attend to people's problems and planet conservation? Think, why it is not sufficient that business and a country just balances economic (profitability) and social (people) concerns or economic and ecological concerns or social and ecological concerns only leaving out the third element. Whilst you think through, let us highlight the plurality of the objectives of business in Concept Elaboration #1.

**Concept Elaboration #1: Objectives of Business**

**Considerations**

1. Interdependence. Business draws its factors of production from the society and is dependent on it for the sale of its goods & services.
2. Multiple stakeholders. A firm is not only the owners. It is as much other investors /lenders, employees, customers, suppliers, competitors, the community and the larger society and the ecology of which business is a part
3. Amount of profit. Profit is just about that much and that less an objective of business as is eating for living. Do we eat to live or live to eat? Likewise, profit is a minimum concept, in fact a cost, cost of being in and cost of staying in business.
4. Primacy of Customer. If at all there is a single purpose of business, it is the creation and maintenance of customers through product quality, service, and delivering value for money.
5. Performance is the precursor to profits. To be able to earn profit, the firm has to excel in all its functionalities, viz., procurement, production, sales & marketing, accounting & finance. Thus even if profit is the objective, it has to be broken down to the relevant objectives for each of these areas

<table>
<thead>
<tr>
<th>Economic Objectives</th>
<th>Organic Objectives</th>
<th>Social Responsibilities</th>
<th>Legal, Ethical and Environmental Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales, profits, return on investment, efficiency (resource conservation, achieving more from less) economic value added (profits in excess of cost of capital invested in business), market share</td>
<td>Survival, health (age of assets, fitness of human resources, reserves-capital, general and contingency) growth, diversification of capabilities</td>
<td>Community service, education, health, sanitation, heritage conservation, community support during calamities &amp; disasters, etc. Specific responsibilities toward employees, investors, customers, suppliers, competitors, etc.</td>
<td>Respect for law in letter and spirit, fair practices, transparency, truthfulness, honesty &amp; integrity. Green technologies, products-usage &amp; disposal, lower emissions, effective waste handling and disposal, preservation of air, water and soil quality</td>
</tr>
</tbody>
</table>

**Responsible businesses: wishful thinking or meaningful enterprise?**

- Asbah- India’s first social enterprise focused on women
- ITC- The Greenest Hotel Chain in the World
- Lemon Tree Hotels-providing gainful employment to persons with disabilities
- Hindustan Unilever Ltd’s Project Shakti for Empowerment of Rural Women
The plurality of the objectives of business suggests that businesses must be assessed not only in terms of their economic returns but also their social and ecological returns. In fact, the trend surely is toward development of more holistic and more balanced measures of business performance. Having said so one has to be aware enough that there will always be unscrupulous persons in the mindless pursuit of greed. We should be able to discriminate between them and those who justly, fairly do their business and care for the community, society and the environment in which they live.

Some argue that to an extent responsible business behaviour depends on the ownership forms, more so corporate forms of business organisation. The argument is that corporations are regulated. There is a separation of ownership and management, the latter being professional and hence more aware and engaged in social and ecological issues. We do not intend to engage in this discussion. However, let’s get acquainted with the various forms of business organisation.

1.5 FORMS OF BUSINESS ORGANISATION

While elaborating business as an economic activity we have seen that forms of business may be discussed on a variety of criteria. For example, on the basis of the nature of activity undertaken a business may be engaged in industry, trade or other services; and on the basis of size and scale of the activity undertaken, business may be classified as micro, small, medium and large. Generally, however, whenever we refer to forms of business organisation, the attention is drawn to the types of private business ownership. Before we take up a brief discussion of the various forms of business ownership it is important to take note of the following points about business ownership.

- **Business ownership is a bundle of rights:** Ownership is a bundle of rights. These rights accrue because a person has invested money in it. First such right is the titular exclusiveness. If you own a book, no one else can claim its ownership (others may own their respective copies). You may use it that is derive benefit from. You may also lend it or sell it or donate it on your will. Likewise, business ownership occurs by investment of capital. Profits stet belong to the owners. However, if there are losses, these have also to be incurred by the owners. Business owners also have a right to run the business that is manage and operate it on a day-to-day basis. However, in certain forms of business ownership can be separated from management. An important right associated with business ownership is the right to dispose off and transfer the ownership of business. It also includes transfer of ownership by succession after the owner’s death. Such a succession occurs smoothly when the person acts prudently and divides the ownership in business among the successors by a registered will.

