

BCK - Chapter - 1

①

Introduction to BCK

SUPER SUMMARY NOTES.

- What all depends on Business/Commerce

Earnings

- as an employee
- as a freelancer
- as an Entrepreneur

Spending

- Purchasing goods/availing services from a BUSINESS ORGANISATION.

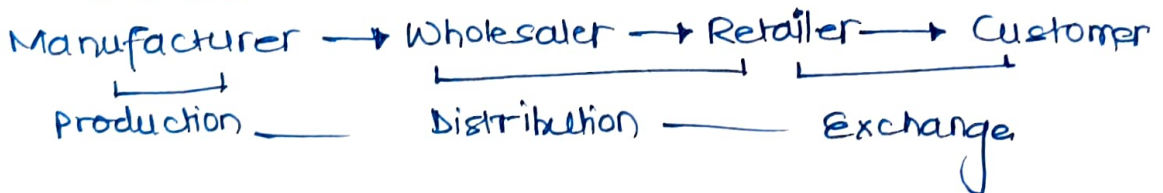
- Business/Commerce

→ ARRAY

of all the activities which includes

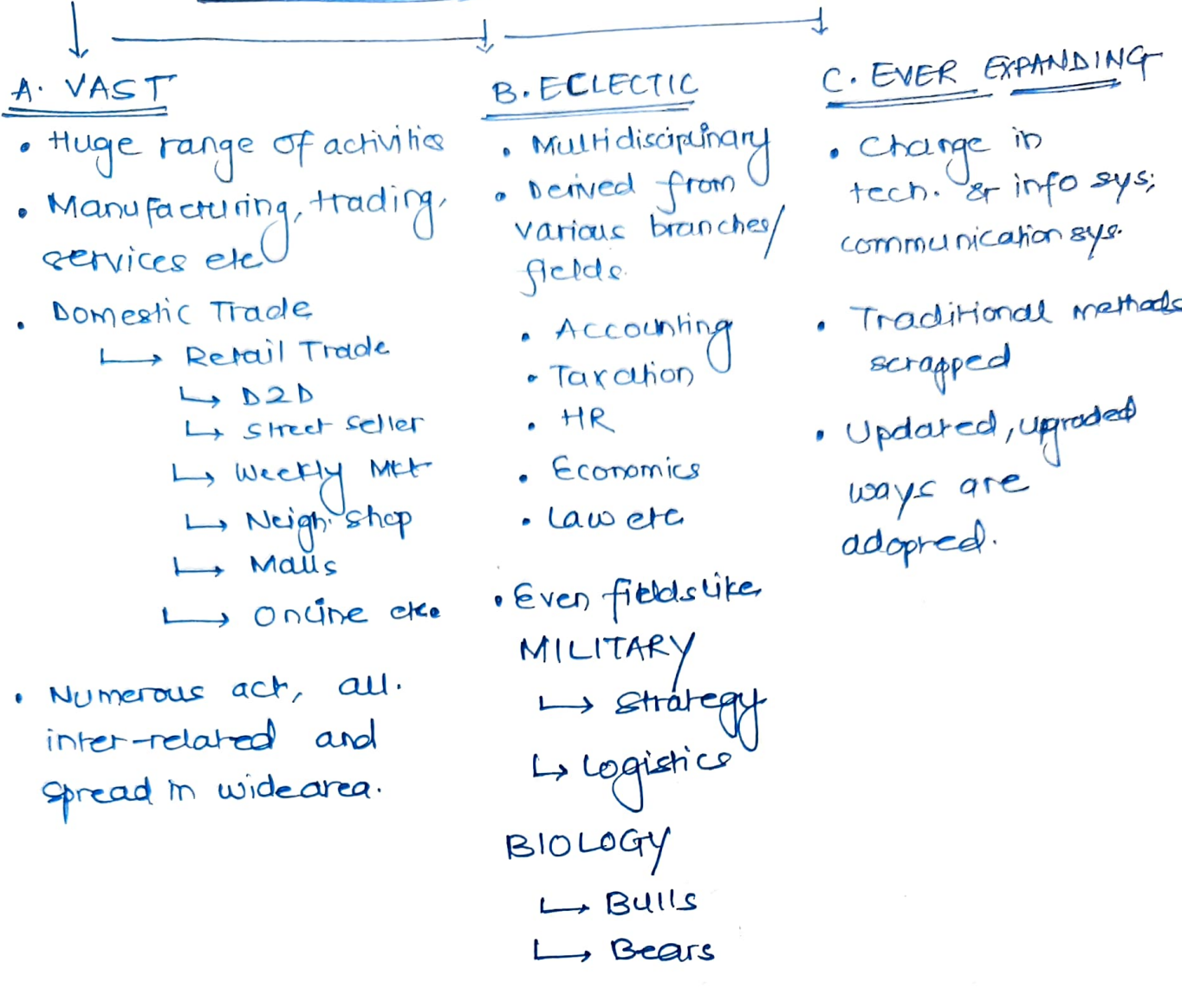
- Production [P]
- Distribution [D]
- Exchange [E]

