11

SHORT TERM SOURCES OF FINANCE

Mr. Anil Singh has been running a restaurant for the last two years. The excellent quality of food has made the restaurant popular in no time. Motivated by the success of his business, Mr. Singh is now contemplating the idea of opening a chain of similar restaurants at different places. However, the money available with him from his personal sources is not sufficient to meet the expansion requirements of his business. His father told him that he can enter into a partnership with the owner of another restaurant, who will bring in more funds but it would also require sharing of profits and control of business. He is also thinking of getting a bank loan. He is worried and confused, as he has no idea as to how and from where he should obtain additional funds. He discusses the problem with his friend Ramesh, who tells him about some other methods for raising the funds. He further cautions him that each method has its own advantages and limitations and his final choice should be based on factors like the purpose and period for which funds are required. He wants to learn about these methods.

LEARNING OUTCOMES

- describes short term sources of finance;
- identifies short term funding sources and instruments and
- explains long term finance sources, instruments and institutions providing long term funds.

11.1 BUSINESS FINANCE

Business finance refers to money and credit employed in business. Finance is the basis of business. It is required to purchase assets, goods, raw materials and for the other flow of economic activities. Business finance can be defined as 'the provision of money at the time when it is needed by a business'.

11.1 FINANCIAL NEEDS OF BUSINESS

Every Business needs capital. Capital is required at the time of beginning of the business. It is also needed when the business is in operation. As an enterprise grows in size and expands, it needs finance to establish. The capital requirements for business are divided into two classes which are discussed as under:-

- Fixed Capital
- Working Capital

1. Fixed Capital

Every business requires a sufficient amount of fixed capital for beginning its operational activities. As the name indicates, the amount of capital invested in various fixed or permanent assets, which are necessary for conducting the operation of a business is known as fixed capital. These fixed assets might be land, building, machinery, equipment etc. The fixed assets normally do not change their form and cannot be withdrawn from the business at a short notice. They can, however be disposed off. Fixed capital thus are the funds required for the purchase of those assets that are to be used over and over for a long period of time in business.

Investments in non-current assets such as goodwill, patent, rights, copyrights, long term receivables etc. also form a part of fixed assets. The amount of capital required for investment in fixed assets varies with size, nature and method of production of business. Summing up, fixed capital comprises of fixed assets and other non-current assets.

Importance of Fixed Capital

Right from the very beginning i.e. conceiving an idea of business, purchase of land, construction of building, purchase of machinery, capital etc. is needed. Further, for the expansion and modernization of machinery also fixed capital is required. So it is essential to have an adequate amount of fixed capital in an enterprise.

Note

2. Working Capital

In balance sheet terms, working capital is the difference between current assets and current liabilities of a business. Current assets refer to those assets, which can be easily changed into cash within a short period of time in the business, in an accounting year. It consists of cash in hand and bank balances, bills receivable, short term investments, and inventories of stocks. While on the other hand, current liabilities are those which are intended to be paid within a short period of one accounting year out of the current assets. It consists of bills payable, short term loans, bank overdraft, dividends payable, taxes payable etc.

Working capital also called circulating capital, is the life blood and nerve center of a business. Working capital is mostly used for the purchase of raw material, payment of wages, seasonal urgent demands of the business, purchase of more goods for sale, meeting the expenses of advertising, providing credit facilities to the customers etc.

Current assets - Current Liabilities = Working Capital

The difference between the current assets and current liabilities is surplus, the business has a positive working capital. In case the difference is negative, then the business has a negative or deficient working capital.

Importance of Working Capital

The importance of working capital is discussed below:

a) **Solvency of Business:** It helps in solvency of the business. The flow of production remains uninterrupted.

b) **Goodwill:** The entrepreneur is able to pay wages to the workers and other bills in time. This helps in creating goodwill of business.

c) **Loans on Favorable Terms:** A business with high solvency and greater goodwill can easily obtain loan from banks.

d) **Cash Discounts:** A business with adequate working capital can obtain cash discounts on the purchases. This helps in reducing cost.

e) **Enables to Face Crisis:** An adequate working capital enables an enterprise to face business crisis.

f) **Regular Payment of Dividend:** A sufficient amount of working capital enables a business to earn profit and pay dividend to investors in time.