- **Business may be owned singly or jointly:** A business may be owned singly i.e. as a sole-proprietorship concern. Else it be organised as a partnership or even a larger collective such as a cooperative. When owned singly, if all the profits belong to the single owner, so do the losses. Shared ownership by pooling of capital will facilitate undertaking large projects. However, there is a prudential reason for shared ownership too and that is sharing of risks.

Joint family business – a concept equalier to Hindu Undivided Families in India- views business as a family property and vests its ownership among the members of the family. Here the sharing of ownership is guided not as much by the possibility of raising large sums of capital or diffusion of business risks as it is guided by the consideration of equitable distribution of ownership rights among the family members.

In fact, business/ organisational theorists and thinkers keep contemplating on forms of ownership whereby the impact of business adversities on owners- whether single or joint- can be minimised. One such innovation is the idea of limited liability. Since business persons own the business –with all its assets and liabilities, all its usufructs whether favourable (profits) or unfavourable (losses) accrue to
them. And in the event business liabilities are more than business assets, their personal wealth would be utilised for meeting the business liabilities. There is no distinction between the businessperson and business. The idea of limited liability caps the liability of the businessperson just to the extent of their investment in business. This idea was initially implemented in company form of business and later in partnership form as well (Limited Liability Partnership - LLP).

**Business may be organised as a proprietary or a corporate concern:** In proprietary concerns, business owners actively participate in the day-to-day working of the enterprise. Known as owner-managers, businesspersons / entrepreneurs are thus not passive providers of investment capital alone. Business, thus, automatically becomes subservient to the self-interests of its owners. Obviously, such a situation would be more feasible when there are 4-5 co-owners and the nature and size of business is such that it can draw on their competencies and capabilities. Let us think of businesses where number of persons holding a share in the capital of the enterprise is large (in hundreds, thousands and hundreds of thousands) who are also geographically dispersed. In such cases a separation of ownership from management would be inevitable. The managers act as the agents of and in the interest of the shareowners (the principals). Further, organisation of business as a corporate entity endows it with certain other peculiar characteristics too that we will take up as we describe company form of business. We have already seen that such a form is characterised by limited liability of the shareowners. A serious limitation of proprietary businesses is that the life of the business is entwined with the health and life of the owners. Corporate form does away with this limitation as a company exits as a separate person distinct from its owners in the contemplation of law. As a separate legal person, it can thus have a life of its own independent of the lives of its owners.

Having familiarised ourselves as to the facts that (a) business ownership is a bundle of rights; (b) a business may be owned singly or jointly; (c) and, that a business may be organised as a proprietary or a corporate concern let us examine the various forms of private business more closely.

### 1.5.1 Sole Proprietorship

When an individual makes a choice to start a business of one’s own, to be one’s own boss sole-proprietorship emerges. As such it can be regarded as the easiest and the earliest form of business as a human occupation. One may open a daily needs store in a room of a corner of one’s house. Or may just set-up a shop on the pavement in weekly bazaars. Or may open a machine shop in the backyard or in a thinly habituated lane of a not so distinct locality. This form of business organisation is much appreciated in entrepreneurship literature. The sole entrepreneur is regarded as an economic hero, an autonomous individual who organises production, uses creativity and ingenuity in innovation, bears risks and uncertainty. Drawing analogy from music, the sole entrepreneur is not merely the composer and director of the enterprise orchestra but also a one-person band. Of course, when the business grows such an autonomous behaviour becomes a limiting factor, as the entrepreneur/ sole-proprietor is required to share decision-making and let go control over the business.

The business undertaken could be on such a small-scale that it may be hardly distinguished from self-employment. It may not be even registered as a micro or a small-scale business enterprise or industry. It is an interesting fact that a very high proportion of micro and small businesses in India are unregistered. Usually these enterprises, more so local retailers and street vendors are so well integrated with the communities that these enjoy people’s trust and provide personalised services. Together, these comprise the unorganised or informal sector of the economy. It is significant to note that even though individually these might appear of not much impact, yet collectively such enterprises make a tremendous contribution to the national economy. You have seen that numerically these enterprises are the largest. Their collective contribution to GDP, Employment and even exports is very impactful. This impact is even more considerable when
we take into account their indirect contribution as suppliers to larger and even multinational enterprises. Their importance is summed up in the cliché ‘small is beautiful.’

