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SYJC EXAM

SUBJECT- ORGANIZATION OF COMMERCE

Test Code – SYJ 6019 A

BRANCH - () (Date :)

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ANSWER-1**ANSWER-A****(3 MARKS)**

1. (b) maximum
2. (a) unlimited
3. (b) 1960

ANSWER-B**(2 MARKS)**

- a-3**
b-2

ANSWER-C**(5 MARKS)**

1. Karta
2. Private Limited Company
3. Partnership – at – will
4. Co – operative organization / Society
5. Particular Partnership

ANSWER-2**(5 MARKS)**

1)

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 the name of private company.	It is compulsory to add the word 'limited' after the name of 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)

Sr. No.	Basis of Difference	Proprietorship	Joint Hindu Family Firm
1	Meaning	It is a form of commercial organization which is owned and managed by a single person	It is a form of commercial organization. The ancestral business is conducted by the family members of a Joint Hindu Family
2	Membership	There can not be more than one owner	There is no maximum limit on membership
3	Ownership	The business assets and properties are owned by the proprietors.	All the family members are joint owners of business properties
4	Liability	The liability of sole trader is unlimited	Karta's liability is unlimited. Co-parcener's liability is limited.
5.	Financial Resources	The financial resources are available	The funds are more than that of a proprietor.
6.	Stability	It lacks stability since the existence of sole trading concern depends upon the survival of the sole trader	It is comparatively more stable since after the death of Karta, the next senior family member takes over as Karta and continues business activities.
7.	Profit and losses	All the profit of the concerned belong to the sole trader and all losses are to be borne by him.	The profit and losses are shared by all the co-parceners.
8.	Management	Sole trading concern is managed by sole trader himself	Joint Hindu Family business is managed by Karta.

ANSWER-3

(5 MARKS)

1)

According to the Indian Partnership Act, 1932, it is not necessary to get the firm registered for its formation. Registration of a partnership firm is not compulsory under any law or no penalty for non registration of partnership firm. But it is always useful to get the firm registered. In Maharashtra registration of partnership firms is compulsory with the effect from 1st April 1985.

- **Procedure for Registration:** An officer is appointed for a registration of a partnership firm is called Registrar of firms. The steps involved in the registration of a firm are given below.

Obtain all prescribed forms from the office of the Registrar of firms of the area in which the place of business of the firm is situated. Then fill up the forms with the following information.

- The name of the firm
- The principal place of the firm (Head Office).
- Name of the other places where the firm has business (Branches)
- The date when each partner joins the firm.
- The name in full and addresses of the partners.
- The duration of the firm (In case of partnership at will/for particular period).

Then get the statement fully signed by all partners and then this form along with the prescribed fee, has to be deposited in the office of Registrar.

After proper scrutiny of the forms, if Registrar is satisfied, he enters the information in the register and sanctions it.

Then Registrar issues a certificate which is called the Certificate of Registration.

2)

1. **Identification of Business Opportunity:** An important tool in the identification of business opportunity is the 'SWOT' analysis. A systematic approach to understand the environment is the SWOT analysis i.e. strength, weaknesses, opportunities, and threats. An understanding of the external environment, in terms of opportunities and threats and the internal environment, in terms of strengths and weaknesses, is important for the existence, growth and profitability of an organization.
2. **Raw Material:** While starting a new business the availability of raw material is basic question. What type of raw material is required? What is the quality and what quantity of raw material is to be purchased?
3. **Technology and Equipment:** The equipment is more important for better production, and for that technology is also important. Proper selection of equipment results in good production. While starting a new business latest technology must be used for production to get superior quality of goods.
4. **Human Resources:** Without human factor, all the factors of production are useless. Man power is the most important factor in the management of any organization so when starting a new business should be considered the requirement of skilled, semi-skilled personnel for production and where they are easily available.
5. **Financial Planning:** No one can start any business without capital. The business can be run successfully and without obstruction only after the availability of sufficient capita. The capital is required to purchase for fixed assets and working capital for daily working expenses. So starting a new business it is necessary to have new resources of financial sources.
6. **Utilities:** When starting a new business it is known that requirements of power, water, fuel, steam, and other consumables quantity and their value. It is essential to get the clearance certificate from government authority i.e. pollution control Board.
7. **Selection of location:** Every place is not suitable for every type of business. For the manufacturing that place should be suitable where raw material is easily available and labour is cheaply and easily available. Other factors also affects the site of business i.e. Transportation, market, banking facilities.
8. **Form of Business organization:** When choosing a specific form of business organization following factors are to be taken into consideration. Entrepreneur's personal capacity to manage and control the business at any time. Investment capacity, professional background and technical support for business are essential factors.

