

NCERT Solutions for Class 11 Part-1 Foundations of Business

Chapter 1 Business, Trade and Commerce Exercise Solutions

Short answers questions: Solutions of Questions on Page Number: 26

Question 1. List any five major commercial cities of ancient India?

Solution:

There were all kinds of towns—port towns, manufacturing towns, mercantile towns, the sacred centre, and pilgrimage towns. Their existence is an index of prosperity of merchant communities and professional classes. The following were the leading trade centre in ancient India:

1. **Pataliputra:** Known as Patna today. It was not only a commercial town, but also a major centre for export of stones.
2. **Peshawar:** It was an important exporting centre for wool and for the import of horses. It had a huge share in commercial transactions between India, China and Rome in the first century A.D.
3. **Taxila:** It served as a major centre on the important land route between India and Central Asia. It was also a city of financial and commercial banks. The city occupied an important place as a Buddhist centre of learning. The famous Taxila University flourished here.
4. **Indraprastha:** It was the commercial junction on the royal road where most routes leading to the east, west, south and north converged.
5. **Mathura:** It was an emporium of trade and people here subsisted on commerce. Many routes from South India touched Mathura and Broach

Question 2. What is Hundi?

Solution:

Hundi as an instrument of exchange, which was prominent in the subcontinent. It involved a contract which — (i) warrant the payment of money, the promise or order which is unconditional (ii) capable of change through transfer by valid negotiation.

Hundi as practised by Indian Merchant Communities:

Name of Hundi	Broader Classification	Functions of Hundi
Dhani-jog	Darshani	Payable to any person—no liability over who received payment.
Sah-jog	Darshani	Payable to a specific person, someone ‘respectable’. Liability over who received payment.
Firman-jog	Darshani	Hundi made payable to order

Dekhan-har	Darshani	Payable to the presenter or bearer
Dhani-jog	Muddati	Payable to any person—no liability over who received payment, but payment over a fixed term.
Firman-jog	Muddati	Hundi made payable to order following a fixed term
Jokhmi	Muddati	Drawn against dispatched goods. If goods lost in transit, the drawer or holder bears the costs, and the Drawee carries no liability

Question 3. List the major exports and imports in ancient India.

Solution:

Major Exports in ancient India were of spices, wheat, sugar, indigo, opium, sesame oil, cotton, parrot, live animals and animal products—hides, skin, furs, horns, tortoise shells, pearls, sapphires, quartz, crystal, lapis, lazuli, granites, turquoise and copper etc.

Major Imports in ancient India were of horses, animal products, Chinese silk, flax and linen, wine, gold, silver, tin, copper, lead, rubies, coral, glass, amber, etc.

Question 4. What were the different types of Hundi in use by traders in ancient times?

Solution:

Name of Hundi	Broader Classification	Functions of Hundi
Dhani-jog	Darshani	Payable to any person—no liability over who received payment.
Sah-jog	Darshani	Payable to a specific person, someone 'respectable'. Liability over who received payment.
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Question 5. What do you understand by maritime trade?

Solution:

