COMMERCE

GRADE XI – Mumbai Board

A.Y. 2020-21

ORGANISATION OF COMMERCE AND MANAGEMENT

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Introduction of Commerce and Business

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Important points to learn:

1) Introduction to Non-Economic and Economic Activities
2) Business Objectives
3) Role of Profit in Business
4) Classification of Business Activities
5) Distinguish – Industry & Commerce
6) Distinguish – Business & Commerce
7) Distinguish – Business, Profession & Employment

Introduction – Non-Economic & Economic Activities

All human beings keep doing many activities throughout their life. These activities can be classified as economic and non-economic activities.

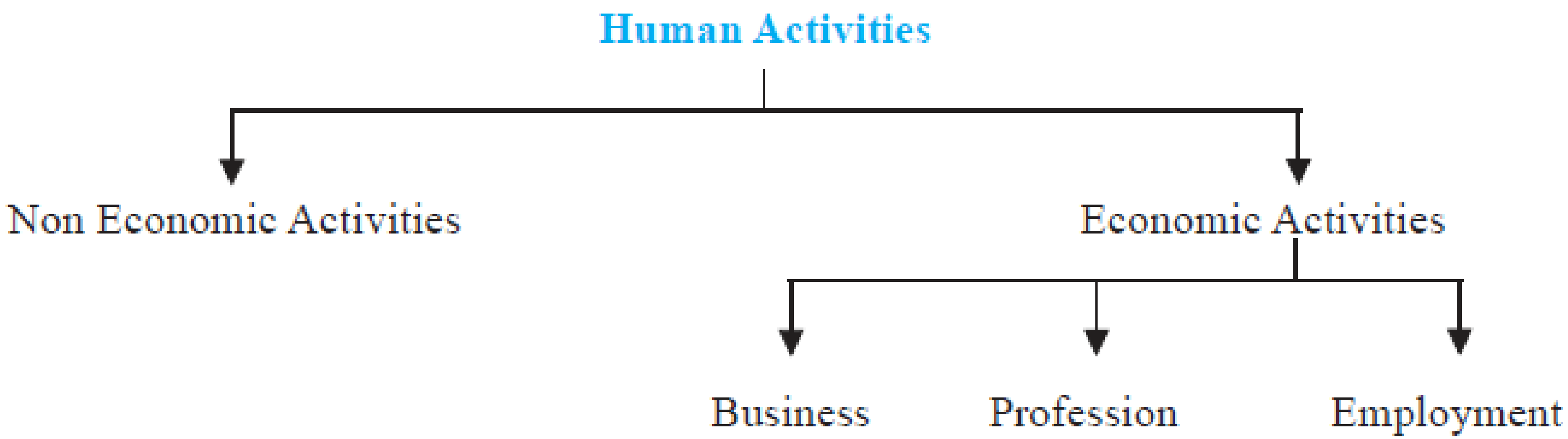
NON-ECONOMIC ACTIVITIES

Non-economic activities are those **human activities** which are **performed** to satisfy personal, social, religious, cultural and sentimental requirement **without monetary expectations**. *E.g. reading books, serving people, cooking by mother etc.*

ECONOMIC ACTIVITIES

Actions that involve production, distribution and consumption of goods and services at all levels within a society is called economic activity. *E.g. worker working in a factory.* **Economic activities facilitates earning livelihood.**

Introduction – Non-Economic & Economic Activities



ECONOMIC ACTIVITIES - TYPES

A) BUSINESS

Business represents systematic, organized efforts by an individual or group of individuals' to **produce goods and services and sell them in the market to earn money**.

It may be agricultural product or finished goods produced in factories.
It may be produced with the manpower or with the help of machines.

Production converts/processes inputs or intermediates to a final output or services.
E.g. Cultivating piece of land and growing food-grains is an example of agricultural production.

Manufacturing is the process of converting physical raw material into a product.
E.g. Converting oil seeds into edible oil is an example of manufacturing of the goods.

FEATURES / CHARACTERISTICS OF BUSINESS

1. An Economic Activity: Business is an economic activity as it is undertaken to earn money or livelihood.

2. Two Parties: Every business transaction involves an exchange. Minimum two parties are required for exchange i.e. the Seller and the Buyer.

3. Profit Motive: The basic purpose of business is to earn the profit. Profits are maximised either by increasing the volume of sales or reducing costs. Amount of profit may differ from business to business.

