BUSINESS STUDIES

Chapter 2: FORMS OF BUSINESS ORGANISATION

FORMS OF BUSINESS ORGANISATION

Introduction:

A business enterprise is an organization which is engaged in some business or commercial activity. Every business enterprise is a separate and distinct unit of business.

If one is planning to start a business or is interested in expanding an existing one, an important decision relates to the choice of the form of organization. The most appropriate form is determined by weighing the advantages and disadvantages of each type of organization against one's own requirements.

There are different forms of business organizations from which a choice has to be made:

1. Sole proprietorship
2. Joint Hindu family business
3. Partnership
4. Joint stock Company
5. Cooperative Societies

❖ **Sole Proprietorship**

A business which is owned, managed and controlled by a single individual, who is the recipient of all profits and bearer of all risks, is known as sole proprietorship. The term sole proprietorship defines itself evidently, as sole means only and proprietor refers to owner. Thus, a sole proprietor is one and only owner of this type of business organisation. It is a popular form of business organisation.

❖ **Features of Sole Proprietorship:**

- **Formation and Closure:** Hardly any legal formality is required to start a sole proprietary business. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.
- **Unlimited Liability:** The liability of the owner is unlimited. In case of losses and repayment of debt, personal property of the owner can also be used if the assets of firm are insufficient.
- **Sole Risk Bearer and Profit Recipient:** In sole proprietorship firm, whole risk is borne by a single individual. Because of this, he is personally liable for all losses and the sole receiver of profits.
- **Control: The** sole proprietorship firm is owned, managed and controlled by a single individual. All the decisions are taken by him solely.

- **No Separate Entity:** A sole proprietorship firm has no legal identity apart from that of its owner. As a result, the owner is held responsible for all the activities of business.
- **Lack of Business Continuity:** Since the owner and the business are same, therefore death, insanity, imprisonment, physical ailment or bankruptcy of sole trader will affect the continuity of the business.

❖ **Merits of Sole Proprietorship**

- **Quick Decision-making:** Sole proprietor enjoys freedom in making business decisions. Thus, he can capitalize on market opportunities by taking quick decisions.
- **Secrecy or Confidentiality of Information:** Sole trader is not expected to share his business decisions and secrets with anybody.
- **Direct Incentive:** Direct relationship between efforts and reward provide maximum incentive to the sole trader to work hard.
- **Sense of Accomplishment:** If a business is successful, it contributes to the satisfaction of the sole proprietor and creates a sense of accomplishment and confidence, which motivates him to work harder.
- **Easy to Form and Close:** An important merit of sole proprietorship is the possibility of entering and exiting business with minimal legal formalities.

❖ **Demerits of Sole Proprietorship**

- **Limited Resources:** In such types of business, funds are limited to the owner's personal savings and his borrowing capacity.
- **Limited Life of Business:** Illness, death or insolvency of the proprietor affects the business and can lead to its closure.
- **Unlimited Liability:** Sole trader is personally liable for all the business debts. In case of heavy loss, he may be liable to sell his personal property also.
- **Limited Managerial Ability:** Sole trader's managerial ability is limited and due to lack of finance, he cannot afford to employ experts. He cannot be an expert in all the aspects of a business, therefore certain tasks could not be performed by him in an optimum manner.

Joint Hindu Family Business

Joint Hindu Family business or Hindu Undivided Family (HUF) business is that form of business organization which is owned and managed by the members of HUF. It is the oldest form of business organization and can be found only in India. This type of business is governed by Hindu Law. The business is controlled by the head of the family, who is the eldest member of family and is called Karta. All members have equal ownership right over the property and they are known as Co-parceners. Three generations of a family can be members of HUF.

❖ **Features of HUF Business:**

- **Formation:** At least two members and an ancestral property is the basic requirement for the formation of Joint Hindu Family business.
- **Liability:** The liability of Karta (senior most male co-parcener) is unlimited, but the liability of other members is limited to the extent of their share.
- **Control:** The business is controlled by the eldest member of the family known as Karta.
- **Continuity:** After the death of Karta, the next eldest member takes his position and thus, the business continues.
- **Minor Members:** Under Joint Hindu Family business, an individual becomes member by taking birth in the family. Hence, a minor can also be a member of HUF business.

❖ **Merits of HUF Business:**

- **Effective Control:** In an HUF business, the Karta has absolute decision-making power. This facilitates quick and flexible decision-making.
- **Continued Business Existence:** An HUF business has continued existence. Its existence is not affected by the death of Karta, as the next eldest member takes up his position.
- **Limited Liability:** The liability of the co-parceners is limited to the extent of their share in the family business.
- **Increased Loyalty and Cooperation:** The members of an HUF business are loyal to each other and are willing to cooperate and work towards a common goal, as all of them belong to the same family.

❖ **Demerits of HUF Business:**

- **Limited Resources:** The HUF business depends to mainly on the ancestral property. This creates the problem of limited capital.
- **Unlimited Liability of Karta:** In HUF, the liability of the Karta is unlimited. His personal assets can also be used to discharge the debts of the business. This prevents him from taking bold decisions and limits the growth of the business. The Karta is also burdened with the task of decision-making and managing the business.
- **Dominance of Karta: The Karta** has vast powers inthe management of the family business. If the Karta misuses his powers and tries to dominate the family, then the

other co-parceners may protest. This may create conflict in the family and lead to business disintegration.

- **Limited Managerial Skills:** A Karta has absolute decision-making power related to all aspects of the business. However, he cannot be an expert in all the areas of management. If he does not take the help of other co-parceners, then his unwise decisions will affect the business adversely. Because of these limitations, this form of business organization is on decline.

Partnership

A partnership is a form of organization in which two or more persons agree to cooperate to advance their mutual interests in a business venture. This form of organization is an improvement over sole proprietorship as it ensures greater capital investment, varied professional and managerial skills and sharing of risks.

❖ **Definition of partnership:**

- **According to LH Haney,** "Partnership is the relation between persons competent to make contracts who have agreed to carry on a lawful business in common with a view to private gain".
- **According to The Indian Partnership Act, 1932 (Sec 4),** "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

❖ **Features of Partnership:**

- **Formation:** As per Indian Partnership Act, 1932 a partnership firm can be formed on the basis of an agreement between the partners. The registration of partnership firm, for its formation, is not compulsory.
- **Liability:** The liability of all the members of a partnership firm is unlimited. The partners are individually and collectively liable to pay back the debts of the firm.
- **Risk Bearing:** The partners bear the risks involved in the business jointly. If a business sustains loss, then partners share the loss in the same ratio in which they share profits.
- **Decision-making and Control:** Each partner has a right to participate in management and decision making of the organisation. The activities of partnership firm are managed through joint efforts of all the partners and decisions are taken by mutual consent.
- **Continuity:** Existence of firm is affected by death, retirement, lunacy, madness and insolvency (bankruptcy) of any of its partner. It suffers from lack of continuity.

- **Membership:** There must be at least two persons to form a partnership and all such persons must be competent to contract. Maximum number can be 50 as per Companies Act, 2013.
- **Mutual Agency:** There must exist a mutual agency relationship among the partners. "Mutual agency relationship means that each partner is both an agent and principal.

