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Guess Papers for 2020
Most Important Questions For B.Com Part 1**

**Introduction to Business
Paper Code BC-303**

QUESTION NO. 1

Question No.1

Define business. Explain Importance Objectives and scope of business ?

Business:

Activities connected with the production or purchase and sale of goods or services with the object of earning profit are called Business activities

Mining, manufacturing, trade, transportation, insurance, banking are business activities. Thus business may be defined as an economic activity involving regular production or purchase and distribution of goods and services with the object of earning profits

Nature of Business:

The nature of business is best understood on the basis of its characteristics or features which are as follows:

1. Business is an economic activity
2. It includes the activities of production or purchase and distribution.
3. It deals in goods and services.
4. It implies regularity of transactions.
5. It aims at earning profits through the satisfaction of human wants.
6. It involves risk; it is not certain that adequate profit will be earned.
7. It creates utilities
8. It serves a social purpose by improving people's standard of living.

Objectives of business

Success in business depends on proper formulation of its objectives. Objectives must be clear, and attainable.

Objectives may be divided into two parts :

- (i) economic and
- (ii) social.

Economic Objectives :

Economic objectives of business include earning adequate profit or satisfactory return on capital invested, survival in the case of competition and growth to maintain progress.

Social Objectives:

Social objectives include providing employment opportunities, supply of quality goods and services at reasonable price, improving the standard of living and contributing to environmental protection. It also includes justice to workers in terms of wages, welfare amenities, improved service conditions and professional growth.

Significance of Business in Modern Society

Business is an integral part of modern society. It is an organized and systematized activity for profit. It is concerned with activities of people working towards a common goal. The modern society cannot exist without business. The need and importance of business in society can be described as follows:

1. **Improvement in standard of living:**
Business helps people in general to improve their standard of living.
2. **Proper utilization of resources:**
It leads to effective utilization of the scarce resources of society. It provides facility of mass production.
3. **Better quality and large variety of goods and services:**
It involves production, purchase and sale of goods and services for price. Customer' satisfaction is the backbone of modern business. Services such as supply of water, electricity etc. maybe considered highly significant for the

community.

4. **Creates utilities:**

Business makes goods more useful to satisfy human wants. It adds to products the utilities of person, time, place, form, knowledge etc. Thus, people are able to satisfy their wants effectively and economically.

5. **Employment opportunities:**

It provides employment opportunities to large number of people in society.

6. **Workers' welfare**

Business organizations these days take care of various welfare activities for workers. They provide safer and healthier work environment for employees

Classification of Business Activities

Business activities are undertaken to satisfy human wants by producing goods or rendering services. We may classify business activities on the basis of functions into two broad categories:

- (a) Industry and
- (b) Commerce.

Industry

is concerned with the production and processing of goods. This type of business units are called 'industrial enterprises' which produce consumer goods as well as machinery and equipments. On the other hand, commerce includes all those activities which are necessary for the storage and distribution of goods. Such units are called 'commercial enterprises' which include trading and service activities like transport, banking, insurance and warehousing.

Industry and its Types

Industry means production of goods for sale by the application of human or mechanical power. In other words, industry refers to economic activities which are connected with raising, producing and processing of goods and services.

Characteristics of Industry

The main characteristics of industry are as follows:-

- Industry refers to the productive aspect of business.
- Production is done by the application of human or mechanical power.
- It creates form utility to natural or partly processed goods.
- It is concerned with the production of both producer and consumer goods.

- Industrial activities are regulated by different laws.
- It involves continuous operation.

Types of Industries

Industries are divided into two broad categories:

- (i) Primary industries
- (ii) Secondary industries.

Primary industries

include all those activities which are connected with extraction, producing and processing of natural resources. These industries may be further sub-divided into two types:

- (a) extractive and
- (b) genetic.

a) Extractive Industries:

Extractive industries are concerned with the extraction of materials from the earth, sea and air such as mining, farming, fishing and hunting etc. Products of these industries are used either directly for consumption such as food grains, fruits and vegetables or as raw materials such as cotton, sugar-cane, etc.

b) Genetic Industries:

Genetic industries include activities connected with rearing and breeding of animals and birds and growing plants. Reproduction and multiplication is the main activity in these industries, such as, agriculture, animal husbandry, dairy, poultry, etc. Main products are milk, wool, butter, cheese, meat, egg, fish, seeds of plants, etc.

Secondary industries

are concerned with the materials which have already been produced at the primary stage. For example, mining of iron ore is a primary industry, but manufacture of steel is a secondary industry.

