Marks: 40	FYJC Subject: Organisation of Commerce Topic –Forms of Business Organisation -I (Chp. -4)	Time: 1.5 Hrs.

Q.1. Fill in the blanks **(5 Marks)**

1. Registration of partnership firm is **Compulsory** in Maharashtra.
   (Voluntary, Compulsory, easy)

2. Registration of a joint Stock Company is **Compulsory**.
   (Compulsory, free, not required)

3. Indian Co-operative Society's Act was passed in **1912.**
   (1912, 1913, 1911)

4. **Common seal** acts as a signature of the Company.
   (Common seal, Common sign, Common image)

5. A joint Stock Company is an artificial person created by **Law**.
   (Law, Articles, Memorandum)

Q.2. Give one word. (Any 2) **(5 Marks)**

1. An elected body of representatives of co-operative Society for its day to day administrations.

Ans. Managing Committee

2. The members of the Joint Hindu family firm.

Ans Co-parceners

3. A partner who gives his name to partnership firm.

Ans. Nominal Partner

4. A partnership agreement in writing.

Ans. Partnership Deed

5. An Organisation which is service oriented.

Ans. Co-operative Society

Q.3. Explain the terms or concepts. (Any 2) **(4 Marks)**

1. Sole Trading concern.

Ans. (1) The word 'proprietor' means owner and 'sole' means single. So sole proprietorship is a form of Organisation having only one owner.

(2) The sole trading concern is the oldest and simplest from of business Organisation. A sole proprietorship is a form of private sector enterprise which is owned, financed, managed and controlled by an individual

entrepreneur. This type of business Organisation is also known as one man business or individual entrepreneurship. Sole proprietor invests his own capital into the business and manages the business on his own.

(3) The sole proprietor is the final decision-making authority having full control over all the aspects of his business. He uses his own skills and may appoint employees on salary basis to assist him in managing the business activities. He bears the entire risk and derives all the benefits. In the case of loss, it is fully borne by the sole proprietor himself. Thus, the liability of a sole trader is not limited only to his investment in his business. A sole trader bears the loss over and above his capital investment. Thus, the liability of a sole trader is unlimited.

2. Partnership firm.

Ans. (1) Section 4 of the Indian Partnership Act, 1932 defines partnership as. "The relation between persons who have agreed to share the profits of business carried on by all or any one of them acting for all." Partnership is an association of two or more person who come together with an intention to do business jointly and agree to share the profits of the business. The persons who form the partnership are individually called ‘Partner’ and collectively called a 'Firm'.

(2) The business of the partnership firm may be carried on by all or any one of them on behalf of all the partners. At the end of the financial year, the profits are shared among the partners in the agreed proportion. Partnership form of business Organisation is an important component of private sector Organisation. It is evolved because of limitation of capital raising capacity and managerial skills of sole trading concern.

3. Joint Hindu Family business.

Ans. (1) When all the members of Hindu undivided family jointly run and manage ancestral business under the control and guidance of the Karta" for earning profits, it is called Joint Hindu Family Firm'. The senior most member (Head) of the family is called the 'Karta' and the other member are called coparceners'. Among the various forms of business organisations that recognise world wide, this is a unique form of business which has been originated and existed only in India.

(2) Under the Mitakshara School of thoughts, the business and properly is inherited only by male members from their ancestors. A son gets equal rights along with his father in the ancestral property. The Mitakshara School's view is followed in all parts of India except Bengal, Assam and some parts of Odisha.

(3) Under the Dayabhaga School of thoughts. the business and property are shared by male members as well as female members e.g. after death of husband, his property and business passes on to his wife and other successors. However, the Hindu Succession Act. 1956 extends the line of succession to female members born in a Hindu family. Thus, the business

is jointly owned by three generations of the family. Thus. JHFF is created by status and does not arise out of contract between the coparcener.