On the flip side, products from such enterprises are often derogatorily called “local” (to distinguish from branded). In common perception, working conditions in these enterprises are poor. These enterprises are believed to follow hire and fire policy, lack employee welfare measures and lack systems to effectively deal with social and environmental concerns. Fate of the enterprise is linked with the personal well being of the owner. This adversely affects consistency of service of such enterprises as the suppliers to large and multinational enterprises. It also affects adversely those desirous of long-term contracts with these enterprises. For these reasons, large and multinational enterprises prefer to transact business with corporate entities.

The foregoing paragraphs briefly evaluate the role of small sole proprietary firms in the economy. From the BCK perspective, and this is going to be our focus henceforth, it would be more useful to examine this and other forms of business organisation from the point of view of those create it.

In sole (sole = single individual) proprietorship, the individual essentially relies on personal savings and assets (e.g. room of the house; home furniture; personal bicycle/vehicle) to comprise the initial capital of the business (Note investment of cash or in kind by the owner is called capital). However, in a modern economy where the financial system is fairly developed, it is often possible to obtain micro-finance (loans in small denominations, say a thousand or two) and bank finance. In even better developed a financial system where the importance of entrepreneurship and business is recognised, there may be business facilitators who may assist the individual in obtaining finance and other help. We shall be reading about them later. Good news is that in India there is a lot of emphasis on business start-ups and entrepreneurship. As a result, sole-proprietary firms are able to quickly attain a commercial scale distinguishable from mere self-employment. All the profits of the enterprise accrue to the sole proprietor and so do the risks of business.

<table>
<thead>
<tr>
<th>Features</th>
<th>Whether merit or limitation and how</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autonomy of being one’s own boss</td>
<td>Merit. Because of freedom from the restrictions of paid employment. Ample scope for experimentation and expression of one’s creativity and innovativeness.</td>
</tr>
<tr>
<td>Sole provider of capital</td>
<td>Limitation. This limits the size of business. Yes, banks and lenders may provide additional resources. However, borrowing capacity too is determined by capital adequacy. This feature also limits the capacity to grow.</td>
</tr>
<tr>
<td>Visibility of the owner and personalised services</td>
<td>Merit. For example, the personal rapport with the customers engenders trust and loyalty.</td>
</tr>
<tr>
<td>Sole bearer of risks</td>
<td>Limitation. This arises from being the sole provider of capital. If all the profits belong to her, so do the losses.</td>
</tr>
<tr>
<td>Unlimited liability</td>
<td>Limitation. It is a common limitation of proprietary forms of business organisations. In the event of insolvency i.e. Liabilities &gt; Assets, the owners’ personal assets are invoked to make up the deficit.</td>
</tr>
<tr>
<td>Fate as a going concern (going concern= enduring life of business in the foreseeable future)</td>
<td>Limitation. Sole proprietary entities going concern status depends on the owner’s personal health and life span. And, after his death upon the willingness and the ability of the heirs/ successors in the family.</td>
</tr>
</tbody>
</table>

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Succession of ownership

By will [aka. Testament] or application of the law of inheritance. A will or testament is a legal document by which a person, the testator, expresses their wishes as to how their property is to be distributed at death, and names one or more persons, the executor, to manage the estate until its final distribution. If the will is nonexistent [i.e. for intestate succession] the applicable law of inheritance will come into force. For example, for the Hindus, Parsis, Buddhists, Jains and Sikhs, The Hindu Succession Act, 1956 is applicable.

1.5.2 Hindu Undivided Family (HUF) Business

HUF is an entity formed automatically by members of the common ancestry including their wives and daughters. A HUF cannot be formed by a group of people who do not constitute a family. As such, a joint Hindu family in India is, in fact and by default, a HUF. A HUF enjoys a separate entity status under the Income Tax Act. The Income Tax Act considers HUF as a separate entity if the joint family wishes to register itself as such for reporting income under the following heads: Profits from business or profession; Income from house property; Capital gains; Income from other sources. Since under the Income Tax Act HUF is a separate entity from the joint family that comprises it, a HUF cannot earn income from salary. We are concerned here with business owned by a HUF or simply stating Joint Hindu Family Business (JHF) or Hindu Undivided Family (HUF) Business. Before we describe its features, it would be appropriate to clarify a few points on its meaning. The meaning becomes clearer with reference to the prevalence of Joint Family System in India. Family is formed by marriage. Let’s call it the first generation. Marriage in most societies is a means to creating progenies /children. Thus, there is second generation comprising the siblings. These siblings grow up, get married and have children. Now there is a third generation, a consortium of cousins. In the paternal lineage, thus there is grandfather, father and grandchildren. These three successive generations of an undivided family are known as HUF. Secondly, though the word Hindu is conspicuous, the definition of HUF includes Buddhist, Jain and Sikh families as well. Thirdly, for the purposes of understanding HUF’s features as a business entity, another important relevant law is the Hindu Succession Act, 1956.