Secondary industries

may also be of two types:

- (a) manufacturing, and
- (b) construction.

a) Manufacturing Industries :

Industries engaged in the conversion of raw materials or semi-finished products into finished product are called manufacturing industries. Cotton is

converted onto textiles and iron one is converted into in these industries. It creates a form utility of the product.

b)Construction Industries :

The activities of Construction industries include erection of buildings, bridges, roads, railways canals etc. Their output do not consists of movable goods. It makes use of the output of other industries like brick, cement, steel etc.

Characteristics of Commerce:

Commerce

is the sum total of all the activities connected with the placing of the product before the ultimate consumer. It provides the necessary link between the producer and the consumer of goods.

Commerce is defined 'as activities involving the removal of hindrances in the process of exchange'. Commerce includes all those business activities which are undertaken for the sale or exchange of goods and services and facilitates their availability for consumption and use - through trade, transport, banking, insurance, and warehousing.

Thus commerce includes trade and auxiliaries to trade, that is transport, banking, insurance and warehousing.

The main characteristics of commerce are as follows:

- (i) Commerce is the sum total of activities which facilitate the availability of goods to consumers from different producers.
- (ii) It aims at ensuring proper distribution of goods.
- (iii) It adds different type of utilities to the goods by making goods available at the right time and the right place to the people who need them.
- (iv) It includes trade and auxiliary to trade.

Trade and its types

Trade is an integral part of commerce and refers to sale and transfer of goods. It involves actual buying and selling of goods. It means exchange of goods and services for cash or credit. Traders help in directing the flow of goods to the most profitable market. They also bring about equitable distribution of goods on a national and international scale. It is because goods are produced on a large scale and it is difficult for producers to reach individual customers, that trade is said to remove the hindrance of persons through traders. Goods acquire place utility through trade.

Characteristics of Trade

The main characteristics of trade are as follows:

- (i) Trade is regarded as the primary activity in commerce;
- (ii) It means exchange of goods and services for price;
- (iii) It helps in directing the flow of goods to the most profitable market;
- (iv) It helps to equalize the supply of and demand for goods in different markets both national and international.

Classification of Trade

Trade may be classified into

- (i) Home Trade or Internal Trade and
- (ii) Foreign Trade or External Trade.

i) Home Trade:

Home Trade means trade carried on within the boundaries of a country. The primary object of home trade is to bring about proper distribution of goods within the country. It may be divided into two types

(a) Wholesale Trade and (b) Retail Trade

(a) Wholesale Trade:

Wholesale trade involves buying goods from producers and selling them in small quantities to retailers. The wholesaler generally deals in large quantities of goods of a limited number of varieties. He serves as a connecting link between the producer and the retail dealer.

(b) Retail Trade:

A retail trade consists of selling goods directly to the consumers in small quantities. A retailer usually purchases goods from wholesalers or manufacturers and deals in a variety of goods of different manufacturers.

ii) External Trade:

External trade refers to trade between two countries. It implies buying and selling of goods by traders of two different countries. It creates a very wide market for goods produced in different countries. External trade involves

(a) Export and (b) Import.

- Export is concerned with the sale of goods to foreign countries.
- Import trade relates to the purchasing of goods from other countries.

QUESTION NO. 2

Define sole proprietorship. Give the merits and demerits of sole proprietorship business ?

Sole Proprietorship:

A sole proprietorship is a simple type of business structure that is owned and operated by the same person. It does not involve many of the complex filing requirements associated with other types of business structures such as corporations. Sole proprietorships allow persons to report business income and expenses on their individual tax returns.

Advantages of a Sole Proprietorship:

There are many reasons why a person would choose to start their business up using a sole proprietorship structure. Some of the main advantages of sole proprietorships include:

- **Ease of formation:** Starting a sole proprietorship is much less complicated than starting a formal corporation, and also much cheaper. Some states allow sole proprietorships to be formed without the double taxation standards applicable to most corporations. The proprietorship can be named after the owner, or a fictitious name can be used to enhance the business' marketing.
- **Tax benefits:** The owner of a sole proprietorship is not required to file a separate business tax report. Instead, they will list business information and figures within their individual tax return. This can save additional costs on accounting and tax filing. The business will be taxed at the rates applied to personal income, not corporate tax rates.
- **Employment:** Sole proprietorships can hire employees. This can lead to many of the benefits associated with job creation, such as tax breaks. Also, spouses of the business owner can be employed without having to be formally declared as an employee. Married couples can also start a sole proprietorship, though liability can only assumed by one individual.
- **Decision making:** Control over all business decisions remains in the hands of

the owner. The owner can also fully transfer the sole proprietorship at any time as they deem necessary.