(Distribution Chain)



- Domains of BCK → scope/Area/Coverage
'sphere of knowledge'
(See the table on Pg 1.3)

• BCK - Characteristics



• Importance of BCK - CA

- CA → Audit, → Give truth (true) and fair view about business org.
- Ensure fair accounting and reporting is done
- Society's resources are not wasted
- ↓
- Detailed knowledge of business
- Understand nuances of business e.g. Cost, Revenue, Business Model, Inventory etc.

• Enhance BCR → Self Assurance
(Observations)

→ Even a sci. background student can enhance it by making use of technology

→ Experience

→ Questioning mind

• SIX HONEST SERVANTS

→ WHAT, WHY, HOW, WHEN, WHERE, WHO

(Analogy — Rudyard Kipling)

→ Practice

• Sources to enhance BCR → Newspaper

→ Magazines

→ TV Channels

ECONOMIC v/s NON-ECONOMIC ACTIVITIES

Human Activities

Economic Acts

- To earn livelihood
- Rationality: what do I get in return
- self interest

Non-Economic Acts

- Other than to earn livelihood
- variety of motives
- Hobby, love, care, affection, passion, welfare, sentimental, emotional, altruism

* Non-economic activities have an economic dimension

Characteristics of Economic Activities.

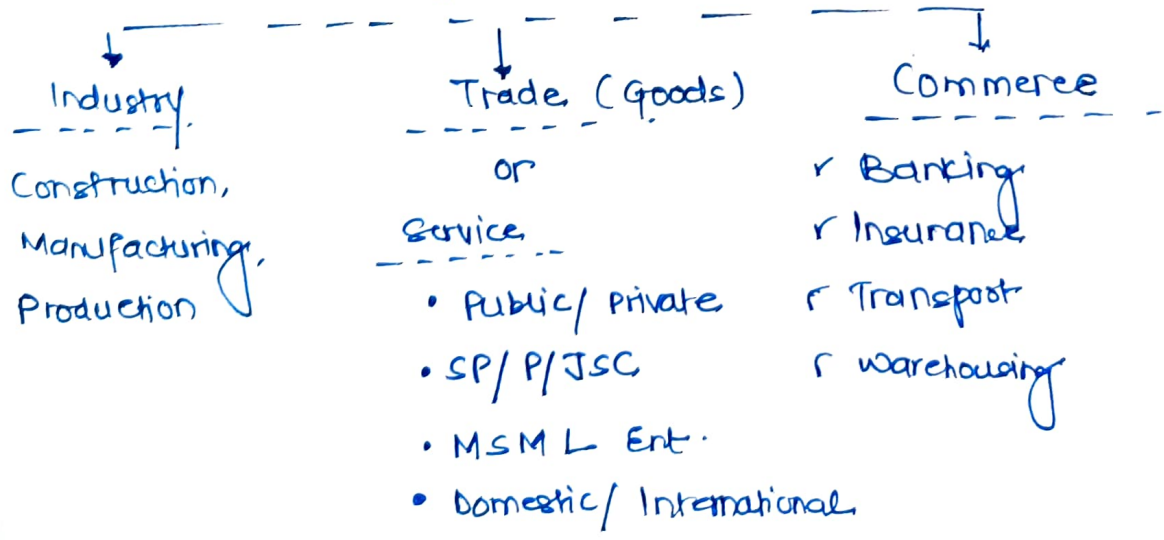
- Income - Generating
- Productive → supply side of Economic
- Consumption → Demand side of Economic
 - As spending is an economic activity, so consumption is also an economic activity
 - ∴ Demand ↑ → Production ↑
 - Demand = signal/vote in favour of a producer

Is Business → Economic Activity : YES

But, Subsistence Driven Production ≠ Business
 ↓
 Market Oriented Production = Supply side = Business
 ↓