4. Exchange of Goods and Services: Business involves transfer of goods & services with money or money's worth. Monetary exchange is the exchange with money. In Barter Exchange, goods & services are exchanged for some other goods & services.

5. Continuity in Dealings: Every business requires regular transactions. One single transaction does not constitute business.

6. Uncertain Returns: In business, the returns are never predictable or guaranteed. Businessman may earn profit or suffer a loss.

ECONOMIC ACTIVITIES - TYPES

B) PROFESSION

Profession is that part of economic activities under which a **person uses his educational knowledge and special skill to render services for earning some income**.
E.g. Doctor, Lawyer, Chartered Accountant etc.

FEATURES / CHARACTERISTICS OF PROFESSION

1. Aim: Every profession is practiced for earning money by solving client problems.

2. Qualification: A profession can be practiced only after acquiring required qualification/s.

3. Profit Motive: Professionals get fees in exchange of their services. Their income is not fixed.

4. Capital: Independent professional requires huge capital for setting his practice. Professionals who are employed do not require any capital.

5. Registration and Membership: Some professions have a council which regulates the activities of professionals. These professionals have to get registered and get certificate of practice.

6. Non-transferability: A Profession cannot be transferred from one person to other person.

ECONOMIC ACTIVITIES - TYPES

C) EMPLOYMENT

It is an economic activity in which **people work for others**. There is employer-employee relationship.

E.g. A person working in a shop as a salesman or a person working as an accountant in an office.

FEATURES / CHARACTERISTICS OF EMPLOYMENT

1. Aim: The main aim is to earn money for meeting needs of the employees and employers.

2. Qualification: The job can be skilled or unskilled. Qualification may or may not be required.

3. Monetary Returns: Wages or Salaries, as decided in advance is given as financial return to the employee after completion of work.

4. Capital: No capital is required for employment because employer provides everything to the employee for completing the work.

5. Registration: No registration is required. Every employee has to follow the rules & regulations mentioned in the terms and conditions of employment contract.

6. Non-transferability: Employment cannot be transferred from one person to another.

BUSINESS OBJECTIVES

A) Economic Objectives

1) Earning Profit
2) Searching new Customers
3) Innovation
4) Best Possible Use of Resources (Optimum Utilisation of Resources)

B) Social Objectives

1) Supplying Quality Products
2) Avoiding Unfair Trade Practices
3) Employment Generation
4) Welfare of Employees
5) Help to Solve Social Problems
6) Contributing to the Welfare of the Society