Disadvantages of Sole Proprietorships:

Forming a sole proprietorship does involve some risks, mainly to the owner of the business, as legally speaking they are not treated separately from the business. Some disadvantages of sole proprietorships are:

- **Liability:** The business owner will be held directly responsible for any losses, debts, or violations coming from the business. For example if the business must pay any debts, these will be satisfied from the owner's own personal funds. The owner could be sued for any unlawful acts committed by the employees. This is drastically different from corporations, wherein the members enjoy limited liability (i.e., they cannot be held liable for losses or violations)
- **Taxes:** While there are many tax benefits to sole proprietorships, a main drawback is that the owner must pay self-employment taxes. Also, some tax benefits may not be deductible, such as health insurance premiums for employees
- **Lack of "continuity":** The business does not continue if the owner becomes deceased or incapacitated, since they are treated as one and the same. Upon the owner's death, the business is liquidated and becomes part of the owner's personal estate, to be distributed to beneficiaries. This can result in heavy tax consequences on beneficiaries due to inheritance taxes and estate taxes
- **Difficulty in raising capital:** Since the initial funds are usually provided by the owner, it can be difficult to generate capital. Sole proprietorships do not issue stocks or other money-generating investments like corporations do .

So, while sole proprietorships do not necessarily create more liabilities, they do expose the business owner to a risk of being sued. Lawsuits can be filed against the business owner for legal violations, as well as to collect any outstanding debts.

QUESTION NO. 3

Define partnership. What are the main contents of Partnership Deed ?

DEFINITION of 'Partnership' A business organization in which two or more individuals manage and operate the business. Both owners are equally and personally liable for the debts from the business.

Partnership deed forms the basis of partnership. Partnership deed is a document containing all the matters according to which mutual rights, duties and liabilities of the partners in the conduct and management of the affairs of the firm are determined. Hence, it contains the terms and conditions of the partnership. It is helpful in preventing and resolving disputes among the partners. A partnership deed can be altered at any time with the consent of all the partners.

Main Content of Partnership Deed

Some of the important clauses to be included in a partnership deed are as follows:

- (1) Name of the firm and Its Address :** The deed should contain of the firm and place of its business.
- (2) Name and Address of Partners :** The deed should also contains the names and address of all partners.
- (3) Nature of Firm's Business :** The nature of business proposed to be carried and its limitation should be included in it.
- (4) Duration of Partnership :** If the partnership is established for a fixed duration or for a fixed work, it should be stated in it.
- (5) Partners' Capitals :** The deed should contain the total amount of capital and contributions by each partner.
- (6) Interest on Capital :** If the partners decide to change interest on their capitals, the rate should be mentioned in the deed.
- (7) Drawing and Interest on Them :** The deed should contain the limit of drawings by every partner and the rate of interest to be charged.
- (8) Division of Profit :** Profit and loss sharing ratio should be stated in the deed. If it is

not mentioned partners are authorized to share equally according to Partnership Act.

(9) Partners' Salary and Commission : If the partners decide to pay salary and commission to the partners, the deed should contain the amount of salary or commission payable to any partner for the services rendered to the business.

(10) Rights and Duties of Partners : If any partner has some special rights and duties regarding to conducts of business or if the liability of any partner is limited to the capital invested by him, these facts should also be mentioned in it.

(11) Admission and Retirement of Partners ; After the establishment of partnership some new partners may be admitted and some may retire from the business. If any definite procedure is to be adopted at the time of admission or retirement of partner, it should be stated in it.

(12) Death of a Partner : The procedure of calculating the amount due to a deceased partner and the method of its payment to his successors, should also be decided and stated in the deed.

(13) Valuation of Goodwill ; The method of valuation of goodwill at the time of admission, retirement or death of a partner should be also be clearly stated in it.

(14) Revaluation of Assets and Liabilities ; The method of revaluation of assets and liabilities on admission, retirement or death of a partner should also be clearly stated in it.

(15) Accounts and Audit : The procedure of keeping accounts and their audit should also be stated in it.

(16) Dissolution of Partnership ; The deed should contain the firm and the method of the final settlement of accounts.

(17) Arbitration Clause ; In case of disputes the method of appointing arbitrators and their rights should be clearly mentioned.