Features #2: HUF Business

<table>
<thead>
<tr>
<th>Features</th>
<th>Whether merit or limitation and how</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formed by birth in a Hindu (Buddhist, Jain and Sikh) family</td>
<td><strong>Merit.</strong> Family members may naturally join each other in business. In contrast, in a Muslim family if the siblings wish to associate in a business, they will have to do it contractually e.g. Partnership Agreement</td>
</tr>
<tr>
<td>Family pool of resources</td>
<td><strong>Merit.</strong> It is possible to start / expand a large business. Moreover, the common pool of capital may be utilised to diversify business in sync with the aspirations of the members of the successive generations of the family.</td>
</tr>
<tr>
<td>Social capital through family involvement</td>
<td><strong>Merit.</strong> There is an instant trust among the family members as compared with the situation of partnership with strangers. Family members toil hard to build the family business. Moreover, they may specialise in different business functions for greater complementarity of the mutual skills.</td>
</tr>
<tr>
<td>The family members are the automatic co-owners (called co-parceners) by birth</td>
<td><strong>Limitation.</strong> Ownership in family business is an ascribed rather than earned status. It can actually be quite frustrating for the outsiders e.g., hired managers who help build the business</td>
</tr>
<tr>
<td>Decision making is quick</td>
<td><strong>Merit.</strong> In the absence of other active major members of the family, the head of the family known as Karta takes all the decisions. Subsequently decisions are taken by and in the family. Prevalence of mutual trust, informality of communication makes decision-making quick.</td>
</tr>
</tbody>
</table>
### Unlimited liability of the Karta

**Limitation.** It is a common limitation of proprietary forms of business organisations. In the event of insolvency i.e., Liabilities > Assets, the owner’s (here the Karta) personal assets are invoked to make up the deficit. However, the liability of the other family members is limited to the extent of their share in the co-parcenry.

### Fate as a going concern (going concern = enduring life of business in the foreseeable future)

**Limitation.** Few family businesses last beyond third generation. Often family feuds result in business splits. In India the splits in the business houses of Birla, Modi, Goenkas and more recently the split in the second generation of Ambanis are instances to this effect.

### Succession of ownership

By will [aka. Testament] or application of the law of inheritance. A will or testament is a legal document by which a person, the testator, expresses their wishes as to how their property is to be distributed at death, and names one or more persons, the executor, to manage the estate until its final distribution. If the will is non-existent [i.e. for intestate succession] the applicable law of inheritance will come into force. For example, for the Hindus, Parsis, Buddhists, Jains and Sikhs, The Hindu Succession Act, 1956 is applicable.

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#### 1.5.3 Partnership

Partnership implies *contractual co-ownership* of business. It is a relationship between two or more persons who agree to share the profits of a business. The business may be carried on by all or by some of the partners (called active partners) for and on behalf of all. The contract - an agreement enforceable at law - called ‘deed’ is the essence of a partnership. It may be verbal or written. It specifies the bases of association of the persons in a partnership business e.g. capital contribution, profit sharing, etc. (See Features #3). The deed may be registered in India under the Indian Partnership Act, 1932.

