2nd

Commercial Applications 19/6/2020

Class - IX

Chap 1 (Introduction to Commercial Organisation.)

Questions:

2. Small Scale Industries : A small scale industrial unit is one in which investment in plant and machinery does not exceed rupees one crore. Small scale industries employ a small number of persons and produce goods on a small scale. They produce goods like stationery, knitwear, bicycle parts, etc.

1.4. MEANING AND ROLE OF COMMERCE

Commerce is a wide term consisting of all those activities which facilitate the sale, transfer or exchange of goods and services. Commerce comprises buying and selling of goods and services and the operations which facilitate such buying and selling. The basic aim of commerce is to ensure the supply of goods at the right time, at the right place and in the proper quantity.

Some popular definitions of commerce are given below :

"Commerce is the sum total of those processes which are engaged in the removal of hindrances of persons (trade), places (transport and insurance) and time (warehousing) in the exchange (banking) of commodities. It is an organised system for the exchange of goods and services between the members of the industrial world."

— **James Stephenson**

"Commercial activities are those activities which are related to the purchase and sale of goods, exchange of commodities and distribution of the manufactured goods. Commerce ensures free and smooth exchange by removing various hindrances or obstacles in the way of exchange. It provides time, place and possession utilities."

— **Evlyn Thomas**

"Commerce comprises a group of specialised activities which together form an essential part of the process of production. It links suppliers and consumers by means of trade and activities auxiliary to trade such as transportation, banking, insurance and warehousing. The most important links are provided by a series of markets controlled by the price system."

— **Noel Branton**

Nature of Commerce : These definitions reveal the following characteristics of commerce :

(*a*) Commerce involves exchange of goods and services.

(*b*) It is a part of business.

(*c*) It is an economic activity.

(*d*) It is undertaken with the motive of earning profits.

(*e*) It involves uncertainty and risk.

(*f*) It creates various types of utilities.

Role or Functions of Commerce : Commerce plays a vital role by removing the various hindrances which arise in the exchange of goods and services.

1. Hindrance of Persons : This hindrance refers to the lack of contact between producers and consumers. The producer is faced with the problem of finding the buyers who need the goods he has produced and who are able and willing to buy such goods. The consumer does not know the source of supply of goods which would satisfy his needs at prices he can afford. Commerce removes this hindrance by means of trade. Trade provides an organised market where the buyers and sellers can contact each other. It saves both producers and consumers from the time-consuming and expensive exercise of locating each other.

2. Hindrance of Place : A major problem faced by producers is to send their goods to distant places safely and quickly without loss through theft, pilferage, damage, etc. Commerce solves this problem by means of transport. Modern means of transport carry goods to far-off places quickly and safely.

3. Hindrance of Time : In modern industry, goods are produced on a large scale in anticipation of demand. There is usually a time gap between the production and consumption of goods. Therefore, it becomes necessary to store

Hindrance removed	How commerce removes the hindrance
1. Hindrance of person	Commerce removes this hindrance by creating a link between producers and consumers. Traders establish a contact between producers and consumers.
2. Hindrance of place	Commerce removes this hindrance by moving goods from the places of production to the places of consumption through various modes of transport.
3. Hindrance of time	Commerce removes this hindrance by holding and preserving goods in warehouses until they are sold to consumers.
4. Hindrance of risk	Commerce removes the risk of loss or damage due to theft, fire, accidents, etc., by means of insurance.
5. Hindrance of finance	Commerce removes this hindrance by providing finance through banking.
6. Hindrance of knowledge	Commerce removes this hindrance by providing information about goods and services to prospective customers through advertising.

the goods until they are sold. This problem is solved by warehousing or storage. Warehouses provide suitable storage facilities to protect the goods from fire, rain, pests, etc. Warehousing is, thus, an integral part of commerce.

4. Hindrance of Risk : During transit and storage, goods may be damaged or destroyed by fire, flood, earthquake, etc. Packing of goods helps to preserve their quality in transit. With the help of insurance, businessmen can cover the risk of loss due to damage and destruction during transit. Thus, transportation, packing and insurance are useful commercial activities.

5. Hindrance of Exchange : Buying and selling of goods between persons living in different places requires a common medium of payment. Money serves as a common medium of payment. However, convenient and safe means of payment are required to settle the transactions. Banks help to remove this obstacle in the process of exchange by making and collecting payments on behalf of their clients. Now businessmen can send money from one place to another in the form of bank draft, cheque, etc., without facing any risk. Banks also provide credit in the form of overdrafts, letter of credit, cash credit, discounting of bills, etc.

