

# CA Foundation – June 2023

Business & Commercial Knowledge (BCK)

## Last Minute Summary

By CA Mohnish Vora (MVSIR)

### BCK Chapter 1

Covered in just

**5 Pages**



## BCK Chapter 1 - BCK An Introduction

- ❖ **BCK** comprises of an array [range] of activities related to
  - **production** [manufacturing],
  - **distribution** [commerce] and
  - **exchange** [buying and selling]
  - of goods and services.
  
- ❖ **Domains / Features of BCK**- [Domain in simpler terms means "\_\_\_\_\_"]
  - **BCK is Vast** - BCK comprises a \_\_\_\_\_ of **business activities**. We can buy goods from local shop, or through mall, or from an online marketplace etc.
  - **BCK is Eclectic** [\_\_\_\_\_] - Marketing, Finance, Operations, Law etc. all together derive BCK. It **adapts** \_\_\_\_\_ of **other subjects** like-
    - ❑ **Military** - Strategy & Logistics [Inbound - Movement of inputs ; Outbound - Movement of output]
    - ❑ **Biology** - Bulls & Bear
  - **BCK is Ever Evolving and Expanding**- Day by day there is **emergence of new businesses** [expanding] and **newer ways of doing the businesses** [evolving] due to the help of technology. New terms introduced like- **24X7, B2B, B2C, BPO** etc.
  
- ❖ Various **concerns** related to business are- Survival, Profitability, Growth, **Sustainability** etc.
  
- ❖ **Stakeholders** are persons **who have an interest in a company**. Eg- Entrepreneurs, Customers, Investors, Shareholders, Employees, Suppliers, Society etc.  
 \_\_\_\_\_ **are not stakeholders**.
  
- ❖ **Type of Human Activities-**
  - **Economic Activity** - Carried out for \_\_\_\_\_ **motive** [earn a living], driven by \_\_\_\_\_ & done for \_\_\_\_\_.
  - **Non - Economic Activity** - Carried out **voluntarily** out of \_\_\_\_\_, driven by **emotional or sentimental reasons** or \_\_\_\_\_ [self-less concern] . Even non-economic activities **have an \_\_\_\_\_ dimension** e.g. time, money & resources are also required for them like for economic activities.
  
- ❖ **Distinguishing Characteristics of Economic Activities-**
  - **Economic activities are** \_\_\_\_\_ -
    - ❑ **Earned Income** - Income earned by **rendering personal time, physical [sweat] & psychic energy [intellect]**
    - ❑ **Property Income**- Income earned by \_\_\_\_\_ **one's property**
    - ❑ Income may be **earned in \_\_\_\_\_ too**
  - **Economic activities are** \_\_\_\_\_ - Through economic activities we **produce want satisfying goods & services** and earn income out of it.
  - **Even \_\_\_\_\_ is an economic activity** - **Production** represents the **supply side** & **consumption** represents the **demand side**. Production is organised in response to demand
  - **Savings, Investment and Wealth** - Because of economic activity → people earn income → unspent income is savings → financial sector - banks, stock markets, etc. are channels through which savings are mobilized. Entrepreneurs & govt. borrow these savings and invest in their business to buy capital goods [called as doing investment] thereby creating wealth for them in future.

- ❖ \_\_\_\_\_ is a economic activity concerned with **processing of raw materials & manufacture of goods in factories**. Industry may also mean as **group of companies in similar type of business**. Eg- telecom industry etc.
- ❖ Regular **agriculture** is considered as **business activity**. However, activities where **agriculture produce is processed in factories** are considered as **industry**. [agro-based industries]
- ❖ Market oriented production represents supply side of economics. The **shift** from **subsistence driven production toward market driven production** as \_\_\_\_\_ of production or production on a \_\_\_\_\_.
- ❖ Business is **one's usual occupation** of creating, owning & actively operating an organisation. **Infrequent, isolated transactions** even if might result in profit or loss, **cannot** be called business.

