



ST. LAWRENCE HIGH SCHOOL

A Jesuit Christian Minority Institution
STUDY MATERIAL
CLASS -XI



SUBJECT -BSTD CHAPTER 1-Nature and purpose of Business-Basic concept **Date - 20.06.20**

Definition of business

According to the West Bengal Council of Higher Secondary Education business means any activity directed to create values for moving wants of man in the society through recurring exchange.

1. **Economic Activities** Activities which are undertaken by people with the object of earning money are known as economic activities. e.g., production of goods in a factory, distribution of goods by a wholesaler or retailer.

2. **Types of Economic Activities** Economic activities can be divided into three categories

- Business
- Profession
- Employment

3. **Non-Economic Activities** The activities which are undertaken by an individual with a motive of getting psychological satisfaction are known as non-economic activities e.g., going to temple, charity, social service etc.

4. **Concept of Business** Business is a wide term. It includes all occupations in which people are busy in earning income either by production or purchase and sale or exchange of goods and services to satisfy the needs of other people with the main objective of earning profit.

According to **Lewis H Honey**. "Business is a human activities directed towards producing or acquiring wealth through buying and selling goods".

5. Characteristics of Business Activities

- **An Economic Activity** Business is considered as an economic activity as it is undertaken with the aim of earning money.
- **Production or Procurement of Goods and Services** Every business enterprise either produce or procures goods or services from producers.
- **Sale or Exchange of Goods and Services** Directly or indirectly, business involves transfer of exchange of goods and services for value.
- **Dealings in Goods and Services on a Regular Basis** Business involves dealings in goods or services on a regular basis. One single transaction of sale or purchase, therefore, does not constitute business.
- **Profit Earning** One of the main purpose of business is to earn income by way of earning profit.
- **Uncertainty of Return** There is always a possibility of losses being incurred, in spite of best efforts put into the business.
- **Element of Risk** Risk is the uncertainty associated with an exposure to loss.

Business can be classified into three categories:

- 1. Local or domestic business** here field of operation is restricted within a small area.
- 2. National business** here the field of operation is expanded over a large region of a country.
- 3. Inter-national business** here the field of operation of the business exists even beyond the boundaries of the country.

Inter- national business can be of three types :

Import Trade, Export trade and Entrepot trade.

Occupation - Man is required to do some work for earning his livelihood, which may be called as occupation.

Profession - Profession is an economic activity that requires special knowledge and skill to be applied by individuals for earning their living.

Employment - It is an occupation where a person undertakes to work for another according to the terms of a service agreement in return for a salary or wage or even commission.

Comparison of Business, Profession and Employment

- Business refers to those economic activities which are connected with the production, purchase, sale or distribution of goods and services with the main aim objectives of earning profit.
- Profession refers to the activities which require special knowledge and skill to be applied by an individual in his work to earn a living.
- Employment refers to an activity in which an individual work regularly for another person and gets remunerated in return.

Features of Business :

1. Economic Activity

Business necessarily has to be an economic activity. Any activity that gives a monetary return is an economic activity. For example, if your friend's father picks you up and drops you at college every day, he is doing this act out of kindness. But if he starts a transportation service of picking up and dropping by charging money then it's an economic activity.

2. Production or Trading of Good or Services for Sale

If a business plans on selling a product, it has to either manufacture that product or purchase it and add a profit margin to it and sell it further. Business is interested in every activity that is concerned with the production or purchase of goods for selling, this makes

it one of the most important characteristics of a business. Services for sale include transportation, housekeeping, and security. Whereas, goods are mostly consumable items.

3. Sale or Exchange of Goods and Services

The third and crucial one of the characteristics of business after production or procurement is to sell that product for the money. The way to sell a product or service is by launching it in the market or to offer it for sale. A sale or exchange must take place between the seller and the buyer.

4. Regularity in Dealings

Business is a repeatable economic activity that generates money. For example, if you sell your old bike and it generates money. Also, it's an economic activity but is you doing this on a regular basis? No. As it has no regularity in it, it cannot be accepted as a business activity. Similarly, there is a dealer who deals in the purchase and sells of second-hand bikes. For him, it's a business activity as there is a regularity in his dealing. A single transaction of purchase or sale cannot be classified as a business.

5. Profit Earning

The sole purpose of business is the maximization of profit. It steps into the market with the main objective of earning a profit. For the survival of business in a market, generating profit is extremely necessary. If a business can't produce profit, it is expected of it to go downhill financially. Therefore the businessman does all the possible tricks to maximize its profits by increasing the volume of sales or decreasing the costs.

6. Risk Factor

It is well known "Higher the risks, higher the return". Business attracts risk. While initiating business it is not guaranteed 100% that the business will be successful. There is an anticipation that there might be demand for its product or service in the market. But the market is always dwindling the subject to risk. The business may even earn profit but the amount of profit earned may vary.

7. Uncertainty of Returns

Businessmen invest huge capital in their activities to sustain and extract profit from the business. As we discussed the risk above, it is very uncertain as to what amount the profit will be earned. Often there are situations where is no return of profit. There are always chances of losses in the business activities.

8. Legal Activity

The business has to be legal and lawful. Business is an extremely important activity for a country but it is not above the law. Every economic activity has to be within the limits of the law. The country's legislation puts clauses on the functioning of the business to control its activities.

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