Note

INTEXT QUESTIONS 11.1

1. The formula used to calculate Working Capital is–

   i. Current assets - Current liabilities

   ii. Current liabilities - Current assets

   iii. Inventory / Current liabilities

   iv. Current liabilities / Inventory

2. __________ is concerned with the acquisition, financing, and management of assets with some overall goal in mind.

   i. Financial management

   ii. Profit maximization

   iii. Agency theory

   iv. Social responsibility

11.2 TYPES OF BUSINESS FINANCE

The need for finance may be for long-term, medium-term or short-term. Financial requirements with regard to fixed and working capital vary from one organisation to another. To meet out these requirements, funds need to be raised from various sources. Some sources like issue of shares and debentures provide money for a longer period. These are therefore, known as sources of long-term finance. On the other hand sources like trade credit, cash credit, overdraft, bank loan etc.which make money available for a shorter period of time are called sources of short-term finance. So based on the period for which the funds are required, business capital is classified into three categories:

1) Short-term Capital
2) Medium-term Capital
3) Long-term Capital

Short-term Capital: Short-term funds are those which are required for a period not exceeding one year. Trade credit, loans from commercial banks and commercial papers are some of the examples of the sources that provide funds for short duration. Short-term financing is most common for financing of current assets such as accounts receivable and inventories.

Medium-term Capital: Where the funds are required for a period of more than one year but less than five years, medium-term sources of finance are used. These sources include borrowings from commercial banks, public deposits, lease financing and loans from financial institutions.

Long-term Capital: The long-term sources fulfill the financial requirements of an enterprise for a period exceeding 5 years and include sources such as shares and debentures, long-term borrowings and loans from financial institutions. Such financing is generally required for the acquisition of fixed assets such as equipment, plant, etc.

In this lesson we will study about the various sourcesof short-term finance in detail and their relative merits and demerits.

11. 2.1 SHORT-TERM FINANCE

Short-term Finance/Capital refers to financing for a small period normally less than a year. It is also known as Working Capital Financing. Short-term Finance is used for working capital requirement. The availability of short-term funds is essential. Inadequacy of short-term funds may even lead to closure of business.

11.2.2 PURPOSES OF SHORT-TERM CAPITAL

Short-term finance serves following purposes:

i. It facilitates the smooth running of business operations by meeting day-to-day financial requirements.

ii. It enables firms to hold stock of raw materials and finished products.

iii. With the availability of short-term finance, goods can be sold on credit. Sales are for a certain period and collection of money from debtors takes time. During this time gap, production continues and money will be needed to finance various operations of the business.

iv. Short-term finance becomes more essential when it is necessary to increase the volume of production at a short notice.

v. Short-term funds are also required to allow flow of cash during the operating cycle. Operating cycle refers to the time gap between commencement of production and realization of sales.

11.2.3 MERITS AND DEMERITS OF SHORT-TERM FINANCE

Short-term loans help business concerns to meet their temporary requirements of money. They do not create a heavy burden of interest on the organisation. But sometimes organisations keep away from such loans because of uncertainty and other reasons. Let us examine the merits and demerits of short-term finance.

Merits of short-term Finance

a) **Economical:** Finance for short-term purposes can be arranged at a short notice and does not involve any cost of raising. The amount of interest payable is also affordable. It is, thus, relatively more economical to raise short-term finance.

b) **Flexibility:** Loans to meet short-term financial need can be raised as and when required. These can be paid back if not required. This provides flexibility.

c) **No interference in Management:** The lenders of short-term finance cannot interfere with the management of the borrowing concern. The management retains their freedom in decision- making.

d) **May also Serve Long-term Purposes:** Generally business firms keep on renewing short-term credit. For example, cash credit is granted for one year but it can be extended up to 3 years with annual review. After three years it can be renewed. Thus, sources of short-term finance may sometimes provide funds for long-term purposes.

Demerits of Short-term Finance

Short-term finance suffers from a few demerits which are listed below:

a) **Fixed Burden:** Like all borrowings interest has to be paid on short-term loans irrespective of profit or loss earned by the organisation. That is why business firms use short-term finance only for temporary purposes.

b) **Charge on Assets:** Generally short-term finance is raised on the basis of security of moveable assets. In such a case the borrowing concern cannot raise further loans against the security of these assets nor can these be sold until the loan is cleared (repaid).

c) **Difficulty of Raising Finance:** When business firms suffer intermittent losses of huge amount or market demand is declining or industry is in recession, it loses its creditworthiness. In such circumstances they find it difficult to borrow from banks or other sources of short-term finance.

d) **Uncertainty:** In cases of crisis business firms always face the uncertainty of securing funds from sources of short-term finance. If the amount of finance required is large, it is also more uncertain to get the finance.

