

Forms of Business Organisation

Multiple Choice Questions:

Question 1.

The business structure where ownership is separate from management is called:

- (a) Sole proprietorship
- (b) Partnership
- (c) Company
- (d) All business organisations

Answer:

- (c) Company

Question 2.

In a Joint Hindu Family business, the Karta has:

- (a) Limited liability
- (b) Unlimited liability
- (c) No liability for debts
- (d) Joint liability

Answer:

- (b) Unlimited liability

Question 3.

The principle followed in a cooperative society is:

- (a) One share one vote
- (b) One man one vote
- (c) No vote
- (d) Multiple votes

Answer:

- (b) One man one vote

Question 4.

The board of directors in a joint stock company is elected by:

- (a) General public
- (b) Government bodies
- (c) Shareholders
- (d) Employees

Answer:

- (c) Shareholders

Question 5.

The maximum number of partners allowed in a banking business is:

- (a) Twenty
- (b) Ten
- (c) No limit
- (d) Two

Answer:

- (b) Ten

Question 6.

The statement "Profits do not have to be shared" refers to:

- (a) Partnership
- (b) Joint Hindu family business
- (c) Sole proprietorship
- (d) Company

Answer:

- (c) Sole proprietorship

Question 7.

The capital of a company is divided into parts, each called a:

- (a) Dividend
- (b) Profit
- (c) Interest
- (d) Share

Answer:

- (d) Share

Question 8.

The head of a Joint Hindu Family business is called:

- (a) Proprietor
- (b) Director
- (c) Karta
- (d) Manager

Answer:

- (c) Karta

Question 9.

The objective of providing residential accommodation at reasonable rates to members is fulfilled by:

- (a) Producer's cooperative
- (b) Consumer's cooperative

- (c) Housing cooperative
- (d) Credit cooperative

Answer:

- (c) Housing cooperative

Question 10.

A partner whose association with the firm is unknown to the general public is called a:

- (a) Active partner
- (b) Sleeping partner
- (c) Nominal partner
- (d) Secret partner

Answer:

- (d) Secret partner

Short Answer Questions

Question 1:

Which of the following types of business do you think a sole proprietorship form of organisation would be most suitable, and why?

Answer:

- Grocery store
- Medical store
- Legal consultancy
- Craft centre
- Internet café
- Chartered accountancy firm

A sole proprietorship would be most suitable for a **grocery store**. This is because the initial costs for setting up the business are relatively low, legal requirements are minimal, and the scale of operations is small.

Additionally, a grocery store requires direct personal interaction with customers, which is easier for a sole proprietor who owns and manages the business. This allows the owner to develop close relationships with customers, understand their needs, and provide better service.

Therefore, a sole proprietorship is ideal for a grocery store where personalized attention is key to success.

Question 2:

Which of the following types of business do you think a partnership form of organisation would be most suitable, and why?

Answer:

- Grocery store
- Medical Clinic
- Legal consultancy
- Craft centre
- Internet café
- Chartered accountancy firm

A partnership form of organization would be most suitable for an **internet café**. This type of business typically requires a higher capital investment and diverse skills for managing technology, customer service, and marketing. A partnership can be easily formed through a legal agreement where the partners agree to share the responsibilities, risks, and profits of the business.

The flexibility of a partnership allows for pooling resources and expertise, making it easier to operate and grow the business. Additionally, the registration of the firm is not mandatory, and if the business needs to close due to lack of demand, dissolution is straightforward. In a partnership, the liability for debts is shared jointly, reducing the financial burden on any single partner, unlike in a sole proprietorship.

Question 3:

Explain the following terms in brief:

Answer:

(1) Perpetual Succession

Perpetual succession refers to the continuous existence of a joint-stock company, unaffected by the death, retirement, insolvency, or insanity of its members. A company remains in existence regardless of changes in its membership. It can only be dissolved according to the provisions of the Companies Act, 1956.

(2) Common Seal

Since a company is an artificial person, it acts through its Board of Directors. The common seal of the company is affixed on documents to signify the company's approval and agreement.

The common seal functions as the official signature of the company, and any document without this seal is not legally binding on the company.

(3) Karta

In a Joint Hindu Family business, the head of the family, known as the ****Karta****, manages and controls the business. The Karta is typically the eldest male member and has unlimited liability. He makes all business decisions, which are binding on the other family members. The business continues even after Karta's death, with the next eldest family member taking over as the new Karta.

(4) Artificial Person

A company is considered an artificial person because it is created by law and exists independently of its members. Like a natural person, a company can own property, incur debts, borrow money, enter contracts, and sue or be sued. However, unlike a natural person, a company cannot perform physical activities such as eating, talking, or walking, which is why it is called an artificial person.

Question 4.

Compare the status of a minor in a Joint Hindu Family Business with that in a partnership firm.

Answer:

Position of a Minor in a Joint Hindu Family Business:

- In a Joint Hindu Family business, membership is based on birth into the family. Therefore, minors automatically become members of the business.
- Minors in this business have an inherent right to be part of the family business and can share in its assets and profits, though they do not actively participate in its management.

Position of a Minor in a Partnership Firm:

1. Legal Status of a Minor:

- A minor is legally defined as an individual under the age of 18 and is not competent to enter into a binding contract.
- Under the Indian Partnership Act, of 1932, a minor cannot become a full partner but may be admitted to the firm for the benefit of profits, with the consent of all other partners.
- The minor's liability is limited to their share of the profits, and they are not personally liable for the debts of the firm.