❖ **Merits of Partnership:**

- **Ease of Formation and Closure:** It is very easy to form a partnership firm. Only an agreement among the partners is required to form it. Similarly, it is very easy to close such a firm.
- **Balanced Decision-making:** In partnership, decisions are taken jointly by partners after consulting each other. Partners oversee different functions generally in areas of their expertise. Thus, wise and balanced decisions are likely to be made.
- **Sharing of Risks:** In partnership, risk gets distributed among partners, which reduces anxiety, burden and stress on individual partners.
- **Secrecy:** The partnership firm is not required to publish its accounts and submit its reports. Therefore, the firm is able to maintain confidentiality of information.
- **More Funds:** It is possible to raise larger amount of funds through partnership, as each member contributes to the capital of the firm.

❖ **Demerits of Partnership:**

- **Unlimited Liability:** The liability of partners is unlimited and they are liable individually as well as jointly.
- **Limited Resources:** There is a limit to number of partners in a partnership firm, therefore, capital investment is also limited.
- **Possibility of Conflicts:** Decision making authority lies with all the group members. There may be difference in opinions on certain issues, which may result in dispute.
- **Lack of Continuity:** Partnership comes to an end with the death, retirement, insolvency or lunacy of any of its partners. Thus, it lacks continuity.
- **Lack of Public Confidence:** Partnership firms are not required to publish their financial reports and accounts. Thus, they lack public confidence.

❖ **Types of Partners:**

- **Active or Working Partner:** Such type of partner contributes capital and takes active part in the management of the firm.
- **Sleeping or Dormant Partner:** Such type of partner contributes capital but does not take active part in the management of the firm.

- **Secret Partner Such partner:** Contributes capital and takes active doa part in business. But his association with the firm is hidden from 1691 the general public.
- **Nominal Partner:** A nominal partner is one who allows the use of his name and goodwill for the benefit of the firm and can be BOCH represented as a partner.
- **Partner by Estoppel:** A partner by estoppel is one who by his So words or conduct gives an impression to others that he is a partner of the firm.
- **Partner by Holding Out:** A partner by 'holding out' is one who is actually not a partner, but allows himself to be represented as one by the other partners.

❖ **Comparative View of Different Types of Partners:**

Type	Capital Contribution	Management	Share in Profits/Losses	Liability
Active Partner	Contributes capital.	Participates in management.	Share the profits/losses.	Unlimited
Sleeping or dormant partner	Contributes capital.	Does not participate in management.	Share the profits/losses.	Unlimited
Secret partner	Contributes capital.	Participates in management.	Share the profits/losses.	Unlimited
Nominal partner	Does not Contribute capital.	Does not participate in management.	Generally, does not share the profits and losses.	Unlimited
Partner by Estoppel.	Does not Contribute capital.	Does not participate in management.	Does not share the profits and losses.	Unlimited
Partner by Holding Out.	Does not Contribute capital.	Does not participate in management.	Does not share the profits and losses.	Unlimited

❖ **Types of Partnership:**

Partnership can be classified on the basis of two factors, viz., duration and liability.

On The Basis Of Duration:

- **Partnership at Will:** The time period or the purpose of this form of partnership is not mentioned at the time of its formation. It can continue for any length of time, depending upon the will of the partners.
- **Particular Partnership:** It is a partnership formed for a specific time period or to achieve a specified objective. It is automatically dissolved on the expiry of the specified period or on the completion of the specific purpose.

❖ **On The Basis of Liability:**

- **General Partnership:** In this form of partnership, the liability of all the partners is unlimited. This is the traditional and most common form of business.
- **Limited Partnership:** In limited partnership, the liability of at least one partner is unlimited, while other partners enjoy limited liability. This type of partnership was initially not identified in the Indian Partnership Act of 1932. It gained recognition after the introduction of new Small Enterprise Policy in 1991. This policy allowed the formation of this partnership so that small entrepreneurs can raise capital from cautious investors.
- **Limited Liability Partnership (LLP):** This form of partnership came into existence with the passing of Limited Liability Partnership (LLP) Act of 2008. It is a corporate form of organization that provides the benefits of limited liability and allows the partners the flexibility of organizing internal structure as per the mutual agreement between them. The liability of each partner is limited to the capital contributed by them.

Partnership Deed

The written agreement containing the terms and conditions of the partnership is known as partnership deed. The partnership deed contains provisions relating to various matters such as.

- Name of firm.
- Nature and location of business.
- Duration of business.
- Investment made by each partner.
- Distribution of profit and loss.
- Duties and obligations of the partners.
- Salaries and withdrawals of the partners.
- Terms governing admission, retirement and expulsion of a partner.
- Interest on capital and interest on drawings.
- Procedure for dissolution of the firm.
- Preparation of accounts and their auditing.

- Method of solving disputes.

❖ **Registration of Partnership Firm:**

Registration means getting the name of partnership firm registered with the Registrar of Firm of the area in which the place of business of the firm is situated or proposed to be situated. It is optional for a partnership firm to get registered. However, it should be registered as it provides a conclusive proof of the existence of the firm.

Also, non-registration renders the following limitations to a partnership firm,

- A partner of an unregistered firm cannot file a suit against the firm or other partners.
- The firm cannot file a suit against third parties.
- The firm cannot file a case against the partners.

Cooperative Societies

cooperative society is a voluntary association of persons, who have joined together for promoting their economic interests. It is necessary for such societies to be compulsorily registered under Cooperative Societies Act, 1912. To form a cooperative society, consent of ten adult persons is required. The capital of a society is raised from its members through issue of shares. A distinct legal identity is achieved by the society through registration.

❖ **Definitions of Cooperative Society:**

- **According to EH Calvert,** "Cooperative society is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of an economic interest for themselves".
- **According to the Indian Cooperative Societies Act, 1912**, "Cooperative organisation is a society which has its objectives for the promotion of economic interests of its members in accordance with cooperative principles."

❖ **Features of Cooperative Society:**

- **Voluntary Membership:** A cooperative society is essentially a voluntary association of persons. There is no compulsion to become a member of the cooperative society. Any person is free to join and exit any time after serving a notice.
- **Legal Status:** After registration, a cooperative society becomes a distinct entity independent of its members. Its registration is compulsory and is You done by the Registrar of Cooperative Societies.
- **Limited Liability:** The liability of members is e limited to the extent of the amount contributed by them as capital.

- **Control:** In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. Members have voting rights to choose the managing committee.
- **Service Motive:** The primary aim of a cooperative society is to provide service to its members. Its motto is to earn profits for the benefit of its members. Thus, it lays emphasis on the value of mutual help and welfare.

❖ Merits of Cooperative Society:

- **Equality in Voting Status:** One Man One Vote principle is applicable in cooperative societies. Irrespective of capital contribution, each member has only one vote.
- **Limited Liability:** The liability of every member is limited to the extent of his share in the society's capital. Therefore, the personal assets of the members cannot be used to repay business debt.
- **Stable Existence or Continuity:** Cooperative society, being a separate legal entity, is not affected by death, lunacy or bankruptcy of the members.
- **Economy in Operations:** The members generally offer honorary services to the society. Thus, it helps in reducing costs. As the customers or producers themselves are members of society, the risk of bad debt is quite low.
- **Support from Government:** The society gets support from the government in the form of low taxes, subsidies and low interest rates on loans.
- **Ease of Formation:** It is quite easy to form a cooperative society. Any ten adults can join together and form a cooperative society. The legal formalities are very few, simple and governed by the provisions of Cooperative Societies Act, 1912.