4. Co-operative Society.

Ans. (1) A co-operative society is a service oriented organisation which is formed by a group of people for economic welfare of its members. Each For All and All for Each" is the principle followed by a co-operative society. India has laid the foundation of world's biggest co-operative movement. It plays eminent role in the development of Indian economy. It is an Organisation for the weaker sections of the society. India has network of co-operative at the local, regional, state and national level.

(2) According to the **International Labour Organisation**. "A cooperative Organisation is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled Organisation, making equitable distributions to the capital required and accepting a fair share of risk and benefits of the undertaking." Co-operative units are found in the field of retail trading, farming, housing, marketing, finance, banking, production, etc. India has seen a huge growth and development of co-operative societies mainly in the farming sector since 1947.

5. Joint Stock Company.

Ans. (1) Joint stock company is an incorporated voluntary association in the form of an artificial legal person, created by law. having an independent legal entity, with a perpetual succession, a common seal and a common stock (Capital) comprised of transferable shares carrying limited liability. After industrial revolution, a new form of business organisations called joint stock company came into existence. This from of business organisation needs more capital and other resources in comparison to other forms of business organisations. Such organisations are spread all over the world.

(2) As it is a registered association, it becomes a distinct body independent of its members who have formed it. In oUier words, the company and its members are not identical. The company has a separate legal existence as a corporate body. The total capital of joint stock company is known as Share Capital'. It is divided into equal value of small units called 'Shares'. The person who purchases and holds shares is called Shareholder'. In India, every joint stock company is required to be registered as per "The Companies Act. 2013".

Q.4. Distinguish Between (Any 2) (10 Marks)

1. Private Limited Company and Public Limited Company

Ans.

Private Limited Company	Public Limited Company
1. Meaning	
A Private Limited Company is the one which restricts the right of its members to transfer the shares and limits the maximum number of members to 200.	A Public Limited Company is the one which does not restrict the right of its member to transfer shares and docs not limits membership.
2. Number of members	
The minimum number members is 2 while the maximum number of members is 200 in a private limited company.	The minimum number of members is 7, while there is no limit to the maximum number of members m a public limited company.
3. Statutory meeting	
Statutory meeting is not compulsory for Private limited company.	Statutory meeting is compulsory for public limited company.
4. Transfer of shares	
In a private limited company, shares are not freely transferable.	In case of public limited company, shares freely transferable and usually quoted on Stock Exchanges.
5. Capital	
A private limited company is required to raise minimum amount of paid up share capital of ₹ 1 lakh.	A public limited company is required to raise minimum amount of paid up share capital of ₹ 5 lakh.
6. Issue of Prospecting	
A private limited company issues statement in lieu of prospectus	A public limited company compulsorily prospectus.

2. **Co-operative Society & Joint Stock Company**

Ans.

Co-operative Society	**Joint Stock Company**
1. Meaning	
An Organisation which is managed by voluntary association of many persons, usually of limited means to conduct business, to achieve common economic objectives is called a Co-operative Organisation.	An Organisation which is an incorporated voluntary association of many persons to conduct business for profit having capital divided into transferable shares, is called a company Organisation.
2. Regulatory statute	
Co-operative society is regulated and controlled by the provisions of the Co-operative Societies Act. 1912.	Joint Stock Company is regulated and controlled by the provisions of the Indian Companies 1956.
3. Motive	
The main motive of a co-operative Organisation is to render service. Profit-making can be its secondary Objective.	The main motive or company is to make profit. Services is its secondary motive
4. Transferability of shares	
Shares are not transferable, but can be surrendered to a co-operative Organisation for encashment.	Shares are freely transferable in a public company. They are also listed on stock exchanges.
5. Number of members	
The minimum number of members to form a co-operative society is 10. There is no limit on the maximum number of members.	Minimum 2 members and maximum 200 members for a private limited company while minimum 7 members and no limit on the maximum membership in case of a public limited company.
6. Voting rights	
Every member has one vote irrespective of the number of shares held by him. The principle of ‘One Member, One-Vote' is followed.	Every share has one vote. The principle of One-Share. One-Vote' is followed.

3. Joint Hindu Family Firm and Joint Stock Company

Ans.