2. Rights of a Minor in a Partnership Firm:

- **Right to Share Profits:** The minor is entitled to a share in the profits of the firm.
- **Right to Share Assets:** If admitted with the consent of the other partners, the minor also has a right to share in the assets of the firm.
- **Right to Inspect Books of Accounts:** The minor can inspect and obtain copies of the firm's books of accounts, though access to confidential or secret books is not permitted.
- **Right to File a Suit:** The minor cannot sue the firm or its partners for their share of the profits unless they wish to dissociate from the firm.

3. Liabilities of a Minor in a Partnership Firm:

- The minor's liability is restricted to the amount of capital they have invested in the firm. They do not bear unlimited liability like other partners.

4. Status After Attaining Majority:

- Upon reaching the age of majority, the minor has six months to decide whether to remain a partner. A public notice must be given to declare their decision.
- If the minor does not inform the Registrar of Firms within this period, it is assumed that they have chosen to continue as a full partner, taking on the rights and liabilities of a major partner, including unlimited liability.

5. Rights After Becoming a Major Partner:

- **Unlimited Liability:** The individual will now be subject to unlimited liability, like other partners.
- **Right to Share Profits and Assets:** They continue to share in the firm's profits and assets, but they will also be responsible for any losses incurred.

6. Rights and Liabilities After Declining to Become a Partner:

- If the individual decides not to remain a partner, they lose all rights and liabilities associated with the partnership.
- They are no longer bound by the firm's agreements and contracts made after their withdrawal.

- They retain the right to file a lawsuit to claim their share of the profits and assets accrued before their decision.

Question 5.

If registration is optional, why do partnership firms willingly go through this legal formality and get themselves registered? Explain.

Answer:

Registration of a partnership firm involves entering the firm's name and relevant details into the Register of Firms maintained by the Registrar. Although registering a partnership firm is optional, most firms choose to complete this legal formality due to the significant benefits it provides. Without registration, the firm faces several limitations, including:

1. Inability to File a Suit: A partner in an unregistered firm cannot file a lawsuit against the firm or other partners to enforce their rights.
2. Limited Legal Recourse: The firm itself cannot initiate legal proceedings against third parties to recover debts or enforce contracts.
3. Lack of Legal Protection: The firm cannot file a case against its own partners, limiting its ability to resolve internal disputes through legal means.

To avoid these legal disadvantages and ensure smooth business operations, most partnership firms voluntarily opt for registration.

Question 6.

State the important privileges available to a private company.

Answer:

A private company enjoys several advantages and exemptions compared to a public company. These privileges make it more flexible and easier to operate. The key privileges are as follows:

1. Number of Members: A private company can be formed with just two members, whereas a public company requires a minimum of seven.
2. Number of Directors: Only two directors are required for a private company, unlike a public company, which needs at least three.
3. Exemption from Issuing a Prospectus: A private company is not obligated to issue a prospectus or file a statement in place of a prospectus with the Registrar of Companies.

4. No Minimum Subscription Requirement: A private company can begin allotting shares without needing to receive the minimum subscription amount that is mandatory for a public company.

5. Exemption from Certificate of Commencement of Business: Unlike a public company, a private company can commence its business immediately after incorporation, without needing a certificate of commencement from the Registrar.

6. Exemption from Holding a Statutory Meeting: A private company is not required to hold a statutory meeting or submit a statutory report to the Registrar of Companies.

7. Exemption from Maintaining an Index of Members: A private company is not required to prepare or maintain an index of its members.

8. Loan Privileges: A private company can grant loans to other companies under the same management or to its directors without needing approval from the government.

9. Flexibility in Issuing Shares: A private company can issue deferred shares with disproportionate voting rights, which is not permitted in public companies. Additionally, it is not required to offer new shares to existing shareholders when increasing its share capital.

10. Exemptions Regarding Directors: Private companies are exempt from several restrictions imposed by the Companies Act on directors of public companies, including:

- No age limit for directors.
- No restriction on the number of companies a person can serve as a managing director.
- No limits on the tenure of managing directors.
- No requirement for qualification shares.
- No need for government consent to appoint a whole-time or managing director.
- No limits on the remuneration of directors.
- No restrictions on loans to directors.
- No cap on the number of directorships (unlike the 20-company limit for public companies).
- No restrictions on directors voting on contracts they have a personal interest in.

These exemptions make private companies more flexible and easier to manage compared to public companies, giving them certain operational advantages.

Question 7.

How does a cooperative Society exemplify democracy and secularism? Explain.

Answer:

A cooperative society represents the concept of working together for a common purpose. It is a voluntary association of individuals who unite to promote the welfare of all members. Membership in a cooperative society is entirely voluntary, allowing individuals to join or leave without any pressure or compulsion.

The democratic nature of a cooperative society is evident in its decision-making process. The power to make decisions rests with an elected managing committee, where each member holds equal voting rights. Every member has one vote, ensuring equal participation in electing the leadership and making decisions for the society.

Moreover, a cooperative society is open to everyone, regardless of religion, caste, or gender, emphasizing its secular nature. The focus of the society on mutual help and the well-being of its members further reflects these democratic and secular values. It fosters inclusivity and promotes collective welfare, free from discrimination or bias.

Question 8.

What is meant by 'partner by estoppel'? Explain.

Answer:

A partner by estoppel, also known as a ****partner by holding out****, refers to a person who, through their words, actions, or conduct, presents themselves as a partner in a firm, even though they are not an actual partner. If someone advances money or extends credit to the firm based on this representation, the person is held liable as though they were a partner. They cannot later deny their association with the firm because their conduct has led others to believe they were a partner.

Although this individual is not genuinely a partner—having no formal agreement, no share in the profits or losses, and no involvement in management—they are still responsible to outsiders who rely on their representation.

This is based on the legal principle of estoppel, which prevents a person from denying their role if their actions have misled others. Therefore, while they are not a true partner in the internal workings of the firm, they are seen as a partner by the outside world.