Basis of Distinction	Business	Profession	Employment
Meaning	Entire spectrum of market oriented activities coming under <b>industry, trade and commerce</b>	Independent <b>rendering of services of specialized nature</b> based on <b>prescribed qualifications</b> as per a <b>professional body</b> that also prescribes a <b>code of conduct</b> .	Rendering of services under a <b>contract of employment</b> for wages / salaries. Also, called wage-employment.
Mode of establishment	Entrepreneur's decision and other legal formalities, if Necessary	Membership of a professional body and certificate of practice	Letter of Appointment or service agreement
Source of livelihood			
Prescribed Qualification		Strictly prescribed	Minimum qualifications for each type of job
Ethical guidance	Founder's values	Professional codes	Employer's codes
Investment	Substantial requirement	Some requirement e.g. Office/ Chamber /Clinic	None
Personal autonomy	The most- you are your own boss	Quite a bit	Not much
Motive	Economic Achievement	Service to the clients/ Society	Livelihood
Certainty of income		Quite a bit	The most. Contractually determined.
Stability of tenure		Quite certain	Quite certain
Succession	Possible	Not possible	Not possible

- ❖ Statement that **distinguishes businessman from entrepreneurs**  
**"Entrepreneurs** seek out **new opportunities** and pursue **innovative business ideas**"
- ❖ **Characteristics of Business**
  - 1) **Job \_\_\_\_\_, not job seeker** – Business creates job opportunities for others
  - 2) **Provides momentum to economic growth** –
    - **Economic \_\_\_\_\_** is persistent **increase in a country's Gross Domestic Product** [GDP].
    - **Economic \_\_\_\_\_** implies **diversification of an economy's capabilities & improvement in the quality of lives** of its people.
  - 3) **Investment \_\_\_\_\_** – Relatively **huge amount of funds** are required to start a business.
  - 4) **Gestation and uncertainties** – Investment in business **takes time to fructify**. And it is uncertain whether it will yield the returns as expected. Risk can be calculated in advance, uncertainty cannot.
  - 5) Business is a **systematic, organized & efficiency oriented** activity
  - 6) **Objective oriented / purposeful** – Sustainable development of business can happen only when it simultaneously pursues – **profitability, people well-being and planet sustainability**.
- ❖ **Business & society are \_\_\_\_\_-dependent** – Business gets factors of production from society and is dependent on it for sale of its goods.

❖ The **performance of business** in private sector is measured by \_\_\_\_\_

❖ **Objectives of Business**

Economic Objectives	Organic Objectives	Social Responsibility	Legal, Ethical & Environmental Objectives
Sales, Profit, Returns, Efficiency, Economic Value Added [EVA] etc	Survival, Growth, Health [Age of assets, fitness of human resource] etc	Community service, donation, charity, heritage conservation	Respect for law in letter & spirit, Transparency, Honesty, Integrity, Green Technology, Waste handling, preservation of air water & soil etc.

For notes of other topics refer **Super Chart Book & MCQ Compiler book** of CA Mohnish Vora (MVSIR). To be purchased separately online.

**Forms of Business Organisations**

I. **Sole Proprietorship**

- ❖ A business organization which is **started & owned by a single person** using his own funds [personal savings]. It is **easiest and the earliest form** of business
- ❖ Aka. **One-Person Band, Economic Hero, Autonomous individual** [one's own boss]

Merits	Limitation [Demerits]
<ul style="list-style-type: none"> <li>➤ Autonomy [One's own boss]</li> <li>➤ Visibility of owners &amp; personalized services</li> <li>➤ Succession of ownership - possible</li> </ul>	<ul style="list-style-type: none"> <li>➤ Sole provider of capital [limits growth]</li> <li>➤ Sole bearer of risk</li> <li>➤ Unlimited Liability [If liability more than assets, then owner's personal asset can be invoked]</li> <li>➤ Fate as a going concern [dependent on personal life &amp; health of sole owner]</li> </ul>

**II. Hindu Undivided Family [HUF]**

- ❖ HUF is **formed automatically** by **members of common** \_\_\_\_\_ [family] including their wives and daughters.
- ❖ Members of HUF → \_\_\_\_\_. **Senior most male/female** member – \_\_\_\_\_ of HUF.
- ❖ A HUF enjoys a **separate entity** status under \_\_\_\_\_ Act.
- ❖ But HUF **cannot earn income from** \_\_\_\_\_
- ❖ Grandfather, Father and Grandchildren → \_\_\_\_\_ **successive generations** of an undivided family is HUF.
- ❖ The word Hindu includes Buddhist, Jain, Parsi and Sikh families as well. [does \_\_\_\_\_ **include Muslims**]
- ❖ Relevant law → \_\_\_\_\_.

