

Class - IX

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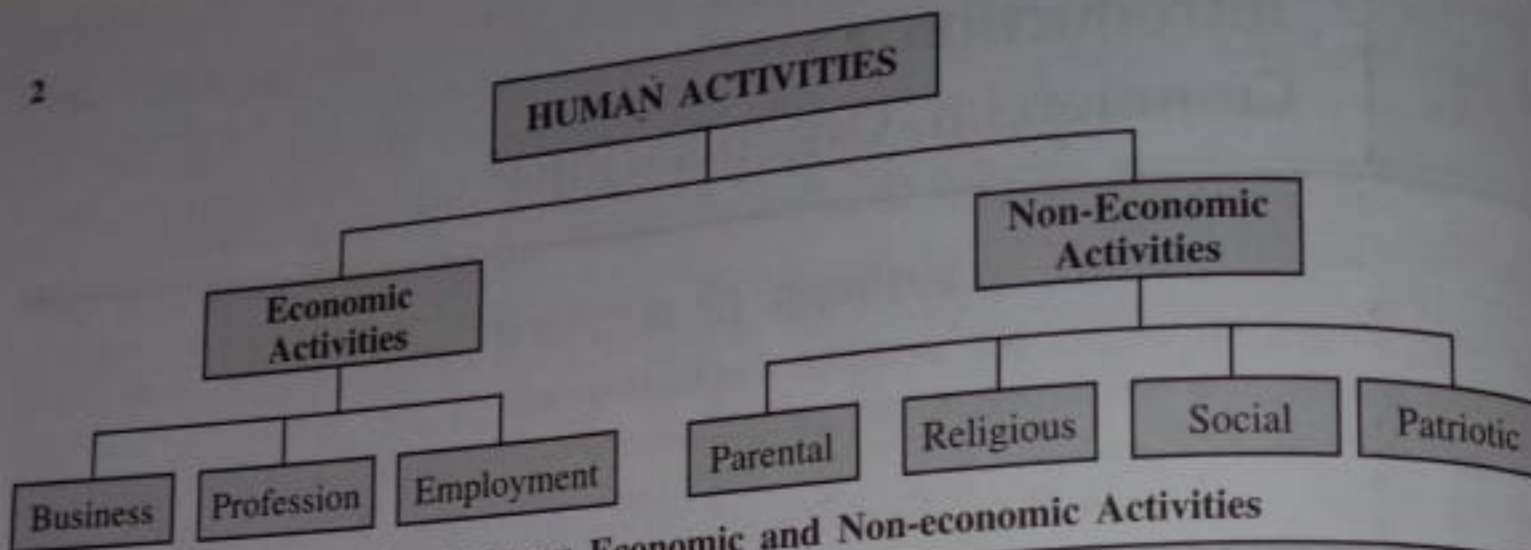
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Commercial Applications
class - IX

11/6/2020

Chap 1 (Introduction to Commercial
Organisation)



Distinction between Economic and Non-economic Activities

Basis of Distinction	Economic Activities	Non-Economic Activities
1. Purpose	These activities are undertaken to earn a living through production and sale of goods and services. These are based on economic motive.	These activities are undertaken to satisfy personal, social, religious and patriotic obligations. These are based on social motive.
2. Reward	These activities are expected to result in creation of money income or economic gain.	These activities are not expected to create money income.
3. Consideration	These activities are guided by rational considerations because these involve the use of scarce economic resources such as land, labour, capital, etc.	These activities are guided by emotional and sentimental reasons without regard to economic loss or personal discomfort.
4. Examples	Business, profession, employment.	Serving the family, society and the country free of charges.
5. Necessity	Economic activities are necessary for livelihood. They are undertaken for creation of wealth.	Non-economic activities are necessary for psychological satisfaction and pleasures.
6. Result	These activities result in creation of wealth.	These activities do not result in creation of wealth.
7. Satisfaction	These activities satisfy economic needs of people.	These activities satisfy social and psychological needs of people.

