

**Course: Fundamentals of Business (5402)**

**Semester: Spring, 2023**

**Level: ADC/BS (Accounting & Finance)**

**ASSIGNMENT No. 1**

**(Units 1–4)**

**Total Marks: 100**

**Pass Marks: 50**

**Q.1** What is a business? What are its various types? Explain the benefits of business for economy and society? **(20)**

A business is an organization or entity engaged in commercial, industrial, or professional activities with the goal of generating profits by providing goods or services to customers. It involves the production, distribution, and exchange of products or services in the market.

There are various types of businesses based on their legal structure and operational characteristics. Here are some common types:

1. **Sole Proprietorship:** This is the simplest form of business where a single individual owns and operates the business. The owner has unlimited liability and assumes all profits and losses.

2. **Partnership:** A partnership is formed when two or more individuals agree to share the ownership and responsibilities of a business. The partners contribute capital, share profits and losses, and have joint liability.

3. Corporation: A corporation is a separate legal entity from its owners, known as shareholders. It offers limited liability protection to the shareholders and allows the business to raise capital through the issuance of stocks.
4. Limited Liability Company (LLC): An LLC combines elements of partnerships and corporations, providing limited liability to its owners (called members) while allowing flexible management and pass-through taxation.
5. Cooperative: A cooperative is owned and operated by a group of individuals or businesses who come together to achieve common goals. The profits and control are shared among the members.
6. Franchise: A franchise is a business model where a franchisor grants the rights to independent entrepreneurs (franchisees) to operate under its established brand and sell its products or services.

Businesses play a crucial role in the economy and society, offering several benefits:

**Economic growth:** Businesses contribute to economic growth by creating jobs, generating income, and promoting investment. They drive innovation, introduce new technologies, and improve productivity, which leads to increased output and higher living standards.

**Job creation:** Businesses are major employers in an economy, providing job opportunities to individuals across various sectors and skill levels. This helps reduce unemployment rates, alleviate poverty, and enhance economic stability.

Wealth creation: Businesses have the potential to generate profits and accumulate wealth. This wealth creation benefits not only business owners but also society at large through increased tax revenues, investments in infrastructure, and philanthropic activities.

Innovation and development: Businesses are at the forefront of innovation, driving advancements in technology, products, and services. They invest in research and development, leading to the creation of new ideas, processes, and inventions that can improve the quality of life for individuals and society.

Market competition: Businesses foster competition, which encourages efficiency, innovation, and better quality products or services. Competition can lead to lower prices, increased choices, and improved customer satisfaction.

Social contributions: Businesses can have a positive impact on society through corporate social responsibility initiatives. They can support community development, environmental sustainability, education, and charitable causes, contributing to the overall well-being of society.

However, it's important to note that businesses should also operate responsibly, considering ethical practices, sustainability, and the well-being of their stakeholders, including employees, customers, and the environment.

Q.2 What is a company? How is registered? Explain the various types of companies. Can a sole proprietor register his/her business as a company? Explain. (20)

A company is a legal entity formed by a group of individuals or entities to conduct business activities. It is a separate legal entity from its owners, known as shareholders or members, and is responsible for its own debts and liabilities. Companies are governed by specific laws and regulations in each jurisdiction.

The process of registering a company varies depending on the country and its legal system. In general, registering a company involves the following steps:

1. Choosing a name: The first step is to select a unique name for the company that complies with the naming rules and regulations of the respective jurisdiction.

2. Articles of Incorporation/Memorandum of Association: This document outlines the company's purpose, structure, and internal regulations. It typically includes information such as the company's name, registered address, objectives, share structure, and details of the directors or officers.

3. Registering with the authorities: The company must be registered with the appropriate government agency or registrar of companies. This usually involves submitting the necessary forms and documents, along with the required fees.
4. Obtaining necessary licenses and permits: Depending on the nature of the business, certain licenses or permits may be required before commencing operations. These requirements vary by industry and jurisdiction.

Now, let's discuss the various types of companies:

1. Sole Proprietorship: A sole proprietorship is not considered a company but rather an unincorporated business owned and operated by an individual. It does not have a separate legal existence from its owner, and the owner is personally liable for all debts and obligations of the business.
2. Partnership: A partnership is a business structure where two or more individuals or entities come together to carry on a business with a view to making a profit. There are different types of partnerships, such as general partnerships and limited partnerships, which have varying degrees of liability and decision-making authority.
3. Limited Liability Company (LLC): An LLC is a hybrid business structure that combines elements of both a corporation and a partnership. It provides limited liability protection to its owners (known as members) while allowing flexibility in terms of management and taxation.

4. Corporation: A corporation is a separate legal entity distinct from its owners. It is owned by shareholders and managed by a board of directors. The shareholders' liability is limited to their investment in the company. Corporations can be further categorized into public and private companies, based on factors like ownership, listing on stock exchanges, and level of disclosure requirements.
5. Cooperative: A cooperative is a business owned and operated by its members, who share the profits and have a say in the decision-making process. Cooperatives are formed to serve the common interests of their members, who can be individuals or other businesses.