Merits	Limitation [Demerits]
<ul style="list-style-type: none"> <li>➤ Formed by birth in a Hindu [Buddhist, Jain and Sikh] family</li> <li>➤ Family pool of resources [more people to contribute to capital]</li> <li>➤ Social capital family involvement [instant trust among family members]</li> <li>➤ Decision making is quick</li> <li>➤ Succession of ownership [only to family member]</li> </ul>	<ul style="list-style-type: none"> <li>➤ Family members are automatic co-owners by birth [frustrating for outsiders- hired managers]</li> <li>➤ Unlimited liability of the Karta only</li> <li>➤ Fate as a going concern [Do not last beyond 3<sup>rd</sup> generation]</li> </ul>

**III. Partnership**

- ❖ It is an association **between** \_\_\_\_\_ → **Natural persons** [humans] or **Artificial persons** [Co. ,LLP etc.]
  - \_\_\_\_\_ **not considered as "person"** → Thus, **2 or more firms cannot form a new partnership firm.**
- ❖ Started through an **agreement** [Partnership Deed – **oral or written**] to share all profits & losses
- ❖ Organised to carry on \_\_\_\_\_ [cannot be formed for non-business purpose]
- ❖ \_\_\_\_\_ **be registered** [not mandatory] with **Registrar of Firms [ROF]** under **Indian Partnership Act, 1932.**

**IV. Limited Liability Partnership [LLP]**

- ❖ Two major limitations of Partnership are-
  - Unlimited liability of partners, & } In order to resolve these, the concept of
  - Fate as a going concern. } LLP was introduced as per LLP Act 2008.
- ❖ LLP is a \_\_\_\_\_ **form** or organisation having some **features of both** → \_\_\_\_\_ & \_\_\_\_\_
- ❖ **Incorporation** of LLP is \_\_\_\_\_ → **Registrar of** \_\_\_\_\_ [RO\_] working under **MCA**. Upon incorporation, LLP is considered as a \_\_\_\_\_ **legal entity**

For notes of other topics refer **Super Chart Book & MCQ Compiler book** of CA Mohnish Vora (MVSIR). To be purchased separately online.

Basis	Traditional Partnership Firm		LLP
Maximum no. of partners	<u>New Limit</u> Any business →	<u>Old Limit</u> Banking firm → 10 Other firm → 20	Unlimited partners allowed [No limit]
Liability of partners	Unlimited liability [demerit]		Limited liability
Fate as a going concern	If one partner leaves or dies, partnership deed will no longer be valid [demerit]		If one partner leaves or dies, LLP will not be affected [separate legal entity]
Statutory compliances	Not many compliances		Many laws to be followed [Demerit]
Mutual Agency	Exists → Every partner is agent of firm & other partners also		Does not exist → Every partner is agent of firm itself

V. Company

- ❖ Company is a **body corporate** having-
  - **separate legal existence** from its members
  - **Distinct identification number** [CIN]
  - **Distinct Name**
  - **Registered office**
- ❖ **All type of companies** in India are **incorporated as per** the **Companies Act, 2013**.
  - **Public co.** → Equity shares are \_\_\_\_\_ on stock market
  - **Private co.** [closely-held co.] → Equity shares are **NOT listed** on stock market
  - **Small co.**
  - **One Person Co. [OPC]** → **Sole Proprietor + Company** → \_\_\_\_\_ introduced concept in Co. Act 2013
  - **Dormant Co.** → created for \_\_\_\_\_ projects or for **holding an asset or intellectual property**, it has \_\_\_ significant accounting transactions.
  - **Defunct Co.** → has no asset & no liability → **failed to commence business within 1 year** of incorporation
- ❖ While incorporation with ROC, a company must file 2 documents-
  - **Memorandum of Association [MOA]** → **Objectives** of company and has **6 clauses**.
  - **Articles of Association [AOA]** → Contains company's **internal rules & regulation**

Basis	Private Company	Public Company
Control over mgt.	Owners have greater control	Owners have less control
Transfer of shares	Restrictions on transfer of shares	Shares are freely tradable on stock exchange via listing
No. of Members	Min:_____ ; Max:_____	Min:_____ ; Max:_____
Minimum no. of directors	_____	_____
Cost of compliance	Less	More [Thus, in recent news there is trend of privatization → converting public co. to private co. → to save cost of compliance]
Forming of committees	Exempted [Not required]	Some public cos. are required to form committees like- Audit Committee, Stakeholder Relationship Committee etc.
When can the co. start business ?	After obtaining Certificate of Incorporation [COI]	COI & Certificate of Commencement of Business both are required.