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# 11

## SETTING UP AN ENTERPRISE

Now you know what entrepreneurship is all about. It is an act of creating an enterprise or an opportunity to become an entrepreneur and generate profits. What is an enterprise? What are the various forms of an enterprise? What is the process of setting up an enterprise? How can one register an enterprise?



### LEARNING OUTCOMES

After studying this lesson, the learner will be able to:

- explain various forms of business enterprise;
- examine the feasibility of the brief Project Report;
- formulate brief Project Report; and
- outline the legal compliances and registration formalities.

### 11.1 PROCESS OF SETTING UP AN ENTERPRISE

An enterprise is an industrial undertaking or a business concern or any other establishment which is engaged in production or procurement of goods or services to fulfil the demand of the customer, discussed in detail in Chapter 13. Setting up an enterprise is the whole process of converting an innovative business idea into a realistic project to be able to reap profits in the long run. Setting up an enterprise may not be as easy as it looks. It involves a lot of commitment, patience, proper planning and a regressive process to convert what is there in your mind into a realistic entity.

A determined entrepreneur is the most crucial aspect of every successful business project. In order to set up an enterprise, a suitable project has to be chosen. It involves a systematic feasibility study, preparation of project profile, strategic planning, deciding upon the constitution of the entity, preparation of



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**Setting up an Enterprise**

project report, obtaining registration and clearance from related departments, resource mobilisation, obtaining funds and final implementation of the project. Based on the selection of product/ service to be offered, a project feasibility study has to be conducted and a brief product profile is made on that basis. Depending upon the type of project, details like a suitable form of enterprise, location, investment involved are decided. In this chapter we will discuss various aspects of setting up of an enterprise in detail.



**11.2 FORMS OF AN ENTERPRISE**

To set up an enterprise, an entrepreneur has to decide upon the constitution of the enterprise at the initial stage of the project. There are various forms of an enterprise which can be chosen by the entrepreneur based on the selection of the intended project. Selection of a most conducive form of enterprise is important for the successful execution of the project. Let us discuss some broad categories of enterprises.

**11.2.1 Types of Organisations**

**1. Sole Proprietorship**

Sole proprietorship is the simplest and oldest form of enterprise. It is also known as a **sole trader** or simply **proprietorship**. It is the type of business entity which is owned and run by one individual, which means 100 per cent ownership and profits stay with the owner and so the decision taking authority. In sole proprietorship there is no legal distinction between the owner and the business. Many businesses starts as a sole proprietorship and get converted into huge corporation later. Companies like Coca-Cola, Apple, Google, Amazon, and Disney started as sole proprietorships.

Sole proprietorship is a popular business form due to its simplicity, ease of setup and comparatively less initial costs involved. A sole proprietor need only register his/her name to secure local license and can start his/ her business immediately. Taxation formalities for sole proprietorship is



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also very easy as the income generated during the course of business gets taxed only at the owner's personal income tax rate with no major reporting requirements.

### **Salient Features of Sole Proprietorship**

- a. Single ownership
- b. No separate legal entity of the firm
- c. Unlimited liability
- d. One man control
- e. Undivided risk

## **2. Partnership Firm**

As a business entity grows in size and scope of operations, it needs much more funds that may possibly be beyond the capacity of a single person. A group of persons can join their hands to form a partnership to fulfil the needs of organisation. Partnership, the form of enterprise, over comes the limitations of a one- person business such as need of more capital, better managerial skills and specialisation.

The Partnership Act, 1932 defines partnership as, "the relation between persons who have agreed to share the profits of business carried on by all or anyone of them acting for all." In other words, a partnership is a form of organisation in which there is two or more persons share the ownership and thereby profits or losses generated in the business entity. Persons who enter into a partnership agreement are called the partners.

As per section 464 of the Companies Act 2013, maximum number of partners can be 100 subject to the number prescribed by the government. However as per Rule 10 of the Companies (miscellaneous) Rules 2014, at present the maximum number of members can be 50.

The partnership may come into existence either as a result of expansion of the sole proprietorship firm or by means of an agreement between two or more people to join hands to form a partnership firm.