6. Hindrance of Knowledge : Often a producer or merchant finds it difficult to sell his goods and services because consumers are not aware of their benefits and uses. Advertising and sales promotion remove this hindrance by bringing goods and services to the knowledge of consumers. Advertising also persuades people to buy the goods and services.

1.5. BRANCHES OF COMMERCE

All commercial activities can be broadly classified as under.

1. Trade : Trade means buying and selling of goods. Trade removes the hindrance of person by establishing a link between producers and consumers. Traders buy goods from producers and sell them to consumers.

2. Transportation : Transportation removes the hindrance of place by moving goods from the places of production to the places of consumption. It overcomes the distance barrier and creates place utility. It helps to widen the market and equalises prices at different places. Transportation also facilitates the movement of raw materials to the places of production.

3. Warehousing : Warehousing removes the hindrance of time by holding goods after production and until distribution. It makes goods available for sale as and when necessary. Warehousing creates time utility and it is an important branch of commerce.

4. Insurance : Business involves risk of loss due to theft, fire, accidents, floods, earthquake, storm, etc. Insurance removes the hindrance of risk. Businessmen can protect themselves against these risks by taking an appropriate insurance policy at a small premium.

5. Banking : Businessmen need finance and credit to carry on their activities. Banks provide funds to businessmen thereby removing the hindrance of finance. With the help of such funds businessmen can increase the volume of business. Banks also facilitate transfer of money from one place to another.

6. Advertising : Advertising removes the hindrance of knowledge by communicating information about goods and services to the prospective consumers. It facilitates mass distribution of goods by persuading people to buy the goods and services.

7. Packaging : Packaging means designing and producing packages for different products to protect them during transpotation, storage and use.

Transportation, warehousing, insurance, banking, advertising etc., are known as **Auxiliaries to Business Activities** because they assist and support trade and industry. They are an integral part of commerce as they remove various hindrances which are faced during the production and distribution of goods.

1.6. MEANING AND TYPES OF TRADE

Trade is an integral part of commerce. Trade facilitates production of goods on a large scale by distributing goods among consumers spread at far-off places. Trade means the sale, transfer or exchange of goods and services for a price. The exchange of goods may be for cash or credit. The persons who are engaged in trade are called 'traders' or 'merchants'. Traders serve as middlemen or link between producers and consumers.

DISTINCTION BETWEEN INDUSTRY, COMMERCE AND TRADE

Basis of Distinction	Industry	Commerce	Trade
1. Activities involved	It includes all those business activities which are concerned with production of goods.	It includes trade and auxiliaries to business activities.	It includes activities concerned with sale, transfer or exchange of goods and services for a certain price.
2. Creation of utility	It creates **form** utility by extracting, multiplying, processing resources into useful products.	It creates utilities of **person, time, place, risk, finance** and **information.**	It creates **person** utility by establishing a link between producers and consumers.
3. Capital or investment	**Large** capital is required for large scale industry.	**Less** capital is required as compared to industry.	**Less** capital is required as compared to industry.
4. Element of risk	**High** degree of risk is involved as compared to commerce.	**Low** degree of risk is involved as compared to industry.	**Low** degree of risk is involved as compared to industry.
5. Dependence	It depends upon commerce.	It depends on industry.	It depends on industry and auxiliaries to business activities.
6. Examples	Sugar industry, steel industry, car industry.	Commercial banks, public warehouses, advertising agencies.	Wholesalers, retailers.

Trade is of the following **types.**

1. Internal Trade : Internal trade refers to buying and selling of goods and services within the geographical boundaries of one country. Both the buyer and seller belong to the same country. It is also known as Home Trade or **Domestic Trade**. Payments in this type of trade are made and received in the home currency. Internal trade can further be divided into **two categories.**

(*a*) *Wholesale Trade* : Wholesale trade refers to buying of goods in bulk from manufacturers and selling them in large quantity to retailers and industrial users in relatively small quantities. The persons engaged in wholesale trade are called **'wholesalers'**. They serve as a link between producers and retailers.

(*b*) *Retail Trade* : Retail trade refers to buying of goods from wholesalers and manufacturers and selling them in small quantity directly to the ultimate consumers. Persons engaged in retail trade are called 'retailers'. They serve as a link between wholesalers and final consumers.