Joint Hindu Family Firm	Joint Stock Company
1. Meaning	
An ancestral business which is inherited, run and managed by the members of the Hindu Undivided family, jointly under the direction of senior most member, Karta for earning profit, is called the Joint Hindu Family Firm.	A joint stock company is an incorporated association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business and who share the profit arising therefrom.
2. Law or Act applicable	
The Joint Hindu Family Firm is governed and Emulated by the provisions of Hindu Succession H. 1956.	The joint stock company is governed and regulated by the provisions of the Companies Act. 2013.
3. Registration	
There is no provision for registration of Joint Hindu Family Firm.	Since, a joint stock company is an association incorporated under the Companies Act, 2013, Its registration is compulsory.
4. Membership	
In the Joint Hindu Family Firm there is no limit on the minimum and maximum membership. However, membership changes with the number of births and deaths in the family.	In the case of a private company, the minimum number of members is 2 and the maximum number of members is 200. In the case of public company, the minimum number of members is 7 and the maximum number is unlimited.
5. Legal Status	
The Joint Hindu Family Firm has no separate legal status distinct from its members.	A joint stock company has separate legal status distinct from its members.
6. Liability	
The Joint Hindu Family Firm, liability of the 'Karta' is unlimited and the liability of coparceners is limited.	In the joint stock company, liability of its members is limited to the extent of the unpaid amount, if any, on the shares held by them.

4. Co-operative Society & Partnership firm

Ans.

Co-operative Society	Partnership firm
1. Meaning	
An Organisation which is managed by voluntary association of many persons, usually of limited means to conduct business, to achieve common economic objectives is called a Co-operative Society.	An Organisation which is owned and managed by two or more persons i.e. partners for earning profit is called Partnership Firm.
2. Motive	
The main motive of a co-operative Organisation is to render service. Profit-making can be its secondary objective	Main motive of Partnership Firm is to make profit. Providing services is its secondary motive.
3. Membership	
The minimum number of members to form a cooperative society is 10. There is no limit on the maximum number of members.	The minimum number of members in partnership firm is 2 while the maximum number of members is 50.
4. Liability	
The liability of the members is limited to the extent of the unpaid amount, if any. On the shares held by them.	The liability of all the partners except minor partner is unlimited, joint as well as several.
5. Legal Status	
Co-operative society has a separate legal status distinct from its members.	Partnership Firm has no separate legal status distinct from its members. There is no distinction Between partners and their firm.
6. Registration	
Co-operative society is required to be registered under the Co-operative Societies Act, 1912 of the concerned stale. Registration of co-operative society is compulsory in all the states in India.	Partnership firm can be registered under the Indian partnership Act, 1932. However, registration is compulsory in the state of Maharashtra.

Q.5. Justify the following statements. (Any 2) (6 Marks)

1. The Liability of a 'Sole trader' is Unlimited.

Ans. (1) Business Organisation which is financed, managed, run and controlled by a single person to earn profit is called sole trading concern. The sole trader i.e. the owner and his business are one and the same in the eyes of the law. It means, there is no distinction between the sole trader and his business. As the sole trader and his business are identical or same, the assets and liabilities of his business become the assets and liabilities of the sole trader.

(2) A sole trader being the only owner of his business, he does not have to share profits or losses with anyone else. In case of loss, it is fully borne by the sole trader. However, if the assets of the business are not enough to pay off the business liabilities, the sole trader will have to pay the same out of his other private property. Thus, the liability of a sole trader is not limited only to his investment in his business. A sole trader bears the loss over and above his capital investment Thus; the liability of a sole trader is unlimited.

2. The main objective of co-operative society is to provide services to its members.

Ans.(1) A co-operative society is an Organisation which is formed by a group of people for the economic welfare of its members. It is a voluntary association of a group of people usually belonging to the weaker sections of the society. The members of the co-operative society come together on the basis of unity and equality to achieve certain economic objectives. They pool their resources and efforts thereby promote their common economic interests.