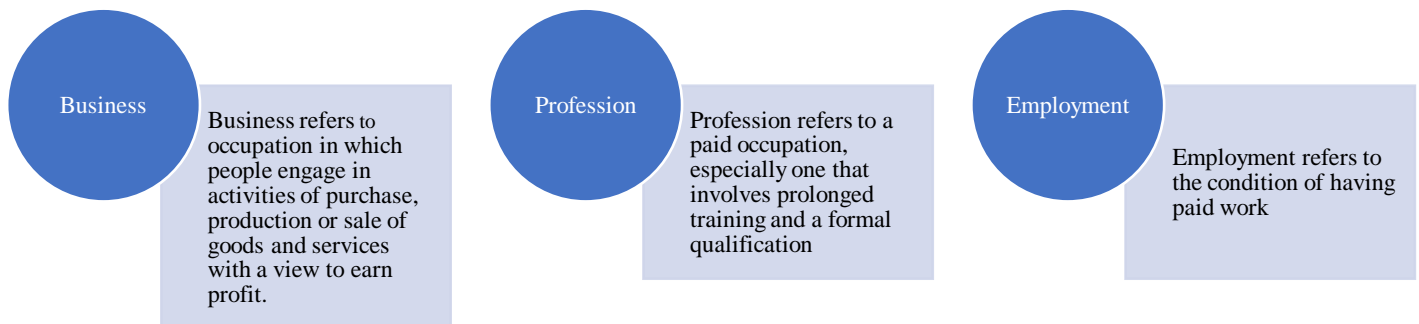
Transport by land and water was popular in the ancient times. Trade was maintained by both land and sea. Trade maintained by means of sea is referred to as maritime trade. Maritime trade was another important branch of global trade network. Malabar Coast, on which Muziris is situated, has a long history of international maritime trade going back to the era of the Roman Empire. Pepper was particularly valued in the Roman Empire and was known as ‘Black Gold’. For centuries, it remained the reason for rivalry and conflict between various empires and trade powers to dominate the route for this trade. It was in the search for an alternate route to India for spices that led to the discovery of America by Columbus in the closing years of 15th century and also brought Vasco da Gama to the shores of Malabar in 1498.

Calicut was such a bustling emporium that it was even visited by Chinese ships to acquire items, like frankincense (essential oil) and myrrh (fragrant resin used in perfumes, medicines) from the Middle East, as well as, pepper, diamonds, pearls and cotton from India. On the Coromandel Coast, Pulicat was a major port in the 17th century. Textiles were the principal export from Pulicat to Southeast Asia.

Question 6. State the different types of economic activities.

Solution:

Economic activities are those by which we can earn our livelihood. For example: a worker working in a factory, a doctor operating in his clinic, a manager working in an office and a teacher teaching in a school are doing so to earn their livelihoods and are, therefore, engaged in an economic activity. Economic activities may be further divided into three categories, namely business, profession and employment



Question 7. Why is business considered as economic activity?

Solution:

The term business is derived from the word 'busy'. Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits. The activity may consist of production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people.

In every society, people undertake various activities to satisfy their needs. These activities may be broadly classified into two groups — economic and non-economic. Economic activities are those by which we can earn our livelihood, whereas, non-economic activities are performed out of love, sympathy, sentiment, patriotism, etc. For example, a worker working in a factory, a doctor operating in his clinic, a manager working in an office and a teacher teaching in a school are doing so to earn their livelihoods and are, therefore, engaged in an economic activity. On the other hand, a housewife cooking food for her family, or a boy helping an old man cross the road are performing non-economic activities since they are doing so out of love or sympathy. Economic activities may be further divided into three categories, namely business, profession and employment.

Business is considered to be an economic activity because it is undertaken with the objective of earning money or livelihood and not out of love, affection, sympathy or any other emotion. It may be mentioned here that this activity can be undertaken either on small and individual level, e.g. (purchase and sale by a shopkeeper) or on large scale in a more formal and organised level (purchase and sale by a cooperative society or company).

Question 8. State the meaning of business.

Solution:

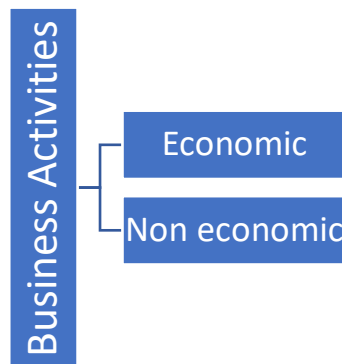
The term business is derived from the word 'busy'. Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits. The activity may consist of production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people.



Question 9. How would you classify business activities?

Solution:

Business activities may be broadly classified into two groups — economic and non-economic.