2. External Trade : External trade refers to buying and selling of goods and services between different countries. In this trade, the seller and buyer belong to different countries. It is also known as **Foreign Trade** or International Trade or External Trade. It may further be divided as follows :

(*a*) *Import Trade* : It means purchasing goods and services from other countries. For example, India imports petroleum products from Iran and Iraq.

(*b*) *Export Trade* : It involves selling goods and services to other countries. For example, India exports tea to USA and UK.

(*c*) *Entrepot Trade* : It means importing goods from one or more countries with the purpose of exporting them to some other country or countries. For example, Tata McGraw Hill, an Indian publisher, imports books from USA for the purpose of exporting them to Nepal and Bhutan. Entrepot trade is also known as **'Re-export Trade.**

1.7. INTERRELATIONSHIP BETWEEN INDUSTRY, COMMERCE AND TRADE

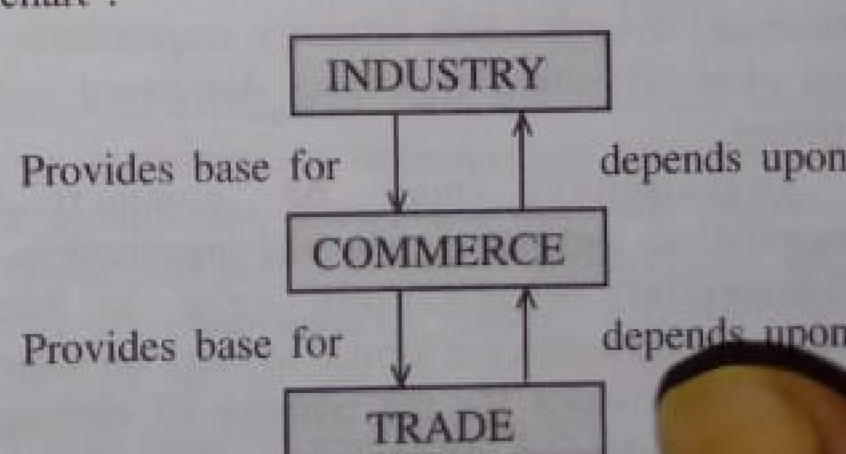
There is a close interrelationship between industry, commerce and trade due to the following reasons.

(*a*) Industry provides the base for commerce. Unless goods are produced by industry there can be no distribution by commerce. Commerce depends on industry. No commercial activity is possible in the absence of industry.

(*b*) Industry cannot function without commerce. Commerce provides support to industry by distributing goods among consumers. Industrial production is meaningless without the distribution of goods through commerce. If industry is the backbone of commerce, commerce serves as the lifeline of industry.

(*c*) Industry and commerce provide the base for trade. Trade depends upon industry for goods. At the same time trade provides support to industry by maintaining a link between producers and consumers.

Thus, there is a high degree of interdependence between industry, commerce and trade. Interdependence between industry, commerce and trade is shown in the following chart :



1.8. DISTINCTION BETWEEN ORGANISATION, FIRM AND COMPANY

Organisation

The term 'organisation' means a group of persons who join together to achieve some common objectives. It refers to two or more people working together in a coordinated manner to achieve some common goals. It is a deliberately structured group to achieve specific goals. A school or college, a Super Bazar, a government, an army are examples of organisation. An organisation is a human group or social unit. The activities of the group are coordinated rationally by assignment of tasks and responsibilities. An organisation draws inputs (raw materials, money, energy, people, information, etc.) from its environment. The inputs are transformed into outputs. Outputs are supplied back to the environment in the form of finished goods and services, profits, etc. Size, complexity, formality, hierarchy and life span are the characteristics commonly associated with an organisation.

There are two types of relationships among the members of the organisation—horizontal and vertical. Horizontal relationship refers to relationship between people working at the same level of authority. For example, there is a horizontal relationship among heads of departments. Vertical relationship refers to superior-subordinate relationship. For example, there is vertical relationship between head of the marketing department and branch managers. Vertical relationships from the top to the bottom of the organisation constitute the chain of command through which authority, responsibility and communications flow both downward and upward.

Organisations may be commercial organisations and non-commercial organisations. Commercial organisations refer to the organisations which are formed to carry on some business activities for the purpose of earning profits. Reliance Industries, Tata Steel, Hindustan Unilever Limited (HUL) are examples of commercial organisations. On the other hand, non-commercial organisations are formed for the purpose of promoting art, culture, religion, charity and other non-economic objects. Lions Club, Rotary Club, Red Cross Society, Child Relief and You (CRY) and Help Age are examples of non-commercial organisations.

