



# 26

## SETTING UP A SMALL BUSINESS

You may be thinking that it is very easy to start a small business if you have sufficient amount of money for the business. But, actually it is not an easy task howsoever small the business may be. It requires so many decisions and steps to be taken at various stages. You have to take decisions about the nature of business, location of business and sources of raising necessary capital. You also have to take a decision regarding physical, monetary and intellectual resources. Though the procedure for setting up a business is not the same for all types of businesses, there are certain steps which you have to take to start any small business. In this lesson you will learn some of the important steps in setting up of a small business unit.



### OBJECTIVES

After studying this lesson, you will be able to:

- explore various entrepreneurial opportunities available in your locality;
- prepare a plan of action for your venture;
- choose a suitable form of business organisation;
- select an appropriate site for location of the business;
- identify and arrange the resources required for setting up a small business; and
- explain the legal formalities involved in setting up a small business.

### 26.1 EXPLORING THE OPPORTUNITIES

Establishment of a successful business unit begins with choosing a good idea for the business. This idea may be to produce something new or existing product; to buy and sell a new or an existing product; or to provide some existing or new service to the customers. But the



question arises as to how would you decide on the product and the type of business activity you should take up.

While selecting a particular product you have to conduct market and product analysis from the viewpoint of consumers. The data on consumers' preference and needs are to be collected by using various market research techniques. You may survey the local area to find out the demand for any product. If the existing demand is substantial in the area and growing then you may consider to select that product. You may also foresee some new opportunities expected to be arrived in near future due to any change in social, political and technological activities. The various developmental activities of the Government also generate other related activities. For example, when government decides to set up projects like oil refinery, cement plant, steel plant etc. then various other activities like transportation, availability of food, clothes and other items of daily need also come up. In any case, the selected venture must have the scope for a reasonable amount of sales volume and the possibilities for growth.

## **26.2 PREPARING A PLAN OF ACTION**

Once you have selected a specific product and decided to establish a business unit, you will have to prepare a plan of action. You will have to decide in advance each and every step you are going to take in that connection till it starts functioning. It will be helpful in avoiding delay at the initial stages of starting business. The following aspects of the action plan should be kept in view before deciding on the course of action.

### **1. Nature of Business**

At first, decision is to be taken about the nature of business. To decide about the nature of business you want to launch, you have to consider the following factors:

- (i) whether the business would be profitable;
- (ii) how much capital would be required;
- (iii) what would be the degree of risk;
- (iv) whether there would be sufficient market demand for the goods; and
- (v) whether there would be opportunities to grow and expand.

The above factors will help you to decide as to which line of business you can successfully pursue.

### **2. Choice of Form of Organisation**

A small business may be organised as a sole proprietorship or a partnership firm. Advantages and disadvantages of both the forms will have to be considered and the decision taken. As a sole proprietor, you will have full authority in managing the business and will be entitled to get the entire profit generated, but then you will also have to bear the entire risk of loss involved. In case of partnership, there will be others to share the risk and contribute



capital and help in management. But then the profit earned will also have to be distributed among the partners. Sometimes company form of organisation may also be considered for the purpose specially when one plans an industrial undertaking.

### **3. Financial Planning**

A business cannot be started and run without sufficient amount of capital. Capital is required to buy fixed assets like land, building, machines and equipment. Capital is also required to buy raw material and meet day to day expenses of the business like salary and wages, electricity charges, telephone bill, carriage, etc. An estimate has to be made regarding the amount of capital required for the various purposes and decisions taken regarding the sources and methods of raising it. The amount to be contributed by the owners and the amount to be borrowed from financial institutions, banks, etc. must also be decided well in advance.

### **4. Location of Business**

Where to establish a business is also to be decided in advance. It primarily consists of decision regarding the choice of locality and selection of site. The deciding factors usually are nearness to the source of supply of raw material, nearness to the market, availability of labour, transportation and banking facilities. Selection of the site also depends on cost of land, development cost, etc.

### **5. Physical Facilities**

Decisions have to be taken regarding plant and machinery and equipments to be provided for the business, building and other physical facilities like water and power supply, transportation, etc. The factors that may affect the decisions in this regard are the size of business, techniques of production to be used, availability of funds, etc.