Long Answer Questions Forms of Business Organisation

Question 1.

What do you understand by a sole proprietorship firm? Explain its merits and limitations.

Answer:

Sole Proprietorship: Definition, Merits, and Limitations

A sole proprietorship is a type of business that is owned, managed, and controlled by an individual. It is the simplest form of business organization, established using the owner's resources, abilities, and capital. The individual owner, also known as a sole trader or entrepreneur, takes on all responsibilities and risks associated with the business.

As defined by L.H. Haney: The sole proprietorship is a form of business organization headed by an individual who is responsible for its operations and solely bears the risk of its success or failure.

Merits of Sole Proprietorship

1. **Ease of Establishment and Dissolution:** A sole proprietorship can be easily and quickly established without complex legal procedures. With minimal capital, a business can start as soon as the owner desires. Similarly, it can be closed down without any hassle.
2. **Direct Motivation:** Since the owner receives all the profits and bears all the losses, there is a direct link between effort and reward. This motivates the sole proprietor to work hard to maximize efficiency and profitability.
3. **Quick Decision-Making:** The sole proprietor has full authority to make decisions without needing approval from others. This enables swift decision-making and prompt actions, helping the business seize opportunities effectively.

4. **Independent Control:** The owner has complete control over business activities and enjoys the freedom to make changes to the operations as needed, without legal restrictions or external interference.
5. **Secrecy of Business Affairs:** A sole proprietorship is not required to publish financial accounts, allowing the owner to maintain business secrecy and strengthen competitive advantage.
6. **Personal Touch:** The owner can establish direct relationships with customers and employees, allowing them to understand customer preferences better and maintain a positive business image.
7. **Operational Flexibility:** The business is usually small in size, making it easy to adjust operations to suit changing market conditions.
8. **Economical Management:** Since the owner manages the business, operating costs are kept low. Additionally, their borrowing capacity may be higher due to unlimited personal liability.
9. **Social Importance:** Sole proprietorships provide opportunities for self-employment to individuals with limited resources, fostering self-reliance, initiative, and hard work, which are valuable to society.

Limitations of Sole Proprietorship

1. **Limited Capital:** The financial resources available to the owner are often limited, as they must rely on personal funds or loans. This can restrict the growth and expansion of the business.
2. **Lack of Specialization:** The proprietor may not possess all the necessary skills or expertise to effectively manage every aspect of the business. Sole proprietorships typically cannot afford to hire professional experts, resulting in limited specialization and efficiency.
3. **Limited Resources:** As the business is owned by an individual, the capital resources are scarce compared to partnerships or companies, where multiple partners or shareholders contribute funds.
4. **Limited Managerial Efficiency:** The owner may not have the expertise to handle all facets of the business, such as sales, accounting, production, and marketing, leading to reduced managerial efficiency.
5. **Unlimited Liability:** The proprietor's liability is unlimited, meaning personal assets can be used to pay off business debts, putting the owner's wealth at risk.

6. Hasty Decision-Making: Since the sole proprietor makes all decisions alone, there is a higher chance of unsound decisions being made, which could negatively impact the business.

7. Uncertain Continuity: The business heavily depends on the proprietor. Illness, absence, or death of the owner can significantly disrupt operations and, in some cases, lead to the dissolution of the business.

In conclusion, while sole proprietorship offers flexibility, simplicity, and personal control, it also carries significant risks such as limited capital, lack of specialization, and the burden of unlimited liability.

Question 2.

Why is partnership considered by some to be a relatively unpopular form of business ownership? Explain the merits and limitations of partnership.

Answer:

The ****Indian Partnership Act, of 1932**** defines partnership as "the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all." Despite its utility, some people find partnership an unpopular form of business ownership due to its inherent features.

Factors like joint risk-bearing, profit sharing, collective decision-making, and the unlimited liability of partners can often lead to conflicts and an undue burden on some partners. Moreover, public confidence in partnership firms tends to be lower compared to other business forms.

Merits of Partnership

1. Ease of Formation and Closure:

Forming a partnership is simple, requiring only an agreement between the partners to conduct business and share risks. There is no mandatory requirement for the registration of the firm, and dissolving it is also straightforward.

2. Balanced Decision-Making:

Partners can divide the responsibilities according to their individual expertise, reducing the burden on each partner and decreasing the likelihood of errors in judgment. This leads to more balanced and informed decision-making.

3. More Funds:

Since multiple partners contribute capital, partnership firms generally have access to more funds than sole proprietorships, enabling them to undertake larger or additional business operations.

4. Risk Sharing:

The risks associated with running the business are spread across all the partners, reducing the stress and anxiety on any one individual.

5. Secrecy:

Partnership firms are not required by law to publish their financial accounts or reports, allowing them to maintain confidentiality about their business operations.

Limitations of Partnership

1. Unlimited Liability:

In a partnership, partners have unlimited liability, meaning they are personally liable for the debts of the business. If the business cannot pay its debts, partners must use their assets to cover the shortfall. This liability is both joint and several, meaning one partner with greater wealth may end up paying more if other partners are unable to contribute.

2. Limited Resources:

Due to restrictions on the number of partners, the amount of capital available is often insufficient to support large-scale operations. This limits the firm's ability to expand beyond a certain point.

3. Possibility of Conflicts:

Since decision-making is shared among multiple partners, disagreements may arise, leading to potential disputes. Furthermore, the decisions of one partner are binding on all others, which can cause problems if one partner makes a poor decision. Additionally, if a partner wishes to leave the firm, it can result in the dissolution of the partnership, as transferring ownership is restricted.