Firm

The term 'firm' refers to an institutional arrangement to carry on some business activity. It may be owned and controlled by one or more persons. It may or may not be registered under some law. It is a unit of ownership, management and control. It means a business enterprise which owns and controls factory, shop, office or any other assets used for carrying on some business. A business firm may be based on an informal agreement among its owners or it may be a formal association of persons for conducting some business. The term 'firm' is wider than the term 'plant' which represents merely a technical unit, *e.g.*, factory or mill. Business activities are performed in business firms. A business firm is a concern which undertakes business activities. Business firms differ in their nature, size and ownership. A business firm can be a manufacturing firm or a commercial firm. It can be large or small in size. A firm can be a sole proprietorship, partnership or a company. Proprietorship is owned and controlled by one person and is not a separate legal entity distinct from its owner/proprietor. Partnership is owned and controlled by one or more persons and is not a separate legal entity distinct from its partners. Every firm is an organisation but every organisation is not a firm.

Company

A company is a voluntary but an incorporated association of persons created by law. It has a separate legal entity distinct from its members. It is managed by a Board of Directors because it has no physical body. Every company is an organisation but every organisation is not a company.

Type of Commercial Organisation	Nature of Activity	Examples
1. Manufacturing Organisations	These organisations are engaged in manufacturing activities. Manufacturing organisations produce : (*a*) Consumer goods for day-to-day consumption, *e.g.*, soap, cloth, hair oil, stationery, etc. (*b*) Intermediate goods required for production of other items, *e.g.*, steel, cement, chemicals, etc. (*c*) Capital goods like machinery and equipment needed for manufacturing consumer goods and intermediate goods.	Reliance Industries, Maruti Udyog, Raymonds Ltd.
2. Trading Organisations	These organisations are engaged in buying and selling of goods.	Wholesalers, Retailers, Importers, Exporters.
3. Transport Organisations	These organisations are engaged in carrying passengers and goods from one place to another place.	Railways, Roadways, Airlines, Shipping companies.
4. Warehousing Organisations	These organisations are engaged in storing and preserving goods on hire.	Public Warehouses, Bonded Warehouses, Cold Storages.
5. Insurance Companies	These organisations are engaged in providing insurance services.	Life Insurance, Fire Insurance, Marine Insurance, other types of insurance.
6. Banking and Finance Companies	These organisations are engaged in accepting deposits and lending money.	SBI, ICICI Bank, UTI Bank, Citibank.
7. Advertising Agencies	These organisations are engaged in designing and preparing advertisements.	Ogilvy and Mather, Hindustan Thompson Associates (HTA), Reddifusion.

1.10.1. Different Industrial Groupings

Government of India has classified industries as follows :

1. **Agriculture, Forestry and Fishing**
   - 1.1. Agriculture
   - 1.2. Forestry and logging
   - 1.3. Fishing
2. **Mining and Quarrying**
3. **Manufacturing**
   - 3.1. Registered
   - 3.2. Unregistered
4. **Electricity, Gas and Water Supply**
5. **Construction**
6. **Trade, Hotels and Restaurants**
   - 6.1. Trade
   - 6.2. Hotels and restaurants
7. **Transport, Storage and Communicatio**
   - 7.1. Railways
   - 7.2. Transport by other means
   - 7.3. Storage
   - 7.4. Communication
8. **Financing, Insurance, Real Estate a Business Services**
   - 8.1. Banking and Insurance
   - 8.2. Real estate, ownership of dwelli and business services

9. **Community, Social and Personal Services**
   9.1. Public administration and defence
   9.2. Other services (education, health, community services)

Manufacturing industries are of several kinds. Some of the common types of manufacturing industries are as follows.

1. Textile Industry : The cotton textile industry is the first of modern Indian industries. This industry is more than one hundred years old. The industry has seen many ups and downs. The Indian textile industry is largely cotton based, with cotton accounting for two-third of the fabric production. The structure of the textile industry in India is highly complex with the modern, sophisticated and highly mechanised mill sector on the one hand and the handloom sector on the other. The organised textile industry consists of the mills whereas the handlooms and powerlooms constitute the unorganised sector. Ahmedabad, Mumbai, Surat, Coimbatore, Amritsar, Ludhiana, Kanpur, Delhi, Kolkata and Bhubaneswar are main centres of textile industry in India.

