

Business & Commercial Knowledge – An Introduction

**By C.A , ISA , M.A(Eco) , B.com
Mrugesh Madlani**

Business & Commerce

- It is comprising as an array of activities for production , distribution & exchange of goods & services

BCK Domains – An overview

- Activities
 - Scale
 - Geographic Scope
 - Markets
- Manufacturing ,
Trading , Commerce
 - Micro , Small , Medium
& Large Enterprises
 - Local , National ,
Multinational
 - Natural resources ,
Equipments ,
Commodities , Capital ,
Labour , product
markets

- Stakeholders
 - Entrepreneurs, Promoters , Customers , Investors , owners , Directors , Shareholders etc
- Functions
 - Production , Operations, Marketing ,Finance
- Focus
 - Company wide , particular business line , particular function

- Concerns
 - Survival , Profitability , Growth , Sustainability , Social responsibilities , Governance , Value & Ethics
- Mode
 - Traditional , Physical/ Brick & Mortar , Digital/ online
- Underlying Disciplines
 - Economics , Laws , Philosophy , Psychology , Sociology

Domains of BCK

- **BCK is vast** (Local store , malls , online website)
- **BCK is eclectic** (multi-disciplinary) – it derives from various fields like production , finance , marketing etc
- **BCK is ever evolving & expanding** - Business is changing very fast , and way of doing business has changed . Eg – OLA , Uber , BMS , Online Trading , Banks

BCK Vocabulary - Important Terms

- Strategy
- Logistics
- Bulls
- Bears

Importance of BCK for CA

- CA shall be able to conduct audit diligently only when they understand the nuances of business whose accounts they prepare or audit

Human Activities – Economic & Non-Economic

- All that we do to earn a living are economic activities & rest are non-economic
- Economic activities are driven by rationality , what do I get in return , non-economic are driven by sentimental or emotional or altruism
- Non-economic activities also have economic dimension , i.e time , money & resources are needed to make it happen , both initial investment and expenses for day to day operation & management

Characteristics of Economic Activities

- **Income Generating** – There are 2 types of income earned and property income . Everyone gets something for factors of production . Land – rental , Labour – wages , Capital – Interest , Entrepreneurship – Profit
- **Productive** – Men can't create anything , but they can transform matter to create goods & services for satisfaction of others need
- **Consumption is also economic activity** – Only if there is demand there is production , without demand there is no production
- **Savings , Investment & Wealth** – Unspent income is savings and is in banks , mutual funds , stock market and corporate sector and government borrow these savings for creating infrastructure and other productive things

Business as an Economic activity

- Production for self-consumption/ Subsistence Production is not business , it should be commercial production on large scale
- Business is production , distribution & trading of good & services
- Is Agriculture business ? If for self production – no , Under I.T Act – Income is exempt , but yes if for others it is business , but things produced from Agriculture that is Edible oil , mustard , coconut , soybean represents agro based Industries
- Business is **usual occupation** of creating , owning & operating an economic organization .
- **Usual occupation** means done regularly , if done infrequent it is not business, thou in profit or loss . Eg – Sale of Furniture is not business thou it is economic activity

BUSINESS	PROFESSION	EMPLOYMENT
<p>Meaning Entire spectrum of market oriented activities containing industry , trade & commerce</p>	<p>Independent rendering of services of specialized nature based on qualification under professional body that contains code of conduct</p>	<p>Rendering of services under contract of employment for salaries / wages</p>
<p>Mode of Establishment Your will & other legal formalities</p>	<p>Membership & Certificate of practice</p>	<p>Letter of Appointment & service agreement</p>
<p>Source of Livelihood Profit</p>	<p>Professional Fees</p>	<p>Wages & Salaries</p>
<p>Prescribed Qualification None</p>	<p>Strictly Prescribed</p>	<p>Min. required for that kind of job</p>

Business	Profession	Employment
Ethical Guidance Founders values	Professional codes	Employers codes
Investment Major Invt	Some investment .Eg – office/ chamber	None
Personal Freedom You are your own boss	Quite a bit	Not much
Certainty of Income Least	Quite a bit	Most

Business - Characteristics

- Job Creator , not seeker
- Provides momentum to economic growth
- Investment Intensive
- Gestation & uncertainties
- Systematic , organized , efficiency oriented
- Objective oriented / Purposeful