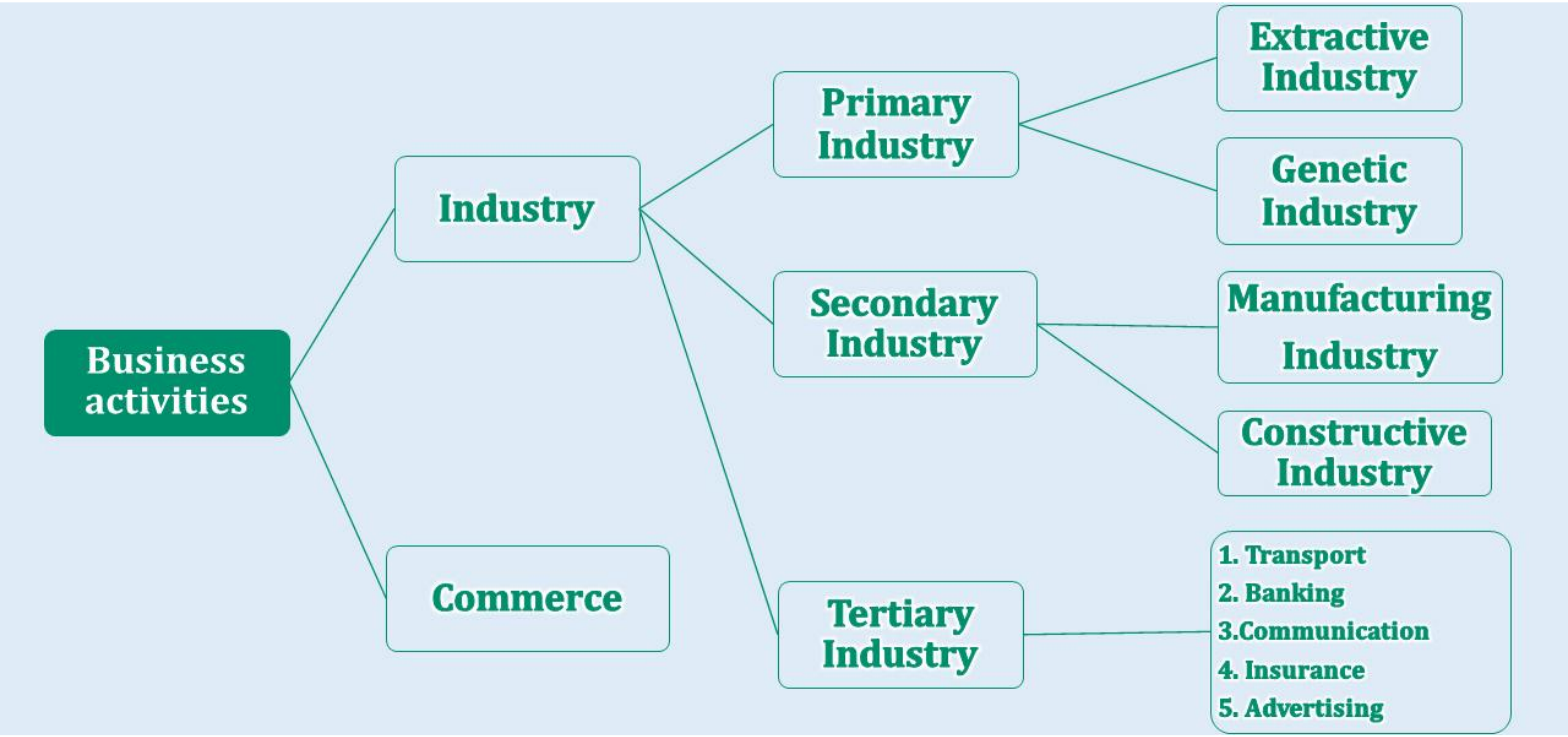
ROLE OF PROFIT IN BUSINESS

Every business operates with an aim to earn profit, i.e. (that is) the excess of revenue over cost.

Profit = Total Revenue – Total Cost

1) Returns to Investors
2) Research and Development (R&D)
3) Growth and Expansion
4) Increases Efficiency
5) Means of Livelihood
6) Reward for Risks
7) Survival

CLASSIFICATION OF BUSINESS ACTIVITIES



INDUSTRY

Industry implies the economic activities that are associated with the conversion of resources into goods that are ready for use. **Industry creates form utility**. It converts the raw material into usable finished products.

TYPES OF INDUSTRIES

A) Primary Industries – They are concerned with nature; also known as nature-oriented industry.

- Agriculture Industry || Extractive Industry || Genetic Industry

B) Primary Industries – These depend on Primary industries. They convert raw materials provided by Primary industries into finished products.

- Manufacturing Industry || Construction Industry

C) Tertiary Industries – They provide support services to the Primary and the Secondary Industries. *Eg: Transport industry, Banking industry, Hotel industry, Tourism industry, Entertainment industry, etc.*

1 Introduction of Commerce and Business

COMMERCE

Commerce is that part of business activity which is concerned with distribution of goods and services produced by Industry. They maintain a free and un-interrupted flow of goods.
Commerce is further divided in Trade and Auxiliaries to Trade.

A) TRADE

Trade denote buying and selling of goods and services for money or money's worth.

Trade is further classified as Home Trade / Internal Trade.

- **Home Trade / Internal Trade:** In this trade, buying and selling of goods and services takes place within the geographical boundaries of a country. It is conducted with local currency for the exchange of goods and services.

1) Wholesale Trade: Goods are purchased and sold in bulk. A wholesaler purchases in large quantities from the producers and sells in small quantities to the retailers. He is the link between the producer and the retailer.

2) Retail Trade: Retail trade is business activity associated with the sale of goods to the final consumers. Retailer is the link between wholesaler / manufacturer to the ultimate consumer.