**Features#3: Partnership**

<table>
<thead>
<tr>
<th>Features</th>
<th>Whether merit or limitation and how</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement</td>
<td><strong>Merit.</strong> The agreement makes possible co ownership of business by persons who do not share a common ancestry of a family.</td>
</tr>
</tbody>
</table>
| Two or more persons | **Merit.** Partnership allows raising of funds beyond the resources of an individual / sole proprietor. In fact, even a company, being an artificial persons can be admitted as a partner!  
**Limitation.** There is a cap on the maximum number of persons. It is 10 for a banking firm and 20 for other firms. The reasons for a cap on the maximum number of persons in partnership or for that matter any other non-corporate association is the difficulty in tracing the owners/ their heirs during such circumstances as insolvency of the firm. Let’s remember, partnership enjoins unlimited liability on the partners. |
| Profit sharing | **Merit.** For there is risk sharing too. However, whilst profit sharing is an essential feature of partnership, loss sharing is not. Certain partners may be admitted only in the profits of the firm e.g. minor partners. |
| Business object quite wide | **Merit.** A partnership cannot be formed for non-business purpose. However, the word business here includes every trade, occupation and profession. For example, many accounting/ auditing and legal firms are organised as partnership firms. |
**Mutual agency**  
**Merit.** Mutual agency – that is one for each other and for all ensures that all the partners work in the common interest and in the interest of the firm.  
**Limitation.** A partner’s misdeeds impact all the partners and the fate of the firm. For example, if a partner in an auditing firm becomes a party to a corporate scam, its impact may be disastrous for the firm.

**Unlimited liability**  
**Limitation.** It is a common limitation of proprietary forms of business organisations. In the event of insolvency i.e. Liabilities > Assets, the partners’ personal assets are invoked to make up the deficit. Owing to the mutual agency, the liability of all the partners is both joint and several.

**Fate as a going concern**  
(going concern=enduring life of business in the foreseeable future) is uncertain  
**Limitation.** Since partnership arises out of contract, it also ceases in the same way. A partner may serve a notice of severance to the firm and the partnership comes to an end. The remaining partners may agree to carry on the business of the firm; however, the severance cost and the loss of momentum makes partnership a vulnerable form of business organisation.

**Succession of ownership**  
**Limitation.** Ownership is not easily transferable. A new partner can be admitted only if other partners consent.

### 1.5.4 Limited Liability Partnership (LLP)

Drawing on its name, LLP form of business organisation is the one where the **liability of the partners is limited**. However, there is much more to this form. It has to be **mandatorily incorporated /registered** under the Limited Liability Partnership Act, 2009. The Ministry of Corporate Affairs, the apex body of regulation of company form of business organisation in India oversees the governance of the LLP too. For the purposes of compliance with the regulations thus imposed, the LLP Act provides for **designated partners**. Upon incorporation, LLP becomes a **separate legal entity** and has an identity (name and identification number) as well as life of its own much the same way as **perpetual succession** of a company. The features of mandatory incorporation and separate legal entity of the LLP makes it a **hybrid form** of business organisation i.e., containing the features of both the corporate form as well as proprietary form of business organisation. These two features do away with the twin limitations of the traditional partnership, viz., unlimited liability and uncertainty as a going concern (see Features #3).

#### Features #4: LLP- An Overview

<table>
<thead>
<tr>
<th>Features</th>
<th>Comparison with Traditional Partnership</th>
<th>Whether merit or limitation and how</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Limited liability. No personal liability of partner, except in case of fraud.</strong></td>
<td>Unlimited personal liability of each partner for dues of the partnership firm. Personal assets of each partner also liable.</td>
<td><strong>Merit.</strong> This does away with a major limitation of traditional partnership</td>
</tr>
<tr>
<td><strong>Incorporation is mandatory.</strong></td>
<td>Partnership is registered under partnership Act. Registration is not mandatory.</td>
<td><strong>Merit.</strong> The mandatory registration brings the firm under the regulatory purview of the Ministry of Corporate Affairs. This increases its credibility.</td>
</tr>
<tr>
<td><strong>It is a legal entity separate from its partners.</strong></td>
<td>Not a legal entity separate from its partners.</td>
<td><strong>Merit.</strong> This does away with the uncertainty of the firm's existence as a going concern.</td>
</tr>
</tbody>
</table>
1.22 BUSINESS AND COMMERCIAL KNOWLEDGE

<table>
<thead>
<tr>
<th>Minimum 2 and no limit on maximum number of partners.</th>
<th>Minimum 2 and maximum 20 partners</th>
<th>Merit. The upper limit in the traditional partnership restricted the scope of business and future expansion plans.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROC is the administrating authority.</td>
<td>The registrar of firms (of respective states) is the administering authority</td>
<td>Merit. There is a body to control that brings credibility in the eyes of stakeholders.</td>
</tr>
<tr>
<td>Statutory compliances</td>
<td>Not many</td>
<td>Limitation. Designated partners to ensure the compliances. However, in comparison with the companies, the compliances are fewer and simpler.</td>
</tr>
<tr>
<td>Every partner of LLP is only agent of firm</td>
<td>Every partner of firm is agent of firm and also of other partners</td>
<td>Merit. Absence of mutual agency enhances freedom at one hand; and, on the other hand, frees the other partners of the burden of responsibility of the acts of a partner</td>
</tr>
</tbody>
</table>