Non-economic activities are undertaken not for earning money but for personal satisfaction. A housewife looking after her family, a person visiting a temple daily, a young man donating blood, a boy helping an old lady crossing a road are examples of non-economic activities. These activities involve social,

religious, patriotic and other non-financial motives.

Characteristics and Examples of Non-Economic Activities

1. Non-economic activities are not undertaken to earn money income.

2. These activities improve human life.
3. These activities satisfy human needs for self-actualisation.
4. These activities are based on social and psychological motives.

Examples

1. A lady cooking for her family.
2. A young man donating blood.
3. A person helping an old lady crossing the road.
4. A person donating to a charity for his death.
5. A mother teaching her child.

1.1. MEANING OF BUSINESS

Some popular definitions are given below.

"Business is an activity directed towards acquiring wealth by which desires of earth, fashioned by machine, carried out and stored through those who are engaged in it."

"Business is an activity and operated by individuals or society under the influence of economic motives."

"Business is an activity pursued primarily for profits for the benefit of the individual or the society."

"Business is an activity which the individual or the society undertakes for the purpose of earning money income."

LEARNING OBJECTIVES

After studying this chapter, you should be able to understand :

- 1.1. Meaning and Nature of Business
- 1.2. Branches of Business
- 1.3. Meaning and Types of Industry
- 1.4. Meaning and Role of Commerce
- 1.5. Branches of Commerce
- 1.6. Meaning and Types of Trade
- 1.7. Interrelationship between Industry, Commerce and Trade
- 1.8. Distinction between Organisation, Firm and Company
- 1.9. Meaning and Nature of a Commercial Organisation
- 1.10. Classification of Commercial Organisations on the Basis of Activities
- 1.11. Classification of Commercial Organisations on the Basis of Objectives
- 1.12. Classification of Commercial Organisations on the Basis of Ownership Structures.

Human beings carry on several activities in order to satisfy their needs. All activities of people may be classified into two broad categories :

1. Economic activities
2. Non-economic activities

Economic activities are undertaken with the purpose of earning money and acquiring wealth. These activities involve production and distribution of goods and services. Economic activities or occupations are of three types — (i) Business, (ii) Profession and (iii) Employment.

Profession is an occupation involving rendering of expert services for a fee. Doctors, lawyers, chartered accountants, architects, Engineers are professionals.

Employment means working under an employer for wage or salary, for example, a government servant. There is an employer-employee relationship. The employee renders services as per the employment agreement.

Characteristics and Examples of Economic Activities

1. Economic activities we undertake to earn money income.
2. These activities help to create wealth.
3. These activities satisfy basic human needs such as food, clothing and shelter.
4. These activities serve as the basis for economic development.

Examples

1. An industrialist running a factory
2. A shopkeeper selling goods
3. A cinema house selling entertainment
4. A doctor treating patients for fees
5. A chartered accountant providing audit service for fees
6. A teacher teaching in a school or college
7. A clerk working in an office

activity. For instance, cooking food for personal consumption does not constitute business. But cooking food and selling it to others for a price becomes business.

2. Dealings in Goods and Services : Every business enterprise produces or buys goods and services for selling them to others. Goods may be consumer goods or producer goods. Consumer goods are meant for direct use by the ultimate consumers, e.g., bread, cloth, shoes, etc. Producer goods are used for the production of consumer goods, e.g., raw materials, machinery, etc. Services are intangibles such as electricity, insurance, banking, transportation, warehousing, etc.

3. Regular Dealings : Business involves a series of dealings. A single transaction cannot be called business. Recurring purchase and sale is the hallmark of business. For instance, if a person sells his old scooter, it is not business. But if he sells scooters on a regular basis, it will become business.

4. Profit Motive : A business is not charity. The primary objective of business is to earn money and acquire wealth. A business that does not earn profits cannot survive for long. Profits are also essential for the growth and expansion of business. Business must, however, earn profits by serving the society.

