J. K. SHAH CLASSES

SYJC-ORGANISATION OF COMMERCE & MANAGEMENT

QUESTION PAPER – SET 1 **Date: 15/07/2016**

Total Marks: 40 **Total time: 1 hour 30 minutes**

Solutions

Ans.1. (A) Fill in the blanks:

1) **Unlimited**
2) **Not compulsory**
3) **Unlimited**
4) **Directors**

(B) Match the pairs :

(1) **Time utility**
(2) **Board of directors**
(3) **Open membership**
(4) **Coparceners and Karta**
(5) **Double relationship**

Ans.2. (a) Distinguish

1) Public limited company and Private limited company

Sr.No.	Point of Distinction	Private Company	Public Company
1	Definition	A private company is a company which by its articles restricts the right to transfer its shares, if any, limit the number of its members to 50.	A public company means a company which is not a private company
2	Number of Directors	In a private limited company a minimum number of 2 directors is essential	In a public limited company a minimum number of 3 directors is essential
3	Transfer of share	Shares in Private company are not transferable	Public company can invite public for issuing its shares and debentures.
4	Number of members	The minimum number of members are 2 and maximum 50	The minimum number of members are 7 and there is no maximum limit of members.
5	Name	It is compulsory to add the word 'Private Limited' after	It is compulsory to add the word 'limited' after the name of

		the name of private company.	public company.
6	Issue of Prospectus	It is not compulsory to issue the prospectus and statement in lieu of prospectus	It is compulsory to issue of prospectus and in the absence of prospectus to sent statement in lieu to the registrar.
7	Minimum Capital	Minimum paid-up capital is one lakh rupee	Minimum paid up capital is five lakh rupees.
8.	Quorum	For a meeting of members the quorum is minimum two members	For general meeting of members the quorum is minimum five members.

2) Joint Hindu Family Business and Partnership Firm

Sr. No.	Basis of Difference	Partnership firm	Joint Hindu Family Business
1.	Meaning	When two or more person come together to undertake some business activity and agree to share that profit, it is called a partnership firm.	When joint Hindu family conducts business, inherited by it as per Hindu law, it is called a Joint Hindu family firm.
2	Creation	Partnership firm emerges out of contract between the partners	Joint Hindu family firm is created by the operation of Hindu Law.
3	Membership	There can be a minimum of 2 partners and a maximum of 10 partners in banking business and 20 in non-banking business	There is no limit on the number of members since the membership keeps on changing depending upon the birth and death in the family
4	Management	All partners in partnership firm have equal managerial rights. The business is jointly managed by all the partners.	Karta is the key manager of business who may be assisted by co-parceners to a limited extent.
5	Minor Members	A minor member can be admitted to the benefits of partnership with the consent of all the partners	A male minor become a member merely by his birth
6	Regulating law	It is governed by the Indian partnership Act, 1932	It is governed by the Hindu Law.
7	Liability of Members	The liability of all the partners is unlimited	Only Karta's liability is unlimited co-parcener's liability is limited.
8	Capital	Contribution is more	Contribution is comparatively less

Ans 3 Write short note on:

1. Types of co-operatives

Co-operative societies are classified into different types according to the nature of the services rendered by them. Followings are the main types of co-operative societies.

1. **Consumer's Co-operative Societies**: Consumer's Co-operative societies make their purchases in bulk from wholesalers and supply them in small quantities to members at very reasonable prices and also provide various services to them. Members are given bonus and share in profit in proportion to their investment.
2. **Credit Co-operative Societies**: It is formed with the objective of granting loans to members at a reasonable rate of interest for productive as well as non-productive purpose. They may be established in rural areas by agriculturist or artisans called as rural credit societies or by salary earners or industrial workers in urban areas, called as Urban Banks, Salary Earner's Societies, worker's societies.
3. **Producer's Co-operative Societies**: Producer's co-operative societies are also called industrial co-operatives which provide raw material, implement tools, technical guidance, to the members on easy terms so that they can produce superior quality products.
4. **Marketing Co-operative Societies**: Marketing co-operatives undertake certralized sale of the products produced by their members. They perform all the marketing functions standardizing, grading, branding, packing, advertising, transportation etc. and after selling the product, distribute the proceeds among members depending upon the quantity sold for each member.
5. **Farming Co-operative Societies**: These societies are formed by farmers who voluntarily come together and pool their land to jointly conduct agricultural operation using scientific methods of cultivation.
6. **Housing Co-Operative Societies**: Housing co-operative societies purchase land and develop it. Co-operative housing societies are formed by members for the construction and maintenance of building for residential purpose on ownership basis.

2. Demerits of sole trading concern

1. **Limited Managerial Ability**: The sole trader, though capable cannot be expected to have complete knowledge like other type of business. Neither can be give equal attention to all aspects of the business as a professional nor expansion of the business. Being a lone owner, he has to look after every phase of business. Sometimes, scope of his business, enlarged and he is expected to face many difficulties, in such situation, his decisions may be wrong which would be a cause of reducing profit.
2. **Limited Amount of Capital**: As only one person is the owner and provider for all the resources required for the business, a proprietary concern has a limitation on the amount of capital. The owner can get in his own money or

borrow from various sources. Such as, banks or friends and relatives, but still he cannot expand his business.