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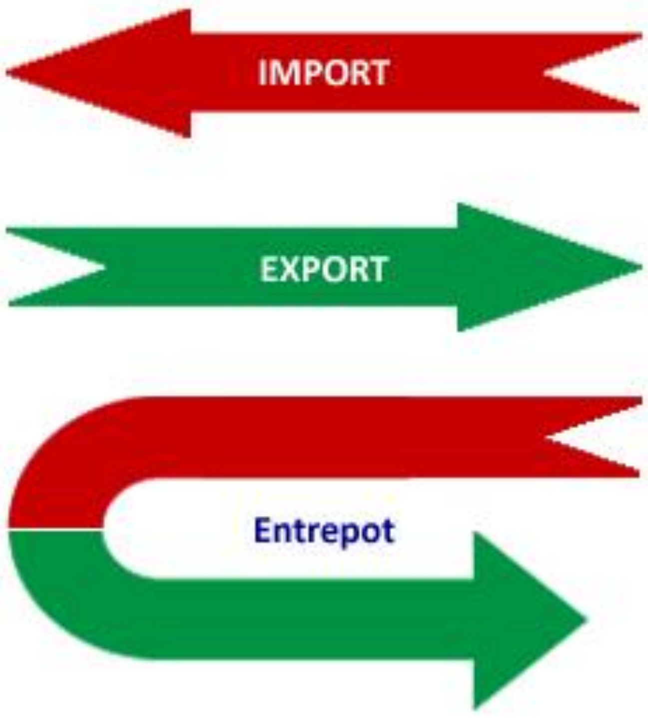
- **Foreign Trade / External Trade:** When trade takes place between different countries, it is known as foreign trade. In this type of trade, the boundaries of two countries are crossed and different currencies are used.

It is further divided as:



1) Import Trade: When goods and services are purchased from another country it is called as import trade.

2) Export Trade : When goods and services are sold to foreign / oversees buyers then it is called as export trade.

3) Entrepot Trade : It is the combination of import / export trade. It involves importing the goods from one country and reselling these goods to another country.

E.g. Indian seller importing goods from Japan and re-exporting same goods to Africa.

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B) AUXILIARIES TO TRADE: All those activities that facilitate smooth flow of goods from manufacturing centers to the consumption centers are called **aids to trade or auxiliaries to trade**. These activities play supportive role. They help in removing obstacles which arise during the production and distribution of goods and services. Following are various Auxiliaries to Trade:

1) **Banking –** Financial Institution. Funds like Loan, Overdraft, Cash Credit, etc. can be obtained.
2) **Communication –** Exchange of Information. Postal Services & Modern Means (Email, etc.)
3) **Insurance –** Protection from financial loss. Fire Insurance, Marine Insurance, (Life Insurance)
4) **Transport -** Movement of people, animals & goods. Road, Rail, Air, Water, (Rope, Pipeline)
5) **Warehousing -** Activities connected with the storing and preserving of stored goods from the time of production till the time of consumption. Pvt, Public, Govt, ColdS, Bonded, DutyPaid.
6) **Mercantile Agents –** Bridge the gap between buyer and seller. Brokers, Estate Agents, etc.
7) **Advertising -** Aid in selling the goods. Indoor and Outdoor. Newspaper, Radio, TV, etc.

The above are also called as Business Services.

DISTINGUISH – INDUSTRY vs. COMMERCE

INDUSTRY	COMMERCE
• **Meaning** Industry is engaged in *production* of goods and services	Commerce is engaged in *distribution* of goods and services.
• **Conducted by** Conducted by *Producers and Manufacturers*	Conducted by *Traders, Mercantile Agents*, etc.
• **Capital** It requires *huge* capital	It comparatively requires *less* capital
• **Resources** It uses *machines and manpower*	It uses more *manpower*
• **Utility** Creates *form* utility	Creates *place, time and possession* utility

DISTINGUISH – BUSINESS vs. COMMERCE

BUSINESS	COMMERCE
• **Meaning** It is an *economic activity* which deals in *production and distribution* of goods and services.	It is a part of business which is concerned with distribution of goods and service.
• **Concept** It's a *broader* concept as it includes commerce	It is a *narrow* concept as it is a part of business
• **Skill** It requires *technical as well as marketing skill*	It requires *only marketing skill*
• **Classification** It is classified into *Industry and Commerce*	It is classified as *Trade and Auxiliaries to Trade*

DISTINGUISH – BUSINESS vs. Profession vs. Employment

BUSINESS	PROFESSION	EMPLOYMENT
• **Meaning** In this economic activity, goods and services are produced and distributed.	In this economic activity, expert services are rendered.	In this economic activity, one person works under another person.
• **Reward / Return** Businessmen earn profit	Professional charges fees	Employee gets wages / salary
• **Capital Requirement** Capital investment depends on size and nature of business.	Limited capital investment is required, except those self-employed	No capital investment is necessary
• **Qualification** No minimum qualification	Expert knowledge & training	As prescribed by the employer
• **Examples** Builders, Grocers, etc.	Doctor, C.A., Lawyer etc.	Clerk, Teacher, Officers, etc.

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