Note

e) **Legal Formalities:** Sometimes certain legal formalities are to be complied with for raising finance from short-term sources. If shares are to be deposited as security, then transfer deed must be prepared. Such formalities take a lot of time and create lots of complications.

INTEXT QUESTIONS 11.2

1. Complete the following sentences with appropriate choice.

   (a) Short-term finance is essential for ________________ day-to-day expenditure (meeting, adjusting).

   (b) Raising funds for short-term purposes is ____________ (costly, economical).

2. Trade Credit can best be described as a form of:

   (i.) Long-term Capital

   (ii.) Medium-term Capital

   (iii.) Short-term capital

   (iv.) Long-term security

11.3 METHODS FOR RAISING SHORT-TERM CAPITAL

As we understood, when we need short-term financing, there are various methods for raising short-term financing for a business. Each type of short-term finance has different characteristics and can be used in different situations. There are a number of methods for raising short-term finance which are listed below:

Some of these are explained below:

Fig.: 11.1 Sources of Short Term Finance

Note

11.3.1 TRADE CREDIT

Trade credit refers to credit granted to manufactures and traders by the suppliers of raw material, finished goods, components, etc. Usually business enterprises buy supplies on a 30 to 90 days credit. It is the credit extended by the accounts payables.

We could classify this credit into 2 types - **free trade credit and paid trade credit.** After a particular no. of days as per payment terms, the supplier charges interest on the delay of payment. So, the period before this is free trade credit and after that is paid trade credit.

It's quite obvious that the free trade credit should be as much as possible because it is free of cost. How much is free trade credit extended to a customer? It depends upon the creditworthiness of the buyer, discipline maintained in payment commitments, the bulk of the business, etc. The higher your rate on these factors, the higher would be the free trade credit available to your business.

Paid trade credit is definitely a type of short-term financing, but on the priority list, it would be quite below. In short, it should be selected only when another financing is not available. The reason for not opting for it is its high-interest cost.

Merits of Trade Credit

The important merits of trade credit are as follows:

(i) Trade credit is a **convenient and continuous source of funds.**

(ii) Trade credit may be **readily available** in case the credit worthiness of the customers is known to the seller.

(iii) Trade credit **needs to promote the sales** of an organisation.

(iv) If an organisation wants to **increase its inventory level** in order to meet expected rise in the sales volume in the near future, it may use trade credit to finance the same.

(v) **It does not create any charge** on the assets of the firm while providing funds.

Demerits of Trade Credit

Trade credit as a source of funds has certain limitations, which are described as follows:

(i) Availability of easy and flexible trade credit facilities may induce a firm to indulge in overtrading,which may add to the risks of the firm.

Note

(ii) Only limited amount of funds can be generated through trade credit.

(iii) It is generally a costly source of funds as compared to most other sources of raising money.

11.3.2 BANK CREDIT

Commercial banks grant short-term finance to business firms which are known as bank credit. When bank credit is granted, the borrower gets a right to draw the amount of credit at one time or in instalments as and when needed. Bank credit may be granted by way of loans, cash credit,overdraft and discounted bills.

(i) Loans & Advances

When a certain amount is advanced by a bank repayable after a specified period, it is known as bank loan. Such an advance is credited to a separate loan account and the borrower has to pay interest on the whole amount of loan irrespective of the amount of loan actually drawn. Usually loans are granted against security of assets.

(ii) Cash Credit

It is an arrangement whereby banks allow the borrower to withdraw money upto a specified limit. This limit is known as cash credit limit. Initially this limit is granted for one year. This limit can be extended after review for another year. However, if the borrower still desires to continue the limit, it must be renewed after three years. Rate of interest varies depending on the amount of limit.

Banks ask for collateral security for the grant of cash credit. In this arrangement, the borrower can draw, repay and again draw the amount within the sanctioned limit. Interest is charged only on the amount actually withdrawn and not on the amount of entire limit.

(iii) Overdraft

When a bank allows its depositors or account holders to withdraw money in excess of the balance in his account upto a specified limit, it is known as overdraft facility. This limit is granted purely on the basis of creditworthiness of the borrower. Banks generally give the limit upto Rs.20,000. In this system, the borrower has to show a positive balance in his account on the last Friday of every month. Interest is charged only on the overdrawn money. Rate of interest in case of overdraft is less than the rate charged under cash credit.