Economic activities are those by which we can earn our livelihood, whereas, non-economic activities are performed out of love, sympathy, sentiment, patriotism, etc. For example, a worker working in a factory, a doctor operating in his clinic, a manager working in an office and a teacher teaching in a school are doing so to earn their livelihoods and are, therefore, engaged in an economic activity. Economic activities may be further divided into three categories, namely business, profession and employment

On the other hand, a housewife cooking food for her family, or a boy helping an old man cross the road are performing non-economic activities since they are doing so out of love or sympathy.

Question 10. What are the various types of industries?

Solution:

Primary	Secondary	Tertiary
<ul style="list-style-type: none">•These include all those activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc•These are divided as follows:<ul style="list-style-type: none">•Extractive Industries: These industries extract or draw products from natural sources•Genetic Industries: These industries are engaged in breeding plants and animals for their use in further reproduction	<ul style="list-style-type: none">•These are concerned with using materials, which have already been extracted at the primary state. These industries process such materials to produce goods for final consumption or for further processing by other industrial units.•Secondary industries may be further divided as follows<ul style="list-style-type: none">•Manufacturing Industries: These industries are engaged in producing goods through processing of raw materials and, thus, creating form utilities•Construction Industries: These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals	<ul style="list-style-type: none">•These are concerned with providing support services to primary and secondary industries as well as activities relating to trade.•These industries provide service facilities

Question 11. Explain any two business activities which auxiliaries to trade are.

Solution:

Two Business activities which auxiliaries to trade are as follows:

1. Transport and Communication:

Production of goods generally takes place in particular locations. For instance, tea is mainly produced in Assam; cotton in Gujarat and Maharashtra; jute in West Bengal and Odisha; sugar in U.P., Bihar and Maharashtra and so on. But these goods are required for consumption in different parts of the country. The obstacle of place is removed by transport through road, rail or coastal shipping. Transport facilitates movement of raw material, to the place of production and the finished products from factories to the place of consumption. Along with transport facility, there is also a need for communication facilities so that producers, traders and consumers may exchange information with one

another. Thus, postal services and telephone facilities may also be regarded as auxiliaries to business activities.

2. **Banking and Finance:**

Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance. Commercial banks, generally lend money by providing overdraft and cash credit facilities, loans and advances. Banks also undertake collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders. In foreign trade, commercial banks help exporters in collecting money from importers. Commercial banks also help promoters of companies to raise capital from the public.

Question 12. What is the role of profit in business?

Solution:

An objective is the starting point of business. Every business is directed to the achievement of certain objectives. Objectives refer to all that the business people want to get in return for what they do. It is generally believed that business activity is carried out only for profit. Business persons themselves proclaim that their primary objective is produce or distribute goods or services for profit. Every business is said to be an attempt on the part of business people to get more than what has been spent or invested, or in other words, to earn profit which is the excess of revenue over cost. Although earning profit cannot be the only objective of business, its importance cannot be ignored. Every business is an attempt to reap more than what has been invested, and profit is the excess of revenue over cost.

Profit may be regarded as an essential objective of business for various reasons:

- it is a source of income for business persons,
 - it can be a source of finance for meeting expansion requirements of business,
 - it indicates the efficient working of business,
 - it can be taken as the society's approval of the utility of business, and
 - it builds the reputation of a business enterprise.
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Question 13. What is business risk? What is its nature?

Solution:

The term 'business risks' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. For example, demand for a particular product may decline due to change in tastes and preferences of consumers or due to increased competition from other producers. Lower demand results in long sales and profits. In another situation, the shortage of raw materials in the market may shoot up its price. The firm using these raw materials will have to pay more for buying them. As a result, cost of production may increase which, in turn, may reduce profits.

Business enterprises constantly face two types of risk: speculative and pure. Speculative risks

involve both the possibility of gain, as well as, the possibility of loss. Speculative risks arise due to changes in market conditions, including fluctuations in demand and supply, changes in prices or changes in fashion and tastes of customers. Favourable market conditions are likely to result in gains, whereas, unfavourable ones may result in losses. Pure risks involve only the possibility of loss or no loss. The chance of fire, theft or strike are examples of pure risks. Their occurrence may result in loss, whereas, non-occurrence may explain absence of loss, instead of gain.