1.5.5 Company

Company form of business organisation is the flag bearer of corporate businesses. Company indeed is a body corporate, having an existence independent of all its members. It exists in the contemplation of law, has a distinct name, address (Registered Office) & identification number. The word company literally implies an association of two or more persons. However, as a legal artefact, there can be even a One Person Company (OPC). In fact, the OPC has been the most recently introduced form of business organisation in India vide The Companies Act, 2013. It is still in an emerging status. Yet it is being hailed as a likely catalyst in unleashing the entrepreneurial spirit in India. Recall that we posited sole proprietorship as the classical hallmark of entrepreneurship; OPC is likely to be its corporate form. In addition, the Companies Act 2013 also provides for the incorporation of a small company in acknowledgment of the role of small-scale enterprises in India. Interestingly, the Act also provides for the incorporation of a dormant company that may be created for a future project or to hold an asset or intellectual property and has no significant accounting transaction.

We shall, for the purposes of this chapter however restrict to the discussion of private and public companies only to highlight the features of corporate forms of business organisation. We are already aware of the ideas of independent legal existence, limited liability and separation of ownership from management. We have also seen how a corporate status instils credibility and trust among the business associates. Let us emphasise how the idea of a joint stock company led to mobilisation of a large amount of capital directly from the savers by issuing of shares (a share is a share/portion of the capital of a company) in smaller denomination. In the process, capital market is developed and the ownership of productive assets of an economy is democratised. Albeit, this remains an ideal to aspire, as in practice, the ownership of many public companies in India and other Asian countries is highly concentrated among a few hands/promoters.

In order to make the system of diffused ownership of the joint stock companies and their management work, an elaborate system of corporate functioning and the regulation of capital market has to be in place. The Companies Act, 2013 focuses on the former; and the Securities & Exchange Board of India Act, 1992 focuses on the latter. A company has to file a Memorandum of Association (MoA) and Article of Association (AoA) along with application for incorporation. The MoA, among other things, spells out the
objectives of the company and its business. The AoA focuses on its internal regulation. The company solicits capital contribution by issue of a prospectus. There are elaborate provisions in the Companies Act and the SEBI Act to ensure that the prospectus contains such true and correct information as may enable the public to form an informed judgment on whether or not to invest in a company. A common man can avail the services of investment advisors in this regard. Then there is a requirement of the statutory audit of the accounts of a company and publication of its quarterly results to keep the investors well informed. The SEBI also oversees the subsequent trading of the company shares and the contract of listing by which the shares of a company are put up for trading on a stock exchange. The listing agreement, among other things, also enjoins upon the companies to carry on business in an ethical, transparent and accountable manner.

Publicly traded / listed companies have to meet stringent criteria of both the Companies Act and the SEBI. This increases the cost of compliance. In contrast, private companies have lesser compliances to meet and have greater flexibility in their internal functioning. The law provides these privileges to the private companies because these are closely held and the owners have greater opportunity to exercise control over the management of these companies (Features # 4). There is little surprise that the Indian corporate sector is numerically dominated by private limited companies. In fact the world over there has been a distinct trend toward “privatisation” of such public limited companies in view of growing costs of compliance.

Features #5: Private Limited Company vis-à-vis Public Company

<table>
<thead>
<tr>
<th>Features of Private Company</th>
<th>Features of Public Company</th>
<th>Comparative Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum number of members: 02</td>
<td>07</td>
<td>Lower number of minimum members too eases of formation</td>
</tr>
<tr>
<td>Maximum number of members: 200</td>
<td>No limit</td>
<td>No upper limit on the members of public company puts on its disposal enormous funds.</td>
</tr>
<tr>
<td>There are restrictions on transfer of shares</td>
<td>The shares may be freely tradable on stock exchange via listing</td>
<td>Listing of the shares of a public company adds to their liquidity so that the investors may encash the shares whenever needed</td>
</tr>
<tr>
<td>Minimum number of directors: 02</td>
<td>03</td>
<td>Not of much consequence. Smaller board size adds to the internal efficiencies.</td>
</tr>
<tr>
<td>Private companies are exempted from constituting such committees of the Board of Directors as Audit Committee, CSR Committee, Stakeholder Committee and the Nomination and Remuneration Committee</td>
<td>These committees are to be mandatorily constituted</td>
<td>More liberal a governance regimen of private companies exists because common man’s money is not on stake in their share capital</td>
</tr>
</tbody>
</table>
It can start business upon incorporation