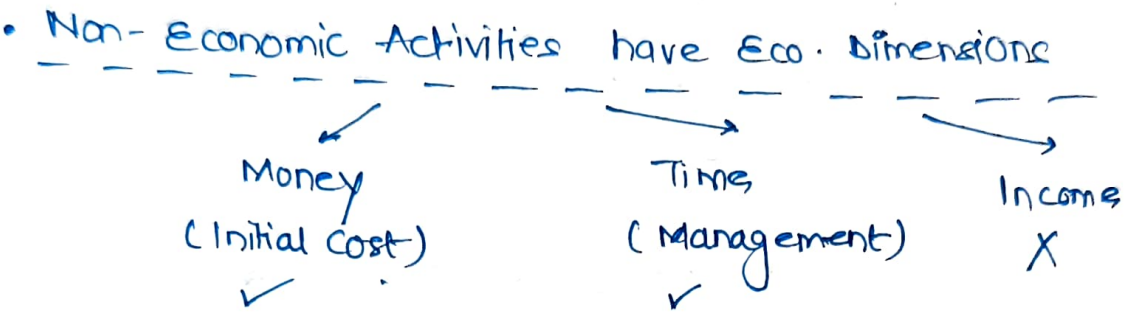
• Production/ Manufacturing + Commercialisation = BUSINESS

• Business classified as...



- Agriculture $\xrightarrow[\text{not}]{\text{is}}$ Business
 - ↳ Self - Consumption (Subsistence)
 - ↳ IT Act Exempt
 - ↳ Not an Industry

But, if agri produces are processed
 ↓
 food processing units = BUSINESS



• STRONGEST DISTINGUISHING DETERMINANT = MOTIVE/INTENT

<u>POC</u>	<u>BUSINESS</u>	<u>PROFESSION</u>	<u>EMPLOYMENT</u>
• Commitment	Decision	Degree Completion	Join a service/duty by getting into a contract
• Qualification	NO	YES	Depends on type of job.
• Investment	YES	Limited	NO
• Remuneration	Profit	Professional fees	wages/salary
• Ethics	founder's value	Codes of Conduct by Association	Employer's COC
• Personal Autonomy	YES	Limited	NO
• Certainty of income	Least	Limited/ Quite a bit	The most
• stability	Least	Quite a bit	Almost stable
• Transfer of Int/ succession	Possible	Not possible	Not possible
• Psychological Motive	Eco. Achievement	Service to society/client	Livelihood

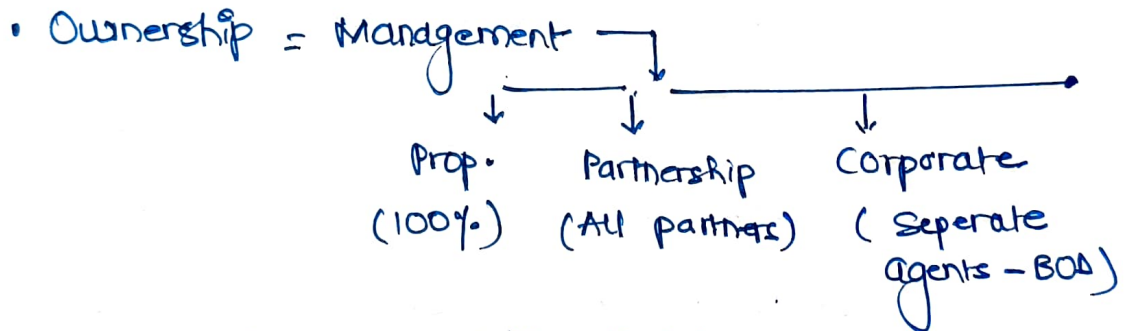
FORMS OF BUSINESS ORGANISATIONS.