❖ Demerits of Cooperative Society:

- **Limited Resources:** A cooperative society is formed usually by people with limited means. Also, lesser rate of earnings discourages members to invest large amounts in the society. Therefore, a cooperative society has limited resources.
- **Inefficient Management:** A cooperative society cannot afford to employ expert professional managers at high salaries due to limited funds.
- **Lack of Secrecy:** It is difficult to maintain secrecy about the operations of a cooperative society due to open discussion in the meetings and disclosure obligation as per Section 7 of the Societies Act.
- **Government Control:** The day-to-day working of a cooperative society is bound by rigid rules and regulations of the government. Keeping accounts, regular audits and inspections is essential. Reports have to be submitted to the Registrar. The interference in functioning affects the freedom of society.
- **Differences of Opinion:** They arise when personal interests start dominating the welfare motive. Conflicts in view points may lead to difficulty in decision-making.

❖ **Types of Cooperative Society:**

- **Consumer's Cooperative Society:** It is established to protect the interest of consumers. It seeks to eliminate middlemen by establishing a direct link with the producers. It purchases goods of daily consumption directly from manufacturers or wholesalers in bulk and sells them to the members at reasonable price. Profits (if any) are distributed among the members on the basis of their capital contribution or purchases.

- **Producer's Cooperative Society:** The main aim of this society is to help small producers who cannot easily collect various inputs of production and face problems in marketing. It purchases raw materials, tools, equipment and other items in large quantity and provide these to their members at reasonable price and also buy their output for sale. Profits are distributed among the members on the basis of the contributions to total pool of goods produced and sold. Amul is an example of producer's cooperative society.

- **Marketing Cooperative Society:** It performs various marketing functions such as transportation, warehousing, packing, grading, marketing research, etc for the benefit of its members. So The production of different members is pooled together and sold by the society at a good price. It eliminates middlemen and improves the competitive position of its members. The profits are distributed among members according to each member's contribution to the pool of output.

- **Farmer's Cooperative Society:** In such a society, small farmers join together and pool their resources for cultivating their land collectively. It provides better quality seeds, fertilizers, machineries and other modern techniques for cultivation of crops.

- **Credit Cooperative Society:** Such society comprises of persons who seek financial help in the form of loans. They provide loans to their members on easy terms and reasonably low rate of interest, out of the amount collected as capital and deposits made by the members.

- **Cooperative Housing Society:** The main aim of this type of society is to provide houses to people with limited means/income at reasonable price and also gives them the option of paying in instalments. It constructs flats or provides plots to members on which the members themselves can construct the houses as per their choice.

Joint Stock Company

Joint stock company is a voluntary association of persons having separate and distinct legal entity, perpetual succession, common seal, and registered under the Companies Act, 2013 or any other previous companies act. The shareholders are the owners of the company. The Board of Directors is the chief managing body elected by shareholders. Its capital is divided

into smaller parts called shares, which can be transferred freely from one shareholder to another (except in private company).
According to Prof. Haney, "Joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

❖ Features of Joint Stock Company:

- **Artificial Person:** It is an artificial person created by law. It acts as a natural person who can buy or sell properties, enter into contracts, can lend and borrow money, sue and can be sued in its own name.
- **Separate Legal Entity:** It acquires a separate legal entity, from the day of its incorporation, which is quite distinct from its members. Its assets and liabilities are separate from those of its members.
- **Formation:** The formation is time consuming, expensive and complex process as it involves preparation of several documents and compliance to several legal requirements. Registration of a company is compulsory under the Companies Act, 2013.
- **Perpetual Succession:** Its existence is not affected by the entry or exit of the members. It is created by law and the law can only bring it to an end, by completing a legal procedure called 'winding up'
- **Control:** The management and control of the affairs of the company is undertaken by the Board of Directors. The Board of Directors are appointed by voting. The shareholders do not have the right to be involved in the day-to-day running of the business.
- **Liability:** The liability of the members is limited to the extent of capital contributed by them. In the event when debts of the company exceed its assets, the members are only liable to the extent of the unpaid amount on shares held by them.
- **Common Seal:** Being an artificial person, the agreements entered by Board of Directors on behalf of the company are validated by a common seal. It is equivalent to official signature.
- **Risk Bearing:** Risk is spread over a large number of shareholders. In the condition of financial difficulties, all shareholders in a company have to contribute to the extent of their unpaid share in company's capital.

❖ Merits of Joint Stock Company:

- **Limited Liability:** The shareholders are liable only to the extent of the amount unpaid on the shares held by them.

- **Transfer of Interest:** Easy transferability of shares increases the attractiveness of shares for investment.
- **Perpetual Existence:** Existence of a company is not affected by death, insanity, retirement, resignation and insolvency of its members.
- **Scope for Expansion:** A company can collect huge amount of capital from unlimited number of members, because of limited liability, easy transferability and chances of high return. Capital can also be attracted from banks or financial institutions. Hence, there is greater scope of expansion.
- **Professional Management:** A company can afford to pay high salaries to specialists and professionals. As each department is headed by an expert, greater efficiency is observed in company's operations and decision-making.

❖ **Demerits of Joint Stock Company:**

- **Complexity in Formation:** The procedure of formation of a company is very long and complex process and consumes much time and effort. It is expensive and requires lot of legal formalities to be fulfilled.
- **Lack of Secrecy:** According to the Companies Act, a public company is required to publish and file its annual accounts and reports. Therefore, it is very difficult to maintain secrecy in case of public company.
- **Impersonal Work Environment:** Separation between ownership and control and absence of a direct link between efforts and reward leads to a lack of personal interest and incentive. Also, it is difficult for the owner and top management to maintain personal contact with employees, customers and creditors. This creates an impersonal work environment.
- **Numerous Regulations:** Excessive legal provisions and compulsions affect the functioning of a company. A number of regulations are imposed on company such as audit, voting, etc by different agencies like Registrar of Companies, SEBI, etc. This reduces freedom of operations of a company.
- **Delay in Decision-making:** Companies are managed by the Board of Directors, followed by top, middle and then lower level management. Due to these channels, approval of various proposals gets delayed. Factors such as red-tapism and bureaucracy do not permit quick decisions and prompt actions.
- **Oligarchic Management:** Company is said to be democratically managed, but actually it is managed by few people, comprising the Board of Directors. Sometimes, they ignore the interest of shareholders and company and work for their personal benefit.

- **Conflict in Interest:** There are much chances of conflict of interests among the stakeholders of a company. For example, employees may want higher salaries, consumers want better products, etc.

TYPES OF COMPANIES

❖ **Private Company:**

According to the Companies Act, 2013, a private company means a company which,

- Restricts the right of its members to transfer shares, has minimum 2 members and maximum 200 members, excluding present and past employees.
- Does not invite public to subscribe to its share capital.
- Must have a minimum paid up capital of 1 lakh or such higher amount as may be prescribed from time to time.

❖ **Public Company:**

According to the Companies Act, 2013, a public company means a company which,

- Has a minimum of 7 members and there is no limit on the maximum number of members.
- Does not restrict the right of its members to transfer its shares.
- Is not prohibited from inviting the general public to subscribe to its shares, debentures or public deposits.
- Has a minimum paid up capital of 5 lakh or such higher capital, as may be prescribed.
- A private company which is subsidiary of a public company is also treated as a public company.