A public limited company is required to obtain Certificate of Commencement of Business in addition to the Certificate of Incorporation

Fewer formalities add to the attractiveness of private limited companies, more so corporatisation of proprietary concerns e.g. partnership firms. Albeit, now there is also an option for the partnership firms to convert to LLP

Before we close this chapter, let us remind ourselves that the foregoing discussion of the forms of business organisation just deals with their broad, distinct features. The finer details have been left for subsequent papers that you will be studying en route to attaining your CA qualification.

### SUMMARY

Business and Commercial Knowledge (BCK) is a vast, eclectic and an ever evolving and ever expanding universe of knowledge. Professionals like Chartered Accountants whose primary arena of work comprises businesses must enhance their awareness of and engagement with the philosophies, lexicon and grammar of BCK. It is foundational to grasping the core. Thus, it is unlikely that one can truly master accounting and taxation that in popular perception comprise the core of the chartered accountancy without adequate base in BCK.

In this chapter, we have situated business in the wider context of human engagements, more so in the context of a myriad of economic activities. We have seen that business, as an economic activity is distinguishable from employment and profession. It focuses on production not for self-consumption but for markets. It is characterised by investment intensity and employment generation potential. It spurs economic growth via entrepreneurial initiative and creativity. We have also described the meaning of business ownership and the various forms it may take- single or sole and joint; proprietary and corporate. We have seen how unincorporated enterprises, more so sole-proprietorship comprise the informal sector, individually non-descript but collectively an economic force to reckon with. The ownership of such enterprises is fraught with the fallouts of unlimited liability and their status as going concerns with fragility. We also saw how Hindu Undivided Family businesses comprise a distinct Indian form of business organisation. Although known by Hindu religion, this form of business organisation is also prevalent among Sikhs, Buddhists, Jains and Parsis. Finally, we focused on the growing corporatisation of the economic system. We studied as to how this form necessitated the development of a comprehensive system of incorporation, accounting, audit and accountability of the corporations toward the various stakeholders.

#### Observation Card- Illustration 1

<table>
<thead>
<tr>
<th>Item/s</th>
<th>Sofa, Tables, Chairs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group of Item / Industry</td>
<td>Furniture</td>
</tr>
<tr>
<td>Whether procured directly from the producer</td>
<td>Yes</td>
</tr>
</tbody>
</table>
The most likely source of procurement

Furniture Showroom

Chain upto the original producer

Furniture Workshop

Remarks if any

It is common that workshop and showroom comprise an integrated set-up even as these might be located at different places. However, there has been a marked change in consumer preferences for branded furniture and such sources as Pepperfry, Urbanladder, etc.

Observation Card – Illustration 2

<table>
<thead>
<tr>
<th>Item/s</th>
<th>Books</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group of Item / Industry</td>
<td>Publication Industry</td>
</tr>
<tr>
<td>Whether procured directly from the producer</td>
<td>No</td>
</tr>
<tr>
<td>The most likely source of procurement</td>
<td>Retail Book Store</td>
</tr>
<tr>
<td>Chain upto the original producer</td>
<td>Retailer-Wholeseller/ Distributor-Publisher</td>
</tr>
<tr>
<td>Remarks if any</td>
<td>Books are increasingly being purchased online. Moreover, e-books are also downloadable from publishing websites.</td>
</tr>
</tbody>
</table>

--- TEST YOUR KNOWLEDGE ---

Multiple Choice Questions

1. Consider the following table showing columns for the nature of economic occupation and the corresponding characterisation of income. And, then, choose the right solution option from the alternatives given below the table.