### **6. Plant Layout**

After selecting the machinery and equipments required, it is necessary to decide about their installation in a proper manner. This is called plant layout. A good layout makes the operations efficient and economical. It reduces the costs of material handling, storage of inventory, use of space, etc. It helps in optimum utilisation of all resources.

### **7. Manpower and Raw Materials**

The number and type of employees to be appointed have to be estimated and decided in advance and the process of their recruitment, selection and training duly planned.

Raw materials are an important input for producing goods. To maintain continuity of production, raw materials must be available in adequate quantity and in nearby areas. Type, quantity and quality of materials to be purchased should be decided in advance, and their sources of supply ensured.

### **8. Production Process and Operations**

The whole production process is to be visualised and the various activities involved in its operation are to be planned well in advance.



## INTEXT QUESTIONS 26A

1. State the meaning of Plant Layout.

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2. Mention any two points you need to consider while selecting a particular product for your business.

(a) \_\_\_\_\_

(b) \_\_\_\_\_

Let us now discuss in details some of the important points as mentioned in the Plan of Action those need further elaboration.

### 26.3 CHOICE OF AN APPROPRIATE FORM OF BUSINESS ORGANISATION

Selection of a suitable form of business organisation on the basis of ownership and management is one of the important tasks of the entrepreneur. Once a form of organisation is chosen, it is very difficult to switch over to another form because it needs the winding up of the existing organisation and involves a lot of time, effort and money. Therefore, the form of organisation must be chosen after careful thought and consideration.

You have already learnt about different forms of business ownership, i.e., Sole Proprietorship, Partnership, Joint Hindu Family Business, Company and Cooperative Society. You know the characteristics, advantages, limitations and suitability of all these forms of business organisations.

Now, the question arises as to how to choose a particular form for your business. How will you select it? You know that there are number of factors to be considered while selecting an appropriate form of business organisation. Some of these factors are:

- i. The process of forming or starting a business organisation;
- ii. Availability of financial, managerial, technical and other resources;
- iii. The business risk and liability of the members;
- iv. The stability of the business irrespective of existence of owners;
- v. Flexibility in operation, i.e., readiness to adopt to the changes in environment;
- vi. Maintenance of secrecy in operation of the business;
- vii. Area of operation; and
- viii. Independence from strict government regulations.



On the basis of the above points, you analyse your own resources and choose the right form of organisation. You have already learnt detail about all these factors in Lesson no. 6 of Book 1 at page no 126.

Let us now have a comparative evaluation of different forms of business ownership.

Basis of Comparison	Sole Proprietorship	Partnership	Private Limited Company	Public Limited Company	Cooperative Society	Joint Hindu Family
1. Formation	Most easy to form. No legal formalities	Easy. Only an agreement is required.	Difficult. Some legal formalities are to be complied.	More Difficult. Several legal formalities are to be complied.	Relatively easier to form than a JSC	No legal formalities are required for its establishment
2. Registration	Not necessary	Not compulsory	Compulsory	Compulsory	Compulsory	Not necessary
3. Membership	One	Min - 2 Max - 10 in banking and 20 in others	Min - 2 Max - 50	Min - 7 Max - Not fixed	Min - 10 Max - Not fixed	Min - 2 Max - Not fixed (family members only)
4. Legal status	No separate legal entity	No separate legal entity	Separate legal entity	Separate legal entity	Separate legal entity	No separate legal entity
5. Liability	Unlimited	Unlimited	Limited	Limited	Limited	Limited except Karta
6. Sharing of profit	All to the owner	As per agreement	On the basis of shares held	On the basis of shares held	On the basis of shares held	Equal share on the profit
7. Governing Act	No Act	Partnership Act 1932	Companies Act 1956	Companies Act 1956	Cooperative Society Act	Hindu Law
8. State regulation	Practically none.	Very little	Considerably	Excessive	Considerably	Very little
9. Management	Not very efficient.	Relatively better	Most efficient.	Most efficient.	Can be efficient if done with utmost interest and less friction	Depends upon the efficiency of Karta
10. Flexibility	Highly flexible.	Moderately flexible.	Limited flexibility.	Limited flexibility.	Limited flexibility.	Highly flexible.
11. Stability	Unstable. Fully depend on the owner	Relatively stable.	Perpetual existence	Perpetual existence	Perpetual existence	Depends on the members
12. Winding up	At will	At will	Under the Act	Under the Act	Under the Act	At will