❖ **One Person Company (OPC):**

According to the Company Act 2013, a One Person Company (OPC) means a company which,

- Has only one person as its member.
- Is the special form of private company.
- Must have atleast one director.
- Only Indian citizen can incorporate an one person company.
- Has to appoint another person as nominee.

- Must have a minimum paid-up capital of 1 lakh. If the paid-up share capital of OPC exceed 50 lakh or its annual turnover exceeds 2 crore, then it will seize to be an OPC.

Formation of a Company

Formation of a company is a complex process involving several legal formalities and procedural decisions. The formation of a company involves the following stages.

1. Promotion, **2.** Incorporation, **3.** Capital Subscription, **4.** Commencement of Business,

❖ **Promotion:**

It is the first stage in the formation of a company. It refers to the sum total of activities by which a business enterprise is bought into existence. It is a process of planning and organising necessary resources so that a profitable concern can come into existence. The person or a group of persons who perform the work of promotion and form a company is/are known as promoters.

❖ **Functions of a promoter:**

- **Identification of Business Opportunity:** The first and foremost function of a promoter is to identify a business idea. For example, production of a new product or service.
- **Feasibility Studies:** After identifying a business opportunity, the promoters undertake detailed studies of technical, financial and economic feasibility of a business.
  - **Technical Feasibility:** This feasibility study is undertaken to determine whether it is technically possible to produce the product or not.
  - **Financial Feasibility:** This feasibility study is undertaken to determine whether the promoters would be able to arrange the necessary finance needed to float the venture.
  - **Economic Feasibility:** This feasibility study is undertaken to determine whether it would be profitable to manufacture the product or not.
- **Name Approval:** After selecting the name of the company, the promoters submit an application to the Registrar of Companies for its approval. The proposed name will not be accepted by the Registrar, if-
  - It resembles the name of an existing company.
  - It is misleading.
  - It violates the provisions of 'The Emblem and Names (Prevention of Improper Use) Act, 1950.

In such cases, the proposed name is not accepted but some alternate name may be approved. So, three names, in order of their priority are given in the application to the Registrar of Companies.

- **Fixing up Signatories to the Memorandum of Association:** Promoters have to decide about the directors who will be signing the Memorandum of Association.
- **Appointment of Professionals:** Promoters appoint merchant bankers, auditors, etc. to assist them in the preparation of necessary documents, which are required to be submitted with the Registrar of Companies.
- **Preparation of Necessary Document:** The following documents are to be necessarily prepared by the promoters
  - ➢ **Memorandum of Association (MOA):** It is the principal document or the charter of the company.
  - ➢ **Articles of Association (AOA):** They are the rules for the internal management of affairs of a company.
  - ➢ **Consent of Proposed Director:** A written consent of proposed directors is required for their agreement to act as directors and buy qualification shares.
  - ➢ **Agreement:** If a company proposes anybody to appoint him/her as Managing Director/whole time Director/Manager, then such agreement is to be submitted to the Registrar.
  - ➢ **Statutory Declaration:** A statutory declaration is to be submitted to the Registrar stating that all legal requirements have been complied with.
- **This declaration can be signed by a:**
  - ➢ Advocate of High Court or Supreme Court, or
  - ➢ Practicing Chartered Accountant
  - ➢ Person named in the Articles as Director, Manager or Secretary.
- **Payment of Fees:** The promoter has to pay the necessary fees for registration of the company. The amount of fees depends upon the authorized capital of the company.

❖ Principle Documents Require To Be Prepared By The Promoter:

Two most important documents required to be prepared by promoters are given below-

❖ Memorandum of Association (MoA):

A Memorandum of Association (MoA) is a legal document which defines the relationship of a company with shareholders. It describes the company's name, physical address of registered office, names of shareholders and the distribution of shares. It is the most important document of the company and no company can undertake the activities that are not contained in the MoA. It specifies certain clauses that are mentioned below.

- Name Clause It contains the legal and recognized name of the company which has been approved by the Registrar of Companies.
- Registered Office Clause It shows name of the state in which the office of the company will be located. The exact address is not required, however, it should be given to the Registrar within 30 days of the incorporation of the company.
- Objective Clause This clause summarizes the objectives for establishing the company. The objects of the company are classified into the following sub-clauses
- Liability Clause It states the extent to which shareholders of the company are liable to the debt obligations of the company in the event of the company being wound up.
- Capital Clause This clause states the company's authorized share capital, the different categories of shares and the nominal value of the shares. A company cannot issue share capital in excess of the amount specified in this clause.
- Association Clause In this clause, the signatories to the MoA state their intention to be associated with the company and also give their consent to purchase qualification shares.

❖ Articles of Association (AOA):

The Articles of Association (AOA) is a document that contains the purpose of the company as well as clearly defined duties and responsibilities of its members. These are the by laws of a company that define the mode and manner in which the company's business is to be carried on. Companies Act, 2013 prescribes certain tables which can be considered as moderl tables for drafting the articles.

- **Incorporation:** It implies the registration of a company as a body corporate under the Companies Act, 2013. The following steps are taken by the promoters to get the company incorporated

- **Capital Subscription:** A public company can raise the required funds from the public by means of issue of shares and debentures.ba For doing the same, it has to issue a prospectus which is an invitation to the public to subscribe to the capital of the company.

❖ Commencement of Business:

To commence business, a public company has to obtain a Certificate of Commencement of business. For this, the following documents have to be filed with the Registrar of Companies.

- A declaration that 90 per cent of the issued amount has been subscribed.

- A declaration that all directors have paid in cash in respect of allotment of shares made to them.
- A declaration that no money is payable to the applicants, due to company's failure to obtain k permission to deal in securities on a stock exchange.
- A statutory declaration that the above requirements have been completed and must be signed by the Director or Secretary of the company.