Nature of Business Risks are as follows:

1. Business risks arise due to uncertainties
2. Risk is an essential part of every business
3. Degree of risk depends mainly upon the nature and size of business
4. Profit is the reward for risk taking

Long answers questions: Solutions of Questions on Page Number: 26

Question 1. Discuss the development of indigenous banking system in Indian subcontinent.

Solution:

Trade and commerce have played a vital role in making India to evolve as a major actor in the economic world in ancient times. Commercial cities like Harappa and Mohenjodaro were founded in the third millennium B.C. The civilisation had established commercial connections with Mesopotamia and traded in gold, silver, copper, coloured gemstones, beads, pearls, sea shells, terracotta pots, etc.

As economic life progressed, metals began to supplement other commodities as money because of its durability and divisibility. As money served as a medium of exchange, the introduction of metallic money and its use accelerated economic activities. Documents such as Hundi and Chitti were in use for carrying out transactions in which money passed from hand to hand.

Hundi as an instrument of exchange, which was prominent in the subcontinent. It involved a contract which

- (i) warrant the payment of money, the promise or order which is unconditional
- (ii)capable of change through transfer by valid negotiation.

Indigenous banking system played a prominent role in lending money and financing domestic and foreign trade with currency and letter of credit. With the development of banking, people began to deposit precious metals with lending individuals functioning as bankers or Seths, and money became an instrument for supplying the manufacturers with a means of producing more goods.

The emergence of credit transactions and availability of loans and advances enhanced commercial operations. The Indian subcontinent enjoyed the fruits of favourable balance of trade, where exports exceeded imports with large margins and the indigenous banking system benefitted the manufacturers, traders and merchants with additional capital funds for expansion and development. Commercial and Industrial banks later evolved to finance trade and commerce and agricultural banks to provide both short-and long-term loans to finance agriculturists.

Question 2. Define business. Describe its important characteristics.

Solution:

The term business is derived from the word 'busy'. Thus, business means being busy. However, in a specific sense, business refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits. The activity may consist of production or purchase of goods for sale, or exchange of goods or supply of services to satisfy the needs of other people.



- **Production or procurement of goods and services:**
Before goods are offered to people for consumption, these must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or acquires them from producers, to be further sold to consumers or users. Goods may consist of consumable items of daily use, such as sugar, ghee, pen, notebook, etc., or capital goods, like machinery, furniture, etc., Services may include facilities offered to consumers, business firms and organisations in the form of transportation, banking, electricity, etc.
- **Sale or exchange of goods and services:**
Directly or indirectly, business involves transfer or exchange of goods and services for value. If goods are produced not for the purpose of sale but for personal consumption, it cannot be called a business activity. Cooking food at home for the family is not business but cooking food and selling it to others in a restaurant is business. Thus, one essential characteristic of business is that there should be sale or exchange of goods or services between the seller and the buyer.
- **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. Thus, for example, if a person sells his/her domestic radio set even at a profit, it will not be considered a business activity. But if he/she sells radio sets regularly either through a shop or from his/her residence, it

will be regarded as a business activity.

- **Profit earning:**

One of the main purpose of business is to earn income by way of profit. No business can survive for long without profit. That is why, businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.

- **Uncertainty of return:**

Uncertainty of return refers to the lack of knowledge relating to the amount of money that the business is going to earn in a given period. Every business invests money (capital) to run its activities with the objective of earning profit. But it is not certain as to what amount of profit will be earned. Also, there is always a possibility of losses being incurred, despite the best efforts put into the business.

- **Element of risk:**

Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavorable or undesirable event. Risks are related with factors, like changes in consumer taste and fashion, changes in method of production, strike or lockout at workplace, increased competition in market, fire, theft, accidents, natural calamities, etc. No business can altogether do away with risks

Question 3. Compare business with profession and employment.