3. **Unlimited Liability**: The greatest disadvantage of the sole trader is the unlimited liability. Higher risk due to the unlimited liability causes the proprietor to be over cautious. He may be personally the sufferer if things go wrong. So there is always threat for him to undertake new ventures even when they can be very profitable, because of only one thing that the liability of a sole proprietorship is unlimited. This can affect the growth of the business negatively.
4. **Not Suitable for large scale operations**: Sole Proprietorship is not suitable for large scale business operations. Due to small scale, the business cannot be extended beyond a certain limit. Thus a proprietor has to conduct business on a small scale. He cannot fully utilize adequate resources.
5. **Lack of Stability**: There is a continuous uncertainty in running a sole trader. If anything happens unexpectedly, the entire organization can collapse. Not being a legal entity, it is linked directly to the owner, i.e. there is no difference between the sole owner and the business. The organization can be dissolved with the death or insolvency of the owner occurs.
6. **Absence of Specialization**: A sole Trader himself is the owner, manager, supervisor and controller of his business. Moreover, due to small scale business and division of labour and specialization, he cannot conduct business efficiently.
7. **Unprofessional Decisions**: As a sole owner he is not answerable to any person. He may end up taking decisions which may be based on limited knowledge. This can result in poor business policies likely to fluctuate without any reason and result into huge losses.

3. Types of partners

When a person who deals with the firm, must know the partners of the firm and to what extent each partner is liable. Some partners in a partnership take active part in firm and they are also directly related with the firm. They invest money in the firm and have a share in its profits and loss. Some partners who do not have full interest in the partnership firm. It is compulsory to make investment in the business, so they don’t get any share in the profit. Following are the types of partners.

1. **Active partners/Actual Partners**: The partners who take active participation in the day to day work of the firm or take active part in the conduct of the business are called Active Partners. They contribute money in the firm and have a share in its profit or loss. These partners act as agent of the firm and they have unlimited liabilities. Active partners must give public notice of their retirement. These partners are also known as Ordinary or General partners.

2. **Sleeping or Dormant Partners**: Sleeping or Dormant partners are those who do not take active part in the conduct of business. They have invested money in the business and have share in profit and loss. They do not give public notice of their retirement. They have unlimited liability.
3. **Nominal Partners**: They lend their names to the firm without having any real interest in the firm. They neither contribute to the capital nor share the profits or take part in the conduct of the business of the firm. The firm make them partners to join form, to use personal goodwill. So they have no direct attachment with the firm and not answerable to any other party.
4. **Minor Partner**: According to the Indian Contract Act, 1872, a person below 18 years is called minor. But according to the provisions in the Indian Partnership Act, 1932, a minor can be a partner in the profit of the firm if all of the other partners give their consent. Minor has liability and is not liable for losses.
5. **Partnership in Profits only**: He can share the profits of the firm. But his liability is unlimited like other partners. He must give public notice of his retirement. Such partners have no right to take part in the daily work.
6. **Limited Partners**: A person whose liability of the firm is limited to the extent of his investment is called limited partner. He has no right to take part in day to day work. But such a partnership must have at least one partner having unlimited liability.
7. **Partner by Holding out**: A person who is not a partner in the firm but he represents himself to be a partner by word spoken or written or by his conduct is called a partner by holding out. If the other person acting on the faith of such representation and have given loan to the firm, then he will be liable to discharge debts in the same manner as other partners will be.
8. **Secret Partner**: When the relation of the partner with the firm is unknown to the general public is known as secret partner. Secret partners have all the features like other partners. His liability is unlimited and he has to invest capital into firm and also get the shares in profit. He also takes part in daily working or management.

Ans 4.State with reason the statement is true or false

1. False

Under the Indian Partnership Act, 1932, the registration of a firm is not compulsory. But an unregistered firm suffers the consequences. Following are the effects of non registration of partnership firm.

1. A partner of an unregistered firm cannot file a suit against the firm or any other partner of the firm.
2. An unregistered firm cannot file a suit against a third party to enforce any right arising from contract, but third party can file a suit in the court of law against the partnership firm.
3. Firm also cannot start legal proceedings against any partner.

2. False

1) The shareholder in the company is large and they are spread all over the country.
2) Therefore they cannot take part in the day to routine of the company.
3) So in order to run the affairs of the company they elect their representative who are called directors and Directors form the 'Board of Directors' to run the business on their behalf.
4) Thus, ownership of joint stock company is separated from its management.

Ans 5 Long Answers

1. DEFINITION: When a Joint Hindu family (Hindu Undivided family or HUF) conducts business inherited by it as per Hindu Law, it is called Joint Hindu family firm. Thus in a Joint Hindu Family firm, the business is passed on from one generation to another.