- Economic Growth is Increase in GDP
- What is GDP ?
- Value of Goods & Services Produced in a year
- **Difference between Economic Growth & Development ?**
- Economic Growth is merely increase in GDP , Economic Development is improvement in the quality of life of people
- **Difference between Business Person & Entrepreneur**
- Entrepreneurs are better characterised by problem solving , new opportunity , and doing things that are creative and innovative

Objectives of Business (SOLE)

Economic	Organic	Social	Legal , Ethical , & Environmental
Sales , Profit , Return on investment , efficiency , economic value added (profits in excess of cost of capital)	Survial , health ,(age of assets , fitness of human resources , general & capital reserves) growth , diversification of capabilities	Community service , education , health , sanitation , heritage , conservation , community support during calamities and disaster	Respect for law in letter and spirit , fair practices , transparency , truthfulness , honesty . Green usage & disposal , lower emissions , effective waste handling and disposal , preservation of air , water

Considerations in Business

1. Interdependence. Business draws its factor of production from society and is dep on sale of goods and services
2. Multiple Stakeholders
3. Amout of profit is not important , important thing is staying in business
4. Primacy of customer – there should be value to customer , even for Private Sector Customer Satisfaction is more important than Profits
5. Performance – Greater the performance , more the profits

Points to be kept in mind about Business Ownership

- Business ownership is a bundle of rights – Person has invested , so full profits are his rights , he can transfer ownership by succession after death and divide ownership in business by registered will
- Owned Single or Jointly
- Business may be proprietary or corporate concern

Forms of Business Organization

- Sole Proprietorship
- Hindu Undivided Family
- Partnership Firms
- Limited Liability Partnership
- Company

Sole Proprietorship

- Easiest and earliest form of business
- Economic hero of the organization
- One person band
- Enjoy people trust and provide personalised services
- Unorganised sector of economy (75%)
- They are called local , working conditions are poor , hire & fire policy , lack of employee welfare , Fate is linked to well being of owner

Features of Sole Proprietorship

- Autonomy of being one's own boss
- Sole provider of Capital
- Visibility of owner & personalized services
- Sole bearer of risks
- Unlimited Liability
- Fate as a going Concern
- Succession of ownership

- They can transfer their share by will . If will is not there , applicable law of inheritance will come into force . Eg – Hindu Succession Act , 1956

Hindu Undivided Family

- In this group of family members come together and form a business
- It enjoys separate status under IT Act
- They are business , so cannot earn income from salary
- There are 3 generations in HUF , i.e Grandfather , father and Grandchildren , these are known as HUF
- It includes hindu(buddhist ,jain , hindu , parsi and sikh families)

- The main member who manages the business is KARTA , his liability is unlimited and all other co-parceners liability is limited to their share in the business
- Any person who is born in family automatically will get it's share in HUF
- Share can be transferred by will or if there is no will HINDU Succession Act , 1956 will apply

Partnership

- It implies contractual co-ownership of business between 2 or more persons who agree to share profits of business .
- It is enforceable by law called partnership deed which may be verbal or written .
- A Partnership cannot be formed for non-business purpose . Business means every trade , occupation or profession
- Deed is registered under Indian Partnership Act , 1932

- Even company can be admitted as partner ,
i.e Artificial person. Number of max partners

Banking – 10

Other Business – 20

Because in case of insolvency ,it is difficult to
trace partners

- Ownership cannot be transferred , a new
partner can be admitted , only with consent

Limited Liability Partnership (LLP)

- It has to be incorporated under LLP Act, 2008. The MCA is the apex body for governance of LLP in India
- After registration it is a separate legal entity and has a name of its own different from that of its partners like a company
- It contains both corporate form as well as proprietary form of business organization. In this there is limited liability, except if there is fraud by partners and business will continue despite the death of partners
- It has to be registered with ROC. There is no cap on maximum number of partners

Company

- There is also new thing that is One Person Company .
- Company is registered under companies act 2013 , and it governs functioning of company and regulation of capital markets is governed by SEBI
- Company has to file AoA & MoA along with application of incorporation. MoA spells out objectives of company and AoA spells out internal regulation

- Company has to do statutory audit and publish its quarterly results for the shareholders

Features	Private Company	Public Company
Members minimum	2	7
Maximum Members	200	No limit
Transfer of shares	Restrictions are there	No restriction
Minimum Directors	2	3
Committee such as CSR , Audit Committee , BOD , Nomination , Remuneration	No	Yes all laws are strict because there is public interest