### **Salient Features of Partnership Firm**

- a. Two or more persons enter into the partnership agreement, known as partners
- b. A written or oral agreement
- c. Legal aspects are governed by the Indian Partnership Act, 1932
- d. Mutual consent to join hands among the partners



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- e. Unlimited liability of partners
- f. No separate legal entity of the firm

### 3. Limited Liability Partnership Firm

A traditional form of partnership firm suffers the problem of unlimited liability. Liability of the partnership firms extends right upto their personal assets. This make regular partnership firms undesirable for most of the entrepreneurs. To settle up these issues a new form of organisation has been passed in January 2009 by the government of India, the Limited Liability Partnership to be governed under the Limited Liability Partnership Act, 2008.

Limited Liability Partnership or LLP is a hybrid form of organisation which contains the features of both, the traditional partnership firm and company. It is an alternative corporate business form which offers benefits of limited liability to the partners at lower compliances costs. An LLP is a legal entity, liable for the full extent of its assets. However, the liabilities of its partners are limited. Further, no partner shall be liable on account of the independent or unauthorised actions of other partners in the firm. Thus, LLP allows individual partners to be shielded from liabilities created by another partner's wrong business decisions or misconduct.

#### Salient Features of Limited Liability Partnership Firm

- a. It is a corporate body which has its separate legal entity
- b. It enjoys the perpetual succession unlike traditional form of partnership
- c. It is governed by the Limited Liability Partnership Act, 2008. Also, the Partnership Act, 1932 is not applicable to it.
- d. There has to be minimum of two persons for its incorporation. However, unlike partnership firm, there is no limit of maximum members.
- e. Partners assume limited liability.
- f. If partners agree, LLP can have a common seal.

### 4. Joint Stock Company

This form of organisation was evolved to overcome the weaknesses of proprietorship and partnership forms of businesses. A joint stock company or association is a group of individuals organised to conduct a business for a common motive of making profits. The individuals have a joint stock



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of capital represented by shares owned in the company. These shares/stocks are transferable by the members without the consent of the group.

A joint stock company can be formed under the Companies Act 2013. A registered company is incorporated as a separate legal entity, with a distinct name, common seals, and perpetual succession with the limited liability of individual share-holders or members. As an independent legal entity, the joint stock company enjoys the status of an artificial legal person, which means it can sue some other party or can be sued in its own name.

### Types of Joint Stock Company

#### i. Private Company

A private company is a company which has a paid up capital of one lakh rupees or above, as prescribed by its Articles of Association. However the Companies Amendment Act (2015) removes the minimum paid-up requirement. To form a private company, there must be at least two members. The maximum limit is of 200 members. Also, these members are restricted in their rights to transfer their shares, if any. A private company cannot invite to the public to subscribe for the shares or debentures of the company.

#### ii. Public Company

A public company is any company, which is

- a. Not a private company.
- b. Has paid up capital of minimum five lakh rupees and higher, as may be prescribed.
- c. Is a subsidiary of a company which is not a private company.

The formation of a public company requires at least seven members and can invite general public to subscribe for its shares and debentures, if required. Members are not restricted to transfer of their shares.

### 11.2.2 Choice of form of Company

A prospective entrepreneur should properly analyse various form of organisation to identify the one that suits his/her business idea in the best possible way. The choice has to be made at the time of setting up the business entity. The choice could be derived by several factors including:

- a. Nature of business
- b. Size and scale of operation

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- c. Capital requirement
- d. Degree of control desired by the promoter
- e. Degree of risk and uncertainty the owners are ready to bear
- f. Life span of the enterprise desired by the owners etc.

**INTEXT QUESTIONS 11.1**

State whether the following statements are true or false:

1. Conducting the feasibility study is the first activity being performed in the process of setting up an enterprise.
2. The sole proprietorship business is being owned and run by an individual or a sole trader.
3. Hundred percent ownership and profits stay with the individual owner and so the decision taking authority.
4. Sole proprietorship firm has a separate legal identity to that of the owner.
5. Two or more persons enter into the partnership agreement, known as partners.
6. In a partnership firm, there is no maximum limit for the number of partners.
7. Limited Liability Partnership or LLP is a hybrid form of organisation which contains the features of both, the traditional partnership firm and company.
8. A joint stock company is a group of individuals organised to conduct a business for a common motive of making profits.
9. A joint stock company does not have a separate legal identity to its owners.
10. The formation of a public company requires at least seven members.
11. A public company can invite the general public to subscribe to its shares and debentures, if required.