MERITS OF JOINT HINDU FAMILY FIRM

1. **Easy to start**: Joint Hindu family business is very easy to form. It comes into existence as per Hindu Law. Family members become co-parceners in the firm by virtue of their birth in the family. Moreover no registration is required for a Joint Hindu family firm in respect of minimum or maximum members.
2. **Prompt Decision**: The Karta has complete control over his business. He takes all the business decisions. Therefore, Karta takes the right decisions at the right time.
3. **Good Relations with Employees**: Joint Hindu family has few employees with whom good and personal relations are maintained as in case of a sole trading concern. These motivated employees extend their complete support for conducting business successfully.
4. **Flexibility:** Due to quick decisions, Karta can bring about the required changes in business viz, expansion of the business activities or diversification of business as per the changing business trends quickly.
5. **Secrecy**: Karta of the Joint Hindu family business is the manager of the business himself and all the family members are co-parceners of the business, so the secrecy of the business remain with the family.
6. **Co-parcener's Liability**: Karta is the head of the family. The liability of co-parceners is limited to the extent of their share in the Joint Hind family business. Karta is the custodian of the Joint property of the Joint Hindu family firm. If the property of Joint Hindu family firm is not sufficient to pay off the third party liabilities, his personal property can be utilized for the purpose.

DEMERITS OF JOINT HINDU FAMILY BUSINESS

1. **Limited Resources**: The funds of Joint Hindu Family business are limited. Because of limited funds, business cannot be established on a large scale.
2. **Limited Managerial Skills**: Only the managerial skills of Karta are used for running of the business to be very successful in this competitive business world. It cannot be expected from any co-parcener however intelligent he may be, to know all the intricacies of the business.
3. **Unlimited liability of Karta**: Karta always faces the risk of his personal property being used for paying the third party liabilities, if the business assets are not sufficient to pay them off. He therefore becomes over cautious and may not be prepared to take any business risk. This may adversely affect the profitability of the firm.
4. **Breaking of Joint Family**: The firm is always exposed to the risk of the breaking of the Joint Family, in such a case, the family business may also come to an end to the extent, the stability and continuity of the firm is endangered.
5. **Lack of Direct Effort**: Though Karta is the only family member who put in all his managerial skills for running the business efficiently and successfully, the profits are shared by all the co-parceners. Therefore, they may not be motivated to give the best to the firm.
6. **Restricted Expansion:** Due to limited financial and managerial resources of the firm and over cautious nature of Karta, it is not possible for the firm to expand the business beyond a certain limit. The firm is forced to conduct business on the same scale and deal in the local market.

Ans 2 DEFINITIONS

Indian Co-operative societies Act, 1912, "Co-operative society is a society which has its objectives for the promotion of economic interests of its members in accordance with co-operative principles".

FEATURES OF CO-OPERATIVE SOCIETY

1. **Voluntary Association and Open Membership**: Co-operative organization is a voluntary association of individuals. In other words the membership of a co-operative society is voluntary i.e. the membership is open to all. Because co-operative society is managed and controlled on democratic principles, there is a common goal for all the members which is to work together for the benefits of all the members and any person of any caste, creed or religion can join the organization.
2. **Equal Voting rights**: There is equality in voting rights. The principle of voting is 'one member one vote' unlike a company which follows the principles of **'one share one vote'**. Thus the co-operative society members having a very large

capital cannot dictate their terms. Similarly, while providing services, all members are treated.

3. **Service Motive**: Co-operative organization differs from other forms of organization in the sense that the main purpose of co-operative organization is not to maximize profit but to provide services to its members. Its main motto is not to accumulate wealth and exploit consumers but to work in the interests of members and provide goods and services to them by treating every member at par with others. Moreover, there is no distinction among members based upon the number of shares held by them.
4. **Limited Liability**: The liability of a member in a co-operative organization is limited to the extent of the unpaid amount of shares held by him i.e. if the business assets are not sufficient to pay off its debts, the personal property of members cannot be utilized for the purpose.
5. **Democratic Management**: The management of a co-operative organization is based on democratic principles. Each member is given an opportunity to express his opinion. The principles of voting is **"One member One Vote".** Decisions are taken by majority of votes. Managing committee is an elected body of representatives of members of a co-operative organization for its day to day administration.
6. **Independent Existence**: According to the Co-operative Societie's Act, 1912, a co-operative society has an independent legal status different from its members. Therefore, it enjoys a stable and continuous life.
7. **Registration**: The registration of a co-operative society is compulsory as per the relevant act in the concerned state e.g. A Co-operative organization in the state of Maharashtra has to be registered under Maharashtra State Co-operative Societie's Act, 1960.
8. **Surplus Profit**: After payment of dividend and bonus, a part of the profit is transferred to the statutory reserve and remaining is utilized for the welfare of the locality where the co-operative society is situated.
9. **State control**: Every co-operative organization must be compulsorily registered as per the relevant act of the state according to the Co-operative Societie's Act, 1912. The co-operative societies are subjected to state control and supervision. At the same time, they are given various concessions and facilities by the Government.