Note

(iv) Discounting of Bills

Banks also advance money by discounting bills of exchange i.e. promissory notes. When these documents are presented before the bank for discounting, banks credit the amount to customer's account after deducting discount. The amount of discount is equal to the amount of interest for the period of bill.

Difference between trade credit & bank credit

Sr. No.	Attribute	Trade Credit	Bank Credit
1	Length of Terms	Relatively short usually 30,60 or 90 days	Ignore
2	Security	Usually Unsecured	Higher standards for unsecured loans , otherwise secured.
3	Amount Involved	Smaller	larger
4	Resource transferred	Goods or Services	Money
5	Extent of analysis	Extensive, when size of transaction is large	In-depth analysis regarding safety and collectability

11.3.2.1 TYPES OF SECURITIES REQUIRED FOR BANK CREDIT

Loans and advances are granted by bank on personal security of the borrower as well as on the security of some tangible assets, besides the goodwill of the firm. Thus securities against bank credit may be of two types:

(i) Personal Security

(ii) Security of Tangible Assets.

Personal security means the credit-worthiness of the borrower. Banks judge the credit-worthiness of the borrower on the basis of financial worthiness and past dealings with the bank.

The following tangible assets are accepted by banks for extending short-term finance:

a) Moveable Goods: Stock of raw materials and finished goods are accepted by banks as security against bank credit. In case of non-payment, these goods are sold and money is recovered by the bank.

b) **Shares and Stock:** Shares and stock that are quoted on a recognized stock exchange are accepted as security against bank credit. The borrower is required to deposit the share certificate alongwith a transfer deed signed by him as security.

c) **Documents of Title to Goods:** Bill of lading, Railway Receipts (RR), Goods Receipt (GR), Warehouse warrant are various documents which are recognised as documents of title to goods. To secure credit from bank, the borrower may deposit any of these documents with bank after duly endorsing the same in favor of the bank. This enables the bank to deal with the goods in case of default in repayment.

d) **Fixed Deposit Receipts:** It is a receipt issued by bank as evidence of fixed deposit made by the customer. Banks grant loan on the security of this receipt. The interest charged on loan is higher than the interest allowed on deposit. Banks normally grant loan upto 90% of the value of such receipts.

e) **Life Insurance Policies:** Banks extend credit on the basis of life insurance policy upto the amount of surrender value of such receipts.

f) **Jewellery or Precious Metals:** This type of security may be offered to borrow money for private as well as for business purposes. Proprietary concerns sometimes offer jewellry or other precious metals to obtain credit.

g) **Other Securities:** Besides the assets and documents mentioned above, banks also accept National Savings Certificate (NSC), Indira Vikas Patra (IVP), and KisanVikas Patra (KVP) to grant short-term credit.

11.3.3 FACTORING

Factoring is also a similar arrangement like invoice discounting where the accounts receivables of a business are sold to a third party at a price which is lower to the realizable value of the accounts receivable. This purchasing party is commonly known as a factor. These factoring services are provided by both banks and other financial institutions. There are many types of factoring like with recourse or without recourse etc.

Factoring is a financial service under which the 'factor' renders various services which include:

(a) **Discounting of Bills (with or without recourse) and Collection of the Client's Debts under this,** the receivables on account of sale of goods or services are sold to the factor at a certain discount. The factor becomes responsible for all credit control and debt collection from the buyer and provides

Note

protection against any bad debt/losses to the firm. There are two methods of factoring - recourse and non-recourse. Under recourse factoring, the client is not protected against the risk of bad debts. On the other hand, the factor assumes the entire credit risk under non-recourse factoring i.e., full amount of invoice is paid to the client in the event ofthe debt becoming bad.

(b) **Providing Information about Credit Worthiness of Prospective Client's etc.,** Factors hold large amounts of information about the trading histories of the firms. This can bevaluable to those who are using factoring services and can thereby avoid doing business with customers having poor payment record. Factorsmay also offer relevant consultancy services in the areas of finance, marketing, etc.The factor charges fees for the services rendered. Factoring appeared on the Indian financial scene only in the early nineties as a result of RBI initiatives. The organisations that provide such services include SBI Factors and Commercial Services Ltd., State Bank of India, Punjab National Bank, Allahabad Bank etc. In addition, many non-banking finance companies and other agencies provide factoring service.