4. Lack of Continuity:

The partnership can be dissolved upon the death, retirement, insolvency, or mental incapacity of any partner, which can lead to discontinuity. While the remaining partners may choose to create a new agreement and continue the business, the structure is inherently unstable.

5. Lack of Public Confidence:

Partnership firms are not legally required to publish their financial reports or disclose other relevant information to the public. This lack of transparency can undermine public confidence in the firm's financial health and stability.

In conclusion, while partnerships offer flexibility, risk-sharing, and ease of formation, they also come with significant limitations such as unlimited liability, potential for conflicts, limited expansion capabilities, and lack of public confidence. These drawbacks often make partnerships less popular compared to other business structures.

Question 3.

Why is it important to choose an appropriate form of organisation?
Discuss the factors that determine the choice of the form of organisation.

Answer:

Choosing the right form of business organisation is a crucial decision for any entrepreneur. The choice impacts the risk, responsibility, liability, and control of the enterprise, as well as the division of profit or loss. Once a form of business is selected, it can be difficult and costly to switch to another, so this decision should be made after careful consideration of various factors.

Several factors influence the choice of the form of business enterprise. These factors are given below:

- Nature of business – service, trade, manufacturing.
- Scale of operations – volume of business (large, medium, small) and size of the market area (local, national, international) served.
- Degree of direct control desired by the owners.
- Amount of capital required initially and for expansion.
- Degree of risk and liability and the willingness of owners to assume personal liability for debts of the business.
- Division of profits among the owners.
- Light of life is desired among the owners.
- Relative freedom from government regulations (flexibility of operations).
- Scope and plan of internal organisation.

1. Nature of Business

The type of business activity—whether trading, manufacturing, or service-oriented—plays a key role in choosing the business structure. Activities requiring a combination of skills and resources, such as accounting firms or tax consultancies, are better suited for partnerships. On the other hand, large-scale manufacturing businesses often adopt private or public company structures.

2. Size and Area of Operations

Larger enterprises that cater to national or international markets require significant financial and managerial resources, making private or public companies the preferred choice. Smaller or medium-sized businesses, especially those with a local focus, are typically organized as sole proprietorships or partnerships.

3. Degree of Control Desired

If direct personal control is a priority, a sole proprietorship may be the best choice. If the owner is more interested in overseeing large-scale operations without direct control, a company structure might be more appropriate.

4. Amount of Capital Required

The required funds for starting and running the business can heavily influence the choice of organisation. Large capital requirements often lead to the selection of a company structure, while businesses requiring smaller initial investments might opt for sole proprietorships or partnerships.

5. Degree of Risk and Liability

The level of risk involved and the owners' willingness to bear that risk also impact the decision. In businesses with high risk, entrepreneurs often prefer public companies due to their limited liability structure. In contrast, sole proprietors or partners must bear unlimited liability.

6. Division of Profits

In a sole proprietorship, the owner keeps all profits but also bears all risks. If an entrepreneur is willing to accept unlimited personal liability and wants a larger share of profits, sole proprietorships and partnerships are more suitable.

7. Duration of Business

For businesses intended to operate on a short-term or small-scale basis, sole proprietorships or partnerships are ideal. However, businesses with long-term or permanent goals may opt for joint-stock companies or cooperatives due to their perpetual succession.

8. Government Regulation and Control

Entrepreneurs who wish to avoid extensive government regulation may lean towards sole proprietorships or partnerships, as these forms are subject to fewer legal formalities. Companies and cooperatives, on the other hand, must comply with more regulations and legal procedures.

9. Managerial Requirements

Simple management structures can be effectively handled by sole proprietors or partners. However, large enterprises with complex operations often require professional management, making joint-stock companies a better fit.

10. Flexibility of Operations

Businesses that require flexibility in administration and decision-making should consider sole proprietorships or partnerships. These structures allow for easier adjustments to the internal organisation compared to joint-stock companies, which involve more formalities.

The choice of a business structure depends primarily on the nature and size of the business. Factors like risk, control, capital requirements, and managerial needs are interdependent and should be considered together, rather than in isolation, to ensure the best fit for the organisation's goals and operations.

Question 4.

Discuss the characteristics, merits, and limitations of the cooperative form of organisation. Also, describe briefly different types of cooperative societies.

Answer:

According to the Indian Cooperative Societies Act of 1912, a cooperative organisation is defined as “a society which aims to promote the economic interests of its members by cooperative principles.” A cooperative society operates with the goal of mutual benefit, emphasizing service over profit.

Characteristics of a Cooperative Society

1. Voluntary Membership:

Membership in a cooperative society is open and voluntary. Any person can join or leave society as per their choice. There is no compulsion to become or remain a member, though a notice is typically required before leaving.

2. Legal Status:

A cooperative society is a legally recognized entity upon registration. It has a distinct identity from its members, meaning it can enter into contracts, own property, and sue or be sued in its name.

3. Limited Liability:

The liability of members is limited to the capital they have invested. Members are not personally responsible for the society's debts beyond their contribution.

4. Democratic Control:

Decision-making power in a cooperative society rests with an elected managing committee. Each member has the right to vote, ensuring that control is exercised democratically.

5. Service Motive:

The primary objective of a cooperative society is to serve its members, not to maximize profit. Any surplus generated is distributed among members as a dividend, based on the society's bylaws.

Merits of Cooperative Societies

1. Equality in Voting:

Cooperatives follow the principle of "one member, one vote," ensuring that every member has an equal say in decisions, regardless of their capital contribution.

2. Limited Liability:

Members' personal assets are safe, as their liability is limited to their capital investment.

3. Stable Existence:

A cooperative society enjoys continuity since its existence is not affected by the death, insolvency, or withdrawal of members.