1)

True

(a) Specialist of local market.

Sole trader generally operates in a local market. His activities are generally confined to a limited or local area, covering local consumers. His business activities are mainly spread in areas like groceries, tea stalls, fashion designing, furniture mart, laundry, restaurants etc. which are purely local in nature. Thus local business is suitable for a small business.

(b) Lack of capital

A sole trader has a limited capacity to raise finance. Limited financial resources restricts his operations within the local areas. National and International business requires large scale investment.

(c) Lack of expansion and diversification

Expansion or diversification of business requires special skills and professional management. He can not hire expensive managerial skills. He can not invest huge capital on modern infrastructure. Therefore he prefers to run a small business.

(d) Unlimited liability.

His liability being unlimited, he has to take calculated risk and never jumps to large scale business. Being a one man show, he can not expand business beyond certain limit.

(e) Weak bargaining capacity.

His bargaining power is weak due to limited financial resources. He can not influence market as a buyer. He can not become a leader and therefore remains a small player.

Thus he generally operates in a local market.

2)

False

(a) The size of family determines the number.

The number of members in case of Joint Hindu Family business is uncertain. It is determined by the size of the family. There is no limit on maximum number of members in a Joint Hindu Family.

(b) Membership by operation of law.

Joint Hindu Family business comes into existence due to operation of Hindu Law. The person becomes member by status. Therefore, membership comes to a person naturally by birth.

(c) Birth rate and death rate.

The number of members fluctuates according to birth rate and death rate of the family. A male person who is born in a Hindu Family automatically becomes a member by the virtue of his birth. At the same time, the death of a person reduce the number of members.

(d) **No outsiders allowed.**

Unlike Joint Stock Company, Outsiders can not become the members of a Joint Hindu Family. The membership is confined to family members. The firm does not entertain partnership outside.

ANSWER-5

(5 MARKS)

1)

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 is forced to conduct business on the small scale and deal in the local market.
7. **Unlimited membership:** Since the membership in the joint family business is on the basis of birth, there is no limit on membership. The number increases as per births in the family. Thus the number cannot be predicted and it may be unlimited. There is no upper limit for number of membership.

2)

1. **Easy Formation:** A co-operative society can be formed easily. Minimum **ten** members are required for the registration of co-operative society. Then any adult member can join hands to start a co-operative society. Though the registration of a co-operative society is compulsory, the procedure for registration is simple and the fees for registration are nominal.
2. **Democratic Management:** The management of co-operative organization is democratic in nature. Each member enjoys an equal right to vote. The principle of voting is '**one member one vote**'. Thus each member is involved in decision making. The managing committee which manages the day-to-day administration of the co-operative society which is elected by members from themselves and it works for providing services to members.

3. **Limited liability:** The liability of the members of the co-operative society is limited to their shares or to the extent of the unpaid amount of the shares held by them or the guarantee given by them, i.e. their personal property cannot be used even if the assets of the society are insufficient to pay of its debts to the third parties.
4. **Stability:** Since a co-operative society enjoys an independent legal status different from its members. It enjoys a stable and a continuous life, i.e. its continuity does not get affected by the death, insolvency or insanity of any members. Any member may leave or join the organization but the co-operative society remains unaffected.
5. **Open Membership:** The membership of a co-operative society is voluntary. It is open to all, i.e. any person of any caste, creed, religion etc. can become a member by purchasing shares in the society. There is no force or compulsion on any person to join or leave the organization. People join the organization at their free will and become members. Similarly, any member can leave the organization any time as per his wish.
6. **Tax concession:** Since co-operative societies play an important role in the economic and social development of the country, the government gives many concessions to them which include exemption of payment of income tax upto a certain limit. This helps in increased profitability.
7. **Less Operating Expenses:** The operating expenses of co-operative societies are very little because members offer administrative services without any remuneration. There are no advertisement expenses and no middlemen are involved. Various concession, reliefs, and privileges related to registration fees, stamp duty, income tax, etc. are given to co-operative organizations by the government.
8. **Supply of goods at cheaper Rate:** Co-operatives society makes bulk purchases directly from manufacturer or wholesale trader, so goods are available at cheaper rate. Co-operative societies' main aim is to provide services to members rather than earning profits.
9. **Self financing and charity:** After paying maximum dividend of 15% p.a. (as per the latest amendment to the act) on the shares of members and bonus as per their purchases, the surplus profit is utilized for financing growth and development of the organization and also for charitable and social activities.