5. Creation of Utilities : A business makes goods more useful to satisfy human wants. It adds time, place, form and possession utilities to various types of goods. In the words of Roger, "A business exists to create and deliver value satisfaction to customers at a profit." Business creates form utility by converting raw materials into finished products. Place utility is created through transportation and time utility is created through storage.

6. Element of Risk : Business always involves some risk. Risk implies the possibility of loss due to uncertainties of future. The element of risk arises in business due to a

variety of factors which are beyond the control of a business enterprise. Risk may arise in business due to theft, fire, flood, earthquake, fall in market demand, deterioration or spoilage of goods, embezzlement by employees, etc.

7. Business is an Economic Activity : Business is primarily an economic activity as it involves production and distribution of goods and services for satisfying human wants. Business is regarded as an economic activity due to the following reasons :

- (a) The objective of business activities is to sell the goods and services for profit.
- (b) Business activities require use of scarce resources like capital, labour, raw materials, etc.
- (c) Business activities satisfy the needs of businessmen and their families by generating income. Business activities also satisfy various needs of the general public by making goods and services available to people.

1.2. BRANCHES OF BUSINESS

All business activities may be grouped into two broad categories :

1. Industry
2. Commerce.

Industry and commerce can be further subdivided into several branches as follows :

WELL-KNOWN BUSINESSMEN OF INDIA

- | | |
|------------------------|--|
| 1. Mukesh D. Ambani | – Reliance Industries Limited, etc. |
| 2. Ratan N. Tata | – Tata Steel, Tata Motors, etc. |
| 3. Kumar Manglam Birla | – Century Textiles, Indian Rayon, Idea cellular. |
| 4. Azim Premji | – Wipro Limited |

2. These activities do not create wealth but improve human well-being.
3. These activities satisfy higher order human needs such as affiliation, ego and self-actualisation.
4. These activities provide a sense of social and psychological satisfaction.

Examples

1. A lady cooking food for her family.
2. A youngman helping in keeping the environment clean.
3. A person helping a blind person in crossing the road.
4. A person donating his eyes for use after his death.
5. A mother teaching her kids.

1.1. MEANING AND NATURE OF BUSINESS

Some popular definitions of business are given below.

"Business may be defined as a human activity directed towards producing or acquiring wealth through buying and selling of goods. Business consists of those processes by which desirable things are extracted from earth, fashioned and transformed by man and machine, carried from place to place and stored through time and place in the hands of those who are ready to pay for them."

— L.H. Haney

"Business is an institution organised and operated to provide goods and services to society under the incentive of private gain."

— B.O. Wheeler

"Business is a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted."

— L.R. Dicksee

"Business is any enterprise which makes, distributes or provides any article or service which the other members of the community

need and are able and willing to pay for."

— Urwick and Hunt

"Business is any enterprise engaged in the production and distribution of goods for sale in market or rendering services for a price."

— R.N. Ownes

"All the activities involved in the production and sale of goods and services may be classified as business activities."

— W.R. Sprigal

"Business is any activity concerned with production or purchase of scarce goods and services."

— Koontz and O'Donnell

"Business may be defined as an activity in which different persons exchange something of value, whether goods or services for mutual gain or profit."

— Peterson and Plowman

"The whole complex field of commerce and industry, the basic industries, processing and manufacturing industries and the network of ancillary services, distribution, banking, insurance, warehousing are included in business."

— F.C. Hooper

"Economic activities performed for earning profits are termed as 'Business'."