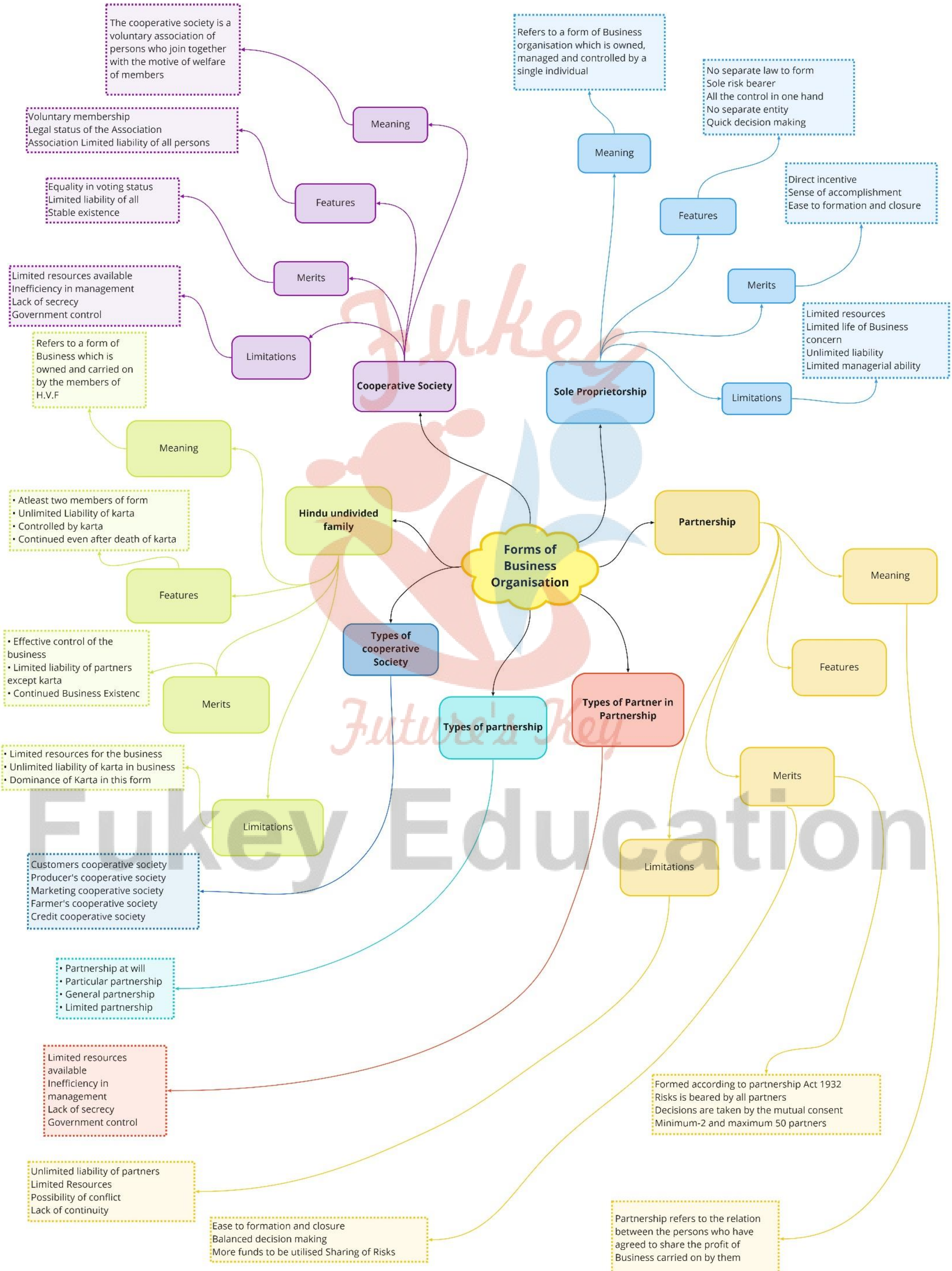
CHOICE OF FORM OF BUSINESS ORGANISATION:

The important factors determining the choice of organization are listed below:

- **Cost and Ease in Setting up the Organisation:** Setting up costs are low and the legal requirements are minimal in sole proprietorship and partnership form of business. Since cooperative societies and companies have to be compulsorily registered, their formation is quite lengthy and expensive.
- **Liability:** In case of sole proprietorship and partnership firms, the liability of the owners/ partners is unlimited. But in the case of cooperative societies and companies, the liability of the members is limited. Hence, from the point of view of liability, the company form of organisation is more suitable.
- **Continuity:** The continuity of sole proprietorship and partnership firms is affected by death, insolvency or insanity of the owners. However, such factors do not affect the continuity of business in case of organisations like Joint Hindu Family business, cooperative societies and companies. In case the business needs a permanent structure, company form is more suitable. For short-term ventures, sole proprietorship or partnership may be preferred.
- **Management Ability:** A sole proprietor may find it difficult to have expertise in all functional areas of management. In partnership, different partners may have different managerial abilities. In a company, expert professionals can be appointed to look after the different aspects of business.
- **Capital Considerations:** Companies are in a better position to collect large amounts of capital by issuing shares to a large number of investors. Partnership firms also have the advantage of combined resources of all partners. But the resources of a sole proprietor are limited. Thus, if the scale of operations is large, company form may be suitable whereas for medium and small sized business, one can opt for partnership or sole proprietorship.
- **Degree of Control:** If direct control over operations and absolute decision making power is required, sole proprietorship may be preferred. But if the owners do not mind sharing control and decision-making, partnership or company form of organization can be adopted.

- **Nature of Business:** If direct personal contact is needed with the customers, such as in the case of a grocery store, sole proprietorship may be more suitable. For large manufacturing units, where direct personal contact with the customer is not required, the company form of organization may be adopted. Similarly, in cases where services of a professional nature are required, partnership form is much more suitable.

Class : 11th Business Studies
Chapter - 2 : Forms of Business Organisation



Important Questions

Multiple Choice Questions-

Question 1. Which of the following statement is NOT true about a minor partner?

(a) He has to bear losses also

(b) He can inspect books of accounts

(c) He has an option to continue with a firm even after attaining majority

(d) He shares only profits

Question 2. _______ company needs to have only two directors.

(a) Public Company

(b) Sole Proprietorship

(c) Private Company

(d) None of the above

Question 3. Which of the following contract is signed by the promoters with the third party on behalf of the proposed company?

(a) Preliminary contracts

(b) Provisional contract

(c) Prospectus

(d) Memorandum of association

Question 4. Which one of the following is the CORRECT sequence of stages in the formation of a company?

(a) Promotion, incorporation, capital subscription, the commencement of business

(b) Incorporation, capital subscription, promotion, the commencement of business

(c) Promotion, the commencement of business, incorporation, capital subscription

(d) Promotion, Incorporation, Certificate of commencement, capital subscription

Question 5. Which of the following business enterprises does not have a separate legal entity?

(a) Sole Proprietorship

(b) Partnership

(c) Company

(d) Cooperative Society

Question 6.__________ company does not invite the public to subscribe to its share capital.

(a) Both Private and Public Company

(b) Public Company

(c) Private Company

(d) None of the above

Question 7. Which of the following cooperative society is established to help small producers in selling their products?

(a) Producer cooperative society

(b) Marketing cooperative society

(c) Credit cooperative society

(d) Consumers cooperative society

Question 8. The maximum number of partners allowed in the banking business are

(a) Ten

(b) No limit

(c) Twenty

(d) Two

Question 9. At least 10 adults, no maximum limit in case of ________

(a) Joint Hindu Family

(b) Cooperative Society

(c) Company

(d) Partnership

Question 10. It is a form of business organization which is owned, managed, and controlled by an individual who is the recipient of all profits and bearer of all risks. Identify the concept.

(a) Sole Proprietorship

(b) Cooperative Society

(c) Joint Hindu family business

(d) Partnership

Question 11. What do you understand by the term unlimited liability?

(a) The personal assets of the owner can be sold when the assets of the business are not enough to

(b) The personal assets of the owner cannot be sold at all

(c) The personal assets of the owner can be sold, according to the wish of the creditors

(d) The personal assets of the owner can be sold, only to a limited extent

Question 12. Provision of residential accommodation to the members at reasonable rates is the objective of:

(a) Housing Cooperative

(b) Producers Cooperative

(c) Sleeping Partner

(d) Credit Cooperative

Question 13. Hindu Succession Act was passed in ____________

(a) 1960

(b) 1956

(c) 1952

(d) 1932

Question 14. A prospectus is issued by

(a) Public company

(b) Private company

(c) Statutory Corporation

(d) Departmental undertaking

Question 15. A partner whose association with the firm is unknown to the general public is called

(a) Active partner

(b) Nominal partner

(c) Secret partner

(d) Sleeping partner

Very Short :

Question 1 By whom are the Board of Directors elected in the Joint Stock Company?

Question 2 Mention 2 necessary conditions that form a Joint Hindu Family business.