ANSWER-6

(10 MARKS)

1)

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."

FEATURES OF JOINT STOCK COMPANY

1. **Artificial Legal Person:** A company is artificial person created by law. It has a separate name and uses a common seal as a substitute for its signature, it doesn't have a physical existence because it is not a natural person. However, it can enter into contracts with third parties e.g. it can buy and sell property, borrow money, etc.
2. **Separate Legal Entity:** A Joint stock company is created by law and enjoys an independent legal status different from its members. Therefore the company's liabilities are its own i.e. share holders are not liable for the debts of the company. Similarly share holders cannot act on behalf of the company or bind person or persons.

3. **Limited Liabilities:** The most important advantages of a joint stock company is limited liability to the extent of unpaid amount on shares held by them. They cannot be held liable for debts of the company. Their personal property under no circumstances be used for satisfying the claims of creditors of the company.
4. **Common Seal:** The company is an artificial person, which cannot sign as a human being. Therefore a common seal is used as a substitute for the signature of the company. It is the symbol of the company incorporate existence. The common seal shows the name of the company which is engraved in a particular manner. It is to be affixed on all the important documents of the company and is to be witnessed by the signature of two directors of the company.
5. **Registration:** The registration of Joint Stock company is compulsory. Every Indian company should be registered with the Registrar of companies as per Indian companies Act, 1956.
6. **Transferability of Shares:** The ownership capital of the company is divided into shares, the ownership of which is the pre-condition on membership. These shares are freely transferable in a public limited company, i.e. members can buy or sell these shares without seeking permission from the company or other members of the company. Thus there is a high degree or liquidity involved in buying shares of the company. The shares of private limited company however cannot be transferred freely.
7. **Separation between ownership and Management:** The shareholder in the company is large and they are spread all over the country. Therefore they cannot take part in the day to routine of the company. 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. Thus, ownership of Joint Stock Company is separated from its management.
8. **Membership:** In the case of public limited company, minimum number of members is seven. However, there is no maximum limit on the number of members. Such large membership helps in raising large capital. In private companies minimum 2 and maximum 50 shareholders can come together.
9. **Registered Office:** The address of the registered office of the company must be mentioned in the domicile clause of Memorandum of association. The registered office of the company is very important since it is such a place, where all the important documents of the company like Register of Members, Annual returns, Minute Books etc. are kept, to be inspected by the members and general public. Moreover, all the correspondence between the Registrar and the company on one hand and between the company and shareholders, creditors and third parties on the other hand take place through the registered office.
10. **Voluntary Association:** A joint stock company is a voluntary association of persons. To become a member, any person of any caste, creed, religion can buy number of shares at any time. At the same time the shares may be sold by a member at his free will (except in a private limited company) moreover, the company business is managed on democratic principles.
11. **Perpetual Succession:** Joint stock company ensures perpetual succession, i.e. it enjoys continuous and stable life. Joint Stock company is an artificial person created by law, having a common seal which acts as a substitute for its signature. It enjoys an independent legal status different from its members. The death, retirement, insolvency or insanity of any of its member does not result into dissolution of company.

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 no 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.
9. **Secrecy:** The Karta is the manager or controller of the business. Moreover, only the family members are the co-parceners of the business. The firm does not have to publish its financial result. Thus the firm can maintain complete secrecy about his business.
10. **Operational Flexibility:** Since all decisions in the Joint Hindu family firm are taken by the karta only, the firm can easily & quickly expand or reduce the business activities or diversify the business as per the changing market conditions. Thus, it is said to be a flexible organization.