## 26.4 SELECT THE LOCATION OF BUSINESS

Once the nature and suitable form of business has been decided, the decision will have to be taken regarding the location of the place of business. Special care should be taken while making such selection because the place of business cannot be changed easily. The factors that determine location are:

**MODULE-6**  
**Self-Employment in**  
**Business**



**Notes**

Consideration for  
location of business

- (a) Availability of raw material
- (b) Transport facility
- (c) Banking, postal and other communication facility
- (d) Availability of power and water
- (e) Availability of labour
- (f) Civic amenities
- (g) Nearness to market
- (h) Disposal of waste
- (i) Tax concession and incentives
- (j) Social and political conditions
- (k) Climatic conditions

- (a) Nearness to the source of raw material particularly when the cost of transporting the raw material is high and the materials are bulky or heavy in relation to their value and add little weight to the final product that you produce. Examples of such raw materials are timber, sugar cane, jute, iron ore, etc.
- (b) Availability of rail or road transport facilities is another factor require special consideration. This will make it convenient to bring raw materials to the factory and transporting finished goods to the market.
- (c) Availability of banking, postal and other communication facilities is absolutely necessary. Business cannot be run smoothly without such facilities in order to satisfactorily deal with buyers, dealers and suppliers. Apart from providing funds, the banks help in transmitting money, which is necessary to receive payments and make payments.
- (d) Adequate supply of power and water is another requirement of a factory. Availability of power and water is also a deciding factor.
- (e) Availability of both skilled and unskilled labour at reasonable cost and without difficulty is also a factor to be kept in view while deciding on the location. If labour is brought from far off areas, it would be expensive and the cost of the product would go up.
- (f) Availability of civic amenities is another consideration. The recreational facilities, schools and colleges, religious institutions, medical facilities, hospitals, etc. are required both for the labour and the management.
- (g) Preferably, the business unit should be located near the market. It is particularly important when the finished product is bulky and perishable. In case of a trading business, the best location is the place where there is enough scope of selling the products. It may be the main market areas of a commercial city or town. In rural area, the trading units may be opened at a place which is convenient to the customers.
- (h) While selecting the site for a manufacturing unit, consideration should also be given to the facility for disposal of waste.
- (i) The establishment of certain business in specific area attracts tax concession and other incentives. The Government also provides developed land and other facilities by establishing industrial estates. Hence, the businessman may also consider these factors while deciding upon the location of the business.
- (j) The social and political conditions of the locality also influence the decision regarding location of the business.
- (k) The climatic conditions like temperature, rainfall, humidity etc. are also considered before taking any final decision about the location of business. One may avoid establishing business in flood, cyclone and earthquake prone areas.



## INTEXT QUESTIONS 26B

1. Mention any two situations under which a manufacturing unit should be established near the source of raw materials?
  - (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
2. Name the form of business organisation which involve the specified feature.
  - (a) Organisation having separate legal entity. \_\_\_\_\_
  - (b) Where karta has unlimited liability. \_\_\_\_\_
  - (c) Organisation having minimum two and maximum 50 members. \_\_\_\_\_
  - (d) Where the profit and loss is shared by none. \_\_\_\_\_
  - (e) Where registration of the business is not compulsory. \_\_\_\_\_

### 26.5 IDENTIFY AND ARRANGE THE RESOURCES

Once you have decided to establish a business unit and chosen the line of business, form of organisation, location and site of the business, you have to identify and arrange resources required to set it up. For any business the main resources required are – men, money, material, and physical facilities like plant and machinery, land and building etc. In the following sections let us have a brief idea about all these resources.

#### 26.5.1 SUPPLY OF MANPOWER

In most cases, the owner will have to employ some persons to help him in various business activities. These workers can be unskilled, semi-skilled and skilled. To run a business smoothly, it has to be ensured that sufficient requisite manpower is available at the right time and at competitive rates. The whole process, which ensures a regular supply of required manpower of right type, is called recruitment. The various sources of recruitment are:

- (1) Employment Exchanges;
- (2) Technical institutions and institutes of education and training like ITIs;
- (3) Advertisement through newspaper, employment news, Internet etc.; and
- (4) Placement agencies.