4. Economy in Operations:

Cooperatives often eliminate middlemen, which reduces costs. Additionally, members may offer voluntary services, further reducing operational expenses.

5. Government Support:

The cooperative model aligns with democratic ideals, attracting government support in the form of subsidies, tax benefits, and low-interest loans.

6. Ease of Formation:

A cooperative can be established with just ten members, and the registration process involves minimal legal formalities.

Limitations of Cooperative Societies

1. Limited Resources:

The capital of a cooperative society comes from its members, who often have limited financial means. This makes it difficult to raise large amounts of capital for expansion.

2. Inefficient Management:

Cooperatives may not be able to hire professional managers due to their inability to offer competitive salaries, which can lead to inefficiency in management.

3. Lack of Secrecy:

Open discussions during meetings and the requirement to disclose financial information can make it hard to maintain operational confidentiality.

4. Government Control:

Cooperatives must comply with government regulations, such as auditing and submitting accounts, which can reduce their autonomy and flexibility.

5. Internal Conflicts:

Differences in opinions among members can lead to internal conflicts, complicating decision-making. Personal interests may sometimes override the welfare motive of society.

Types of Cooperative Societies

1. Consumers' Cooperative Societies:

Formed by consumers to obtain goods at reasonable prices, these societies buy in bulk directly from manufacturers or wholesalers, bypassing middlemen. Profits are distributed based on members' purchases.

2. Producers' Cooperative Societies:

These are voluntary associations of small producers or artisans who come together to improve production and face market competition. They can be of two types:

- **Industrial Service Cooperatives:** Producers work independently but market their products through the cooperative, which provides raw materials and tools.
- **Manufacturing Cooperatives:** Members work as employees, producing goods using materials provided by the cooperative, and are paid wages.

3. Marketing Cooperative Societies:

Farmers, artisans, and small producers form these societies to pool their products and sell them collectively, thereby eliminating middlemen and securing better prices.

4. Cooperative Farming Societies:

Small farmers pool their land to perform collective farming using modern technology. This helps maximize production and enables them to access resources they could not afford individually.

5. Housing Cooperative Societies:

These societies help low- and middle-income groups in urban areas acquire land or housing. Some acquire land for members to build houses, while others construct housing for sale.

6. Credit Cooperative Societies:

These societies provide financial assistance to members, encouraging savings and offering loans at reasonable interest rates, protecting them from exploitation by moneylenders. Credit cooperatives operate in both rural and urban areas.

In conclusion, cooperative societies are community-based organizations that prioritize mutual benefit over profit. While they offer advantages like democratic control and limited liability, they also face limitations such as limited resources and government oversight. Different types of cooperatives serve diverse needs, from consumer protection to financial support and agricultural development.

Question 5.

Distinguish between a Joint Hindu family business and a partnership.

Answer:

Basis of Comparison	Partnership	Joint Hindu Family Business
Formation	Easy formation with an agreement between partners	Easy formation with less legal formalities than partnership
Registration Requirement Members	Registration is optional Minimum members should be 2 and maximum 10 for banking and 20 for others.	Exemption from registration At least two persons for division of family property with no maximum limit of members
Capital contribution	Limited but more than that can be raised in the case of a sole proprietorship	The capital contribution comes from ancestral property
Liability	Liability of members of unlimited and joint.	Liability is unlimited only for Karta while it is limited for other members.
Control and Management	Partners take decisions Jointly and the consent of all partners is needed	Karta takes decisions which are binding on other members.

Continuity	Stable but affected by status of partners.	The stable business continues even in Karta dies through succession in the family.
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Question 6.

Despite limitations of size and resources, many people continue to prefer sole proprietorship over other forms of organisation. Why?

Answer:

Survival of Sole Proprietorship – The sole proprietorship has several limitations and drawbacks. But still, this form of organisation is very popular. This is because of the several advantages of sole proprietorship which are not available in the case of a partnership firm or a company. To quote W.R. Basset,

“The one-man control is the best in the world if that one man is big enough to manage everything.” Sole tradership facilitates one-man control. It enjoys many benefits like ease of formation, flexibility, quick decision-making secrecy, and personal touch with customers.

A sole proprietorship also suffers from various drawbacks. The financial resources are limited and lack specialized management. These limitations keep the scale of business operations very small as compared to partnership firms and joint-stock companies.

The sole tradership concern sinks and swims with its owing. The proprietor, who manages everything related to the business, may not have the complete knowledge and skills which are required for the efficient running of the business. His ill health will also depend upon the working of the business. Thus, on many occasions, business operations are beyond the capacity of one individual. He has to take the help of other

people who can share business risks and contribute capital and managerial skills for running the enterprise.

Suitability – Thus, sole proprietorship has several advantages and disadvantages. According to William R. Basset, “The one-man control is the best in the world if that man is big enough to manage everything. ”But, one man can rarely manage and control everything.

Therefore, a sole proprietorship is a suitable form of organisation in the following cases:

- Where the market is local, e.g. small-scale retailers
- Where personal attention to the needs and preferences of customers is essential, e.g. carpeting, beauty parlours, etc.;
- Where fashions change very frequently, e.g. artistic jewellery;
- Where a small amount of capital is required but personal skills are more important, e.g. health clinic;
- Where quick decisions and prompt action are necessary, e.g. stockbrokers.
- Where the risk involved is negligible, e.g. doctors, lawyers, and chartered accountants.

1st PUC Business Studies Forms of Business Organisation Additional Questions and Answers

One Mark Questions – Forms of Business Organisation

Question

1. Write any one type of form of business organisation.

Answer:

Partnership firm

Question 2.

Give the meaning of sole trading concern.