Merits of Factoring

The merits of factoring as a source of short-term finance are as follows:

(i) Obtaining funds through factoring is cheaper than financing through other means such as bank credit.

(ii) With cash flow accelerated by factoring, the client is able to meet his/her liabilities promptly as and when these arise.

(iii) Factoring as a source of funds is flexible and ensures a definite pattern of cash inflows from credit sales. It provides security for a debt that a firm might otherwise be unable to obtain.

(iv) It does not create any charge on the assets of the firm.

(v) The client can concentrate on other functional areas of business as the responsibility of credit control is shouldered by the factor.

Demerits of Factoring

The demerits of factoring as a sourceof short-term finance are as follows:

(i) This source is expensive when the invoices are numerous and smaller in amount.

(ii) The advance finance provided by the factor firm is generally available at a higher interest cost than the usual rate of interest.

Note

(iii) The factor is a third party to the customer who may not feel comfortable while dealing with it.

11.3.4 ADVANCE FROM CUSTOMERS

Customers' advance refers to advance made by the customer against the value of order placed. It is, thus, a part payment of the value of goods to be supplied later.

Merits

(a) Interest Free: Amount offered as advance is interest free. Hence,funds are available without involving financial burden.

(b) No Tangible Security: The seller is not required to deposit any tangible security while seeking advance from the customer. Thus assets remain free of charge.

(c) No Repayment Obligation: Money received as advance is not to be refunded. Hence there are no repayment obligations.

Demerits

(a) Limited Amount: The amount advanced by the customer is subject to the value of the order. Borrowers' need may be more than the amount of advance.

(b) Limited Period: The period of customers' advance is only up to the delivery of goods. It cannot be reviewed or renewed.

(c) Penalty in case of Non-delivery of Goods: Generally advances are subject to the condition that in case goods are not delivered on time, the order would be cancelled and the advance would have to be refunded along with interest.

11.3.5 INSTALMENT CREDIT

Instalment credit is a system under which a small payment is made at the time of taking possession of the goods and the remaining amount is paid in instalments. Instalment money is inclusive of interest.

Merits of Instalment Credit

(i) Immediate Possession of Assets: Delivery of assets is assured immediately on payment of initial instalment (down payment).

(ii) Convenient Payment for Assets and Equipment: Costly assets and equipment which cannot be purchased due to inadequacy of long-term funds can be conveniently purchased on payment by instalments.

Note

(iii) Saving of One Time Investment: If the value of asset or equipment is very high, funds of the business are likely to be blocked if lumpsum payment is made. Instalment credit leads to saving on one time investment.

(iv) Facilitation of Expansion and Modernization of Business and Office: Business firms can afford to buy necessary equipment and machines when the facility of payment in instalments is available.

Thus, expansion and modernization of business and office are facilitated by instalment credit.

Demerits of Instalment Credit

(i) Committed Expenditure: Payment of instalment is a commitment to pay irrespective of profit or loss in the business.

(ii) Obligation to Pay Interest: Under instalment credit system payment of interest is obligatory. Generally sellers charge a high rate of interest.

(iii) Additional Burden in Case of Default: Sellers sometimes impose stringent conditions in the form of penalty or additional interest, if the buyer fails to pay the instalment amount.

(iv) Cash Does Not Flow: Like trade credit, instalment credit facilitates the purchase of asset or equipment. It does not make cash available which can be utilized for all needful purposes.

INTEXT QUESTIONS 11.3

1. Complete the following sentences with appropriate words/phrases.

(a) While making payment on discounted bill, banks deduct ______________ which is equal to the amount of interest for the period of bill.

(b) When suppliers extend credit to the buyers it is called __________.

(c) Trade credit is for a _________ period of time but bank creditmay be extended. (Specific, uncertain).

(d) Discounting of bill ___________ cash immediately (provides/doesnot provide).

(e) Banks ask for __________________ security while granting cash credit. (collateral/advance).

2. Which of the following is the best explanation of short-term financing?

i. Use of money to finance short-term projects.

ii. Use of credit to finance short-term projects.

iii. Use of credit that must be paid pack within five years.

iv. Use of credit that must be paid back within one year.

3. Under the factoring arrangement, the factor :

i. Produces and distributes.

ii. Makes the payment on the goods or services behalf of the client.

iii. Collects the client's debt.

iv. Transfer the goods from or account receivables one place to another.