These sources are useful for recruitment of skilled workers. For unskilled labour, sources of recruitment are (i) persons available at factory gate, (2) through contractors, (3) reference by the existing employees.

#### 26.5.2 FINANCING OF BUSINESS

This step essentially involves two things: Estimating the requirement; and deciding about the sources and their proportion. You are well aware that business cannot be run without



capital. Adequate capital is required to establish any business whether it is small or big. The capital requirement of a business are of two types, (a) fixed capital; and (b) working capital. Fixed capital refers to funds required for acquiring fixed assets like land, building, machinery and equipments, whereas working capital is required to meet the routine expenditure like payment of salary, wages, electricity and telephone bill, purchase of raw materials, payment for transport, etc.

The amount of capital required by a business depends upon a number of factors like nature of business, size of business, production process, technology used etc. Let us now make up some of these factors.

### **FACTORS DETERMINING FIXED CAPITAL**

As fixed capital is needed to meet the long-term requirements of the business, it is necessary to estimate the amount with utmost care. Following are the important factors that may be kept in view for estimating fixed capital requirements.

- (a) **Nature of Business:** The business may be in the form of a manufacturing unit, a service undertaking, or a trading concern. In a manufacturing firm larger amount of fixed capital is required for land, building, machines etc. which require more funds to be invested. In a trading concern fixed capital requirement is lesser as the fixed assets like furniture etc. do not involve large investment.
- (b) **Size of business:** The amount of fixed capital required also depends upon the size of business i.e., larger the size greater will be the need for fixed capital.
- (c) **Types of goods produced:** If a business manufactures consumer goods like soap, hair oil etc. amount of capital required is small, but if it manufactures industrial goods like machine tools and equipments, large amount of fixed capital will be required.
- (d) **Production Technology:** In a capital intensive production unit, the amount of fixed capital required will be more while it will be small if labour intensive technology is used.
- (e) **Method of acquisition of fixed assets:** Fixed assets may be purchased or acquired on lease or on hire purchase basis. If the fixed assets are purchased it will require more fixed capital initially as compared to the assets procured on lease or hire purchase.

### **FACTORS DETERMINING WORKING CAPITAL**

Working Capital is the capital required to meet day to day expenses like wages, rent, electricity and water charges, and to be invested in the current assets, such as debtors stock of raw materials, semi finished goods, finished goods etc. Working capital is also called circulating capital. This is because investment in current assets are recovered and reinvested repeatedly in course of business operations. Going by the above meaning of working capital, its requirements may be met by short-term funds. However, since the business is a continuing concern it must at all times have a certain amount of working capital, which in effect is of a fixed nature. This may be regarded as the permanent part of working capital.



Following are the various factors that need to be considered to estimate the requisite amount of working capital.

1. **Proportion of cost of raw materials to total cost:** If the raw materials account for a major portion of the total cost of the finished product, more working capital is required.
2. **Cost of labour:** If labour intensive methods of production are used more working capital will be required.
3. **Length of operating cycle:** If more time is taken in the completion of the production process and the sale of the products, higher investment will be required in inventories and wage bills and hence more working capital will be needed.
4. **Terms of purchase and sale:** If raw materials and other services are available on credit and goods produced are sold for cash, less working capital investment will be involved. On the other hand, if raw material is to be purchased for cash and goods produced are sold on credit, larger amount of working capital will be necessary.
5. **Cash requirements:** The amount of cash needed to meet the operating expenses like wages, rent, freight, taxes etc. also determine the amount of working capital.
6. **Seasonal operations:** Business units engaged in manufacturing seasonal goods are required to have a relatively larger amount of working capital. The recovery of working capital through sales of such products is limited to a particular period, and hence a large amount of working capital is required to meet off-season requirements.

Having discussed the various factors considered for estimating the capital requirement of a business unit, you must be thinking from as to where and how one can arrange the funds for the business. In lesson no 15 and 16 of Book 2 we have already discussed in detail about the sources and methods of business finance. From the point of financing a small business, let us quickly recall what we learnt in those lessons.