Ancestral property to be inherited by him or her

Question 3 Which company has no restrictions on the transfer of shares?

Question 4 Who regulates a Joint Hindu Family business?

Question 5 Mention 2 types of trading concern in which sole proprietorship is feasible.

Question 6 Who is a secret partner?

Question 7 Which is the business organisation that is found only in India?

Question 8 Mention the names of the systems that regulate the membership in Joint Hindu Family.

Short Questions:

Question 1. Differentiate sole proprietorship and partnership form of business.

Question 2. What is partnership deed and mention in brief the provisions contained in partnership deep?

Question 3. Partners in affirm has different roles and liabilities, Identify and explain the type of partner in a firm from the given examples:

a) Rama is a partner in a business who has no actual interest in business trade or its profits but she is Paid fee by the firm for lending its name to firm.

b) b) In Ram Hari & co. Ltd, Ram & Hari declare Gopal as a partner with knowing that Gopal remain silent then Gopal will be liable to third parties for any loss.

c) What type of partner is Geeta if she only contribute capital, shar profit and loss if any?

d) What type of patner is Giri in Ram Hari & co. Where he is an outsider but represent himself as a partner.

Question 4. Explain the forms: sole proprietorship, H.U.F & Joint stock company on the basis of following points: Liability, members & Continuity

Question 5. Explain the concept of mutual agency in partnership with suitable example.

Question 6. What is meant by partner by estoppel OR Mr. Singh is in 'lighting' business for the post 15 years. To help his friend, Mr Yadav, a beginner he projected himself as a partner before Mohd. Abdul, a whole sale dealer of fancy lights. Mohd. Abdul gave Mr. Yadav the stock without asking for payment and gave him credit limit of one month. Will Mr. Singh be liable to Md. Abdul if Mr. Yadav does not pay him on time ? Classify Mr. Singh's role here along with an explanation

Question 7. What is secret partner

Question 8. Write a short note on producer co-operative society

Question 9. Explain a co-operative organisation in democratic setup.

Question 10. Shiv, Anandi & John were partners John died in a car accident Both Shiv & Anandi decided to admit his son Ryan who was 16 years old as partner. Can they do so? Justify.

Long Questions –

Question 1. Explain the important characteristics and differentiate between the various types of business enterprises.

Question 2. What is the scope of setting small business and also give reasons for considerable scope of setting small scale businesses in our country?

Question 3. Discuss the main types of partners.

Question 4. Explain the various types of partnerships.

Case Study Questions –

1. Manish is a student pursuing final year B.Tech. from IIT Kharagpur. His father Mr. Sambal Singh who owned a small general store in Jaipur had a heart attack and became completely paralysed. There was no other source of income for the family, so, Manish left his studies and decided to take charge of his father's general store. While checking the books of accounts, he found that his father had taken a loan of ₹ 2 lakhs from Bank of Baroda to be repaid this year only, but the business is running into losses due to his father's illness. Hence, his mother advised him to close the business and to look for a job outside.

On the basis of the given case, answer the following questions:

(i) The form of business organisation formed by Sambal Singh is:

a) Joint Stock Company

b) Partnership

c) Sole Proprietorship

d) Co-operative Society

(ii) Which of the following shows a merit and a demerit of the type of business organisation mentioned in the above case?

a) Secrecy, Limited liability

b) Sole recipient of profits and no diffusion of risk

c) Secrecy and direct incentive

d) Limited resources and unlimited liability

(iii) "Loan of ₹ 2 lakhs from Bank of Baroda to be repaid this year only, but the business is running into losses." Identify the nature of liability of the owner in the stated line.

a) Limited

b) Unlimited

c) No liability

d) Partial liability

(iv) " ....decided to take charge of his father 's general store." As per the stated line, what will be the status that Manish holds in the business of his father?

a) Partner

b) Employee

c) Trustee

d) Owner

2. Direction: Read the following text and answer the questions on the basis of the same:

Madhu, Himanshu and Mayank, after completing B.E. in civil engineering, have jointly taken a project of constructing three government school buildings in a village near Agra within the time period of 6 months. As per the written agreement between them, only Madhu and Mayank will contribute the capital, and take all managerial decisions, whereas Himanshu will contribute capital only but will not be actively involved in management.

(i) What type of a partner Himanshu is?

a) Active

b) Dormant

c) Nominal

d) Secret

(ii) If the partners are not able to complete the project effectively and efficiently, then who will be held liable for the losses incurred on account of noncompletion of project?

a) Madhu

b) Himanshu

c) Madhu and Mayank

d) All of these

(iii) Specify the kind of partnership mentioned in the above case.

a) Limited partnership

b) Particular partnership

c) Partnership at will

d) General partnership

(iv) Name the written agreement which defines the terms and conditions of such partnership.

a) MOU

b) MOA

c) Partnership deed

d) Partnership registration

MCQ Answers :

1. Answer: (a) He has to bear losses also
2. Answer: (c) Private Company
3. Answer: (a) Preliminary contracts

4. Answer: (a) Promotion, incorporation, capital subscription, the commencement of business
5. Answer: (a) Sole Proprietorship
6. Answer: (c) Private Company
7. Answer: (a) Producer cooperative society
8. Answer: (a) Ten
9. Answer: (b) Cooperative Society
10. Answer: (a) Sole Proprietorship
11. Answer: (a) The personal assets of the owner can be sold when the assets of the business are not enough to
12. Answer: (a) Housing Cooperative
13. Answer: (b) 1956
14. Answer: (a) Public company
15. Answer: (c) Secret partner

Very Short Answers:

1. Answer: The shareholders elect the Board of Directors in the Joint Stock Company.
2. Answer: At least 2 members in a family
3. Answer: Public company has no restrictions on the transfer of shares.
4. Answer: Karta
5. Answer: Single person art studio, a local grocery, or an IT consultation service.
6. Answer: Secret partner is a partner whose membership in a partnership is maintained secret from the public.
7. Answer: Joint Hindu Family is the business organisation that is found only in India.
8. Answer: Dayabhaga law and Mitakshara law

Short Answers –

1. Answer: Difference between Partnership and Sole Trader:

Points of Difference	Partnership	Sole Trader
I. Specific Act	It is governed by Partnership Act 1932.	There is no specific Act.
2. Number of Member	The minimum number of partners is two and the maximum number in the case of banking business is ten and in other business is twenty.	It is owned and carried on by only one person. He may employ other persons or take help from the members of his family.
3. Agreement	It arises only by agreement among partners.	No agreement is required in a sole proprietorship.
4. Distribution of profit	Profit is shared among partners.	The entire profit is enjoyed by the proprietor alone.
5. Capital	It has got more capital because there are more members.	It has limited capital because the capital is contributed by one person only.
6. Secrecy	In a partnership business, secrets are open to each partner.	Business secrecy is maintained.
7. Personal touch	It does not have a personal touch as much as the sole trader has with his customers.	It is located amidst consumers, so it has personal contact and touch with them.

2. Answer: Partnership Deed: A partnership agreement contains the terms and conditions relating to partnership and the rules and regulations governing its management. It may be oral or in writing. A written agreement of partnership is called 'Deed of Partnership'. A partnership deed contains all the details on which partnership has been formed. These terms and conditions are also known as articles of partnership.

