Name: ____________________

Date: __/__/__

Sole Proprietorship

Meaning of Sole Proprietorship

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"

Features of Sole Proprietorship

1. Single Ownership: A single individual always owns sole proprietorship form of business organization. That individual owns all assets and properties of the business. Consequently, he alone bears all the risk of the business. Thus, the business of the sole proprietor ends at the will of the owner or upon his death.
2. No sharing of Profit and Loss: The entire profit arising out of sole proprietor ship business goes to the sole proprietor. If there is any loss it is also to be borne by the sole proprietor alone. Nobody else shares the profit and loss of the business with the sole proprietor.
3. One man's Capital: The capital required by a sole proprietorship form of business organisation is totally arranged by the sole proprietor. He provides it either from his personal resources or by borrowing from friends, relatives, banks or other financial institutions.
4. One-man Control: The controlling power in a sole proprietorship business always remains with the owner. The owner or proprietor alone takes all the decisions to run the business. Of course, he is free to consult anybody as per his liking.
5. Unlimited Liability: The liability of the sole proprietor is unlimited. This implies that, in case of loss the business assets along with the personal properties of the proprietor shall be used to pay the business liabilities.

Hindu Undivided Family

HUF (Hindu Undivided Family) The concept of an HUF has basically evolved from ancient Hindu law. Only one member or coparcener cannot form an HUF. An HUF need not consist of two male members. One male member is enough. The person who manages the affairs of the family is known as the Karta. Normally, the senior- most member of the family acts as Karta. The liability of coparceners is limited but the liability of the Karta is unlimited.

Advantages of Sole Trading Concern

The sole proprietorship form of business is the simplest and common in our country. It has the following advantages:

a) Easy to Form and Wind up: A sole proprietorship form of business is very easy to form.. There is no need to comply with any legal formalities except for those businesses which required licence from local authorities or health department of government. Just like formation it is also very easy to wind up the business. It is your sole discretion to form or wind up the business at any time.
b) Direct Motivation: The profits earned belong to the sole proprietor alone and he bears the risk of losses as well. Thus, there is a direct link between effort and reward. If he works hard, then there is a possibility of getting more profit.
c) Quick Decision and Prompt Action: In a sole proprietorship business, the sole proprietor alone is responsible for all decisions. Of course, he can consult others. But he is free to take any decision on his own. Since no one else is involved in decision making it becomes quick and prompt action can be taken based on this decision.
d) Better Control: In sole proprietorship business, the proprietor has full control over each activity of the business. He is the planner as well as the organiser, who co-ordinates every activity in an efficient manner. Since the proprietor has all authority with him, it is possible to exercise better control over business.
e) Maintenance of Business Secrets: Business secrecy is an important factor for every business. It refers to keeping the future plans, technical competencies, business strategies, etc. secret from outsiders or competitors. In the case of sole proprietorship business, the proprietor is in a very good position to keep his plans to himself since management and control are in his hands.

Disadvantages of Sole Trading Concern

a) Limited Capital: In sole proprietorship business, it is the owner who arranges the required capital of the business. It is often difficult for a single individual to raise a huge amount of capital.
b) Unlimited Liability: In case the sole proprietor fails to pay the business, obligations and debts arising out of business activities, his personal properties may have to be used to meet those liabilities. This restricts the sole proprietor from taking risks and he thinks cautiously while deciding to start or expand the business activities.
c) Lack of Continuity: The existence of sole proprietorship business is linked to the life of the proprietor. Illness, death, or insolvency of the owner brings an end to the business. The continuity of business operation is therefore uncertain.
d) Limited Size: In sole proprietorship form of business organisation there is a limit beyond which it becomes difficult to expand its activities. It is not always possible for a single person to supervise and manage the affairs of the business if it grows beyond a certain limit.
e) Lack of Managerial Expertise: A sole proprietor may not be an expert in every aspect of management. He/she may be an expert in administration, planning, etc., but may be poor in marketing. Again, because of limited financial resources it is also not possible to employ a professional manager.

