J. K. SHAH CLASSES

SYJC-ORGANISATION OF COMMERCE & MANAGEMENT

QUESTION PAPER – SET 2 **Date: 15/07/2016**

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

Solutions

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

1) Manager
2) Indian Partnership Act 1932
3) limited
4) 7
5) One share one vote

(B) Match the pairs :

(1) Place utility
(2) Board of directors
(3) One member one vote
(4) Hindu Succession Act
(5) Double relationship

Ans.2. (a) Distinguish

1) Sole Trading concern and Partnership Firm

Sr. No.	Basis of Difference	Sole Trading Concern	Partnership Firm
1	Meaning	Owned and controlled by only one person	In this form of business organization two or more persons come together to undertake a business and share profits.
2	Formation	It can be formed at any time when proprietor decides	It can be formed by an agreement between two more competent persons.
3	Ownership	Sole trading concern has only one owner	Minimum number of members are 2 and maximum 10 in banking and 20 in other firm.
4	Registration	Registration is not necessary	Registration is not necessary, but it is useful. (compulsory in Maharashtra)
5	Secrecy	A sole trading concern ensures maximum secrecy	Secrecy is shared by the partners

6	Managerial	The entire burden of management lies on owner.	All partners contribute these skills so there is division of work and expertise.
7	Capital	Because of only one owner, amount of capital is very small.	Contribution of all partner's capital increases.
8	Profit & Loss	A Proprietor is himself receiver all the profit or loss	Profit is shared by partners as per their agreement.
9	Disputes	No question of disputes as it is a one man show	There are chances of disputes among the partners
10	Flexibility	A sole trading concern is flexible	A partnership firm is less flexible

2. Joint Hindu Family Business and Joint Stock Company

Sr.No.	Point of Distinction	Joint Hindu Family Business	Joint stock company
1	Formation	When joint Hindu family conducts business, inherited by it as per Hindu law, it is called a Joint Hindu family firm.	Formation of a joint stock company involves many legal formalities. It is lengthy, complicated and costly process
2	Motive	Joint Hindu family firm is created by the operation of Hindu Law.	The main motto of a joint stock company is to earn profit. Providing service is the secondary motive.
3	Transferability of shares	There is no limit on the number of members since the membership keeps on changing depending upon the birth and death in the family	Shares are freely transferable in a public limited company.
4	Numbers of Members	Karta is the key manager of business who may be assisted by co-parceners to a limited extent.	A private company must have at least 2 members and a maximum of 50 members. A public company has a minimum 7 members but there is no maximum limit.
5	Management	A male minor become a member merely by his birth	Board of Directors constitute the management of company. Directors run the business very

			efficiently since they possess the required expertise.
6	Capital Raising capacity	It is governed by the Hindu Law.	It can raise large capital since attractive dividend is paid and there is capital appreciation
7	Voting Rights	Only Karta's liability is unlimited co-parcener's liability is limited.	The principle of voting is one share one vote
8	Remuneration	Contribution is comparatively less	Directors are paid fees (allowances) for attending Board Meetings.

Ans 3 Write short note on:

1. 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.

2. Merits of Joint Hindu Family Business

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.

7. **Good Credit Standing**: A Joint Hindu family firm enjoys a good credit standing in the market. Since the business is being conducted for a longer period of time and is being passed on from one generation to another, it enjoys goodwill in the market. Moreover, the liability o Karta is unlimited. As a result banks and other financial institutions are willing to grant the loans.
8. **Continuity and stability**: Joint Hindu family business does not come to an end by take over the business. Thus, continuity and stability of business is ensured, which is crucial for the success of any business organization.

3. Characteristics of cooperative 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.

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

1. False

(a) To promote mutual welfare.

The main motto of co-operative society is to promote mutual welfare of the members and not maximization of profit. Service above self is the spirit of co-operation

The primary objective of a co-operative society is to provide service to its members. The secondary objective of a co-operative society is to make profit.