Obsolete plants and machinery, shortage of raw materials and power, high cost and competition from foreign markets and unorganised sector are the main problems of textile industry. Government has taken over several sick textile mills to protect employment.

Reliance Industries Ltd. (textile division producing VIMAL brand cloth), Mafatlal Industries, Bombay Dyeing, Century Textiles, Raymonds Ltd., are some of the examples of firms in the textile industry of India.

2. Iron and Steel Industry : Iron and steel industry originated in India towards the last quarter of the nineteenth century. Its progress until independence was quite slow. After independence, the Government of India set up several steel plants and the industry and made rapid progress. Bhilai, Rourkela, Durgapur, Bokaro, Salem, Vijayanagar, Gopalpur, Jamshedpur and Vishakhapatnam are main centres of iron and steel industry. However, capacity utilisation declined later. Inefficient planning and control, sickness of mini steel plants, relatively high cost of production, foreign competition are the main problems of iron and steel industry. Tata Iron and Steel Co. (TISCO), Jindal Vidyasagar Steel, Essar Steel Ltd., Ispat Industries, Steel Authority of India Limited (SAIL) are popular firms in iron and steel industry.

3. Sugar Industry : Sugar industry is the second largest industry in India, next to cotton textiles. Sugar industry received an impetus under five-year plan. During the last two decades, sugar production has followed a pattern of surplus leading to decline in sugarcane plantation. Despite huge surplus stocks, the country could not export much due to price disadvantage. Low productivity, industrial sickness, outdated technology and competition are the main problems of sugar industry.

U.P., Bihar, Haryana and Punjab are major sugar producers. Daurala Sugar Mills, Mawana Sugar Mills, Balrampur Chinni Mills, Dhampur Sugar Mills are leading firms in sugar industry.

4. Cement Industry : The cement industry had its origin in India in 1914 when the Indian Cement Company Ltd. manufactured cement at Porbandar in Gujarat. There are 20 large cement companies and 140 mini cement plants in India. The cement industry has recorded continuous growth since planning started in India. But the industry suffers from inadequate production due to shortage of power and coal, high costs, rigid prices and unrealistic distribution policies. J.K. Cement, Birlas, Binani, ACC, Gujarat Ambuja, India Cement, L&T are leading cement manufacturers in India. Madhya Pradesh, Karnataka, Andhra Pradesh, Gujarat and Rajasthan are main centres of cement industry.

5. Paper Industry : Paper industry in India is more than a century old. There are about 340 private sector paper and paper board units with installed capacity of 32 lakh tonnes. The industry made rapid progress particularly small paper units. High costs of production, shortage of raw materials, underutilisation of capacity are is owned by the Government of National Capital Territory of Delhi. Public enterprises are organised as departmental undertakings, statutory or public corporations and government companies.

(b) *Government Control* : The ultimate control of a public sector undertaking lies with the government.

(c) *Service Motive* : The primary objective of a public sector undertaking is to render service to the public at large. In order to serve the public, it may earn some surplus.

(d) *Public Accountability* : The money invested in public enterprises is public money. Therefore, these enterprises are answerable to the public through the Parliament.

3. Joint Sector Enterprises : Enterprises owned partly by the government and partly by private businessmen are known as joint sector enterprises. Joint sector consists of all those business concerns wherein, ownership, management and control are shared jointly by the government and private businessmen. Cochin Refineries, Gujarat State Fertiliser Company, Pragya Tools Corporation, India Rare Earths Limited, etc., are examples of joint sector enterprises. The main **characteristics** of joint sector enterprises are as follows :

(a) *Mixed Ownership* : The government, private entrepreneurs and the investing public jointly own a joint sector enterprise.

(b) *Combined Management* : The management and control of a joint sector enterprise lies with the nominees or representatives of the government, private businessmen and the public. Company form of business organisation is adopted in case of joint sector enterprises.

(c) *Share Capital* : The share of the government, private businessmen and the public in the capital are 26 per cent, 25 per cent and 49 per cent, respectively. The aim is to pool the financial resources and technical know-how of the State and the private individuals.