Partnership

Meaning and Definition

A partnership firm is governed by the provisions of the 'Indian Partnership Act, 1932'. Section 4 of the Indian Partnership Act, 1932, defines partnership as "a 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

a) Two or more Members: At least two members are required to start a partnership business. But the number of members should not exceed 10 in case of banking business and 20 in case of other business. If the number of members exceeds this maximum limit then that business cannot be termed as partnership business.

b) Agreement: A partnership agreement can either be a written or an oral agreement. However, a written agreement is advisable in case any legal disputes were to happen.

c) Lawful Business: The partners should always join hands to carry on any kind of lawful business. To indulge in smuggling, black marketing, etc., cannot be called partnership business in the eye of the law. Again, doing social or philanthropic work is not termed as partnership business.

d) Competence of Partners: Since individuals join hands to become the partners, it is necessary that they must be competent to enter a partnership contract. Thus, minors, lunatics and insolvent persons are not eligible to become the partners. However, a minor can be admitted to the benefits of partnership i.e., he can have a share in the profits only.

e) Sharing of Profit: The main objective of every partnership firm is sharing of profits of the business amongst the partners in the agreed proportion. In the absence of any agreement for the profit sharing, it should be shared equally among the partners.

f) Unlimited Liability: Just like the sole proprietor the liability of partners is also unlimited. That means, if the assets of the firm are insufficient to meet the liabilities, the personal properties of the partners, if any, can also be utilised to meet the business liabilities.

g) Voluntary Registration: It is not compulsory that to register a partnership firm. However, if it is not registered, the partners will be deprived of certain benefits, therefore it is desirable. The effects of non-registration are:

- Firm cannot take any action in a court of law against any other parties for settlement of claims.
- In case there is any dispute among partners, it is not possible to settle the disputes through a court of law.
- A partner cannot file a suit against the firm.
- Firm cannot claim adjustments for amount payable to or receivable from any other parties.
- Third parties can file a suit against an unregistered firm or partners.

Types of Partnerships

a) General Partnership: A general partnership is a partnership with only general partners. Each general partner takes part in the management of the business, and also takes responsibility for the liabilities of the business. If one partner is sued, all partners are held liable. General partnerships are the least desirable for this reason.
b) Limited Liability Partnerships: A limited liability partnership (LLP) is different from a limited partnership or a general partnership, but is closer to a limited liability company (LLC). In the LLP, all partners have limited liability.
c) Particular partnership: When a partnership is formed for the object of conducting a particular business, it is called particular partnership. The undertaking cannot be extended to any other enterprise and this would last only so ling as the business id not completed.
d) Partnership at will: This type of partnership is defined by the partnership Act 1932: "Where no provision is made by contract between the partner for the duration of their partnership or for the termination of partnership. Partnership at will can be dissolved by any partner serving notice in waiting to another partner of his intension to do so.
e) Partnership of fixed term: The organization, which is formed for definite period, is called partnership for a fixed term. At the expiry of this period, the partnership ends unless the partners have made a contract to the contrary. If the business is continued after the expiry period, the new partnership will become a partnership at will.

Partnership Deed Contents

1. Name of the firm
2. Names, addresses, occupation of partners
3. Amount of capital contributed by partners
4. Ratio of sharing profits and losses
5. Nature of the business to be carried on
6. Duration of the agreed partnership
7. Amount of drawings that can be made by each partner
8. Rate of interest on capital payable to partners
9. Salary, Commission, or Bonus payable to the partners
10. Division of work among partners

Procedure to Register a Partnership

A partnership firm can be registered whether at the time of its formation or even subsequently. You need to file an application with the Registrar of Firms of the area in which your business is located.

Application for partnership registration should include the following information:

a) Name of your firm
b) Name of the place where business is carried on
c) Names of any other place where business is carried on
d) Date of partners joining the firm
e) Full name and permanent address of partners.
f) Duration of the firm

Every partner needs to verify and sign the application

1) Deposit of required fees with the registrar of firms
2) The Registrar after approval will make an entry in the firm Registrar of firms and will subsequently issue Certificate of Registration.