QUESTION NO. 4

Briefly Explain the Documents of Joint Stock Company ?

Main documents for incorporation of Joint Stock Company

1) Memorandum of association

It is the main document of the company. It defines the objectives, powers and its relationship with the outside world. The company works within the framework of the memorandum. The memorandum of association sets out the constitution of the company. It is so to speak, the charter of the company and provides the foundation on which the structure of the company is built. It enables persons who deal with the company to know its permitted range of activities.

The main content of memorandum of association are:

Name clause:

It includes about the name of the company. Name of the company should end with word 'limited' or 'private limited'. Care should be taken while enclosing name of the company. The names that already registered should not be used. Change in name of the company requires special resolution and approval from the concerned department.

Situation clause:

It is also dominant clause. It must have registered office. All the official communication may be sent by concerned office or other organizations in a specified location. Therefore there is need to maintain registered office location. Once the location is set then it is very difficult to change the location.

Object clause:

It is important part of memorandum. It must clearly state the objective of the company for which it was established. It informs the members about the objectives. It can carry out only those activities which meet the objectives in the memorandum.

Functional clause:

It includes the functions of the objectives of the company. It should be within the objectives.

Capital clause:

It includes the amount of authorized capital which can be utilized by the company. It includes the amount of share capital and the considerations of issuing and subscribing the share capital. It must include the nature of shares and face value of share with the prices of shares.

Liability clause:

Memorandum must clearly state that the liability of shareholders up to the extent of face value of shares. In company limited by guarantee it must state the guarantee sum too.

Association and subscription clause:

It states that the member themselves agreed to organize and carry out business. In case of private company at least one signature from promoter and in case of public company at least 7 signatures is needed.

Agreement clause:

According to company act 2063, clause 18 .p., public company is desired to do following things:

If promoter or any other partner is entitled to subscribe share, they must pay in each.

If Company is to enquire any property from promoter at the time of commencement of its transaction.

If Company itself is to bear expenses incurred on the corporation.

2) Articles of association

It is another important document of company. The document which defines the rights, powers and duties of the management, the modes and manners of carrying the company's business, is called articles of association. It shows the relation between the company and its members and relation among the members. It is subordinate to memorandum.

The information related is:

Director related:

- Number of directors
- Provision of alternative directors
- Minimum number of shares to be directors of the company
- In case of public company, qualification and number of independent directors
- Power and duties of BOD
- Authorities of directors
- Delegation of authority
- Provisions relating salary, allowances and facilities of directors

Meeting related:

- Procedure for conducting general meeting and notice for such meeting
- Provision relating to decisions of general meeting and BOD and duplicate copies and inspection
- Quorum for meeting of BOD, notice and proceeding of meeting.

Share related:

- Right, powers and restriction attached to share
- Provision relating to transferability of share
- Matters on altering the authorized share capital
- Matter of forfeiture and reissue of share.

Other particulars:

- Appointment of company's secretary
- Account books and audits of the company
- Provision on power to raise the loans

3) Prospectus

It is an invitation to the public to purchase shares or debentures of the company. Any circular, advertisement, offer or any other document by which a company gives invitation to the public to subscribe to its shares and debentures is known as prospectus. According to the company act 2063, the prospectus contains the following matters.

- Information related to management and the objectives of the company
- The number of shares to be subscribed by directors and the cash to be received from them.
- Capital structure of the company divided into authorized, issued, subscribed and paid up share capital.
- Terms and mode of payment, issue of shares on discount or premium
- Details about brokerage, underwriting commission and preliminary expenses.
- Estimated expenditures for the company and estimated income at least for coming 3 years.
- Other necessary particulars.

QUESTION NO. 5

What is Business Combination, Describe its various Types?