Comparison between Private, Public and Joint Sector Enterprises

Basis of Comparison	Private Sector Enterprises	Public Sector Enterprises	Joint Sector Enterprises
1. Ownership	Private businessmen	Government	Mixed
2. Management	Private owners and professional managers	Government	Combined
3. Main Objective	Profit	Social objectives	Profit and social objectives
4. Accountability	To the owners	To the public	Both to private owners and the public

In case of private sector enterprises, the following ownership structures are used :

(a) Sole Proprietorship

(b) Joint Hindu Family Business

(c) Partnership and Limited Liability Partnership (LLP)

(d) Joint Stock Company including One Person Company (OPC)

(e) Cooperative Society

the main problems of paper industry. Ballarpur Industries, J.K. Paper, Star Paper Mills are the leading paper manufacturers in India.

6. **Petrochemical Industry :** The petrochemical industry including plastics is one of the fastest growing industries in India. It consists of three kinds of manufacturers. At the primary stage, there are large manufacturers of base chemicals and resins. At the secondary stage there are the processing units which process petrochemicals into end products. Finally, there are equipment manufacturers who bring plastics within the reach of the poor man. Indian Petrochemical Corporation Ltd. (IPCL) is a popular petrochemical firm in India.

7. **Software Industry :** The Indian software industry has made phenomenal progress during a short period of time. The industry has evolved from staffing to software development to integration and IT business consulting. Outlocation, outsourcing and World Wide Web are the main factors behind the growth of IT enabled services in India. High labour turnover, rapid obsolescence of technology, and competition are the main problems of software industry. Infosys Technologies, WIPRO, Satyam Computers, HCL Technologies, TCS are the leading software firms in India.

8. **Fast Moving Consumer Goods (FMCG) Industry :** All firms manufacturing FMCG products are included in this industry. These firms produce bathing soaps, washing soaps, detergents, food items (chocolates, tea, coffee, etc.), cosmetics etc. Hindustan Unilever, Dabur, Nestle, Cadbury's, Colgate Palmolive, ITC, Parle, Pepsi, CocaCola, Britannia, Amul, are the leading FMCG firms in India.

FMCG industry may be divided into:

(a) **Food Industry :** It consists of firms producing biscuits, breads, noodles, jam, soup powder, spices, wheat flour, chocolates, ice cream, tomato products, etc.

(b) **Beverages Industry :** It consists of firms producing soft drinks, tea, coffee, fruit juices, health drinks, squashes, etc.

(c) **Personal care products Industry :** It includes firms producing shampoo, body lotion, creams, wash gel, cosmetics, soaps, detergents, toothpaste, hair oils, perfumes, aftershave lotions, face and body powder etc.

(d) **Home care products Industry :** It includes firms producing cleaners, washing liquids, floor cleaners, washing soaps, room freshners, laundry products, mosquitto repelents, etc.

1.11. CLASSIFICATION OF COMMERCIAL ORGANISATIONS ON THE BASIS OF OBJECTIVES

On the basis of objectives, commercial organi-sations may be classified into two broad categories as follows.

1. **Profit Making Organisations :** Profit making organisations refer to those organisations which are formed for the purpose of earning profits. Such organisations are engaged in business activities. They sell goods and services and aim to earn profits. Reliance, Bajaj Auto, Dabur, Raymonds are examples of profit making organisations. A commercial organisation is an organisation which carries on some commercial activity and seeks to earn profits. Profit making organisations can be divided into several categories like industrial enterprises, trading enterprises and service enterprises.

2. **Non-Profit Making Organisations :** Non-profit making organisations refer to those organisations which do not aim at earning profits. Their purpose is social service and public welfare. They are formed for the purpose of promoting art, culture, religion, charity or any other social purposes. Lions Club, Rotary Club, Ramakrishna Mission, Bharat Sevashram Sangha, Missionaries of Charity, Child Relief and You (CRY), Helpage, are some examples of non-profit organisations in India.

The main **features** of non-profit making organisations are as follows :

(*a*) These organisations may be registered under some law (e.g., the Trusts Act, The Society's Act) or may even be unregistered.

2nd

Commercial Applications 19/6/2020
Class - IX
Chap 1 (Introduction to Commercial Organisation.)

Questions:

What is Commerce?

Q1. Discuss the role/function of Commerce.

Q2. Discuss the various types of Trade.

Q3. Distinguish between Industry, Commerce and Trade.

Q4. Define the term Organisation, Firm and Company.

Q5. What is Commercial Organisation?

Q6. Classify the commercial organisation on the basis of activities.

Q7. Explain the following

a) Textile Industry
b) Iron and Steel Industry
c) Sugar Industry
d) Cement Industry
e) FMCG Industry
f) Petrochemical Industry
g) Software Industry

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Q.8. Classify the Commercial organisation on the basis of ownership structure.