**Sample Paper – 2013
Class – XI
Subject – Business\_Studies**

NATURE AND PURPOSE OF BUSINESS

**INTRODUCTION**

Business is a major economic activity in all modern societies concerned as it is with the production and sale of goods and services required by people. The purpose behind most business activities is to earn money by meeting people’s demands for goods and services. Business is central to our lives.

**CONCEPT OF BUSINESS**

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.

Every business requires some [form](http://www.businessdictionary.com/definition/form.html) of [investment](http://www.investorguide.com/definition/investment.html) and enough [customers](http://www.investorguide.com/definition/customer.html) to whom its [output](http://www.businessdictionary.com/definition/output.html) can be sold on a [consistent](http://www.businessdictionary.com/definition/consistent.html) [basis](http://www.investorguide.com/definition/basis.html) in order to make a [profit](http://www.businessdictionary.com/definition/profit.html). Businesses can be privately owned, not-for-profit or state-owned.

**CHARACTERISTICS OF BUSINESS ACTIVITIES**

* An economic activity.
* Production or procurement of goods and services.
* Sale or exchange of goods and services for the satisfaction of human needs.
* Dealings in goods and services on a regular basis.
* Profit earning.
* Uncertainty of return
* Element of risk

**Economic Activities**

Economic activities are those by which we can earn our livelihood. 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.

Economic activities may be divided into three major categories viz.,

(i) Business

(ii) Profession

(iii) Employment

Business refers to those economic activities, which are connected with the production or purchase and sale of goods or supply of services with the main object of earning profit. People engaged in business earn income in the form of profit.

Profession includes those activities, which require special knowledge and skill to be applied by individuals in their occupation.

Employment refers to the occupation in which people work for others and get remunerated in return.

**OBJECTIVES OF BUSINESS**

1. Market standing
2. Innovation

(C) Manager performance and development

(d) Earn profits on the capital employed

(e) Worker performance and attitude

**Basic forms of ownership**

 Sole proprietorship**:** A [sole proprietorship](http://en.wikipedia.org/wiki/Sole_proprietorship) is a business owned by one person for-profit. The owner may operate the business alone or may employ others. The owner of the business has unlimited [liability](http://en.wikipedia.org/wiki/Legal_liability) for the debts incurred by the business.

 Partnership**:** A [partnership](http://en.wikipedia.org/wiki/Partnership) is a business owned by two or more people. In most forms of partnerships, each partner has unlimited liability for the debts incurred by the business. The three typical classifications of for-profit partnerships are [general partnerships](http://en.wikipedia.org/wiki/General_partnership), [limited partnerships](http://en.wikipedia.org/wiki/Limited_partnership), and [limited liability partnerships](http://en.wikipedia.org/wiki/Limited_liability_partnership).

 Corporation**:** A [corporation](http://en.wikipedia.org/wiki/Corporation) is a [limited liability](http://en.wikipedia.org/wiki/Limited_liability) business that has a separate [legal personality](http://en.wikipedia.org/wiki/Legal_personality) from its members. Corporations can be either [government-owned](http://en.wikipedia.org/wiki/Government-owned_corporation) or privately owned, and corporations can organize either for-profit or [not-for-profit](http://en.wikipedia.org/wiki/Non-profit_organization). A privately owned, for-profit corporation is owned by [shareholders](http://en.wikipedia.org/wiki/Shareholder) who elect a [board of directors](http://en.wikipedia.org/wiki/Board_of_directors) to direct the corporation and hire its managerial staff. A privately owned, for-profit corporation can be either [privately held](http://en.wikipedia.org/wiki/Privately_held_company) or [publicly held](http://en.wikipedia.org/wiki/Public_company).

 Cooperative**:** Often referred to as a "co-op", a [cooperative](http://en.wikipedia.org/wiki/Cooperative) is a limited liability business that can organize for-profit or not-for-profit. A cooperative differs from a for-profit corporation in that it has members, as opposed to shareholders, who share decision-making authority. Cooperatives are typically classified as either [consumer cooperatives](http://en.wikipedia.org/wiki/Consumer_cooperative) or [worker cooperatives](http://en.wikipedia.org/wiki/Worker_cooperative). Cooperatives are fundamental to the ideology of [economic democracy](http://en.wikipedia.org/wiki/Economic_democracy).

**Business risks**

The term ‘risk’ refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. Its nature can be explained with the help of its peculiar characteristics which are:

(i) Business risks arise due to uncertainties,

(ii) Risk is an essential part of every business,

(iii) Degree of risk depends mainly upon the nature and size of business and

(iv) Profit is the reward for risk taking. Business risks arise due to a variety of causes including natural, human, economic and other causes.

**Starting a business — basic factors**

Some of the basic factors which must be considered by anybody who is to start the business are: selection of line of business, size of the firm, choice of form of ownership, location of business enterprise, financing the proposition, physical facilities, plant layout competent and committed workforce, tax planning and launching the enterprise.

IMPORTANT QUESTIONS FOR PRACTICE

Q.1. Why Business activity is important in modern society?

Q.2. Explain Business risks?

Q.3 .Why tax planning is important while starting a business?

Q.4 “.Risk is an essential part of every business”. Explain.

Q.5 .What is Partnership?

Q.6 .What are economic activities?

Q.7. What is Profession?

Q.8 “Business is central to our lives”. Explain.

Q.9.Explain profit earning as a main objective of business?

Q.10 Define Innovation.

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