### **SOURCES OF CAPITAL**

The financial requirement of any business can be met from (1) Owners' capital; and (2) Borrowed capital. The owners' capital is provided by the owners from their own savings. But this may not be sufficient to meet the total capital requirement of business. So, the business needs to borrow capital from the outsiders. Money can be borrowed from friends, relatives, moneylenders, and commercial banks. Then there are some financial institutions like Small Industries Development Corporations and Small Industries Development Bank of India which provide capital support on easy terms to small-scale units. The manufactures and suppliers of raw materials and goods also provide support in various ways. In case of certain type of goods in high demand, the customers may give advance money to the supplier which also acts as an important source of finance.

From all the above sources the business can get the required funds in various forms. For example, commercial banks provide funds in the form of cash credit, overdraft, discounting of bills and loans. The suppliers and manufactures give trade credit, installment credit to the traders.



## INTEXT QUESTIONS 26C

1. Name three different categories of workers.
  - (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
  - (c) \_\_\_\_\_
2. Name two sources of recruitment of skilled workers.
  - (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
3. Name two sources of recruitment of unskilled workers.
  - (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
4. State whether the requirement of funds is high or low in the following cases and why?
  - (a) Where the firm is a trading concern.  
\_\_\_\_\_
  - (b) Where the size of firm is large.  
\_\_\_\_\_
  - (c) Where the firm produces industrial goods.  
\_\_\_\_\_
  - (d) Where fixed Assets are acquired on hire purchase system.  
\_\_\_\_\_

### 26.5.3 SUPPLY OF RAW MATERIALS

Depending on the nature of products, there may be need for different types of raw materials. For example, furniture making requires timber, for making ready-made garments cloth is required and so on. To maintain continuity of production, raw materials must be available in adequate quantity at regular intervals. Suppliers should be identified and enquiries made regarding price, cost of transport and terms of payment. Keeping in view the time taken by the suppliers to supply raw material, adequate stock has to be maintained. If there is apprehension of rise in price of raw materials, quantity of purchase can be increased. The various factors to be kept in view while deciding on the quantity to be held in stock are: (i) storage cost, (ii) availability of working capital, (iii) risk of loss or damage of materials held in stock, (iv) insurance premium to be paid, (v) discount available if purchased in bulk and so on.

### 26.5.4 PHYSICAL FACILITIES

The success of any organisation also depends on the availability of physical facilities like



land and building, plant and machinery, tools and equipments etc. The nature, size and quantity of physical facilities are decided on the basis of the nature of business, size of business, production process etc. The availability of funds also acts as decisive factors in this regard. When sufficient funds are available, the promoter may opt to buy the facilities provided it is beneficial for the long-term prospective of the business. Otherwise, he/she may go in for hire purchase or lease arrangement to get the required items. The promoter should always try to explore the market, try to find out the alternative and then select the best product.

## 26.6 LEGAL FORMALITIES

To establish a business unit many legal and other formalities are to be fulfilled which are as follows:

### (A) FORM OF ORGANISATION

**Sole Proprietorship:** There is no legal formality necessary to set up a sole proprietorship business except in certain cases like chemists, restaurants.

**Partnership:** An agreement between the persons who want to form a partnership firm is necessary. As far as possible, it should be in writing and be registered with the Registrar of firms under the Indian Partnership Act 1932.

**Joint Hindu Family Business:** No legal formality is required. A Joint Hindu Family business is run as per Hindu Law. But it has to be registered with the Income tax department to avail certain tax concession.

**Joint Stock Company:** It must be registered under the Indian Companies Act 1956. It may be a Private Limited Company or a Public Limited Company.

**Co-operative Society:** If the business is organised as a cooperative society, it is required to be registered with the Registrar of Cooperative Societies of the state in which society's registered office is to be situated.

### B. OTHER LEGAL REQUIREMENTS AND FORMALITIES, WHICH ARE APPLICABLE TO ALL FORMS OF ORGANISATIONS

1. License is to be obtained from the Ministry of Industries if manufacturing activities are taken up. However industrial units employing less than 50 workers with power or less than 100 workers without power, have been given exemption.
2. Registration with the Registrar of Small Scale Industries of the State in which the unit is to be set up is compulsory.
3. Registration with the Labour Commissioner of the State in which the unit is set up is also compulsory. This is necessary so that there is compliance of various labour laws including the Factories Act.
4. Environmental clearance certificate has to be obtained from the state Pollution Control Board.