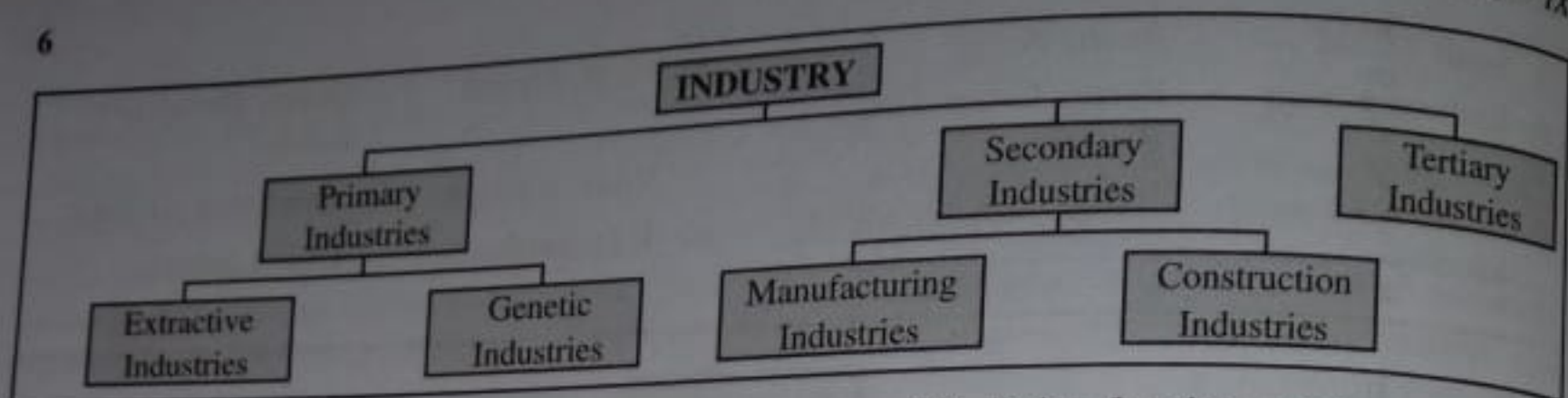
— James Stephenson

"Business is a sum of all activities involved in production and distribution of goods and services for private profits."

— A. Keith and Gubelini

A thorough analysis of the definitions given above reveals the following characteristics of business.

1. Sale, Transfer or Exchange : All business activities involve sale or exchange of goods and services for some consideration. Buying and selling of goods and services for a price are the essence of business. If there is no sale, transfer or exchange for price, it will not be a business



These types of industries are explained below :

1. Primary Industries : Industries which are concerned with extraction and multiplication of natural resources are known as primary industries. For example, mining of coal or iron ore is a primary industry.

Primary industries are of the following **two types** :

(a) **Extractive Industries :** Extractive industries are those industries which are concerned with the discovery and extraction of natural resources like minerals from mines, timber from forest, fish from rivers and seas. The products of these industries are either directly consumed (*e.g.*, fish as food and coal as fuel) or are used as raw materials in other industries (*e.g.*, iron ore is used in steel industry). Both manual and mechanical techniques are used in extractive industries.

(b) **Genetic Industries :** Genetic industries are those industries which are concerned with reproducing and multiplying plants and animals with the purpose of earning profit from their sale. Rearing cattle, breeding of animals and growing plants are the activities involved in these industries. Some common examples of genetic industries are given below :

- (i) Agriculture or farming to grow crops, *i.e.*, foodgrains and vegetables.
- (ii) Nurseries which multiply and sell plants.

(iii) Dairy farming, raising milk from cows and other cattle.

(iv) Poultry farming, raising birds for eggs and meat.

(v) Animal husbandry (*e.g.*, horse breeding, grazing of sheep for wool and mutton, etc.).

(vi) Pisciculture or growing fish in ponds and rivers.

(vii) Orchards to grow fruits of different kinds, *e.g.*, apples, mangoes, grapes.

There is a **difference between an extractive industry and a genetic industry**. In the case of an extractive industry man cannot add to the wealth which he withdraws from the earth, sea and air. On the other hand, in case of a genetic industry, man not only adds to the growth but also reproduces the nature-made goods.