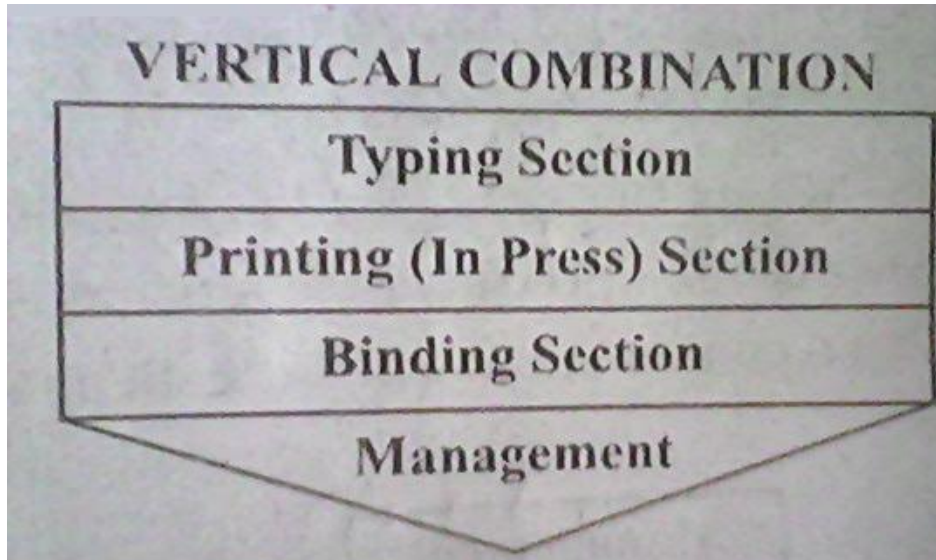
Types of Business Combination :-

It has following four types :

1. Vertical Combination.
2. Horizontal Combination.
3. Circular Combination.
4. Diagonal Combination.

1. Vertical Business Combination :-

When various departments large industrial units combine together under single management is called vertical combination. Under this combination from purchasing of raw material to selling of product all the stages are linked up by the units. For example, all the business units engaged in publishing books can make vertical combination as under :



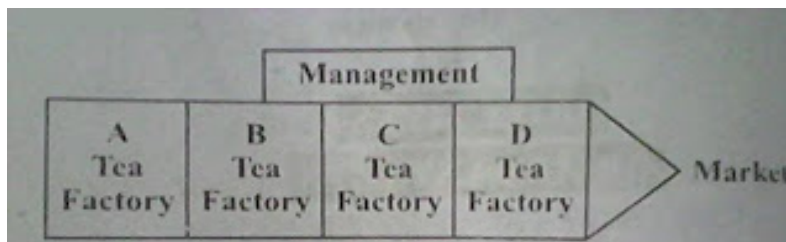
Objectives or Advantages of Vertical Business Combination :-

1. To minimize the cost per unit.
2. To eliminate competition.
3. To hire the services of experts.
4. To supply the goods at lowest price.
5. To avoid over production.
6. To use improved methods of production.
7. To achieve the benefits of large scale.
8. To find proper market for their product.
9. To supervise the management.
10. To reduce the middleman commission.

11. To earn maximum profit.

2. Horizontal Business Combination :-

It is also voluntary association which two or more than two similar nature business units combined them selves under the one management, it is called horizontal combination. For example, if four tea industrial units are at the same stage of production. They are engaged in same activity. They sell wholesale. They sell the product in the same market. Their combination will be called horizontal combination.



Objectives or Advantages of Horizontal Business Combination :-

1. To minimize the Cost per unit.
2. To eliminate competition.
3. To hire the services of experts.
4. To supply the goods at lowest price.
5. To avoid over production.
6. To use improved methods of production.
7. To achieve the benefits of large scale.
8. To find proper market for their product.
9. To supervise the management.
10. To reduce the middleman commission.
11. To earn maximum profit.

3. Circular or Mixed Business Combination :-

When different types of business units combine themselves under the one management it is called circular combination.

Example :- If a cloth industry combining with shoes industry and sugar industry is an example of mixed combination.

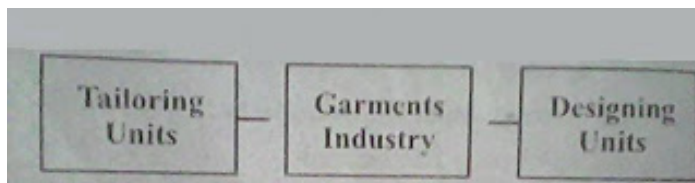


Objects :- The main object of mixed combination is to secure the benefits of administrative ability through common management.

4. Diagonal Business Combination :-

When two or more than two business units performs subsidiary services, if they combine themselves under the main industry it is called diagonal combination.

Example :- If designing and tailoring business units are combined with the garments industry it is called diagonal combination.



Objects :- The main object and advantage of this combination is that it makes the business unit very large and self sufficient.

QUESTION NO. 6

Describe the Main Functions of Stock Exchange?

DEFINITION

"A stock exchange or share market is a place where people meet to buy and sell shares of company stock. Some stock exchanges are real places (like the New York Stock Exchange), others are virtual places

"A stock exchange is established for the purpose of assisting, regulating and controlling business of buying, selling and dealing in securities "

:::: Function of the stock exchange::::

1.Raising capital for businesses

The Stock Exchange provides companies with the facility to raise capital for expansion through selling shares to the investing public.