Answer:

Sole trading concern refers to a form of business organisation owned, managed, and controlled by an individual who bears all risks and receives all profits.

Question 3.

Give any one example of a sole trading concern.

Answer:

Home Healthcare

Question 4.

Who is a Karta?

Answer:

The head of a Hindu Joint Family | also called the Karta.

Question 5.

State the minimum and maximum members in a partnership.

Answer:

Minimum of 2 members; maximum of 10 in banking and 20 in other businesses.

Question 6.

Write any one effect of non-registration of a partnership.

Answer:

A partner cannot sue other partners or the firm.

Question 7.

Write any one type of partnership firm.

Answer:

Limited Partnership

Question 8.

Give the meaning of a cooperative society.

Answer:

A cooperative society is a voluntary association of persons who come together with the objective of mutual welfare.

Question 9.

State the minimum and maximum number of members required for the formation of a cooperative society.

Answer:

A minimum of 5 members, and the maximum is unlimited.

Question 10.

Name any one type of cooperative society.

Answer:

Consumer Co-operative Society

Question 11.

State the liability of a sole trader.

Answer:

Unlimited liability

Question 12.

State the liability of the Karta.

Answer:

Unlimited liability

Question 13.

Which act governs partnership firms in India?

Answer:

Indian Partnership Act, 1932

Question 14.

Which act governs co-operative societies in India?

Answer:

Co-operative Societies Act, 1912

Question 15.

State the liability of members in cooperative societies.

Answer:

Limited liability

Question 16.

State the voting principle in cooperative societies.

Answer:

One member, one vote.

Question 17.

State the main objective of cooperative societies.

Answer:

Promoting cooperation and mutual welfare.

Question 18.

State the liability of coparceners.

Answer:

The liability of coparceners is limited.

Question 19.

Who is a minor partner?

Answer:

A partner who is below 18 years of age.

Question 20.

Is registration of partnership compulsory?

Answer:

No, registration of partnership is not compulsory under the Indian Partnership Act, of 1932.

Two Mark Questions – Forms of Business Organisation

Question 1.

Write any two features of a sole trading concern.

Answer:

- Unlimited liability
- Freedom in selecting the business

Question 2.

Give the meaning of HUF (Hindu Undivided Family).

Answer:

HUF refers to a form of organisation where the business is owned and carried on by the members of a Hindu Undivided Family.

Question 3.

Who are co-parceners?

Answer:

Coparceners are individuals who acquire rights to ancestral property by birth and have the right to demand partition of the HUF property.

Question 4.

Define Partnership.

Answer:

According to the Indian Partnership Act, of 1932, Partnership is “the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.”

Question 5.

What is a Partnership deed?

Answer:

A partnership deed is a written agreement signed by all partners, duly stamped as per the Stamp Act, outlining the terms and conditions of the partnership.

Question 6.

Who is an active partner?

Answer:

An active partner is a partner who manages the day-to-day activities of the business.

Question 7.

What is a particular partnership?

Answer:

A particular partnership is formed for a specific project or activity, such as the construction of a building, and is limited to a defined period.

Question 8.

Write any two features of cooperative societies.

Answer:

- Voluntary membership
- Limited liability

Question 9.

What is a credit cooperative society?

Answer:

Credit cooperative societies provide financial assistance to their members through easy credit on reasonable terms.

Question 10.

What is unlimited liability?

Answer:

Unlimited liability means that business owners are personally responsible for all the debts and obligations of the business.

Question 11.

What are housing co-operative societies?

Answer:

Housing co-operative societies help people with limited incomes to construct or acquire homes at reasonable costs.

Question 12.

What are consumers' co-operative societies?

Answer:

Consumers' co-operative societies are formed to protect consumers' interests by providing quality products at reasonable prices.

Question 13.

What are producers' co-operative societies?

Answer:

Producers' co-operative societies protect the interests of small producers by helping them procure inputs for the production of goods to meet consumer demand.

Question 14.

What do you mean by a partnership at will?

Answer:

Partnership at will refers to a partnership in which partners have not agreed to remain partners for a specific term or project.

Question 15.

What is a limited partnership?

Answer:

In a limited partnership, at least one partner has unlimited liability, while the others have limited liability. The death, lunacy, or insolvency of limited partners does not dissolve the partnership.

Question 16.

Who is a partner?

Answer:

A partner is a person who shares the risks and profits of a business venture with another or others.

Question 17.

State any two contents of a partnership deed.

Answer:

- Name of the firm
- Name and address of the partners

Five Marks Questions – Forms of Business Organisation

Question 1.

Explain the Demerits of Sole Trading Concern

Answer:

Demerits of Sole Trading Concern

(a) Limited Capital:

A single individual often struggles to raise large amounts of capital. In a sole proprietorship, the owner is responsible for arranging all the funds. Both personal and borrowed funds may prove insufficient for the growth and expansion of the business.

(b) Unlimited Liability:

If the sole proprietor is unable to meet the business's financial obligations, their assets may be used to repay debts. This risk often

makes sole proprietors cautious about taking risks and expanding their business.

(c) Lack of Continuity:

The existence of the business is tied to the life of the proprietor. Illness, death, or insolvency of the owner can result in the closure of the business, making its continuity uncertain.

(d) Limited Size:

There is a natural limit to the growth of a sole proprietorship. As the business expands, it becomes increasingly difficult for one person to manage all its affairs effectively.

(e) Lack of Managerial Expertise:

The sole proprietor may not possess expertise in every area of business management. While they may excel in some areas, they might struggle in others, like marketing. Due to limited financial resources, hiring professional managers is often not feasible, leading to a lack of professional management in the business.

Question 2.