2. Secondary Industries : The industries which are concerned with the transformation of the materials provided by primary industries are known as secondary industries. For example, the mining of coal and iron ore is primary industry but manufacturing of steel is secondary industry. Secondary industries are of the following **two types** :

(a) **Manufacturing Industries :** Manufacturing industries are those industries which are concerned with the conversion of raw materials and semi-finished products into finished products. The output of primary industries generally becomes the raw materials for manufacturing industries. In other words, the manufacturing industries create form utility to the products of primary industries. Some common examples of

manufacturing industries are given below :

Products of Primary Industries	Manufacturing Industries which use the given products
1. Iron ore from mines	1. Steel industry
2. Timber from forests	2. Furniture industry
3. Cotton from farms	3. Textile industry
4. Sugarcane from farms	4. Sugar industry
5. Milk from dairies	5. Ghee industry

Manufacturing industries may be further classified into the following categories :

- (i) *Analytical* : In an analytical manufacturing industry, a basic raw material is broken into several useful materials. For example, in an oil refinery, crude oil is separated into kerosene, petrol, diesel and lubricating oil.
- (ii) *Synthetical* : In this type of manufacturing industry, two or more materials are mixed to form a new product. For example, concrete, gypsum and coal are mixed to produce cement.
- (iii) *Processing* : In the processing industry, a material is processed through various stages to make the final product. For example, in the cotton textile industry, cotton is passed through the spinning, weaving, dying, bleaching and printing processes to produce cloth.
- (iv) *Assembling* : In this type of industry, manufactured components or parts are combined together mechanically or chemically to produce a new product. For example, manufacture of radios, TV sets, watches and automobiles are assembling industries.

(b) *Construction Industries* : Construction industries are those industries which are

engaged in the construction of buildings, roads, bridges, dams, flyovers etc. These industries use the products of manufacturing industries (e.g., cement, iron, bricks) and extractive industries (e.g., sand, wood). The products of construction industries are immovable as they are erected, built or fabricated at a fixed place.

3. Tertiary Industries : All the business units which provide commercial services are collectively known as tertiary industries or service sector. Airlines, hotels, public warehouses, banks, advertising agencies, finance companies, etc. are examples of tertiary industries. The importance of tertiary industries and their contribution to the country's Gross Domestic Product (GDP) has been increasing over the years.

On the basis of nature of technology used and type of goods produced, industries are divided into two categories as follows :

1. Heavy Industries : Industries which employ complex technology and long production cycles are called heavy industries. These industries require huge investment in plant and machinery and other fixed assets. Power generation, ship building, aeronautics and iron and steel are some examples of heavy industries.