2.Investment of savings, in purchase of securities

Provides a market for the trading of securities to individuals and organizations seeking to invest their saving or excess funds through the purchase of securities

3.Facilitating company growth

Companies view acquisitions as an opportunity to expand product lines, increase distribution channels, increase its market share, or acquire other necessary business assets. Business combination agreement through the stock market is one of the simplest and most common ways for a company to grow by acquisition .

4.Redistribution of wealth

Stocks exchanges do not exist to redistribute wealth. However, both casual and professional stock investors, through dividends and stock price increases that may result in capital gains, will share in the wealth of profitable businesses.

5.Management records of company

By having a wide and varied scope of owners, companies generally tend to improve on their management standards and efficiency in order to satisfy the demands of the shareholders and the more tight rules for public corporations imposed by public stock exchanges and the government. Therefore, it is said that public companies tend to have better management records than privately-held companies.

6.Creating investment opportunity of small investor

As opposed to other businesses that require huge capital expenditure, investing in shares is open to both the large and small stock investors because a person buys the number of shares they can afford. Therefore the Stock Exchange provides the opportunity for small investors to own shares of the same companies as large investors.

7. Govt. capital- raising for development project

Governments at various levels may decide to borrow money in order to finance base projects such as sewerage and water treatment works or housing estates by selling another category of securities known as bonds. These bonds can be raised through the Stock Exchange whereby members of the public buy them, thus loaning money to the government. The issuance of such bonds can avoid the need to directly tax the citizens in order to finance development

8. Barometer of the economy

At the stock exchange, share prices rise and fall depending, largely, on market forces. Share prices tend to rise or remain stable when companies and the economy in general show signs of stability and growth. An economic recession, depression, or financial crisis could eventually lead to a stock market crash. Therefore the movement of share prices and in general of the stock indexes can be an indicator of the general trend in the economy.

9-provide physical location for trade of securities

Stock exchange provides a physical location for buying and selling securities to the investors that have been listed for trading on that exchange

10-Establish rules & regulations of trading of shares Stock exchange establishes rules for fair trading practices and regulates the trading activities of its members according to those rules

11-Fair

The exchange assures that no investor will have an excessive advantage over other market participants

12-Effective Market

This means that orders are executed and transactions are settled in the fastest possible way in stock exchange

13-Transparency

Investor make informed and intelligent decision about the particular stock based on information. Listed companies must disclose information in timely, complete and accurate manner to the Exchange and the public on a regular basis. Required information include stock price, corporate conditions and developments dividend, mergers and joint ventures, and management changes etc

14-Price

At any point in time, the price of previously issued stock is determined by the ebb and flow of supply and demand. It fix the prices of the securities according to the fundamental law of the offer and the demand

15-Listing requirements

There are specific requirements for allowing a public company to list its securities on the Stock Exchange these are set out in the legislation

16-Get rid of

Stock exchange can get rid of companies for a number of reasons including :-

Merger with another company

Solvency problems

Name change company asked to be removed

Failure to follow exchange rules

17-To provide liquidity to the investors.

The investor can recover the money invested when needed. For it, he has to go to the stock exchange market to sell the securities previously acquired. This function of the

stock market is done on the secondary market. It offers liquidity to the security investments, through a place in which to sell or buy securities

18-Gives the right to shareholders to vote in the general meetings

It permits for the investor to have a political power in the companies in which he invests its savings due that the acquisition of ordinary shares gives him the right (among other things) to vote in the general shareholders meetings of the company in question

19-Offer in company free publicity

It offers to the company's free publicity, which in other way would suppose considerable expenses. The institution is objecting of attention of the media (television, radio, etc.) incase any important change in its owners (the share holders).

QUESTION NO. 7

Briefly explain the various types of Co-operative Societies?

The following are the main types of cooperative enterprises:

i. Producer Cooperative Societies

These are formed to eliminate the middlemen and capitalist groups from the industrial production. Its main purpose is to produce goods for the requirements of its members. Surplus productions are also supplied to out riders in the open market at profit. All the necessary activities .as production, management and marketing are performed by the members themselves. Its members get dividend on the basis of the capital invested by them.

Objects

- (a) To purchase the raw materials and other factors at most economical prices.
- (b) To produce the goods at the most economical level.
- (c) To supervise the production most efficiently and effectively.