A partnership deed usually contains the following details:

1. The names and addresses of the partnership firm and its partners.
2. The nature of the business proposed to be carried on by the firm.
3. The duration of the partnership.
4. The amount of capital contributed by each partner.
5. The rate of interest payable to partners on their capital or to be paid by partners on the amount drawn by them.
6. The mode of maintaining accounts and operation of the bank account.

7. Rights and duties of the partners for the management of the business of the firm.
8. The ratio in which profits will be shared by the partners.
9. The amount of salary and/or commission payable to the partners
10. Arbitration clause for settlement of disputes between the partners,
11. Mode of dissolution and settlement of accounts.

3. Answer: (a) Rama is a nominal partner in a firm who has no genuine interest in the firm's trade or earnings, but is paid a fee by the firm for providing its name to the firm.

(b) Ram & Hari declare Gopal as a partner in Ram Hari & Co. Ltd, knowing that if Gopal remains silent, Gopal will be accountable to third parties for any losses.

(c) Geeta is a sleeping partner if she merely contributes capital and shares profit and loss if any.

(d) Giri in Ram Hari & co, Where he is an outsider but represent himself as a partner- Partner by Estoppel.

4. Answer: The difference between sole proprietorship, H.U.F & Joint stock company is given below:

Basis	Sole Proprietorship	HUF	Joint Stock Company
Liability	Unlimited Liability	Karta's culpability is boundless, and his personal property is used to pay off his debts. Coparceners' liability is restricted to their part of the risk, which is precisely defined and precise.	Members' responsibility is restricted to the amount of money they contribute to a corporation. Members can only be requested to contribute to the loss up to the amount of unpaid share that they own.
Member	Owner is the member	To start a joint hindu family business, at least two family members are required. At the time of birth, one becomes a member.	In a public corporation, the minimum number of employees is seven, and the maximum number is unlimited; in a private firm, the minimum number of employees is two, and the maximum number is 200.
Continuity	Death, insanity, incarceration, physical illness, and bankruptcy all have an impact on a firm and can lead to its closure.	Company operations are not halted, and business continuity is not jeopardised.	It will only be decommissioned after a precise procedure known as winding up is finished. Members may come and leave, but the company remains in existence.

5. Answer: The legal relationship between participants in a partnership in which each has authorisation powers and the authority to engage the partnership into business contracts is known as mutual agency. To put it another way, each partnership member has the capacity to make business decisions that commit or tie the partnership as a whole to a business deal with a third party or entity. Even though the partnership agreement expressly forbids it, a grocery store partner who purchases a delivery vehicle makes a legally binding contract in the name of the partnership. On the other hand, if a law firm partner bought a snowmobile for the firm, such behaviour would be illegal.

6. Answer: Partner by Estoppel is a legal term that refers to a legally binding partnership that can exist even though there is no formal partnership agreement in place. A person who advertises himself or herself as a partner in a firm through conduct or words, or enables himself or herself to be represented as such, is accountable for the credit or loans received by the firm on the basis of such representation. Also known as partnership presumption. The partner does not contribute to the capital or administration of the company, yet his responsibility is limitless.

7. Answer: A secret partner is a person or partner who is not publicly known in a venture or business. He contributes money to the cause. He's a part of the management team, but only behind closed doors. He also shares in the profits and losses of the firm. His, and others', responsibilities are infinite.

8. Answer: Producers' Cooperative Societies were formed to safeguard the interests of small farmers. Producers interested in obtaining inputs for the creation of items to meet consumer demand are among the members. Profits are divided based on their contributions to the society's overall pool of products produced or sold.

9. Answer: A cooperative society is a voluntary group of people who get together for the common good of its members. The cooperative society is governed by the premise of "one man, one vote." Each member has the same number of votes. As a result, democratic values govern cooperative society.

10. Answer: Yes, they can admit Ryan as a partner to the partnership firm's advantages with the permission of the partners. A minor is a person who is under the age of eighteen. Because a minor is incapable of forming a legally binding contract. He is unable to become a partner in a firm. A minor can, however, be added to the advantages of an established partnership business with the agreement of all other partners. It's unrealistic to expect him to absorb the losses. His responsibility will be limited to the amount of money he has put into the business. He will be unable to engage fully in the running of the company.

Long Answers –

1. Answer: Characteristics of Business Enterprises:

The main characteristics of various types of business enterprises are given below –

1. Public Sector Enterprises: Public enterprises or public sector enterprises are those enterprises that are owned and operated by the government. The capital of such enterprise is contributed by the central government, state government, or the local government.

Their characteristics are as follows:

(a) State ownership: Public enterprises are owned by the government. Even where private entrepreneurs are permitted to invest capital, more than 50 percent of capital is in government hands.

(b) Government control: The management and control of public enterprise exclusively risk with the government. Parliamentary control is exercised over public enterprises.

(c) Service motive: The public welfare or service is the main objective of public enterprise though it may also earn profits. There is usually benevolent management in public enterprises.

(d) Public accountability: The capital of public enterprise is supplied from the public exchequer or government department in charge of public money. Therefore, public enterprises are accountable to the general public.

2. Private Sector Enterprises: The characteristics of private sector enterprises are as follows:

(a) Private ownership: It is owned and managed by a private enterprise or group of individuals. The entire share capital is provided by these businessmen.

(b) No state participation: There is no participation by the Central or state governments in the establishment and ownership of a private-sector enterprise.

(c) Independent management: The management and control of a private-sector enterprise are vested in the hands of one or more private businessmen.

Management is accountable to the owners (their elected representatives). There is no interference by the government in internal management.

(d) Profit motive: The main object of a private-sector enterprise is to earn profits rather than to render service to society.

3. Joint Sector Enterprises: The characteristics of joint sector enterprises are as follows:

(a) Mixed ownership: The government, private entrepreneurs, and the investing public jointly own a joint sector enterprise.

(b) Combined management: The management and control of a joint sector enterprise lie with the nominees or representatives of the government, private businessmen, and the public.

(c) Share capital: The shares of the government, private businessmen and the public in the capital are 26 percent, 25 percent, and 49 percent, respectively. The aim is to pool the financial resources and technical knowledge how of the state and the private individuals.

Comparison Between Private, Public, And Joint Sector Enterprises:

Point of Distinction	Public enterprise	Private enterprise	Joint sector

1. Ownership	Government-owned	Private persons	Government and private both
2. Management	By government officials	By private owners or professional managers	Both government and private individuals
3. Capital	51 percent or more by the government	By private investors	Government and private both
4. Purpose	Service to the society	Barning profits	Profit and social objectives
5. Government control	Control by Parliament	No strict control by Parliament	Mayor may not be
6. Audit	By Comptroller and Auditor General. Compulsory in all cases	By practicing chartered accountants. Not compulsory in all cases	By qualified auditors
7. Accountability	To the public	To the owner authority	To both government and private

2. Answer: Scope of setting up small business enterprises:

There is considerable scope for setting up small scale units due to the following reasons –

1. Limited Demand:

The demand for certain products is local and seasonal. In such cases, it is not economical to attempt a scale of operation which exceeds local demands. Brick kilns, hair: cutting saloons, restaurants, etc. are examples of such cases. In the case of perishable goods also, the size of firms tends to be small. In certain cases, the nature of the production process favors small units.