Briefly explain the features of Sole Trading

Answer:

Features of Sole Trading

1. Single Ownership:

A sole proprietorship is owned entirely by one individual. This person owns all the assets and properties of the business and bears all the risks. The business exists at the discretion of the owner and ends either when the owner chooses or upon their death.

2. No Sharing of Profit and Loss:

The sole proprietor receives all the profits generated by the business. Similarly, any losses incurred must be borne solely by the owner. There is no sharing of profits or losses with anyone else.

3. One Person's Capital:

The capital required to run a sole proprietorship is provided solely by the owner. This may come from personal savings or by borrowing from friends, family, banks, or financial institutions.

4. One-Person Control:

All decision-making and control in the business rests solely with the proprietor. The owner makes all the key decisions, though they may consult others at their discretion.

5. Unlimited Liability:

In a sole proprietorship, the owner has unlimited liability. This means that if the business incurs debts, the owner's assets, along with the business assets, may be used to repay the liabilities.

Question 3.

What are the different types of Partnership Firms?

Answer:

1. General Partnership:

A general partnership consists solely of general partners, who actively manage the business and share in its liabilities. Each partner is personally responsible for the debts and obligations of the business. If one partner is sued, all partners are held liable, making this type of partnership less desirable due to the high level of risk involved.

2. Limited Liability Partnerships (LLP):

A limited liability partnership (LLP) combines elements of both partnerships and limited liability companies. In an LLP, all partners enjoy limited liability, protecting their assets from the business's debts and liabilities. This structure provides a level of protection similar to that of a corporation.

3. Particular Partnership:

A particular partnership is formed for a specific business objective or project. This type of partnership is limited to the particular undertaking and does not extend to other ventures. The partnership dissolves once the specific business task is completed.

4. Partnership at Will:

Defined by the Indian Partnership Act of 1932, a partnership at will has no predetermined duration or termination provisions set by the partners. Any partner can dissolve the partnership by giving notice to the other partners of their intention to do so.

5. Partnership for a Fixed Term:

This type of partnership is established for a specific duration. It remains in effect until the agreed-upon time expires unless the partners have a contract stating otherwise. If the business continues beyond the fixed term without a new agreement, it automatically converts to a partnership at will.

Question 4.

What is the procedure for registering a Partnership?

Answer:

A partnership firm can be registered either at the time of its formation or subsequently. To register a partnership, you need to file an application with the Registrar of Firms in the area where your business operates. The application for partnership registration should include the following information:

1. Name of the Firm:

Specify the name under which the partnership will operate.

2. Location of the Business:

Provide the name and address of the place where the business is conducted.

3. Other Locations:

Include the names and addresses of any other places where the business may be carried out.

4. Joining Date of Partners:

Indicate the date on which each partner joined the firm.

5. Partners' Details:

Provide the full names and permanent addresses of all partners.

6. Duration of the Firm:

Mention the intended duration for which the partnership is established.

Each partner must verify and sign the application. Additionally, the following documents and prescribed fees must be enclosed with the registration application:

- Application for Registration: In the prescribed Form – 1.
- Specimen of Affidavit: A duly filled affidavit as required.
- Certified Copy of the Partnership Deed: A legal document outlining the terms of the partnership.

- Proof of Ownership: Documentation proving ownership of the business premises or a rental lease agreement.

Once all necessary information and documents are submitted, the Registrar of Firms will process the application and, upon approval, officially register the partnership.

Question 5.

Briefly explain the limitations of Cooperative Societies

Answer:

1. Limited Capital:

Cooperative societies often struggle to raise substantial capital from their members, as membership is typically restricted to specific sections of the community. Additionally, due to low returns on investment, members are often reluctant to invest more capital. Government assistance may also be inadequate for many cooperatives.

2. Managerial Problems:

Many cooperative societies face inefficiencies due to a lack of managerial expertise. The members or their elected representatives frequently lack the necessary experience to effectively manage society. The limited capital further restricts their ability to hire professional managers.

3. Lack of Motivation:

The primary goal of cooperative societies is to provide services to their members rather than to generate profit. This focus can result in insufficient motivation for members to contribute their best efforts toward managing society efficiently.

4. Lack of Cooperation:

While cooperatives are founded on the principle of cooperation, internal conflicts can arise due to personality clashes, ego issues, and differing interests among members. This lack of unity can hinder the society's effectiveness and, in some cases, lead to its dissolution.

5. Dependence on Government:

The limited capital and other constraints make cooperative societies reliant on government support, such as grants and loan subsidies. This dependency can lead to increased government intervention in the society's management and a requirement for audits of their annual accounts, which may limit their operational autonomy.

Question 6.

What are the characteristic features of a Partnership firm?

Answer:

1. Two or More Members:

A partnership requires a minimum of two members to establish the business. However, the number of partners is limited to a maximum of 10 for banking businesses and 20 for other types of businesses. If the number of partners exceeds these limits, the organization cannot be classified as a partnership.

2. Agreement:

A partnership is formed based on an agreement among the partners. This agreement outlines the terms and conditions under which the partnership operates.

3. Lawful Business:

Partnerships must engage in lawful business activities. Engaging in illegal activities such as smuggling or black marketing does not constitute a valid partnership. Additionally, partnerships formed for social or philanthropic purposes are not recognized as such under the law.

4. Competence of Partners:

All partners must possess the legal capacity to enter into a partnership agreement. Individuals who are minors, mentally incapacitated, or insolvent cannot be partners. However, a minor may be allowed to participate in the profits of the partnership without being a full partner.

5. Sharing of Profit:

The primary objective of a partnership is the sharing of profits among partners according to the terms agreed upon. If no specific profit-sharing agreement is established, the profits are distributed equally among the partners.

Question 7.