5. The industrial units are to be registered with the excise department so that it can get concession under General Excise Duty Exemption scheme.
6. The firm has to be registered with Sales or Trade Tax Authority of the concerned State.
7. If it is a trading concern it is to be registered with the Shop and Establishment Authority of the place.
8. The activities of business may affect the health and safety of the employees as well as public. So business unit may be registered with the local authority..
9. The business should always protect its own name and logo, along with any inventions, product designs or copyright. The others should not illegally use these things. So to avoid such practices the company/firm must go for patenting its intellectual properties like designs, copy rights, etc.
10. To cover the loss arising from unforeseen events, the businessman should go in for insurance of its plants and machinery, buildings, top executives etc.



**INTEXT QUESTIONS 26D**

1. Name any two factors that determine the quantity of an item to be kept in stock.
  - (a) \_\_\_\_\_
  - (b) \_\_\_\_\_
2. State the legal formality required in the following cases. (Answer in a word or phrase)
  - (a) Sole proprietorship  
\_\_\_\_\_
  - (b) Partnership  
\_\_\_\_\_
  - (c) J.H.F. business  
\_\_\_\_\_
  - (d) Joint stock company  
\_\_\_\_\_
  - (e) Cooperative society  
\_\_\_\_\_



## **26.7 WHAT YOU HAVE LEARNT**

- Success of an enterprise begins with the choosing a good idea for the business. To get good ideas one should study the market, product, consumers' preference and needs etc.
- Once you select any specific product and decide to establish a business unit, you will have to prepare a plan of action. The various aspects one should keep in view before deciding on the course of action are: (a) nature of business (b) choice of form of organisation (c) financial planning (d) location of business (e) physical facilities (f) plant layout (g) manpower and raw material (h) production process and operation.
- The factors to be considered while selecting an appropriate form of business organisation are: (a) Process of forming a business organisation; (b) Availability of financial, managerial, technical and other resources; (c) Business risk and liability of the members; (d) Stability of the business irrespective of existence of owners. (e) Flexibility in operation that means ready to adopt to the change in environment; (f) Maintenance of secrecy in operation of the business; (g) Area of operation; and (h) Independence from strict government regulations.
- The factors that determine the location of a business unit are: (a) Availability of raw material; (b) Transport facility; (c) Banking, postal and other communication facility; (d) Availability of power and water; (e) Availability of labour; (f) Civic amenities; (g) Nearness to market; (h) Disposal of waste; (i) Tax concession and incentives; (j) Social and political conditions; (k) Climatic conditions
- Adequate supply of manpower is very much essential for success of any enterprise. The business should ensure sufficient number of unskilled, semi-skilled and skilled workers at the right time and at competitive rate.
- The capital requirements of a business are of two types: (a) Fixed capital; and (b) Working capital. While determining fixed capital requirement one should consider the (a) Nature of business; (b) Size of business; (c) Type of goods produced; (d) Production technology; and (e) Method of acquisition of fixed assets.
- The working capital requirement is calculated by considering the factors like (a) Proportion of cost of raw materials to total cost; (b) Cost of labour; (c) Length of operating cycle; (d) Terms of purchase and sale; (e) Cash requirement; and (f) Seasonal requirement.
- The success of any organisation depends much on the availability raw materials and physical facilities like land and building, plant and machinery, tools and equipments etc.
- The legal formalities required to be complied with may be divided into two categories viz., (a) those applicable to different forms of business organisation; and (b) those, applicable to all form of organisations. Taking license from Ministry of Industries,



Registration with the Registrar of Small Scale Industries, Registration with the Labour Commissioner, Environmental clearance from State Pollution Control Board, Registration with excise, sales tax and income tax department, registration with shop and establishment Authorities, Patenting of designs, copyrights, etc. are some of the general legal formalities applicable to all forms of business organisation.