(b) To protect weaker section from exploitation

The co-operative organization come into existence due to economic and social imbalance during the period of industrial revolution. Its main aim is to protect weaker sections from the exploitation of private monopoly.

(c) Low prices and fair quality of goods

Co-operative societies distribute goods of fair quality at lowest possible prices. Since many office bearers provide honorary services, its operating cost remains less. Thus it supplies goods at lower prices. The main objective is to provide service and not to earn profit.

(d) Promotes equality

It aims at mutual prosperity of all and not of few at the cost of others. Thus it safeguards the community against the evil of monopoly. The principle of 'One man – One vote' aims at maintaining equal status for all.

(e) Builds up good will

The co-operative organization gives scope for self – government to its members. It promotes the feeling of goodwill and co-operation among its members. Thus the basic and fundamental objective of co-operative is to provide service to its members

2. **True**

   (a) Lack of capital.

   A sole trader has limited financial resources. Therefore, he can invest only less amount of capital and sell goods in small quantity. M^has no position of strength.

   (b) Small scale business.

   As the sole trader does not undertake large scale business, he has a limited capacity as a bargainer in the market. In the absence of bulk purchase, he can not influence the market as a buyer.

   (c) Lack of professional skills.

   A sole trader may not possess the skills of bargaining. Unlike joint stock companies, he can not hire professional managers. Therefore, he may not be able to get goods at competitive terms from the market.

   (d) Lack of expansion and diversification.

   Big organisations like joint stock companies divert their surplus funds towards expansion . and diversification and become leaders. More they grow, more they dominate and bargain. This is not the case of a sole trader who has no scope for expansion and diversification and plays a less important role with a weak bargaining capacity.

   (e) Lack of competence.

   A sole trader can also become a victim of sudden change in the market or a rise in the number of competitors. This may be due to his limited financial capacity.

   ,,Thus a sole trader has a weak bargaining power

Ans 5 Long Answers

1. DEFINITION

Prof. Haney : “A joint Stock Company is a voluntary association of individuals for profit having capital divided into transferable shares, the ownership of which is the condition on membership.”

MERITS OF JOINT STOCK COMPANY

1. **Large Capital**: It is possible for a joint stock company to raise huge financial resources. There is not maximum limit on membership in a public limited company. Shares issued are available in small denominations. Therefore people can invest any small amount as per their needs & capacity. Due to the features of limited liability, free transferability of shares etc. many investors are attracted to become shareholders of the company. Loans can be taken from banks and other financial institutions by the company.

2. **Democratic Management**: Though shareholders elect the Board of Directors, who manage the business efficiently, the directors are accountable to shareholders, their activities are supervised and controlled by shareholders indirectly. Though policy decisions are taken by the board, it must be approved by share holders. If shareholders are not satisfied with the performance of a director, he can be removed and a new one will be appointed in his place by members.
3. **Transferability of shares**: There is free transferability of shares in a public limited company. No permission is required to be sought from the directors or members of the company for buying or selling shares. Thus there is a high degree of liquidity involved in shares of company. A private limited company, however does not permit free transferability of shares.
4. **Limited Liability:** The liability of a member in a public limited company is limited to the extent of the unpaid amount of the shares held by him. Since the company has an independent legal status, its liabilities are its own. Shareholders cannot be held liable for debts of the company and there is no question of using their personal property for the purpose. This advantage of limited liability attracts a large number of investors.
5. **Expert services**: Due to large financial resources available with joint stock company, it can appoint experts for managing each area or function of the company business, by paying attractive salaries to them, these brings in a great degree of professionalism and thereby, efficiency in management of business. The turnover of the company goes up and the profit rises.
6. **Relief in Taxation**: The companies are required to pay taxes at flat rate. The amount of tax on a high taxable income therefore may be less for a joint stock company than individuals in a same tax bracket.