TERMINAL EXERCISE

1. List the various needs of the Business for which funds are required.
2. State the Merits & Demerits of Short-term Capital.
3. Why is short-term finance a necessity for business enterprises?
4. List the various sources of short-term finance.
5. Enumerate the various points of difference between cash creditand bank overdraft.
6. State the merits and demerits of Factoring and Instalment Credit as methods of business finance.

ANSWER TO INTEXT QUESTIONS

11.1

1. Current Assets - Current Liabilities
2. Financial Management

11.2

1. Meeting
2. Economical
3. Short-term Capital

11.3

1. (a) Discount

   (b) Trade Credit

Note

(c) Specific

(d) Provides

(e) Collateral

2. Use of credit that must be paid back within one year

3. Makes the payment on the goods or services behalf of the client

DO AND LEARN

On the basis of the sources discussed in the chapter, suggest suitable options to solve the financial problem of the restaurant owner Mr. Anil Singh (as given in the beginning of the chapter).

ROLE PLAY

Inspired by Anil Singh, his cousin Sunil Singh now plans to open a modern equipped warehouse to store vegetables and fruits, milk and other requirements. He does not know the amount of funds he requires for the same. He approaches Anil Singh for advice:

Sunil : Hi, Sunil! I have a very bright idea to be as successful as you.

Anil : Why not brother? Share your idea with me.

Sunil : I am thinking of opening a warehouse to store and supply various perishable daily needs item. It will be of great help to you too.

Anil : But, I am unable to make a judgement as to how much funds I will be requiring for it.

Sunil : Before deciding on the amount of funds, we first need to understand the factors.

Continue the conversation explaining him the factors affecting his working capital and fixed capital requirement.

CURRICULUM BUSINESS STUDIES (319)

RATIONALE

Business is a dynamic process that brings man, money, machine and materials together to produce goods and services that not only fulfills our basic needs but also provides us comfort and makes our lives easier. If we look into the past we realize that the procedures and practices followed in business in those days were completely different from modern days. Today, the use of modern technology in every field of business, whether it is production or distribution, has made the business globally competitive. It is more sensitive and mostly affected by the consumption pattern of the people, government's policies and changes in information and communication technology, better transportation facility, etc. It is more exposed to risk and uncertainties than what it was in past. Therefore, a systematic effort is required to understand, analyze, manage and respond to the changes that affect the functioning of business in the present-day society. Keeping in mind the above, the curriculum in the subject of Business Studies at Senior Secondary level is designed to cater to the needs of the learners of National Institute of Open Schooling (NIOS). It aims at creating an interest and understanding in the area of trade, and its auxiliaries, management, finance, marketing, consumer protection and would enable the learners to acquire the necessary knowledge to enter into the area of self-employment as well as wage employment. The entire course content of Business Studies is divided various modules. Learning experiences considered essential for business studies are described in these modules. These modules contain nature and scope of business, business practices in past and the modern trends, forms and formation of business organisation, management, finance, and marketing. It also covers details about the environment in which business operates and highlights upon consumer protection. The modules on preparing for employment has been designed to impart knowledge in the area of employment. The objective is to make the learners aware about the world of employment so that after gaining knowledge they can either start their own venture or become employed somewhere else to earn their livelihood.

Note

OBJECTIVES

This course will help develop the understanding of business studies. The objectives of the subject at senior secondary level are to enable the learners to:

- describe different aspects of business and its support services;
- a cquire preliminary knowledge about procedures and practices of business being followed in various business transactions;
- identify different forms of business organization;
- recognize different sources of finance;
- apply positive attitude towards the challenges and turn them into opportunities;
- aware consumers and use their rights effectively;
- apply basic knowledge about the world of work
- describe the scope of internal trade and external trade to expand their horizon of knowledge;
- classify financial markets understand the role of regulators in market.
- Develop an indulgent mind set to pursue higher studies in the field of business and allied areas.