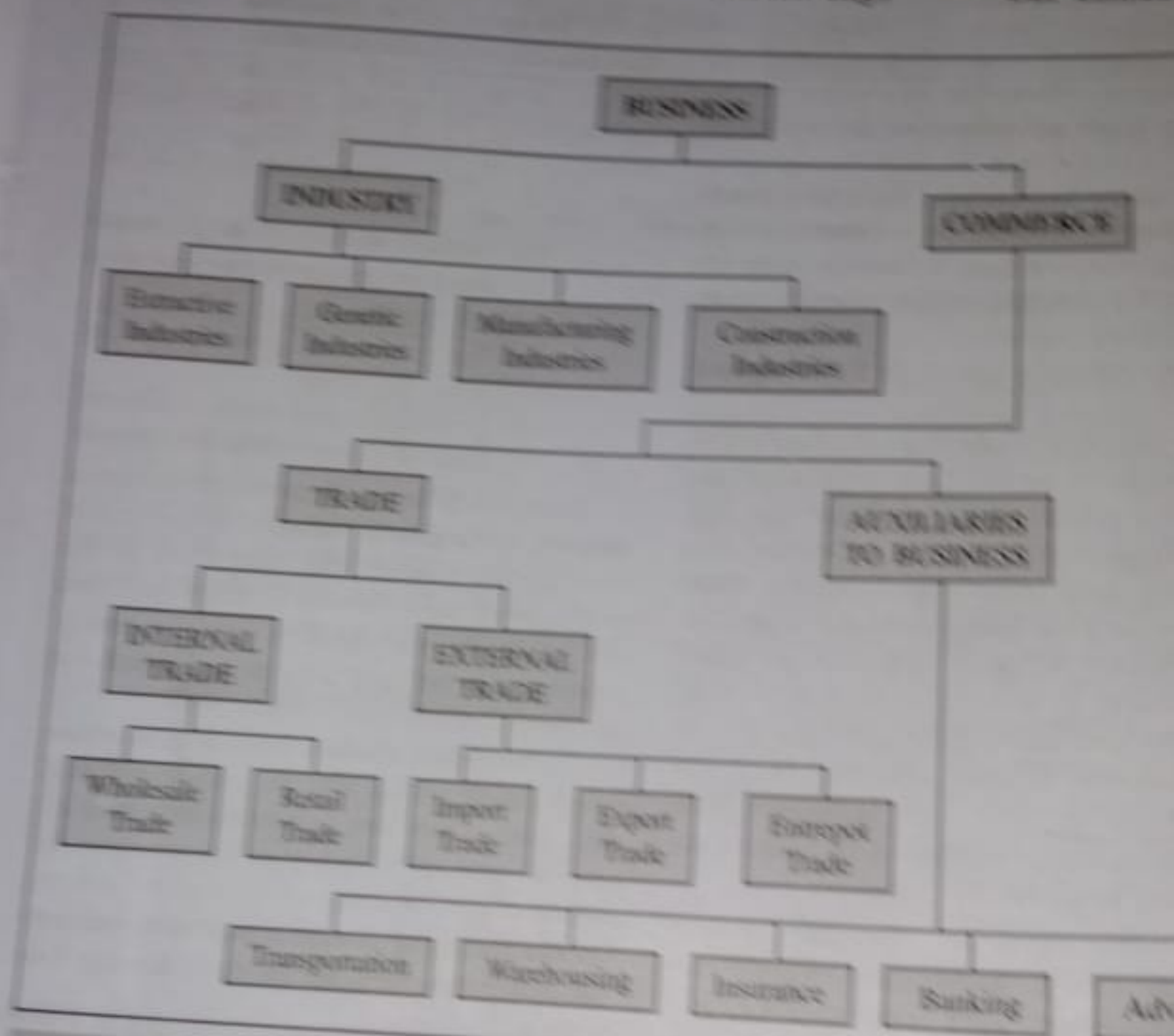
2. Light Industries : These industries produce consumer goods and employ simple technology and processes of production. They do not require huge investment. Food processing, polythene bags manufacturing, plastic industry, stationery industry are some examples of light industries.

On the basis of size, industries are classified as large scale and small scale industries.

1. Large Scale Industries : Industries having investment of more than rupees one crore in plant and machinery are treated as large scale industries. Large scale industries employ a large number of workers and produce goods in huge quantities. Cement, petrochemicals, automobile industries are examples of large scale industries.

Introduction to Commercial Organisation

5. Sanjiv Mehta	- Shree Mehta	8. P.K.S. Choudhary	- Chem Group India
6. Kishore Kumar	- Future Group (Big Bazaar)	9. Vijay Malhotra	- Kingfisher Airlines
7. N. Narayan Murthy	- Infosys Technologies	10. K.P. Singh	- DLF Limited



1.3. MEANING AND TYPES OF INDUSTRY

Industry includes all those business activities which involve extracting, multiplying, growing, processing, assembling and constructing useful products. The goods may be consumer goods, e.g., bread, butter, shoes, television, radio, etc., or capital goods (e.g., machinery, equipment, machine tools, etc.). Industry involves the use of men, machines, materials and money for production of goods. In a broad

sense, the term 'industry' is also used to refer to a group of firms producing similar goods. For example, sugar industry refers to manufacturing units producing sugar. Business enterprises which undertake such activities are known as industrial enterprises. People who own and control industrial enterprises are called industrialists.

Industries may be broadly classified into two categories as under :

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Questions:

- Q.1. Define the term Economic Activity and Non-Economic Activity with example.
- Q2. Define the term Business. Discuss the characteristics of business.
- Q3. what is industry?
- Q4. Discuss the various types of industry.