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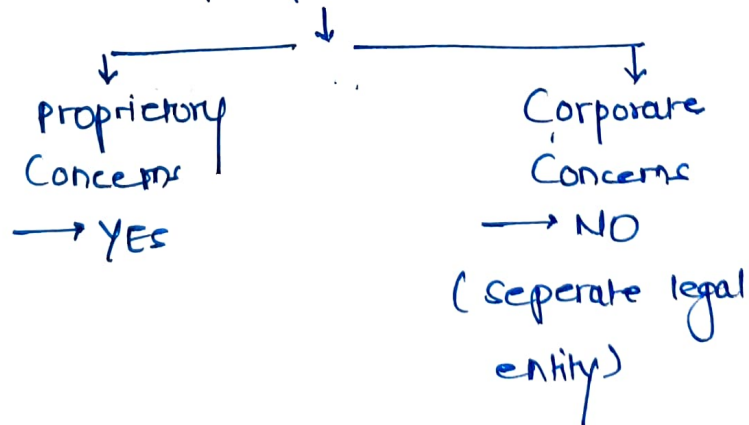
- Basis of Activity → Industry / Trade / Service - Commerce
- Basis of Scale / Size → Micro / Small / Medium / Large
- Type of ownership → Sole Proprietorship, HUF, Partnership, LLP, Corporate (JSC)

Important Aspects to consider about Business ownership

- Since a person has invested capital he has various rights (manage, transfer, donate, Death - will registered)
- Shared ownership (Capital pooled)
 - Risk & Profit both shared
- Liability extends to Businessman's personal assets



- Life of Business = Life of owners



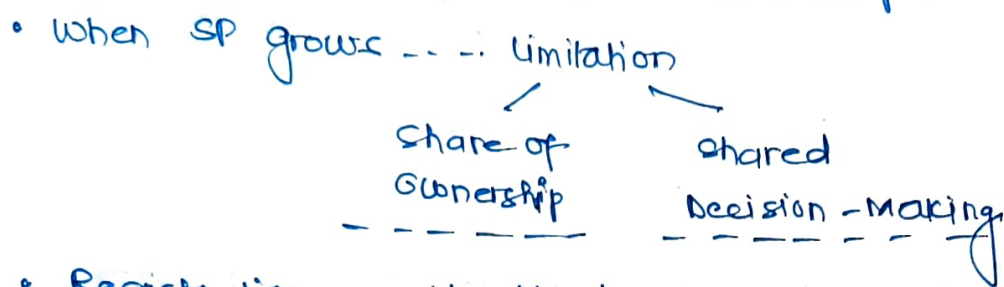
SOLE PROPRIETORSHIP

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- All risks, all returns → single handedly
- Easiest
- Earliest
- Regarded → Economic Hero

↓
Autonomous = Organize Production, Creativity, Innovation, Risk Bearer

- One-person Band
- Autonomous → Self Driven → (Ownership + Decision)



- Registration — Not Mandatory
- "Unorganised / Informal sector" of Economy
- Big Contribution to GDP, Employment, Exports
- Indirectly contributes to large Enterprises.

PAST

- ✓ System is POOR → Local products
- Bad Working cond.
- Personal Cap. / Savings
- Personal Assets → Unlimited Assets
- No welfare measures of people or environment

IMPROVEMENT

- Financial system support (Micro finance)
- Business facilitators (SIBBI)
- Startups — HOT TRENDING TOPIC
- Quickly attain commercial scale

MERITS

- Autonomy
- Creativity (Innovation)
- Personal Rapport/ Touch (visibility to customers)

DEMERITS

- size scaling up
- Riskiness - Unlimited liability
↓
• Personal Assets @ Risk
- Business' life = life of Owner
(Succession by Reg. death will)
or by
LAW OF INHERITANCE
(Hindu Succession Act, 1956)

HINDU UNDIVIDED FAMILY (JOINT HINDU)

- Group: Family Only
- Common Ancestry
- Automated formation, By default
- Income Tax Act = Separate Entity status (if registered)
- wives, Daughters --- Allowed
- HUF can earn → cannot earn
 - Capital Gain
 - IFOs
 - PGDP
 - House Property
 → salary
(family members can earn and transfer)

- Three successive generations
 - Marriage (FG)
 - Children (SG)
 - Children's Marriage & offsprings (TGP)
- HUF = Hindu, Buddhist, Jain, Parsi, Sikh
MUSLIM X → Partnership Ag.
- Law = HINDU SUCCESSION Act, 1956

MERITS

- Naturally members
- family capital pool
- No trust issues
- Automatic CO-OWNERS (Imp: CO-PARCENERS)
- Quick decisions by Head (Karta)

DEMERITS

- Difficult for outside managers
- Karta's unlimited liab
- Other members = liab upto shares