**11.3 FEASIBILITY STUDY**

Feasibility study is a systematic analysis that involves finding and documenting potential solutions to a particular business idea. The feasibility study is done to check whether the business plan is compatible with the accessible technology or not. In other words, it is an analysis and evaluation of the proposed business idea to identify if it is technically feasible. If it is, the next concern is, will it



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be profitable? The feasibility study involves a targeted market analysis, technical analysis, financial analysis, economic analysis and commercial feasibility analysis.

### 1. Market Feasibility Analysis

Market feasibility analysis deals with understanding the potential market and market share, market factors like market growth potential and the location of competitors. Market survey is the most popular method to evaluate the market feasibility. The market feasibility study involves the analysis of the nature of market cost of production and overall cost of production, selling price and profits, market demand, target market, market share etc.

### 2. Technical Feasibility Analysis

Technical feasibility analysis deals with analysing the technical viability of the project. In this study, efforts are made to review the infrastructural facilities like land, building, transportation, availability of raw material, locational advantages and disadvantages, evaluation of technical know-how, labour force requirement and project schedule.

### 3. Financial Feasibility Analysis

This involves assessing the risk and uncertainty involved in executing the project. The purpose of this analysis is to present some measures to assess the financial viability of the project. The feasibility report should take into account the expected income generated, taxation liabilities as per the applicable tax laws, income tax rebates for priority industries, incentives for backward areas, expected depreciations in line with the industry it belongs to etc.

### 4. Commercial Feasibility Analysis

Commercial feasibility analysis evaluates the commercial aspects of the arrangement of the project. It also examines the arrangement process of plant and machinery, procedure of selection of raw material suppliers, appropriate location for the plant and other commercial aspects of the project.

### 5. Economic Analysis

Economic analysis involves evaluation of a project in terms of cost and benefit analysis. It is the most crucial aspect of evaluation of a business idea. It is the process of determining the efficiency of the project. It is also called Cost Analysis.



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## 11.4 FORMULATION OF PROJECT REPORT

A project is a temporary, unique and realistic business idea which is converted into a feasible and achievable plan. It is time-bound to achieve a set of pre-specified objectives. Risk and uncertainty are the integral part of a project. All projects have to pass through different phases in its lifespan. These phases are broadly classified as conception phase, definition phase, planning and organising phase, implementation phase and clean-up phase.

**Project report** is an important document that describes the basic blueprint of the project. It summarises the variety of activities to be undertaken during the course of action. This report helps in effective decision making and procuring funds from the market. The project report contains all relevant information required for the business idea evaluation and project appraisal. Thus, preparation of project report is of a great significance for the entrepreneur. It essentially serves two crucial purposes.

- a. As a clear road map describing the direction of enterprise
- b. To attract the potential lenders and investors

The Planning Commission of India duly provides guidelines for the preparation of the project report. The project report broadly covers the following aspects of the proposed project:

### Content of Project Report

1. **General Information:** The project report must contain a brief analysis of the industry it belongs to. It should also contain details related to the type of proposed entity, its size, company profile, product/service profile, constitution of the company etc.
2. **Product Profile:** This section talks about the basic specification and features of the product. It should contain the product details like name of product/service, type of product/service, variants available, a brief description of the product/service etc.
3. **Promoter Profile:** It contains the promoters' details like their name, age, educational qualification, address, contact details etc.
4. **Project Description:** The project report must contain a brief yet complete profile of the project the entrepreneur intends to work on. It includes a brief feasibility report, a brief description of technology/process selected for the project, capacity of the project, intended level of production to be attained etc.





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5. **Location of Unit:** The project should contain details like exact location of the unit, whether the property is leased or self-owned and locational advantage.
6. **Market Survey:** This section of the project report talks about the finding of the market survey conducted by the promoters to analyse the response of the targeted customer group towards the product/service intended to be introduced.
7. **Funds requirement:** The project report must contain details of the funds required. It includes quantum and type of funds required like working capital, fixed capital, sources of funding identified etc.
8. **Other operational requirements:** This section of the project report contains all other aspects which have not been covered in the previous heads viz. raw material cost, requirement of human resources and other operational costs.



**INTEXT QUESTIONS 11.2**

State whether the following statements are true or false:

1. Feasibility study is a systematic analysis that involves finding and documenting potential solutions to a particular business idea.
2. Analysing the technical viability of the project is being dealt with technical analysis
3. Financial analysis needs to be conducted to check whether or not the business plan is compatible with the accessible technology.

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4. Commercial feasibility analysis evaluates the commercial aspects of the arrangement of the project.
5. Economic analysis does not involve evaluation of project in terms of cost and benefit analysis.
6. The project report helps in effective decision-making and procuring funds from the market.
7. Project report must contain a brief yet complete profile of the project the entrepreneur intends to deal with.