Solution:

Basic	Business	Profession	Employment
Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice	Appointment letter and service agreement
Nature of work	Provision of goods and services to the public	Rendering of personalised, expert services	Performing work as per service contract or rules of service
Qualification	No minimum qualification is necessary	Qualifications, expertise and training in specific field as prescribed by the professional body is a must	Qualification and training as prescribed by the employer
Reward or return	Profit earned	Professional fee	Salary or wages
Capital investment	Capital investment required as per size and nature of business	Limited capital needed for establishment	No capital Required
Risk	Profits are uncertain and irregular; risk is present	Fee is generally regular and certain; some risk	Fixed and regular pay; no or little risk
Transfer of interest	Transfer possible with some formalities	Not possible	Not possible

Code of conduct	No code of conduct is prescribed	Professional code of conduct is to be Followed	Norms of behaviour laid down by the employer are to be followed
Example	Shop, factory	Legal, medical profession, Chartered accountancy	Jobs in banks, insurance companies, government departments

Question 4. Define Industry. Explain various types of industries giving examples.

Solution:

Industry refers to economic activities, which are connected with conversion of resources into useful goods. Generally, the term industry is used for activities in which mechanical appliances and technical skills are involved. These include activities relating to producing or processing of goods, as well as, breeding and raising of animals. The term industry is also used to mean groups of firms producing similar or related goods. For example, cotton textile industry refers to all manufacturing units producing textile goods from cotton.

Primary	Secondary	Tertiary
<ul style="list-style-type: none"> • These include all those activities which are concerned with the extraction and production of natural resources and reproduction and development of living organisms, plants, etc • These are divided as follows: <ul style="list-style-type: none"> • Extractive Industries: These industries extract or draw products from natural sources. Extractive industries supply some basic raw materials that are mostly products of geographical or natural environment. Products of these industries are usually transformed into many other useful goods by manufacturing industries. Important extractive industries include farming, mining, lumbering, hunting and fishing operations. • Genetic Industries: These industries are engaged in breeding plants and animals for their use in further reproduction. Seeds and nursery companies are typical examples of genetic industries. In addition, activities of cattle breeding farms, poultry farms, and fish hatchery come under genetic 	<ul style="list-style-type: none"> • These are concerned with using materials, which have already been extracted at the primary state. These industries process such materials to produce goods for final consumption or for further processing by other industrial units. • Secondary industries may be further divided as follows <ul style="list-style-type: none"> • Manufacturing Industries: These industries are engaged in producing goods through processing of raw materials and, thus, creating form utilities. They bring out diverse finished products, that we consume, or use through the conversion of raw materials or partly finished materials in their manufacturing operations • Construction Industries: These industries are involved in the construction of buildings, dams, bridges, roads as well as tunnels and canals. Engineering and architectural skills are an important part in construction 	<ul style="list-style-type: none"> • These are concerned with providing support services to primary and secondary industries as well as activities relating to trade. • These industries provide service facilities. • As business activities, these may be considered part of commerce because as auxiliaries to trade these activities assist trade. Included in this category are transport, banking, insurance, warehousing, communication, packaging and advertising.

Question 5. Describe the activities relating to commerce.

Solution:

Commerce includes two types of activities, viz., (i) trade and (ii) auxiliaries to trade. Buying and selling of goods is termed as trade. But there are a lot of activities that are required to facilitate the purchase and sale of goods.

- **Trade**

Trade is an essential part of commerce. It refers to sale, transfer or exchange of goods. It helps in making the goods produced available to the consumers or users. Trade may be classified into two broad categories – internal and external. Internal, domestic or home trade is concerned with the buying and selling of goods and services within the geographical boundaries of a country. External or foreign trade consists of the exchange of goods and services between persons or organisations

operating in two or more countries.