DEMERITS OF JOINT STOCK COMPANY

1. **Difficulty in Formation**: The formation of the company is in itself a very difficult and involves too many formalities. Promoters have to prepare and submit various documents to the registrar of companies for approval i.e. Articles of Association, Memorandum of Association etc. The public limited company cannot commerce business without obtaining a certificate of commencement of business. Registration of Joint stock companies is compulsory as per Indian companies Act, 1956. Thus the formation is complicated, costly and time consuming.
2. **Delay in Decisions**: In sole trading concern, and partnership firms decisions can be taken quickly. Company business is managed by Board of Directors who are not owners of the company. Therefore, there is no direct motivation for directors to give their best to the company. Moreover, for taking various decisions and getting them approved from share holders, they have to hold board Meeting and

share holders meetings, for which a proper procedure has to be followed. That results into delay in decision making, good business opportunities may be lost.

3. **Excessive Government Control**: There is a lot of government interference in the working of the company. Various rules and regulation of companies Act have to be strictly followed by the company, the non-compliance of any of these provision results into penalties for the officers involved.
4. **High cost of management**: The management of joint stock company form of organization is costly. The formation involves availing of the expert services of many professional like underwriters, financial and technical experts, share brokers, solicitors, bankers etc. Moreover, the compliance of the management appoints highly qualified staff to managers for various functional areas of business to whom attractive salaries are required to be paid. Even the process of dissolution of company is lengthy and costly.
5. **Undue Speculation**: Since directors are responsible for the management of the company, they sometime use the confidential information for speculation and for personal gains. This results in sudden fluctuations in prices of shares in stock exchange, adversely affecting the public confidence.
6. **No Personal contact**: Due to very large size of the organization, employees feel that their efforts are not recognized and appreciated, their work related problems are not taken care of. As a result they feel demoralized and their productivity declines.

2. 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.

FEATURES OF JOINT HINDU FAMILY BUSINESS

1. **Formation:** Joint Hindu family firm is formed as per the operation of Hindu Law. Each member of the family becomes the co-parcener in the family business by birth and not by the virtue of an agreement with other co-parceners.
2. **Karta and Co-parceners**: The senior most member of the Hindu Joint family becomes head of the firm who manages the business on behalf of the other members. He is known as Karta.
3. **Joint Ownership**: The property of a Hindu is jointly owned by the three generations after him jointly. Karta is the custodian of the joint property of the Joint Hindu Family firm. The liability of co-parceners is limited but that of Karta is unlimited. Unlimited liability of Karta means that, 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. If the Karta takes any wrong or irrational decision, he has to take the responsibility for it and pay off the liabilities even by using his personal property if the need arises.

4. **Membership**: The membership of Joint Hindu family firm is unlimited. In other words, there is no limit for membership in Joint Hindu family business. Every child (even girls in the Maharashtra state) born in the Joint Hindu Family becomes the co-parcener in the Joint Hindu family firm by his/her birth. No agreement is required to be entered into by a family member to become the co-parcener of the firm. There is not restriction on the number of members and membership keeps on changing depending upon the birth and death in the family.
5. **Management**: The joint Hindu family business managed by the senior most member of the Joint Family is called Karta. Karta is only manager, controller and co-ordinator of the business. He can enter into contracts with third parties, draw bills of exchange, issue receipts, sell or mortgage the property of Joint Hindu Family firm in the interest of the co-parceners, during the course of conducting the business.
6. **Profit Sharing:** The Hindu law does not specify the ratio of the profits and losses shared by Karta and co-parceners in a Hindu Family firm. The profit sharing ratio keeps on changing depending upon the births and deaths in the family.
7. **Quick Decisions** : Karta, being the sole decision maker, can take quick decisions and act upon them immediately. It is assumed that Karta's decisions are always correct.
8. **Good Relations**: Small scale business, which is operated in local market with a few employees. It is possible for a Joint Hindu Family firm to maintain personal contact with its customers and good relations with employees.