(2) A co-operative Organisation is service oriented and not profit-motivated. 'Each For All and All For Each' is the principle of co-operative society. In fact, it has emerged as a distinct form of business organisation to get rid of the evils of the capitalists. It is formed to provide various services to its members and not to earn the profit. The service may be to provide consumer goods or loans to needy members of society or transport or banking services, etc. at reasonable rates. Goods are sold by the co-operative society at the lowest rates to its members.

3. There is separation of ownership and management in Joint Stock Company.

Ans. (1) Although the shareholders are the print owners of the joint stock company, its management remains in the hands of a few elected Representatives of the shareholders known as the directors. The directors form themselves into a board of Directors. Soon after the incorporation, the company is separated from its shareholders and receives an independent legal status. All the affairs of the joint stock company are managed by the Board of directors by appointing professionals.

(2) The shareholders are large in number and they are scattered over a wide area. Therefore, they cannot take part in day-to-day routine of the company. They are only interested in earning the returns i.e. dividends on the shares held by them. Thus, the shareholders have no direct control over the affairs of the company. The Board of directors formulates plans, strategies and policies with respect to business activities. Thus, in a joint stock company, the ownership is separated from die management.

4. All partners are Joint owners of partnership firm.

Ans. (1) Partnership is an association of two or more persons who come together with an intention to do business jointly to earn profit and share among themselves. All the partners being joint owners can take part in the management of the partnership firm. This implies dial there may be division of work among them.

(2) The partnership firm is jointly owned by the partners. Therefore, the assets and the property must be used or utilised for conducting the business of the partnership. The partnership property cannot used by the Single partner for his personal gain. Partners are the owners of the partnership firm and they themselves manage the affairs of the firm.

Q.6. Long answer (Any - 1) (10 Marks)

1. Explain Merits & Demerits of Joint Sock Company.

Ans. **Merits:**

1) **Large amount of Capital**: A joint stock company issues shares to the public. The face value of shares is comparatively low. So it can collect huge amount of capital. It can also accept deposits from the public and issue debentures to raise funds.
2) **Professional Management**: Management of the company is in the hands of directors. They are elected representatives of shareholders. Due to large financial resources, a company can appoint highly qualified professionals, by paying attractive salary. So the knowledge of experts is used for day to day management of the company.
3) **More Scope for expansion**: A joint stock company collects large amount of capital. Attractive salaries are paid to professional managers. Proper authorities are given to take business decisions. Shareholders are interested in getting highest rate of dividend. As a result, company can undertake big and risky projects.
4) **Public Confidence**: A joint stock company enjoys public confidence. There is less interference of Government. Every Joint Stock Company in India is governed as per the provisions of 'The Companies Act 2013'. As per the Act the company has to get its annual accounts audited by a practing Chartered Accountant.
5) **Relief in Taxation**: A joint stock company plays important role in the economic development of the country. It requires to pay taxes of flat rate. Certain exemptions and concessions are given to the joint stock companies, which opens branches in economically backward regions for e.g. tax holidays upto 5 years.
6) **Expert Services**: A joint stock company can appoint experts for managing business activities like Legal Advisers, Management Experts, Auditors, Consultants etc.

7) **Perpetual Succession**: A joint stock company enjoys continuous and stable life. The death, retirement, insolvency or insanity of its members docs not result into dissolution of the Company.

8) **Limited Liability**: The liability of a member of a company is limited to the extent of the unpaid amount of shares held by him Shareholders arc not liable for the debts of the company & there is no need to use their personal property for the purpose.