- **Auxiliaries to Trade**

Activities which are meant for assisting trade are known as auxiliaries to trade. Auxiliaries are an integral part of commerce in particular and business activity in general. These activities help in removing various hindrances which arise in connection with the production and distribution of goods. Auxiliaries to trade are briefly discussed below:

- 1. Transport and Communication:**

Production of goods generally takes place in particular locations. Transport facilitates movement of raw material, to the place of production and the finished products from factories to the place of consumption. Communication facilities so that producers, traders and consumers may exchange information with one another.

- 2. Banking and Finance:**

Business activities cannot be undertaken unless funds are available for acquiring assets, purchasing raw materials and meeting other expenses. Necessary funds can be obtained by businessmen from a bank. Thus, banking helps business activities to overcome the problem of finance. Commercial banks, generally lend money by providing overdraft and cash credit facilities, loans and advances. Banks also undertake collection of cheques, remittance of funds to different places, and discounting of bills on behalf of traders.

- 3. Insurance:**

Business involves various types of risks. Factory building, machinery, furniture, etc., must be protected against fire, theft and other risks. Material and goods held in stock or in transit are subject to the risk of loss or damage. Employees are also required to be protected against the risks of accident and occupational hazards. Insurance provides protection in all such cases.

- 4. Warehousing:**

Usually, goods are not sold or consumed immediately after production. They are held in stock to make them available as and when required. Special arrangement must be made for the storage of goods to prevent loss or damage. Warehousing helps business firms to overcome the problem of storage and facilitates the availability of goods when needed.

- 5. Advertising:**

Advertising is one of the most important methods of promoting the sale of products, particularly, consumer goods, like electronic and automobile goods, soaps, detergents, etc. It is practically impossible for producers and traders to contact each and every customer. Thus, for promoting sales, information about the goods and services available, their features, price, etc., must reach potential buyers.

Question 6. Explain any five objectives of business.

Solution:

Objectives of Business are as follows:

1. Market standing:

Market standing refers to the position of an enterprise in relation to its competitors. A business enterprise must aim at standing on stronger footing in terms of offering competitive products to its customers and serving them to their satisfaction.

2. Innovation:

Innovation is the introduction of new ideas or methods in the way something is done or made. There are two kinds of innovation in every business i.e.,

(i) innovation in product or services; and

(ii) innovation in various skills and activities needed to supply products and services.

No business enterprise can flourish in a competitive world without innovation. Therefore, innovation becomes an important objective.

3. Productivity:

Productivity is ascertained by comparing the value of output with the value of inputs. It is used as a measure of efficiency. In order to ensure continuous survival and progress, every enterprise must aim at greater productivity through the best use of available resources.

4. Physical and financial resources:

Any business requires physical resources, like plants, machines, offices, etc., and financial resources, i.e., funds to be able to produce and supply goods and services to its customers. The business enterprise must aim at acquiring these resources according to their requirements and use them efficiently.

5. Earning profits:

One of the objectives of business is to earn profits on the capital employed. Profitability refers to profit in relation to capital investment. Every business must earn a reasonable profit which is so important for its survival and growth.

Question 7. Explain the concept of business risk and its causes.

Solution:

The term 'business risks' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. For example, demand for a particular product may decline due to change in tastes and preferences of consumers or due to increased competition from other producers. Lower demand results in long sales and profits. In another situation, the shortage of raw materials in the market may shoot up its price. The firm using these raw materials will have to pay more for buying them. As a result, cost of production may increase which, in turn, may reduce profits.

Business enterprises constantly face two types of risk: speculative and pure. Speculative risks involve both the possibility of gain, as well as, the possibility of loss. Speculative risks arise due to changes in market conditions, including fluctuations in demand and supply, changes in prices

or changes in fashion and tastes of customers. Favorable market conditions are likely to result in gains, whereas, unfavorable ones may result in losses. Pure risks involve only the possibility of loss or no loss. The chance of fire, theft or strike are examples of pure risks. Their occurrence may result in loss, whereas, non-occurrence may explain absence of loss, instead of gain.

