



INDIAN SCHOOL MUSCAT
SENIOR SECTION
DEPARTMENT OF COMMERCE AND HUMANITIES
ELEMENTS OF BUSINESS (154)
CLASS : IX

NOTES-NO 1 : FUNDAMENTALS OF BUSINESS ACTIVITIES

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 those performed out of love, sympathy, sentiments, patriotism, etc.

For example, a worker working in a factory, a doctor operating in his clinic, a manager working in the office and a teacher teaching in a school— are doing so to earn their livelihood 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 may be defined as an economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society.

Difference between Economic Activity and Non-Economic Activity.

	Basis	Economic Activity	Non-Economic Activity
1	Meaning	Economic activity refers to a human activity related to production and consumption of goods and services for economic gain.	Non-economic activity is an activity performed gladly, with the aim of providing services to others without any regard to monetary gain.
2	Motive	Economic, i.e. to earn money.	Social or psychological, i.e. out of love, affection, etc.
3	Money measurement	Measured in monetary terms.	Lacks money measurement.

BUSINESS

The term business is derived from the word 'busy'. Thus, business means being busy. However, in a specific sense, business refers to any occupation in which people regularly engage in an activity with a view to earning profit. 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.

Business may be defined as an economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society.

CHARACTERISTICS OF BUSINESS ACTIVITIES

- (i) **An economic activity:** Business is considered to be an economic activity because it is undertaken with the object of earning money or livelihood and not because of love, affection, sympathy or any other sentimental reason.
- (ii) **Production or procurement of goods and services:** Before goods are offered to people for consumption they must be either produced or procured by business enterprises. Thus, every business enterprise either manufactures the goods it deals in or it acquires them from producers, to be further sold to consumers or users.
- (iii) **Sale or exchange of goods and services for the satisfaction of human needs:** 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 say for internal consumption, it cannot be called a business activity. Thus, one essential characteristic of business is that there should be sale or exchange of goods or services between the seller and the buyer.
- (iv) **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.
- (v) **Profit earning:** One of the main purpose of business is to earn income by way of profit. No business can survive for long without earning profit. That is why businessmen make all possible efforts to maximise profits, by increasing the volume of sales or reducing costs.

(vi) **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, in spite of the best efforts put into the business.

(vii) **Element of risk:** Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavourable or undesirable event. The risks are related with certain factors like changes in consumer tastes and fashions, changes in methods of production, strike or lockout in the work place, increased competition in the market, fire, theft, accidents, natural calamities, etc. No business can altogether do away with risks.

COMPARISON OF BUSINESS, PROFESSION AND EMPLOYMENT

	BASIS	BUSINESS	PROFESSION	EMPLOYMENT
1	Nature of work	Provision of goods and services	Rendering of personalized expert service	Performing work as per service contract or rules of service
2	Qualification	No minimum qualification is necessary	Qualification, expertise and training in a specific field as prescribed by the professional body is a must	Qualification and training as prescribed by the employer
3	Reward or return	Profit earned	Professional fee	Salary or wages
4	Capital Investment	Capital Investment required as per size and nature of business	Limited capital needed for establishment	No capital required
5	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

Various business activities may be classified into two broad categories — **industry and commerce.**

INDUSTRY is concerned with the production or processing of goods and materials.

Commerce includes all those activities which are necessary for facilitating the exchange of goods and services.

On the basis of these two categories, we may classify business firms into industrial and commercial enterprises.

COMMERCE

Commerce includes two types of activities, viz., (i) trade and (ii) auxiliaries to trade.

- (i) **Buying and selling of goods is termed as trade.**
- (ii) **But there are a lot of activities that are required to facilitate the purchase and sale of goods. These are called services or auxiliaries to trade and include transport, banking, insurance, communication, advertisement, packaging and warehousing.**

Factors Affecting Business

1. **Economic** - Interest rates, inflation rates, changes in disposable income of people, stock market indices and the value of rupee are some of the economic factors that can affect management practices in a business enterprise.
2. **Social** -The social environment of business include the social forces like customs and traditions, values, social trends, society's expectations from business, etc. Traditions define social practices that have lasted for decades or even centuries.
3. **Political** - Political environment includes political conditions such as general stability and peace in the country and specific attitudes that elected government representatives hold towards business. The significance of political conditions in business success lies in the predictability of business activities under stable political conditions.

Profit Orientation of Business

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

- (i) It is a source of income for business persons,
- (ii) It can be a source of finance for meeting expansion requirements of business,
- (iii) It indicates the efficient working of business,
- (iv) It can be taken as society's approval of the utility of business, and
- (v) It builds up the reputation of a business enterprise.

Vocation

Vocation is a strong feeling of suitability for a particular career or occupation.

Features of Vocation

- (i) Training consists of units of Competency – A training qualification has a specific set of units of competency which together make up the overall set of skills and knowledge required for qualification.
- (ii) Competence Based – Training is provided to meet a set of performance criteria. Each individual must be able to demonstrate competence to a satisfactory level in order to be determined as competent. Hence there is no 'pass' or 'fail'. Competence based outcome is either 'satisfactory or not yet satisfactory' or on completion of all unit requirements 'competent or not yet competent'.
- (iii) Job Ready – Training provided includes practical and hands-on training which is relevant to the industry of work hence making an individual job-ready upon successful completion of the training.
- (iv) Customised Training – One can choose units of competency relevant to one's job functions. Training assessment can be customized to industry specific tasks.