Demerits:

i) **Rigid Formation**: Registration of joint stock company is compulsory. It requires number of legal documents. It is necessary to pay heavy registration charges. A public company cannot start its actual business without getting Commencement Certificate. Hence, procedure of formation is complicated, expensive and time consuming.

ii) **Lack of Secrecy**: In order to protect the interest of investor it is compulsory to publish books of accounts every year. All the important documents of Joint Stock Company are available for inspection at registered office. The competitors can take undue advantage of internal information of a joint stock company. Hence, there is no secrecy in Joint Stock Company.

iii) **Delay in Decision Making process**: As an owner of the company, every shareholder has right to participate in management of the company. Therefore, all important business decisions are taken in the share holders meetings. The procedure of conducting the meeting is very lengthy and time consuming. It is necessary to prepare notice of meeting, copy of agenda, proxy forms etc. All these documents must be sent minimum 21 days before the meeting. Therefore there is always delay in decision making.

iv) **No Personal Contact**: There are large number of employees in joint stock company. Employees feel that their efforts should be appreciated by their superiors. But it is not possible in a large organisation like joint stock company. The employees are demotivated to work hard. Similarly, Manager and Directors of the company are not able to establish personal contact with their customers. Customers likes & dislikes are not taken into consideration many times.

v) **High Cost of Management**: A joint stock company is a commercial organisation. It is ready to spend huge amount for the advertisement. The manager gets best salary and other benefits. It requires huge amount for operational expenses. So the cost of management is very high in joint stock company.

vi) **Reckless Speculation**: Company is managed by directors. Few unscrupulous director use confidential information for reckless speculations and their personal gains. This results in sudden fluctuation in the prices of shares in Stock Exchange. It adversely affects public confidence.

2. Explain Merits & Demerits of partnership firm.

Ans. **Merits:**

1) **Easy Formation**: It is very easy to form partnership business. Only two persons are required to form partnership business. The partners can sign the agreement and get the firm registered. Even procedure for registration is very simple and quick.
2) **Capital**: The partnership business has more capital as compared to sole trading concern. As partnership business has more numbers of partners they can collect more capital. The capital contribution ratio of all partners is mentioned in agreement.
3) **Business Secrecy**: The partnership firms enjoy secrecy as firms are not subject to publish books of accounts annually. Due to this, competitors cannot easily come to know about secrets and confidential information of the partnership firm.
4) **Continued Existence**: The Partnership can have continued existence. Even after the death, insolvency or insanity of one of its partner, the partnership can be carried on by existing partners provided that there should be provision in partnership agreement. However, new partnership deed needs to be redrafted.
5) **Flexibility of operation**: There is more flexibility in partnership business. Partners may expand or diversify business activities as and when required. Partners can change line of business as per changing business situations. If required they may close down the business.
6) **Decision Making**: There is quick decision making in partnership as few partners are involved in decision making process. The decisions are taken after detailed discussion among partners. The quality of decision making is better than sole trading concern.
7) **Effort -Reward Relationship**: There is direct relation between efforts and rewards in case of partnership business. Each and every partner puts in best efforts and thus rewards are shared among them. If partnership agreement provides, active partners may get higher share in profit as compared to other partners in the organization.
8) **Goodwill:** Goodwill means valuation of partnership business in terms of money. The partnership enjoys good amount of goodwill in the market. This goodwill in the market is due to quality service, better services to customers, ethical working of partnership business. Normally, in case of admission of a new partner, partner has to bring certain amount of goodwill in the business.
9) **Specialization**: In partnership business, some partners may be good at different skill such as finance, technology, marketing which brings in specialization in partnership business. This specialization also brings higher efficiency in the organization.

Demerits:

1) Problem of Continuity: The partnership business may face problem of continuity unless provided for continuation of business in the event of death, insolvency or insanity to any partner in the partnership firm. If partnership agreement does not have provision of continuation of partnership business in case of death, insolvency and insanity, business is liable for dissolution.
2) **Absence of Legal Status**: In partnership business, there is no separate legal existence of partnership firm. In the eyes of law both arc same. Law does not make any distinction between partners and firm. So there is absence of separate legal status for partnership firm. In the event of death, insolvency or insanity partnership firm is liable for dissolution.
3) **Disputes**: Disputes are common in partnership business as more than one individuals are involved in various activities. Some partners may or may not agree on some points which lead to disputes among partners. Sometimes disputes may lead to the dissolution of the firm.
4) **Non - Transferability of Interest**: No partner of business can transfer his share in business to the outsider without the consent of all partners in the firm. In general, there is non-transferability of interest in partnership business.
5) **Limitations on number of Partners**: The Indian Partnership Act limits maximum number of partners. No partnership firm can go beyond maximum prescribed limits of 50 partners. This restricts maximum number of partners admitted in business. Such restrictions may affect partnership firm while capital contribution and even in case of management of partnership business.
6) **Difficulty in Admission of Partner**: In partnership business, there is often difficulty in admission of new partner. Admission of new partner may affect profit sharing ratio of existing partners. Therefore existing partner may object admission of new partners in business. Existing partners may not have full faith on incoming partner. This leads to difficulty in admission of new partner.
7) **Unlimited Liability**: Unlimited liability arises when the assets of the firm are not sufficient to pay off claims of the creditors. The private property of the partners is attached to satisfy such claims.
8) **Risk of Implied Authority**: There is often risk of implied authority in partnership business. Partners may take undue advantage of managing business on behalf of others which leads to risk of implied authority. For Example, partners may sign some agreements in his own capacity which may be against the interest of the firm or partners may take loans or advances without consent of other partners.
9) **Limited Capital**: In partnership business, there is less capital as compared to joint stock company. There are restrictions on number of members which leads to limited capital raising capacity of business. Limited capital restricts the expansion of business.

10) **Problem of Secrecy**: Though books of accounts and financial matters relating to business are not required to be published, partnership firm lacks business secrecy. Some partners may share confidential information of business to competitors or third parties for getting financial benefits from them.

3. Explain Merits & Demerits of sole trading concern.

Ans. **Merits:**

1) **Easy Formation**: The formation of Sole Trading Concern (STC) is very easy and simple. Minimum legal formalities are required for its formation.
2) **Quick decisions**: Sole trader takes quick business decisions. He may or may not consult anyone. Sole trader is not answerable to anybody. Many times, quick decisions in business proves to be very profitable. Sole trader can take quick actions and gel more benefits.
3) **Maximum Secrecy**: The sole trader is owner and manager of his business. So he may not disclose his business secrets and plans with any third person. There is no need to publish books of accounts of Sole Trading Concern (STC). So maximum secrecy can be maintained.
4) **Direct Motivation**: Sole trader is the owner and manager. He enjoys the whole profit of business. He has direct motivation to earn more profit. He always tries to work hard for more profits.
5) **Flexibility**: Being the only decision - maker of business, sole trader can make quick changes as per the situation. He can expand his business. He may change the line of his business any time. He can change his business policies, if required.
6) **Lower Cost**: The sole trader is sole manager of his business. He controls the activities of business. He always try to minimize the wastage, which results into lower cost of operation.
7) **Efficiency**: As sole trader enjoys the whole profit of his business, he tries to maximize his profits by reducing wastages in his business. He avoids wastages like wastage of money, time, material and efforts.

Demerits:

1) **Limited Capital**: As sole trader is a single owner, his capacity for raising capital is limited He may raise capital from his friends, relatives and banks etc. Such sources are also limited. So there is financial difficulty for expansion and development of the business.
2) **Limited managerial skill**: A sole trader has to manage and control the business. He may or may not posses qualification and experience. He may not have expert managerial and organizing ability. Due to limited capital, he may not appoint managerial staff.
3) **Unlimited liability**: The liability of sole trader is unlimited. There is no distinction between personal assets and business assets. So he cannot be separated from his business. His business liabilities need to be paid by selling his private property, if required.

4) **Lack of Stability**: Existence of sole trading concern is totally dependent on the existence of sole trader. Death, insanity or insolvency of the sole trader affects the existence of the business.

5) **Lack of Specialization**: Division of work leads to specialization. But sole trader is involved in all activities of his business such as buying selling, accounting etc. He has to play multiple roles. So it is said that, 'He is jack of all trades, master of none'.

6) **Not suitable for large scale operation**: Sole trader conducts his business on small scale. Generally, he operates in local market. Sole trading concern is 'one man show', Business can not be extended beyond a certain limit. Sole Trading Concern (STC) is not suitable for large scale business.