Business risks arise due to a variety of causes, which are classified as follows:

1. Natural causes:

Human beings have little control over natural calamities, like flood, earthquake, lightning, heavy rains, famine, etc. property and income in business.

2. Human causes:

Human causes include such unexpected events, like dishonesty, carelessness or negligence of employees, stoppage of work due to power failure, strikes, riots, management inefficiency, etc.

3. Economic causes:

These include uncertainties relating to demand for goods, competition, price, collection of dues from customers, change of technology or method of production, etc. Financial problems, like rise in interest rate for borrowing, levy of higher taxes, etc., also come under these type of causes as they result in higher unexpected cost of operation or business.

4. Other causes:

These are unforeseen events, like political disturbances, mechanical failures, such as the bursting of boiler, fluctuations in exchange rates, etc., which lead to the possibility of business risks.

Question 8. What factors are to be considered while starting a business? Explain.

Solution:

Factors to be considered while starting a business are as follows:

1. Selection of line business:

The first thing to be decided by an entrepreneur is the nature and type of business to be undertaken. He/she will obviously like to enter that branch of industry and commerce, which has the possibility of greater amount of profits. The decision will be influenced by the customer requirements in the market and also the kind of technical knowledge and interest the entrepreneur has for producing a particular product.

2. Size of the firm:

Size of the firm or scale of its operation is another important decision to be taken at the start of the business. Some factors favour a large size, whereas, others tend to restrict the scale of operation. If the entrepreneur is confident that the demand for the proposed product is likely to be good over time and he/she can arrange the necessary capital for business, he/she will start the operation at a large scale. If the market conditions are uncertain and risks are high, a small size business would

be better choice.

3. Choice of form of ownership:

With respect to ownership, the business organisation may take the form of a sole proprietorship, partnership, or a joint stock company. Each form has its own merits and demerits. The choice of the suitable form of ownership will depend on such factors as the line of business, capital requirements, liability of owners, division of profit, legal formalities, continuity of business, transferability of interest and so on.

4. Location of business enterprise:

An important factor to be considered at the start of the business is the place where the enterprise will be located. Any mistake in this regard can result in high cost of production, inconvenience in getting, right kind of production inputs or serving the customers in the best possible way. Availability of raw materials and labour; power supply and services, like banking, transportation, communication, warehousing, etc., are important factors while making a choice of location.

5. Financing the proposition:

Financing is concerned with providing the necessary capital for starting, as well as, for continuing the proposed business. Capital is required for investment in fixed assets, like land, building, machinery and equipment and in current assets, like raw materials, books, debts, stock of finished goods, etc. Capital is also required for meeting day-to-day expenses. Proper financial planning must be done to determine (a) the requirement of capital, (b) source from where the capital will be raised and (c) the best ways of utilising the capital in the firm.

6. Physical facilities:

Availability of physical facilities, including machines and equipment, building and supportive services is an important factor to be considered at the start of the business. The decision relating to this factor will depend on the nature and size of business, availability of funds and the process of production

7. Plant layout:

Once the requirement of physical facilities has been determined, the entrepreneur should draw a layout plan showing the arrangement of these facilities. Layout means the physical arrangement of machines and equipment needed to manufacture a product.

8. Competent and committed worked force:

Every enterprise needs competent and committed workforce to perform various activities so that physical and financial resources are converted into desired outputs. Since no individual entrepreneur can do everything himself, he/she must identify the requirement of skilled and unskilled workers and managerial staff. Plans should also be made about how the employees will be trained and motivated to give their best performance.

9. Tax planning:

Tax planning has become necessary these days because there are a number of tax laws in the country and they influence almost every aspect of the functioning of modern business. The founder of the business has to consider in advance the tax liability under various tax laws and its impact

on business decisions.

10. Launching the enterprise:

After the decisions relating to the above-mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise which would mean mobilising various resources, fulfilling necessary legal formalities, starting the production process and initiating the sales promotion campaign.