## **11.5 LEGAL COMPLIANCES FOR SETTING UP A NEW BUSINESS**

The legal compliances that are supposed to be adhered to, depend on the form of organisation which has been opted by the entrepreneur. Each form of organisation is governed by their respective Indian legal Acts. A brief discussion of such legal compliances is given below.

### **11.5.1 Obtain Registration**

The sole proprietorship does not have too many legal formalities. MSMEs usually choose to register with local/district industries centre for obtaining various facilities and incentives. In case there is more than one person involved, one can opt for setting up a partnership firm. In these firms, partners' personal assets are also held responsible as their liabilities are unlimited. So, it might be risky. However, partnership firms are governed by the Indian Partnership Act, 1932 and the partnership deed which contains terms and conditions of the partnership contract.

Often, the requirement of huge capital and managerial aspects can make it convenient to setup a Limited Liability Partnership (LLP) or a joint stock company, as applicable. The LLPs are governed under the Limited Liability Partnership act, 2008 whereas companies are registered with the Registrar of the Company (RoC) and the cooperative entities are registered with the registrar of cooperatives. In India companies are governed by the Companies Act 2013.

However, irrespective of form of the enterprise chosen, a number of clearances and approvals are required from concerned authorities.

### **11.5.2 Application Formalities**

An application is a prescribed format for registration of an enterprise in which

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all the required details have to be duly filled and submitted along with the following documents:

- a. A copy of provisional registration certificate (PRC)
- b. A detailed project report
- c. Certified copies in support of educational qualification, experience, and other information as applicable to various forms of entity
- d. Applicable earnest money deposit

### **11.5.3 Registration of MSMEs (UAM)**

Udyog Aadhaar Memorandum (UAM) is a one-page registration form which constitutes a self-declaration format under which the MSME will self-certify its existence, bank account details, promoter/owner's Aadhaar card details and other minimum information required. There is no fee for filling the Udyog Aadhaar Memorandum. Once the UAM is submitted, Udyog Aadhaar Number (UAN) is sent through e-mail.

It is a simplified government registration forum that provides a unique number along with a recognition certificate to certify small/medium business.

#### **Udyog Aadhaar Registration Process**

1. Visit the official website: Udyog Aadhaar Registration portal (<http://www.udyamregistration.gov.in>)
2. Enter your personal Information  
It requires the 12 digit Aadhaar number along with your name and click on, "validate and generate OTP." You will receive the OTP on your registered mobile number. Enter the OTP on the portal and select social category you belongs to.
3. Fill details about the enterprise
4. Fill the correspondence details
5. Fill the carry-forward information
6. Fill the bank details
7. Opt for the classification of you enterprise from being a service entity of manufacturing entity
8. Details of total investment
9. Select the District Industry Centre and accept the declaration



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Type of Enterprise	Micro	Small	Medium
Manufacturing	A	B	C
Services	D	E	F
UAN	KR0300051335		

**Udyog Aadhaar Memorandum**

- Aadhaar Number: XXXX XXXX XXXX
- PAN Number: XXXXXXXXXX
- Name of Entrepreneur: [REDACTED]
- Social Category of Entrepreneur: [REDACTED]
- Gender: [REDACTED]
- Physically Handicapped: [REDACTED]
- Name of Enterprise: [REDACTED]
- Type of Organization: [REDACTED]
- Location of Plant Details

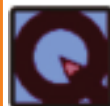
SN	Floor/Door/Block No.	Name of Premises/Building/Village	Road/Street/Lane	Area/Locality	City	Pin	State	District
1	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	Bengaluru	[REDACTED]	KARNATAKA	BENGALURU (URBAN)

Official Address of Enterprise: [REDACTED]

- Mobile No: 9911059644 | Email: uamcertificate-PeetanKumar01@gmail.com
- Date of commencement: 27/03/2018
- Previous Registration details-if any: -
- Bank Details: IFS Code: KKBK0008072, Branch: [REDACTED]

**Documents Required for UAM Registration**

- Name and Aadhaar number of the business owner (as mentioned in the Aadhaar card)
- Document required as proof for SC, ST and OBC social category
- Name of your organisation or enterprise
- Previous registration details of your enterprise
- Type of organisation that you own
- Current address and account details
- NIC Code or National Industrial Classification Code
- The total number of workers employed at your organisation
- Current activities of your firm
- Email ID and mobile number of the entrepreneur
- PAN number and the total investment made in the organisation by the entrepreneur



**INTEXT QUESTIONS 11.3**

1. Mention the documents that have to be submitted along with the prescribed format of registration of an enterprise.
2. Mention any four documents required for UAM Registration.