2. Specialised Service:

When an enterprise supplies specialized services, small scale firms are more suitable. Beauty parlors, interior decorators, and tailoring shops are examples of this type. A small firm can understand its customers and can provide personal attention which may not be possible in a large-scale enterprise. Similarly, firms providing professional services like eye clinic, tax consultancy, chartered accountancy, etc. are also organized as a small scale because they must maintain, personal touch with their clients. Thus, small firms are required to cater to individual tastes and fashions and to render personalized services to consumers.

3. Flexibility:

Certain businesses are subject to wide variations in demand, e.g. manufacture of jewelry, ready: made garments, etc. In such cases, greater flexibility of operations is required. Small firms can be more flexible due to simple technology and low overheads. They are capable of being adapted to changing tastes and fashions. They can easily make changes in products and can shift to new lines of business whenever the need arises. Therefore, small firms are more suitable for manufacturing and selling specialty items that may be popular for only a short period of time.

4. Employee relations:

When close rapport with employees is essential to provide high-quality products to the customers, small scale unit is in a better position. The owners, also the managers of such business have the most valuable advantage of being close to the employees. They know better their problems and can take necessary remedial measures quickly and efficiently.

5. Introduction of New Products:

Before starting the production of a new product on a commercial scale, it is always desirable to test it in the market. In the initial stages, the requirements of customers and management are uncertain and unknown. Therefore, operations are usually carried on a small scale when new products or ideas are being introduced in the market. This also helps to reduce the risk.

6. Direct Motivation:

Small scale enterprises foster individual initiative and skill. The identity of ownership and management serves to curb misconduct as mistakes bear directly on one's property and income. There is maximum incentive to put the resources to best use because the resulting gains accrue directly to the owner. Red: tapis is absent and prompt decisions are possible.

7. Human Inertia:

Many businessmen do not want to expand their business due to fear of loss of freedom. Growth may involve more work and worry. People who want to lead a comfortable and simple life may be satisfied with the small scale of business.

8. Shield to Big Business Many small firms serve as ancillary units or feeders to large firms. Such units also provide a training ground for entrepreneurs. Small firms also provide some guarantee against the emergence of new competition. A threat to the big firms. They provide superficial evidence that monopoly does not exist in the industry.

9. Social Utility:

Small scale industries are helpful in generating self: employment for a large number of persons. These industries are also useful in preventing the concentration of income and wealth. They facilitate the economic development of rural and backward areas. Small firms use local resources and their social cost is comparatively low.

10. State Assistance and Patronage:

Small scale industries get several concessions from the government on account of their social benefits. The government provides then loans on concessional rates of interest. Technical, managerial, and marketing assistance is also provided. The government has reserved several products for exclusive production in the small scale sector. Several institutions have been set up to protect and promote the growth of small scale industries in the country.

3. Answer: A partnership firm can have different types of partners with different roles and liabilities. There can be the following types of partners:

Active Partner

Sleeping or Dormant Partner

Secret Partner

Nominal Partner

Partner by estoppel

Partner by holding out

Minor Partner

1. Active Partner: Those partners who contribute capital and also takes an active part in the management of the firm are called active partners. These partners act as agents of the firm and have unlimited liability. All other partners are responsible for their deals.

2. Sleeping or dormant partner: Those partners who contribute capital only but do not take an active part in the affairs of the business are called sleeping partners. They have shared in the profit loss of the firm and also have unlimited liability. But they do not come face to face with the third party.

3. Secret Partner: This type of partner contributes capital and takes an active part in the management of the firm's business. He shares in the profit and losses of the firm and has unlimited liability. However, his connection with the business of a partnership firm is not known to the outside world.

4. Nominal Partner: Those partners who neither invest money nor have shared in the profit and loss and also have no role in the administration of the firm. The firm makes them partners to gain from their personal goodwill. They have unlimited liability also.

5. Partner by estoppel: A person who by his words or conduct, represents himself as a partner becomes liable to those who advance money to the firm on the basis of such representation. He cannot avoid the consequences of his previous act.

6. Partner by holding out: When a person is declared as a partner and he does not deny this even after becoming aware of it, he becomes liable to third parties who lend money or credit to the firm on the basis of such a declaration.

7. Minor Partner: A minor is a person who has not completed 18 years of age. Minor may be admitted as a partner only for the benefits of the partnership with the mutual consent of all the partners. On being so admitted, a minor can impact and copy the books of accounts but could not take an active part in the management. His liability is limited to the intent of his share in the capital and profit of the firm.

4. Answer: A partnership can be classified on the basis of two factors:

Duration,

Liability.

On the basis of duration, there can be two types of partnership:

Partnership at will,

Particular partnership

On the basis of liability, the two types of partnership are:

Partnership with limited liability

Partnership with unlimited liability.

On the basis of Duration:

1. Partnership at will: It is a partnership formed for an indefinite period. It can continue for any length at any time depending upon the will of the partners. It can be dissolved by any partner by giving notice to the other partners of his desire to quit the firm.

2. Particular Partnership: It is a partnership formed for a particular objective. It is formed fora specific time period or to achieve specified objectives. It is automatically dissolved on the expiry of the specified period or on the completion of the specific purpose for which it was formed.

On the basis of liability:

1. Partnership with limited liability:

In this type of partnership the liabilities of partners are limited to the amount of capital introduced by them except one partner who has unlimited liability. Registration of such a partnership is compulsory. The limited partner could not take an active part in the firm's management and their acts also do not bind the firm or other partners.

2. Partnership with unlimited liability:

This is also called a general partnership. In this liability of the partner is unlimited and joint. They enjoy the right to participate in the management of the firm and their acts are binding on each other as well as on the firm. Registration of this type of firm is optional. Because of unlimited liability, the firm's creditors can realize these dues in full from any of the partners by attaching their personal property if the firm's assets are found to be inadequate to pay off its debts.

Case Study Answers –

1.

(i) c) Sole Proprietorship

Solution:

The form of business organisation formed by Sambal Singh is Sole Proprietorship. A sole proprietorship, also known as the sole trader or simply a proprietorship, is a type of business entity that is owned and run by one individual and in which there is no legal distinction between the owner and the business.

(ii) b) Sole recipient of profits and no diffusion of risk

Solution:

- Sole recipient of profits and no diffusion of risk.

- Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks. This is evident from the term itself. The word "sole" implies "only", and "proprietor" refers to "owner".

(iii) b) Unlimited

Solution:

As a sole proprietor you would be fully responsible for all debts and obligations related to your business. A creditor with a claim against a sole proprietor would normally have a right against the sole proprietor's assets, whether business or personal. This is known as **unlimited liability**.

(iv) d) Owner

Solution:

Manish will be the owner. A business owner is the legal proprietor of a business. An individual or group that owns the assets of a firm and profits from them.

2.

(i) b) Dormant

Solution:

Himanshu is dormant partner. A sleeping partner is also known as a "dormant partner". This partner does not participate in the day-to-day functioning activities of the partnership firm. A person who has sufficient money or interest in the firm, but cannot devote his time to the business, can act as a sleeping partner in the firm.

(ii) d) All of these

Solution:

If the partners are not able to complete the project effectively and efficiently, then all of the partners will be held liable for the losses incurred on account of noncompletion of project

(iii) b) Particular partnership

Solution:

It is a particular partnership. A partnership formed for a single transaction or enterprise as distinguished from one organized for carrying on a general business.

(iv) c) Partnership deed

Solution:

The written agreement which defines the terms and conditions of such partnership is Partnership deed.