Regarding a sole proprietor registering their business as a company, it is possible.

A sole proprietor can choose to incorporate their business and form a company. By doing so, they separate their personal assets from the liabilities of the business and gain the benefits of limited liability protection. The process of incorporating a sole proprietorship involves following the registration requirements of the respective jurisdiction and fulfilling the necessary legal formalities, such as filing the appropriate documents and paying the required fees. However, it's important to note that the specific regulations and requirements may vary depending on the jurisdiction in which the business operates. Consulting with legal and financial professionals would be advisable to ensure compliance with all applicable laws and regulations.

Q.3 What is equity financing? Explain the various tools for obtaining the equity financing for a business. Is equity financing a better option than the debt financing? Explain with reasons. (20)

Equity financing refers to the process of raising capital for a business by selling ownership shares (equity) in the company. When a company engages in equity financing, it offers a portion of its ownership to investors in exchange for their capital contributions. These investors become shareholders and have a claim on the company's profits and assets.

There are several tools available for obtaining equity financing for a business:

1. Initial Public Offering (IPO): An IPO is the process of offering shares of a privately held company to the public for the first time. It allows the business to raise significant capital by selling shares to individual and institutional investors in the stock market.
2. Private Placement: In a private placement, a company sells shares directly to a select group of investors, such as venture capital firms, private equity firms, or angel investors. This method is typically used by startups and small businesses that are not ready for an IPO.
3. Venture Capital (VC) Funding: Venture capital firms invest in high-growth startups and early-stage companies with the potential for substantial returns. They provide capital in exchange for equity and often offer strategic guidance and support to the business.

4. Angel Investment: Angel investors are individuals who invest their personal funds in early-stage companies. They can provide valuable expertise, industry connections, and mentorship along with their financial contributions.
5. Crowdfunding: Crowdfunding platforms allow businesses to raise funds from a large number of individuals, typically through online campaigns. Contributors receive rewards, products, or equity in return for their investments.

Now, let's discuss whether equity financing is a better option than debt financing and explore some reasons for each:

#### Advantages of Equity Financing:

1. No Debt Repayment Pressure: Unlike debt financing, equity financing does not require regular interest payments or fixed repayment schedules. Equity investors assume the risk of the investment and only expect returns if the business is profitable.
2. Shared Risk: Equity investors share the business risk with the entrepreneur. If the business fails, the entrepreneur does not have an obligation to repay the investment.
3. Strategic Support: Equity investors often bring valuable industry experience, expertise, and networks to the table. They can provide guidance, mentorship, and connections that can help the business grow and succeed.

#### Disadvantages of Equity Financing:



1. **Loss of Ownership and Control:** By selling equity, entrepreneurs dilute their ownership stake and give up a portion of their control over the company. Major decisions may require the approval of equity investors.
2. **Profit Sharing:** Equity investors are entitled to a share of the company's profits, as well as potential dividends. This reduces the entrepreneur's overall share of profits.

#### Advantages of Debt Financing:

1. **Retain Ownership and Control:** When a business uses debt financing, the entrepreneur retains full ownership and control over the company. The lender does not have a claim on profits or decision-making authority.
2. **Tax Benefits:** Interest payments on debt are often tax-deductible, reducing the overall tax burden of the business.

#### Disadvantages of Debt Financing:

1. **Debt Repayment Obligations:** Borrowed funds must be repaid with interest, regardless of the business's profitability. This adds financial pressure and fixed repayment obligations, which can strain cash flow.
2. **Collateral and Personal Guarantees:** Lenders often require collateral or personal guarantees, which can put the entrepreneur's personal assets at risk in case of default.

the choice between equity financing and debt financing depends on various factors such as the business's stage, growth prospects, and financial needs. Equity financing can be advantageous for startups and high-growth

companies seeking capital without immediate repayment obligations and those looking for strategic support. However, it involves dilution of ownership and profit sharing. Debt financing, on the other hand, allows entrepreneurs to retain control but comes with fixed repayment obligations and potential personal risk. Ultimately, the decision should align with the specific needs and goals of the business.

Q.4 Every business requires vibrant planning. What are the essentials of planning. Explain the various types of plans made for a business. (20)

Planning is an essential process for businesses as it helps set goals, establish strategies, allocate resources, and guide decision-making. The following are the key essentials of planning:

1. Establishing objectives: Planning begins with defining clear and specific objectives that the business aims to achieve. Objectives should be realistic, measurable, and aligned with the overall mission and vision of the organization.

2. Assessing the current situation: Businesses need to assess their internal strengths and weaknesses, as well as external opportunities and threats in the

market. This analysis helps identify gaps and challenges that need to be addressed in the planning process.