• GOING CONCERN ALWAYS? - family splits
Else continues

- Succession in HUF → same like 'sp'
 - BY WILL OR
 - BY LAW

PARTNERSHIP

- Mutual Agency → Agent of others
- Co-ownership like HUF → By Contract
Not Natural
- Agrees to share Profit/Loss
- Active Partners do work (on behalf of all)
- DEED ⇒ Most imp document
 - Essence of partnership
 - Verbal / written
 - Mentions: Contribution of PSR
Capital,
- DEED REG = Indian Partnership Act, 1932

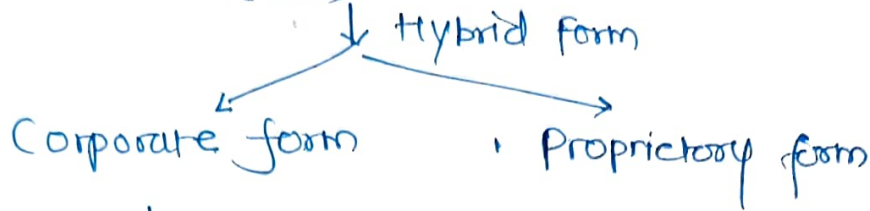
MERITS

- Common Ancestry not needed.
- Funds beyond personal
 - Company also can become a partner
- Loss need not be always Shared (unlike profit)
- Mutual Agency Principle
"one for each other and for all"

DEMERITS

- Unlimited liability (Joint and Several)
- Partner's Limit: 100
(Earlier 10 & 20)
- Only business purpose
- One partner's misdeed impacts the repo. of firm
- Arises out of contract and ceases similarly --- Continuing partners may face problems
- Ownership Transfer / Admission
→ Not Easy

LIMITED LIABILITY PARTNERSHIP (LLP)



- Going Concern ✓
- Limited liability (NOT in fraud cases) ✓
- Perpetual succession ✓

- Mandatory Registration = LLP Act, 2008
- Governing Body = MCA
- Partners called → Designated Partners

MERITS

- No more unlimited personal liability
- More credibility because of registration
- Partner's death no more poses any uncertainty
- No partners limit
- MCA Authority
- No more agent of other partners (less burden)

DEMERITS

- Too many compliances for designated partners

COMPANY / CORPORATE / JOINT STOCK CO. (13)

- Separate Legal Entity
- Own name, address, identity, property purchase, law suit.
- OPC \neq sole Proprietorship
 - ✓ OPC can run co. limited by shares.
 - ✓ OPC is different from its proprietor
- Small co: Small-scale Enterprise
- Dormant co: No transaction, future Proj/Hold a prop.
- Public Money $\xrightarrow{\text{Mobilise}}$ Joint stock co.
 - $\xleftarrow{\text{Shares issued, profits given, share price rises}}$

CAPITAL MARKET ↑

- Regulation / Law \Rightarrow SEBI
Co. Act, 2013

- Document mandatory
 - \rightarrow MOA: Base Document, obj
 - \rightarrow AOA: Regulation, Internal
 - \rightarrow PROSPECTUS: Invitation to subscribe to shares (TROE)
 - \rightarrow QUARTERLY RESULTS: TO inform investors
 - \rightarrow STATUTORY AUDIT: By CA
 - \rightarrow LISTING: Shares on stock Exchange (Listing agreement)

* More strict rules on PUBLICLY TRADED COMPANIES
 \uparrow COST OF COMPLIANCE ... Transform PVT. CO.

Categorisation of Companies

PVT. LTD.

- Shares not transferrable
- Common man may not get involved
- Not much strict compliances
- Not many committees:
- 2 Directors only needed
- Members (2 - 200)
- Start Business Immediately (COI)

PUBLIC

- Listed and traded on stock exchange
- Public Money
- Compliances: ✓
- Many
 - Audit Comm.
 - BOD
 - CSR Comm.
 - Nomination and Remuneration Comm.
 - SH Comm.
- 3 Directors atleast
- Members (7 - Unlimited)
- Many Certificates (COI + Cert. of Business Commencement)

• Various Objectives:

- ✓ Economic Obj → sales, Profit, Revenue, ↑ Market share
- ✓ Organic Obj → Survival, Fitness of HR, Diversification.
- ✓ Legal, Ethical, Env. Obj → Follow the 'LOL' (Law of Land), Take care of natural resources, Be truthful, honest.
- ✓ SOCIAL OBJ → Giving back to the society (CSR)

- Business gives rise to Employment opp.
- Business → ↑ GDP, ↑ Eq
- Investment in business is directly proportional to scale of business

• GESTATION PERIOD

Time needed to get returns from business, profession

- Business should lead towards