MODULE 1 INTRODUCTION TO BUSINESS

Business plays a vital role in our lives, not only by providing us various goods and services but also by offering many opportunities to earn our livelihood. This module has been designed to help the learner to identify the scope of business activities and to understand the evolution of business over time. The learners will get to know economic activities and classification of business activities. Also, the learners will be able to understand support services and business environment. Further they will be able to identify different forms of business with a detailed understanding of company form of business organization

Lesson 1 Nature and scope of Business·

- Economic Activities·
- Characteristics of Business·
- Objectives of Business·

- Significance of Business·
- Classification of Business Activities

Lesson 2 **Support services·**

- Meaning and importance of support services·
- Types of support services and their nature.·
- Banking, Insurance, Transport, Warehousing, Communication

Lesson 3 **Business Environment·**

- Meaning and Importance of Business Environment·
- Dimension of Business Environment
    - Economic Environment of Businesso
    - Social Environment of Business
    - Political and Legal Environment of Business
    - Technological Environment of Business·
- Recent Developments in Indian Economy-GST, Make in India, Digital India Concept and Importance of Social Responsibility towards various interest groups Business Ethics

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Lesson 4 **Forms of Business ·**

- Meaning of forms of Business Organisation·
- Different forms of Business Organisation: Sole proprietorship, Joint Hindu Family, Partnership, Co-operative Societies – Meaning, Characteristics, Merits and Limitations

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Lesson 5 **Company Form of Business·**

- Meaning, Characteristics and Types of Joint Stock Company·
- Merits, Limitations and Suitability of Joint Stock Company·
- Formation of a Company·

- Multinational Company - Meaning, Features, Advantages and Limitations·
- Concept of Private and Public Limited Enterprises·
- Forms of Public Sector Enterprises-Departmental Undertaking, Public Corporation, Government Company·
- Emotional Intelligence

MODULE 2 BUSINESS MANAGEMENT AND ITS FUNCTIONS

Starting a business and its management both are mammoth tasks. Different concepts have emerged to help a manager in managing the business yet no principle is foolproof and variations are expected. In this module, learners will learn about principles and functions of management. The module will also acquaint them with concepts of planning and control and how these two are interrelated and interconnected. Learners will also get the understanding of the sources of recruitment and process of selection which will prove to be helpful to them when they'll decide to enter the job market.

Lesson 6 **Fundamentals of Management**·

- Concept, Characteristics and Importance of Management·
- Nature of management – as a science, as an art, as a profession·
- Levels of Management·
- Principles of Management·
- Functions of Management.

Lesson 7 **Planning and Organising**·

- Planning- Meaning, features and importance·
- Types of plans·
- Planning Process limitations·
- Organising-Meaning, Importance·
- Process and Structure

Lesson 8 **Staffing and Directing**·

- Staffing- meaning and importance·
- Process of staffing·
- Recruitment and selection·
- Directing- meaning and importance·
- Elements of directing- communication, supervision, motivation, leadership

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Lesson 9 **Co-ordination and Controlling·**

- Coordination- meaning, and significance·
- Controlling- meaning and nature Importance of controlling Process of control

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MODULE 3 BUSINESS FINANCE

Finance is an essential pre-requisite to start and run a business. So, it is essential to realize the need of finance, amount of financial requirement for a business, from where and how finance has to be raised by a business. This module introduces the learners to the concepts of financial planning and management. At the same time, it also familiarizes the learners with short term and long terms sources of finance. Lastly, the modules discuses about financial markets in India. This module will prove to be instrumental to the learners as it also contains the kinds of requirements of funds by a business and various alternative available to obtain those funds.

Lesson 10 **Financial Planning and Management·**

- Meaning & Objectives of Financial Management·
- Financial Planning·
- Concept of Capital Structure and Leverage Effect·
- Determining Fixed and Working capital requirement·
- Dividend and its determinants

Lesson 11 **Short Term Sources of Finance·**

- Types of Business Finance- Short-term and Long-term finance·
- Methods of Raising Capital:·

Note

- Short term Capital:
- Trade Credit, Bank Credit (Loans and Advances, Cash Credit, Overdraft, Discounting of bills), Factoring, Advance from Customers, Installment credit.

Lesson 12 Long Term Sources of Finance·

- Long term Capital:
  - o Issue of Share
  - o Issue of Debenture
  - o Loans from Financial Institutions
  - o Public Deposits
  - o Retention of Profits
  - o Leasing
  - o FDI, GDR, ADR.
- Nature and Importance of Long-term finance Sources:
  - o Capital market
  - o Special Financial Institutions
  - o Bankso Non-Banking Financial Companies
  - o Mutual Funds and Retained Profits.
  - o Foreign Sources of Finance- External Borrowings, Foreign Investment and NRI-financing.