- (d) To dispose of the surplus production to non members at maximum prices.
- (e) To eliminate the middlemen and capitalists.
- (f) To remove the worker's grievances in respect of working conditions, wages etc.
- (g) To arrange for the democratic control of the industrial unit.

ii. **Consumer Cooperative Societies**

The society is the voluntary association of ordinary people formed with the object of obtaining daily requirements of the members. It directly purchases the goods at large scale from the producer or wholesalers at whole sale price. It thus eliminates capitalists, retailers and other middlemen from the channel of distribution and members are in a position to make their purchase at cheaper rate. Anyone can become member by purchasing one share of the society. Sometimes goods are also supplied to non-members but they do not share in the profit of the society. Profit earned by the store are distributed among the members according to the value of the purchases conducted by the manager who is elected by the members. Generally its two types are popular in the world.

- (a) Retail cooperative store.
- (b) Wholesale cooperative store.

Objects

1. To eliminate the retailers, capitalists and wholesalers.
2. To promote the welfare of the members.
3. To supply the daily necessities of life to its members at market price.
4. To increase the purchasing power and standard of living of the members of the society.

iii. **Marketing Cooperative Society**

It is the voluntary association of producers formed for the object of arranging the disposal of their output. It pools together the output of the individual members and arranges to supply the product at highest possible price. The profit of the sale of the ~ products is distributed among the contributing producers according to their individual contribution to the pool. This kind of society is particularly useful for the small producers and agriculturists. It can be formed in two organization according to the local condition of the country i.e.

- (a) Single purpose society
- (b) Multi purposes society

Objectives

1. To eliminate the middlemen who are liable of the high cost of marketing.
2. To pool together the output of the individual members.
3. To grade and process of the pooling products of the members.
4. To dispose of the product at the maximum price.
5. To adjust supply to demand.
6. To provide storage facilities to its members.
7. To procure the information relating to market for the member's product.
8. To provide the financial facilities to its members.

iv. **Insurance Cooperative Society**

This type of cooperative society is formed for the objects of providing group insurance facilities to its members. It makes the contract with sound insurance company on collective terms and conditions and thus pay lower premium rate to

insurance company as compared with ordinary policy holders. These are other two forms of cooperative Insurance i.e.

1. Mutual office
2. Self concern.

In the Mutual office, the policy holders are the owners and the profit of the insurance company is utilized in the following ways:

- (a) To strengthen the financial position of the company.
- (b) To decrease true amount of premium.
- (c) To distribute bonus to its members.

Self concern

Cooperative society is organized to provide insurance facilities like the private insurance company and issued policy to its members for reasonable amount.

Object

1. To provide insurance facilities to its members.
2. To charge the low rate of premium.
3. To promote the welfare of the members.
4. To encourage the habit of thrift and investment.
- v. Housing Cooperative society

It is an association of middle and low income groups of people. Generally it is formed in urban areas. The main purpose of this form of society is to protect its members

against exploitation by landlords. It not only grants financial assistance to its members but also achieve the economics of purchase of building material in bulk. In order to become a member of the society one must buy at least one share of the society. The liability of the member is limited to his capital contributed. It is also called "Building Society" and may be divided into three types i.e.

- (1) Housing Building Society
- (2) Land Society
- (3) Finance Society

Objectives

1. To receive deposits from its members.
2. To make loans to its members for the construction of house at low rate of interest.
3. To render technical services for its members.
4. To purchase building materials at economical rate.
5. To perform the welfare activities as water supply, roads, sewerage, electricity etc.

vi. Cooperative Farming Society

This form of Society is formed with the object of obtaining the benefits of large scale farming and maximizing agricultural products. It is basically agricultural. cooperative which is confined to agricultural countries. Its members generally relate to the formers including those owing land. The cooperative forming are of the following types:

1. Cooperative collective farming Society.

2. Cooperative joint farming society.
3. Cooperative better farming society.
4. Cooperative tenant farming society.

Objective

- (a) To consolidate holding.
- (b) To introduce new technique of cultivation.
- (c) To improve the irrigating system.
- (d) To increase the area under agricultural operations.
- (e) To make necessary steps for the improvements of the standard of living of the farmers.
- (f) To increase the production per acre.
- (g) To provide seeds manures and implements to its members.
- (h) To dispose of agricultural output.

vii. Credit Cooperative Society

Credit cooperative society is the voluntary association of the financially weak persons organized with the object of providing short term financial requirements to them. This society performs important role in the rural areas where the dishonest money lenders have been exploiting simple villagers by charging high rate of interest. The Funds of the society consist of (a) Membership fees, (b) Dispose of shares (c) Deposits from members and non-members (d) Loan from govt. and semi govt.