What are the contents of a Partnership Agreement?

Answer:

Agreement contains:

- The amount of capital contributed by each partner.
- Profit or loss sharing ratio.
- Salary or commission payable to the partner, if any
- Duration of business, if any
- Name and address of the partners and the firm.
- Duties and powers of each partner.
- Nature and place of business.
- Any other terms and conditions to run the business.

Question 8.

What are the effects of Non-Registration for a partnership firm?

Answer:

An unregistered partnership firm faces several limitations, including:

- 1) Inability to Enforce Claims:
The firm cannot enforce its claims against third parties in a court of law.
- 2) Restrictions on Financial Claims:
The firm cannot claim adjustments for any sum exceeding ₹100.
- 3) Legal Action Limitations:
The firm cannot file a legal suit against any of its partners.
- 4) Lack of Enforcement Rights:
Partners in an unregistered firm cannot file suits to enforce their rights against the firm.
- 5) No Legal Recourse Against Partners:
A partner in an unregistered firm cannot file a suit against other partners.

Despite these limitations, non-registration does not affect the existence of the partnership or its internal workings. Partners can still operate the business, share profits, and make decisions, but they lose legal protections typically available to registered partnerships.

Ten Marks Questions

Question 1.

Briefly explain the different types of Partners

Answer:

1. Active Partner:

An active partner is directly involved in managing the business. Also referred to as an "actual" or "ostensible" partner, they act as agents for other partners in the firm's operations and are fully recognized as partners.

2. Sleeping or Dormant Partner:

A sleeping or dormant partner contributes capital and shares in the profits but does not take an active role in the business management. While they are liable for the firm's debts, their partnership is typically not disclosed to the public.

3. Nominal Partner:

A nominal partner lends their name to the firm without contributing capital, sharing profits, or participating in management. However, they remain liable to third parties as if they were full partners. Unlike sleeping partners, nominal partners are known to outsiders but do not share in profits.

4. Partner in Profits:

This type of partner shares in the profits of the business but is not responsible for any losses. They do not participate in management but are liable to third parties for the firm's debts.

5. Minor Partner:

Minors cannot legally enter into contracts, so they cannot be full partners. However, with consent from all existing partners, they can be admitted for benefits only. They are not personally liable for the firm's debts, but upon reaching the age of majority, their liability becomes unlimited if they choose to continue as a partner.

6. Partner by Estoppel:

A partner by estoppel is someone who misrepresents themselves as a partner, leading third parties to believe they are a partner. They can be held liable to third parties based on this misrepresentation.

7. Partner by Holding Out:

This individual allows themselves to be perceived as a partner through their words or actions. They can be held accountable for any credit or loans obtained by the firm based on that representation.

Question 2.

What do you mean by a Partnership Deed? Briefly explain Its Contents.

Answer:

A partnership deed is a formal written agreement between partners in a partnership firm. It outlines the terms, conditions, and responsibilities of each partner, ensuring transparency and avoiding potential disputes. Although a written deed is not legally mandatory, it serves as valid evidence in case of disagreements among partners.

Contents of a Partnership Deed:

- Name of the Firm
- Names, Addresses, and Occupations of Partners
- Capital Contribution
- Profit and Loss Sharing Ratio
- Nature of the Business
- Duration of the Partnership
- Drawings by Partners
- Interest on Capital
- Remuneration to Partners
- Work Allocation
- Maintenance of Accounts
- Rights, Duties, and Obligations
- Additional Capital
- Dispute Resolution (Arbitration Clause)

Question 3.

Briefly explain the Advantages and Disadvantages of Sole Proprietorship

Answer:

Advantages and Disadvantages of Sole Proprietorship

Advantages:

1. Easy to Form and Wind up:

A sole proprietorship is simple and inexpensive to start. With minimal capital and few legal formalities (except for businesses that require specific licenses), one can easily set up and wind down the business at their discretion.

2. Direct Motivation:

The sole proprietor enjoys all the profits and bears the losses, creating a direct link between effort and reward. This motivates the owner to work hard, as they alone reap the benefits.

3. Quick Decision-Making and Prompt Action:

Since the sole proprietor is the sole decision-maker, decisions can be made swiftly without consulting others, enabling prompt action.

4. Better Control:

Full control over the business rests with the owner. They are responsible for planning, organizing, and managing every aspect, allowing for effective coordination and management.

5. Maintenance of Business Secrets:

As the sole decision-maker, the proprietor can keep business strategies, plans, and technical know-how confidential, maintaining a competitive edge.

6. Close Personal Relations:

The sole proprietor can build close relationships with both customers and employees, providing personalized service and fostering a loyal customer base and friendly work environment.

7. Flexibility in Operations:

The sole proprietor has the freedom to modify the scope or nature of the business as needed, adapting quickly to changing market conditions.

8. Encourages Self-Employment:

Sole proprietorship promotes self-employment, providing job opportunities not only for the owner but also for employees, contributing to the reduction of unemployment.

Disadvantages:

1. Limited Capital:*

The owner's personal funds and borrowing capacity may be insufficient for expanding the business, limiting its growth potential.

2. Unlimited Liability:

The owner is personally liable for all business debts. If the business fails, personal assets may be used to cover liabilities, limiting risk-taking.

3. Lack of Continuity:

The business's existence is tied to the life of the proprietor. The business may cease to exist upon the owner's death, illness, or insolvency, making continuity uncertain.

4. Limited Size:

There is a limit to how much the business can grow, as it becomes difficult for one person to manage a large enterprise effectively.

5. Lack of Managerial Expertise:

The sole proprietor may lack expertise in every area of business management, and with limited financial resources, they may be unable to hire skilled professionals, leading to inefficiencies in operations.