3. Formulating strategies: Strategies outline the approach and actions required to achieve the objectives. They involve making choices on how to allocate resources, compete in the market, and differentiate from competitors. Strategies can cover areas such as marketing, operations, finance, human resources, and technology.
4. Developing action plans: Action plans break down the strategies into specific tasks, timelines, and responsibilities. They provide a roadmap for implementation, specifying what needs to be done, who will do it, and by when. Action plans ensure accountability and help monitor progress towards the objectives.
5. Allocating resources: Planning involves identifying and allocating the necessary resources to support the implementation of strategies and action plans. Resources can include financial capital, human resources, technology, equipment, and materials.
6. Monitoring and evaluation: Effective planning requires continuous monitoring and evaluation of progress. Key performance indicators (KPIs) are established to measure and track performance against the objectives. This allows businesses to make adjustments, identify issues, and take corrective actions if needed.

Now let's explore various types of plans that businesses create:

1. Strategic plans: These plans set the long-term direction and vision of the business. They typically cover a period of three to five years and outline the overall goals, strategies, and initiatives required to achieve sustained success.
2. Operational plans: Operational plans focus on the day-to-day activities and short-term goals of the business. They translate the strategic plans into actionable tasks, specifying activities, deadlines, and resource allocation at the operational level.
3. Financial plans: Financial plans outline the financial goals, budgets, and forecasts for the business. They include revenue projections, expense budgets, cash flow analysis, and financial performance indicators. Financial plans help ensure the effective management of resources and support decision-making related to investments, financing, and profitability.
4. Marketing plans: Marketing plans outline the marketing strategies and tactics to promote products or services, attract customers, and achieve sales targets. They cover areas such as market research, target audience identification, pricing, distribution channels, branding, and promotional activities.
5. Human resource plans: Human resource plans focus on managing the organization's workforce effectively. They include strategies for recruitment, training and development, performance management, succession planning, and employee retention. These plans ensure that the business has the right talent and skills to support its objectives.

6. Contingency plans: Contingency plans are created to prepare for unexpected events or crises that may impact the business. They outline alternative courses of action and response strategies to mitigate risks and ensure business continuity in times of emergencies, such as natural disasters, cybersecurity breaches, or economic downturns.

Each type of plan serves a specific purpose and helps guide different aspects of the business's operations and decision-making processes.

Q.5 Why a business needs advertising? Explain the various tools for advertising. In your opinion, do business in Pakistan fulfill their promises made in the advertisements? (20)

Businesses need advertising for several reasons:

1. Awareness and Visibility: Advertising helps businesses to create awareness about their products or services among their target audience. It helps to increase visibility and make the business known to potential customers.

2. Brand Building: Advertising plays a crucial role in building and strengthening a brand's identity. It helps to create a positive perception of the brand in the minds

of consumers, establish brand loyalty, and differentiate the business from competitors.

3. Customer Acquisition: Effective advertising can attract new customers to the business. By showcasing the unique features and benefits of products or services, advertising can persuade potential customers to choose a particular brand over others.

4. Increased Sales and Revenue: Advertising campaigns that effectively communicate the value proposition of a business can lead to increased sales and revenue. By reaching out to a wider audience, advertising helps to generate leads and convert them into paying customers.

5. Competitive Advantage: Advertising allows businesses to stay competitive in the market. It enables them to communicate their strengths, unique selling points, and offers to potential customers, thus gaining an edge over competitors.

Various tools and mediums are used for advertising, including:

- Television: TV commercials reach a wide audience and can be effective for creating brand awareness. They allow for visual storytelling and can have a strong impact.
- Print Media: Advertising in newspapers, magazines, brochures, and other printed materials can target specific audiences and provide detailed information about products or services.

- **Digital Advertising:** This includes online advertising through various channels like search engines, social media platforms, display ads, and email marketing. Digital advertising offers targeting capabilities, precise tracking, and the ability to reach a global audience.
- **Outdoor Advertising:** Billboards, banners, posters, and transit advertising (e.g., bus shelters, subway ads) are used to reach people in public spaces and high-traffic areas.
- **Radio:** Radio ads can be an effective way to reach specific target audiences, especially in local markets. They provide an audio medium for conveying messages and can be cost-effective.

Regarding whether businesses in Pakistan fulfill their promises made in advertisements, it is challenging to provide a definitive answer as it depends on individual businesses and their practices. While some businesses strive to deliver on their promises and maintain customer satisfaction, there may be cases where businesses fall short of fulfilling their advertised claims.

To ensure that businesses in Pakistan fulfill their promises, it is important to have a robust regulatory framework and consumer protection laws in place. Additionally, customers should exercise due diligence by researching businesses, reading reviews, and seeking recommendations before making purchasing decisions. It is also advisable for businesses to adhere to ethical advertising practices and maintain transparency in their dealings to build trust with their customers.