<table>
<thead>
<tr>
<th>Economic Occupation</th>
<th>Income Characterisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Employment</td>
<td>a. Profit</td>
</tr>
<tr>
<td>ii. Profession</td>
<td>b. Wages &amp; Salaries</td>
</tr>
<tr>
<td>iii. Business</td>
<td>c. Interest</td>
</tr>
<tr>
<td>iv. Land / Property Rental</td>
<td>d. Rent</td>
</tr>
<tr>
<td>v. Lending</td>
<td>e. Fees</td>
</tr>
</tbody>
</table>

(a) i-a; ii-b; iii-c; iv-d; v-e    (b) i-b;ii-c;ii-d; iv-e; v-a    
(c) i-b; ii-e; iii-a; iv-d; v-c    (d) i-c; ii-d; iii-e; iv-a; v-b
2. Which of the following statements distinguishes business from entrepreneurship?
   a. Entrepreneurs are the business owners too
   b. All business owners are entrepreneurs too
   c. Entrepreneurs seek out new opportunities and pursue innovative business ideas
   d. (a) and (b)

3. Which of the following statements does not comprise business activity?
   a. Sale of old furniture by a household for a profit
   b. A carpenter made furniture for its domestic use
   c. Steel furniture industry
   d. Domestic appliances industry

4. Which of the following is not an economic objective of the firm?
   a. Sales growth
   b. Improvement in market share
   c. Profits and return on investment
   d. Conservation of natural resources

5. Trading implies buying for the purposes of selling. Applying this criterion, tell which of the following activities would not qualify as trading?
   a. Purchase of goods in bulk quantity from the manufacturer and sale in smaller quantities to the retailers
   b. Buying from the wholesaler and selling it to the consumers
   c. Buying from the retailer for self-consumption
   d. Purchase of raw materials from the suppliers for further processing in the factory

6. Which of the following occupations requires rendering of services based upon specialised knowledge and membership of an accreditation and assessment body?
   a. Employment
   b. Profession
   c. Business
   d. Agriculture

7. The occupation in which people work for others and get remunerated in return is known as:
   a. Business
   b. Employment
   c. Profession
   d. None of these

8. Which of the following statements describes the best Joint Hindu / Hindu Undivided Family (HUF) Business?
   a. It is a form of business particular to and recognized as such in India
   b. Every family business is in fact a HUF Business
c. In HUF businesses, there is a family involvement in business
d. Either (a) or (c)

9. Sustainable development/businesses imply:
   a. Consistent economic performance
   b. Attention to social problems
   c. Harmony with nature
   d. All of the above

10. Which of the following statements characterises the best non-economic activities?
   a. Non-economic activities do not require any investment of resources
   b. These activities do not entail any operational costs
   c. These activities are undertaken by ascetics
   d. The underlying purpose of these activities is not earning of a livelihood but social, psychological or spiritual satisfaction

11. The Indian Companies Act provides for the registration of:
   a. Private Limited
   b. Public company
   c. One person company
   d. All of the above

Find the odd one out from the following from 12 to 14.

12. A partnership may be formed to carry on:
   a. Any trade
   b. Occupation
   c. Profession
   d. Social enterprise

13. There can be partnership between:
   a. Natural persons
   b. Artificial persons
   c. Partnership firms
   d. Any combination of natural and artificial persons

14. HUF can comprise members of a:
   a. Hindu & Sikh family
   b. Jain family
   c. Buddhist family
   d. Muslim family

State whether the following statements are “True” or “False”

15. A shareholder cannot be personally held liable for the acts of the company even if he holds virtually the entire share capital. True / False

16. The feature of limited liability for business’s owings is a principal advantage of the corporate form of organisation. True / False

17. The maximum number of members of a private company is limited to 50. True / False

18. A public company is exempted from constituting certain mandatory committees of the board of directors. True / False
19. A HUF is a body corporate. **True/False**

20. This is an In-basket enterprise. Put the serial numbers of the activities given below into the baskets labelled as economic and noneconomic activities.
   a. Cooking of food by the homemaker
   b. Dabbawalla picks up the food from home and delivers it to the office
   c. Playing of piano as a hobby
   d. Pianist in a band
   e. Music Composer
   f. Elder sibling assisting the younger one in studies
   g. Giving private tuitions
   h. Shopping
   i. Cycle repair shop
   j. Ice-cream vendor
   k. Exercising in the park
   l. Fitness training
   m. Volunteering in an old age home
   n. Employment in a charitable organisation
   o. Laundry shop

**Economic Activities**

- b, d, e, g, h, i, j, l, n, o

**Non-Economic Activities**

- a, c, f, k, m

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