### 26.8 KEY TERMS

Financial Planning	Fixed Capital	Location of Business
Plan of Action	Plant Layout	Recruitment
Working Capital		



### 26.9 TERMINAL QUESTIONS

#### Very Short Answer Type Questions

1. Name the two types of capital requirements of a business.
2. Enumerate any four sources of recruitment of manpower.
3. State any two factors taken into consideration while selecting an appropriate form of business organisation.
4. What are the conditions under which a manufacturing business unit should be located near the market place.
5. List any four intellectual properties of a business.

#### Short Answer Type Questions

6. State any four factors one should keep in mind while deciding about the quantity of goods to be held in stock.
7. Explain any four factors that may be kept in view while estimating fixed capital requirement.
8. State the determinants of working capital requirement of a business firm.
9. State the legal requirement to be fulfilled by Cooperative society and Joint Hindu family form of business organisations.
10. Mention any four factors to be considered while deciding about the nature of business.

#### Long Answer Type Questions

11. Explain any four legal requirements and formalities applicable to the various forms of organisation.
12. Describe any four factors required consideration while taking decision about the location of a business.
13. Explain any six aspects of action plan one should keep in view before deciding about the course of action.



14. Your friend wants to establish a brick manufacturing unit in your village. Suggest to him any six points he should consider while deciding on the location of his unit.
15. Describe the legal requirements and formalities applicable to different forms of business organisations.



### 26.10 ANSWERS TO INTEXT QUESTIONS

- 26A** 1. The systematic installation of plant and machinery in proper place inside the premises to ensure optimal utilisation of resources is called plant layout.
2. (a) Market and product analysis  
(b) Consumers' preference and needs
- 26B** 1. (a) When the cost of transporting the raw material is high.  
(b) Where raw materials are bulky or heavy in relation to their value.
2. (a) Private Limited Company/ Public Limited Company/Cooperative Society  
(b) Joint Hindu Family Business  
(c) Private Limited Company  
(d) Sole Proprietorship  
(e) Partnership
- 26C** 1. (a) Unskilled  
(b) Semi-skilled  
(c) Skilled
2. (a) Employment Exchange  
(b) Media advertisement
  3. (a) Through contractors  
(b) Reference by the existing employees
  4. (a) Low - Since it is not a manufacturing unit.  
(b) High - Since the scale of operation is high.  
(c) High - Manufacturing of industrial goods requires high funds.  
(d) Low – Assets acquired on hire purchase needs low investment.
- 26D** 1. (a) Storage cost  
(b) Availability of working capital
2. (a) There is no legal formality necessary to set up a sole proprietorship except in certain cases..  
(b) Registration of the partnership firm is not compulsory.  
(c) No legal formality is required. But it has to be registered with the Income Tax department to avail certain tax concession.  
(d) It must be registered under the Indian Companies Act 1956.  
(e) It is required to be registered with the Registrar of Cooperative Societies.



### DO AND LEARN

Select any five different types of business organisation in and around your locality. Without consulting those organisations make a list of any five probable reasons for establishing those units in such locality. Prepare a chart, analyse it and correlate it with the points given in your text in the section location of business.



### ROLE PLAY

P.Q. Private Limited is a finance company. Pankaj is an executive in that company. He met his friend Harish after a long time.

Pankaj : Harish ! Great to see you, how are you?

Harish : Fine! What about you?

Pankaj : I am fine. I've just joined in a finance company. I am looking after the legal aspects.

Harish : Tell me more about it.

Pankaj : Anything specific.

Harish : Actually I am planning to start a bread manufacturing. I do not know more about the legal aspects of that business. Could you please guide me?

Pankaj explained to Harish about the various aspects of legal requirements and formalities to start and run the business.

Assume the role Pankaj and ask your friend to play as Harish. Continue the conversation in the light of the matter given in the text.

### Chapter at a Glance

- 26.1 Exploring the Opportunities
- 26.2 Preparing a Plan of Action
- 26.3 Choice of an appropriate Form of Business Organisation
- 26.4 Select the Location of Business
- 26.5 Identify and arrange the resources
  - 26.5.1 Supply of Manpower
  - 26.5.2 Financing of Business
  - 26.5.3 Supply of Raw Materials
  - 26.5.4 Physical Facilities
- 26.6 Legal Formalities