

# **BBA FIRST SEMESTER**

## **BUSINESS ORGANIZATION**

### **Unit- I Introduction to Business**

#### **Business :-**

We may define the term business in the following words :

" As an institution organized by person or group of persons to produce or distribute goods or services within incentive of earning profit through the satisfaction of human wants. The element of risk is also involved in it."

Following are the main characteristics of a business :

1. Every business deals in goods and services.
2. The profit motive in the business is essential.
3. Element of risk is also involved in business.
4. In a business there should be a series of deal.
5. People should do the business for money. Free consumption of goods is not included in business.

#### **2. Industry :-**

Industry is a branch of a business. Industry is concerned with the production of goods and preparation of goods.

All those activities which produce the goods, or convert the raw material into finished goods or intermediate goods are included in industry. To produce agricultural goods and mining is also included in industry. Anyhow the term industry refers to that pan of business activity which is concerned with the extraction ,production or preparation of products. Following are the main kinds of industry.

1. Primary industry :- It may refers to agriculture and forestry.
2. Extractive industry :- It includes mining and fishing.
3. Manufacturing industry :- It includes the changing of raw material into a more useful form.
4. Constructive industry :- The construction of buildings, dams and roads includes in this industry.

#### **Commerce :-**

Commerce includes all those activities which are helpful in transferring goods from the place of production to the consumer. For example purchases, sale, transportation's, banking, insurance, storage and advertisement are the activities which come within the scope of commerce. Manufactured goods do not reach directly from the producer to the consumer. For example wholesaler purchases the goods from producer and uses the transportation to transfer these to his store. He also hires the services of bank and insurance company. Then he sells the goods to retailer. A consumer purchases the goods from retailer . So there are many obstacles in the way of producer an consumer.

Mr. James Stephon has rightly stated that " Commerce includes those activities which remove the hind ranees of time, person and places in the exchange of goods."

### **Trade :-**

Trade is an important part of commerce. All those activities are included in the trade which are helpful for the exchange of goods between the producer and consumer. The exchange of goods can be direct or indirect. Those factors which removes the obstacles in the exchange of goods are included in the scope of trade. Trade can be carried out inside and outside the country. Within the country trade has two kinds.

Whole sale retail :- Trade with the foreign countries is either in the form of exports or in the form of imports.

### **Profession :-**

It means vocation which a person adopts after getting specialized training. The professional man provides the services of specialized nature to the people. Some people adopt the particular profession only for the profit motive but others provide the services only. The doctors,accountants and professor fall in the category of professional. These are performing very useful service to the society because they have a specialized knowledge particular field. The professionals who rend free services are very negligible.

## **Types of Business Organization**

It is important that the business owner seriously considers the different forms of business organization—types such as sole proprietorship, partnership, and corporation. Which organizational form is most appropriate can be influenced by tax issues, legal issues, financial concerns, and personal concerns. For the purpose of this overview, basic information is presented to establish a general impression of business organization.

### **1. Sole Proprietorship**

A Sole Proprietorship consists of one individual doing business. Sole Proprietorships are the most numerous form of business organization in the India, however they account for little in the way of aggregate business receipts.

#### Advantages

- Ease of formation and dissolution. Establishing a sole proprietorship can be as simple as printing up business cards or hanging a sign announcing the business. Taking work as a contract carpenter or freelance photographer, for example, can establish a sole proprietorship. Likewise, a sole proprietorship is equally easy to dissolve.
- Typically, there are low start-up costs and low operational overhead.
- Ownership of all profits.
- Sole Proprietorships are typically subject to fewer regulations.
- No corporate income taxes. Any income realized by a sole proprietorship is declared on the owner's individual income tax return.

#### Disadvantages

- Unlimited liability. Owners who organize their business as a sole proprietorship are personally responsible for the obligations of the business, including actions of any employee representing the business.
- Limited life. In most cases, if a business owner dies, the business dies as well.
- It may be difficult for an individual to raise capital. It's common for funding to be in the form of personal savings or personal loans.

The most daunting disadvantage of organizing as a sole proprietorship is the aspect of unlimited liability. An advantage of a sole proprietorship is filing taxes as an individual rather than paying corporate tax rates. Some hybrid forms of business organization may be employed to take advantage of limited liability and lower tax rates for those businesses that meet the requirements. These include Company, and Limited Liability Companies (LLC's).

## 2. Partnership

A Partnership consists of two or more individuals in business together. Partnerships may be as small as mom and pop type operations, or as large as some of the big legal or accounting firms that may have dozens of partners. There are different types of partnerships—general partnership, limited partnership, and limited liability partnership—the basic differences stemming around the degree of personal liability and management control.

### Advantages

- Synergy. There is clear potential for the enhancement of value resulting from two or more individuals combining strengths.
- Partnerships are relatively easy to form, however, considerable thought should be put into developing a partnership agreement at the point of formation.
- Partnerships may be subject to fewer regulations than Company.
- There is stronger potential of access to greater amounts of capital.
- No corporate income taxes. Partnerships declare income by filing a partnership income tax return. Yet the partnership pays no taxes when this partnership tax return is filed. Rather, the individual partners declare their pro-rata share of the net income of the partnership on their individual income tax returns and pay taxes at the individual income tax rate.

### Disadvantages

- Unlimited liability. General partners are individually responsible for the obligations of the business, creating personal risk.
- Limited life. A partnership may end upon the withdrawal or death of a partner.
- There is a real possibility of disputes or conflicts between partners which could lead to dissolving the partnership. This scenario enforces the need of a partnership agreement.

As pointed out, unlimited liability exists for partnerships just as for sole proprietorships. One way to alleviate this risk is through Limited Liability Partnerships (LLP's). As with LLC's, LLP's may offer some tax advantages while providing some risk protection for owners.

### 3. *Company/ Corporation*

Company are probably the dominant form of business organization in the India. Although fewer in number, Company account for the lion's share of aggregate business receipts in the Indian economy. A corporation is a legal entity doing business, and is distinct from the individuals within the entity. Public Company are owned by shareholders who elect a board of directors to oversee primary responsibilities. Along with standard, for-profit Company, there are charitable, not-for-profit Company.

#### Advantages

- Unlimited commercial life. The corporation is an entity of its own and does not dissolve when ownership changes.
- Greater flexibility in raising capital through the sale of stock.
- Ease of transferring ownership by selling stock.
- Limited liability. This limited liability is probably the biggest advantage to organizing as a corporation. Individual owners in Company have limits on their personal liability. Even if a corporation is sued for billions of dollars, individual shareholder's liability is generally limited to the value of their own stock in the corporation.

#### Disadvantages

- Regulatory restrictions. Company are typically more closely monitored by governmental agencies, including federal, state, and local. Complying with regulations can be costly.
- Higher organizational and operational costs. Company have to file articles of incorporation with the appropriate state authorities. These legal and clerical expenses, along with other recurring operational expenses, can contribute to budgetary challenges.
- Double taxation. The possibility of double taxation arises when companies declare and pay taxes on the net income of the corporation, which they pay through their corporate income tax returns. If the corporation also pays out dividends to individual shareholders, those shareholders must declare that dividend income as personal income and pay taxes at the individual income tax rates. Thus, the possibility of double taxation.