Lesson 13 Financial Markets·

- Meaning of Financial market·
- Capital market and Money market·
- Primary market and Secondary market·
- Stock Exchange– Role and Functions·
- Stock Exchanges in India·
- Role of SEBI

Note

MODULE 4 MARKETING

Business exists to satisfy the wants of consumers. The products should be made available to consumers in the form they like, at the place of their convenience, at a price they are willing to give and it should be attractive to the consumers only then a business can survive and be successful. This module has been designed to develop amongst the learners an insight into marketing aspect of business and introduces them to concepts like marketing-mix, advertising, salesmanship, sales promotion and also consumer protection.

Lesson 14 Introduction to Marketing·

- Meaning of Marketing·
- Importance of marketing·
- Marketing vs. Selling·
- Objectives of Marketing·
- Functions of Marketing

Lesson 15 Marketing Mix·

- Concept of Marketing-mix (7Ps)·
- Product-meaning, classification·
- Pricing- Factors and approaches·
- Place- channels of distribution- meaning, types and factors affecting the choice of an appropriate channel·
- Promotion – meaning and concept of promotion mix

Lesson 16 Advertising and Salesmanship·

- Advertising- meaning, objectives and media·
- Difference between advertising and publicity·
- Salesmanship - Meaning, role, qualities of a good salesman·
- Sales promotion- meaning, objectives and tools used

Lesson 17 Consumer Protection·

Note

- Meaning of consumer·
- Consumer protection-meaning and importance·
- Rights and responsibilities of Consumers·
- Mechanism for Consumer Protection

MODULE 5: TRADE

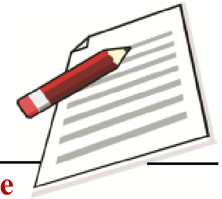
Trade plays an important role in business. In order to grow and expand, businesses need to indulge not in internal trade but also in external trade. Export as a type of external trade may also prove to be useful for the country as it can fetch in the valuable foreign currency for our country. Also, the global competition forces the domestic producers to produce quality products and price them competitively to gain a share of the global market. This module discusses both internal trade and external trade at great length to acquaint the learners with various aspects of internal and external trade.

Lesson 18 Internal Trade·

- Meaning and Characteristics of Internal trade·
- Types of middlemen and their role-Wholesaler; Retailer·
- Types of retail stores·
- Recent trends in distribution- Direct marketing, Tele-marketing and Internet marketing.

Lesson 19 External Trade ·

- Meaning, importance and types·
- Difficulties faced in external trade·
- Export trade procedure·
- Import trade procedure·
- Export promotion measures·
- Role of WTO·
- Role of district Lead Bank Offices (LBOs)



Note

MODULE 6 AVENUES IN BUSINESS AND EMPLOYMENT

Today we have a variety of opportunities to start our own business. These businesses may be in the form of small manufacturing unit, or trading unit. Small businesses offer a great opportunity for self-employment in villages, towns and cities. Besides this, we can also provide various services to the people regularly and thereby become self-employed. Business also generates employment opportunities in the form of wage employment in government as well as private sector. Equipped with certain skills we can avail of various opportunities in offices as well in technical fields. The present module aims at developing amongst the learners an understanding of self-employment, as well as wage employment. The module also throws light on various government initiatives to promote skill development and support small businesses and in the present times since the shapes and the ways of doing the business is also changing. The module also puts emphasis on the modern forms of businesses such as e- business, e-commerce, outsourcing etc.

Lesson 20 Self-Employment·

- Meaning and importance of self- employment·
- Characteristics of self-employment·
- Avenues for self-employment: manufacturing, trading, providing services·
- Meaning and characteristics of Micro and Small Business·
- Importance and scope of Micro and Small Business·
- Government's policies towards Micro and small Business in India and Startups initiatives·
- Institutional Support to Micro and small Business

Lesson 21 Job Employment·

- Various sources of information about job vacancies
  - o Print and electronic media
  - o Job portals and referencing
  - o Placement agencies-meaning, concept, jobs offered·
- Getting ready for Employment

Note

- o Preparing bio-data
- o Preparing for employment test
- o Preparing for interview

Lesson 22 Skill Development·

- Concept, Importance and need of Skill Development and Government initiatives·
- Role of NSDC and other bodies

Lesson 23 Modern Modes of Business·

- E-business·
- E-commerce·
- E-banking, Payment bank·
- E-post·
- Outsourcing of Services

WHAT HAVE YOU LEARNT