The liability of members is unlimited. This assists the society in raising funds and ensures that every member will take keen interest in the activities of the society. The

society prefers the poorer members in granting loan and charges low rate of interest from them. Generally the society advances the amount for productive purposes but some loans are also given to members for unproductive purposes. Credit cooperative society may be divided into two types:

- (1) Agricultural Credit Society
- (2) Non-agricultural credit Society

Objects

- (a) To get rid of the pressure of money lenders.
- (b) To provide the financial facilities for short term to its members.
- (c) To keep the minimum rate of interest on loan.
- (d) To develop the habit of thrift and saving among the members.
- (f) To encourage the habit of mutual aid.

Question No . 8

What is Insurance? Explain Various Principles of Insurance

“Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons, who are exposed to it and who agree to insure themselves against the risk”

Insurance may be defined as form of contract between two parties (namely insurer and insured or assured) whereby one party (insurer) undertakes in exchange for a fixed amount of money (premium) to pay the other party (Insured), a fixed amount of money on the happening of certain event (death or attaining a certain age in case of life) or to pay the amount of actual loss when it takes place through the risk insured (in case of property)

Terminology used in definition of Insurance

- *Insurer or insurance company* - The agency involved in Insurance business is known as insurer
- *Insured/ Assured* - The person who gets his property/life insured is known as insured
- *Policy* - The agreement or contract which is put in writing is known as a Policy
- *Premium* - The consideration in return of which the insurer undertakes to make goods the loss or give a certain amount in case of life insurance is known as premium

Principles of Insurance

The basic principles which govern the insurance are -

- (1) **Utmost good faith**
- (2) **Insurable interest**
- (3) **Indemnity**
- (4) **Contribution**
- (5) **Subrogation**
- (6) **Causa proxima**
- (7) **Mitigation of loss**

- 1. Principle of utmost good faith :** A contract of insurance is a contract of 'Uberrimae Fidei' i.e., of utmost good faith. Both insurer and insured should display the utmost good faith towards each other in relation to the contract. In other words, each party must reveal all material information to the other party whether such information is asked or not. There should not be any fraud, non disclosure or misrepresentation of material facts.
- 2. Principle of Insurable Interest:** This principle requires that the insured must have a insurable interest in the subject matter of insurance. Insurance interest means some pecuniary interest in the subject matter of contract of insurance. Insurance interest is that interest, when the policy holders get benefited by the existence of the subject matter and loss if there is death or damage to the subject matter.
- 3. Principle of Indemnity :** This principle is applicable in case of fire and marine insurance only. It is not applicable in case of life, personal accident and sickness insurance. A contract of indemnity means that the insured in case of loss against which the policy has been insured, shall be paid the actual cost of loss not exceeding the amount of the insurance policy. The purpose of contract of insurance is to place the insured in the same financial position, as he was before the loss.
- 4. Principle of Contribution:** The principle of contribution is a corollary to the doctrine of indemnity. It applies to any insurance which is a contract of indemnity. So it does not apply to life insurance. A particular property may be insured with two or more insurers against the same risks. In such cases, the insurers must share the burden of payment in proportion to the amount insured by each. If one of the insurer pays the whole loss, he is entitled to contribution from other insurers
- 5. Principle of Subrogation :** The doctrine of subrogation is a collorary to the principle of indemnity and applies only to fire and marine insurance. According to doctrine of subrogation, after the insured is compensated for the loss caused by the damage to the property insured by him, the right of ownership to such property passes to the insurer after settling the claims of the insured in respect of the covered loss.
- 6. Principle of Causa Proxima :** Causa proxima, means proximate cause or cause which, in a natural and unbroken series of events, is responsible for a loss or damage. The insurer is liable for loss only when such a loss is proximately caused by the peril insured against. The cause should be the proximate cause and can not the remote cause. If the risk insured is the remote cause of the loss, then the insurer is not bound to pay compensation. The nearest cause should be considered while determining the liability of the insured. The insurer is liable to pay if the proximate cause is insured.

- 7. Principle of Mitigation of Loss:** An insured must take all reasonable care to reduce the loss. We must act as if the property was not insured.

Example - If a house is insured against fire, and there is accidental fire, the owner must take all reasonable steps to keep the loss minimum. He is supposed to take all steps which a man of ordinary prudence will take under the circumstances to save the insured property.