## WHAT HAVE YOU LEARNT

- Setting up of an entrepreneurship involves a systematic feasibility study, preparation of project profile, strategic planning, deciding upon the constitution of the entity, preparation of project report, obtain registration and clearance from related departments, resource mobilisation, obtain fund and final implementation of project.
- There are broadly four forms of business organisations viz. sole proprietorship, partnership, Limited Liability Partnership and joint stock companies.
- Sole proprietorship is the simplest and oldest form of organisation. It is also known as a sole trader or simply, proprietorship. It is the type of business entity which is owned and run by one individual.
- A partnership is a form of organisation in which there are two or more persons who share the ownership and thereby profits or losses generated in the business entity.
- Persons who enter into a partnership agreement are called the partners.
- Limited Liability Partnership or LLP is a hybrid form of organisation which contains the features of both, the traditional partnership firm and company. It is an alternative corporate business form which offers benefits of limited liability to the partners at lower compliance costs.
- A joint stock company or association is a group of individuals organised to conduct a business for a common motive of making profits. The individuals have a joint stock of capital represented by shares owned in the company.
- Feasibility study is a systematic analysis that involves finding and documenting potential solutions to a particular business idea. The feasibility study is done to check whether the business plan is compatible with the accessible technology or not.
- The feasibility study involves a targeted market analysis, technical analysis, financial analysis, economic analysis and commercial feasibility analysis.
- A project is a temporary, unique and realistic business idea which is converted into a feasible and achievable plan. It's a time-bound endeavour undertaken to achieve a set of pre-specified objectives.
- Project report is an important document. It describes the basic blueprint of the project. It summarises the variety of activities to be undertaken. This



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report helps in effective decision-making and procuring funds from the market.

- The legal compliances that are supposed to be adhered to, depends on the form of organisation which has been opted by the entrepreneur. Each form of organisation is being governed by their respective Indian legal Acts.
- Udyog Aadhaar Memorandum (UAM) is a one page registration form which constitutes a self-declaration format under which the MSME will self-certify its existence, bank account details, promoter/owner's Aadhaar details and other minimum information required.
- There is no fee for filling the Udyog Aadhaar Memorandum.
- UAM registration portal provides a unique number along with a recognition certificate in order to certify small/medium business.

**TERMINAL EXERCISE**

1. Explain the process of setting up an enterprise in brief.
2. List out various forms of business organisations.
3. Describe various criteria kept in mind at the time of choosing a suitable form of organisation.
4. What do you understand by feasibility study? Explain in detail.
5. What do you understand by project report?
6. Explain the content of project report in brief.
7. What are the legal formalities an entrepreneur is expected to comply with to obtain the registration of the organisation?
8. List out various documents required to submit at the time of filing of application.
9. Write a short note on the following:
  - a. Sole proprietorship
  - b. Partnership firms
  - c. Limited Liability Partnership
  - d. Joint stock company
  - e. Private companies
  - f. Public holding companies



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10. Explain the following feasibility analysis criteria in brief:

- Technical Feasibility Analysis
- Financial Feasibility Analysis
- Commercial Feasibility Analysis
- Economic Analysis



### ANSWER TO INTEXT QUESTIONS

#### 11.1

1. False    2. True    3. True    4. False    5. True    6. False  
 7. True    8. True    9. False    10. True    11. True

#### 11.2

1. True    2. True    3. False    4. True    5. False    6. True  
 7. True

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1. (a) A copy of provisional registration certificate (PRC)  
 (b) A detailed project report  
 (c) Certified copies in support of educational qualification, experience, and other information as applicable to various forms of entity  
 (d) Applicable earnest money deposit
2. (a) Name and Aadhaar number of the business owner (as mentioned in the Aadhaar card)  
 (b) Document required as proof for SC, ST and OBC social category  
 (c) Name of your organisation or enterprise  
 (d) Previous registration details of your enterprise

### DO AND LEARN

Identify various forms of business organisations in your locality and discuss with them various legal formalities which have to be performed and how they obtained clearance from local authorities.

CONCEPT MAP