Types of Partners

(i) Active partner: An active partner is one who contributes capital, participates in the management of the firm, shares its profits and losses, and is liable to an unlimited extent to the creditors of the firm. These partners take actual part in carrying out business of the firm on behalf of other partners.

(ii) Sleeping or dormant partner: Partners who do not take part in the day to day activities of the business are called sleeping partners. A sleeping partner, however, contributes capital to the firm, shares its profits and losses, and has unlimited liability.

(iii) Secret partner: A secret partner is one whose association with the firm is unknown to the public. Other than this distinct feature, in all other aspects he is like the rest of the partners. He contributes to the capital of the firm, takes part in the management, shares its profits and losses, and has unlimited liability towards the creditors.

(iv) Nominal partner: A nominal partner is one who allows the use of his/her name by a firm but does not contribute to its capital. He/she does not take active part in managing the firm, does not share its profit or losses but is liable, like other partners, to the third parties, for the repayments of the firm's debts.

(v) Partner by estoppel: A person is considered a partner by estoppel if, through his/her own initiative, conduct or behaviour, he/she gives an impression to others that he/she is a partner of the firm. Such partners are held liable for the debts of the firm because in the eyes of the third party they are considered partners, even though they do not contribute capital or take part in its management.

(vi) Partner by holding out: A partner by 'holding out' is a person who though is not a partner in a firm but knowingly allows himself/herself to be represented as a partner in a firm. Such a person becomes liable to outside creditors for repayment of any debts which have been extended to the firm based on such representation. In case he is not really a partner and wants to save himself from such a liability, he should immediately issue a denial, clarifying his position that he is not a partner in the firm. If he does not do so, he will be responsible to the third party for any such debts.

Cooperative Societies

Meaning

The term co-operation is derived from the Latin word co-operari, where the word co means 'with' and operari means 'to work'. Thus, co-operation means working together. So those who want to work together with some common economic objective can form a society which is termed as "co-operative society". It is a voluntary association of persons who work together to promote their economic interest. 'One person one vote' is considered principle of a cooperative society

Features of Cooperative Societies

A co-operative society is a special type of business organization different from other forms of organization you have learnt earlier. Let us discuss its characteristics.

a) Open membership: The membership of a Co-operative Society is open to all those who have a common interest. A minimum of ten members are required to form a cooperative society. The Co–operative society Act does not specify the maximum number of members for any co-operative society. However, after the formation of the society, the member may specify the maximum number of members.

b) State control: To protect the interest of members, co-operative societies are placed under state control through registration. While getting registered, a society has to submit details about the members and the business it is to undertake. It has to maintain books of accounts, which are to be audited by government auditors.

c) Sources of Finance: In a co-operative society capital is contributed by all the members. However, it can easily raise loans and secure grants from government after its registration.

d) Democratic Management: Co-operative societies are managed on democratic lines. The society is managed by a group known as "Board of Directors". The members of the board of directors are the elected representatives of the society. Each member has a single vote, irrespective of the number of shares held. For example, in a village credit society the small farmer having one share has equal voting right as that of a landlord having 20 shares.

e) Service motive: Co-operatives are not formed to maximise profit like other forms of business organisation. The main purpose of a Co-operative Society is to provide service to its members. For example, in a Consumer Co-operative Store, goods are sold to its members at a reasonable price by retaining a small margin of profit. It also provides better quality goods to its members and the public.

Types of Cooperative Societies

1. Consumers Cooperative Societies: Consumers' cooperatives are formed by the consum-ers to obtain their daily requirements at reasonable prices. Such a society buys goods directly from manufacturers and wholesalers to eliminate the profits of middlemen. These societies protect lower and middle-class people from the exploitation of profit hungry businessmen. The profits of the society are distributed among members in the ratio of purchases made by them during the year.
2. Producers Cooperatives: Producers or industrial cooperatives are voluntary associations of small producers and artisans who join hands to face competition and increase production. These societies are of two types.
   (a) Industrial Service Cooperatives: In this type, the producers work independently and sell their industrial output to the cooperative society. The society undertakes to supply raw materials, tools, and machinery to the members. The society markets the output of members.
   (b) Manufacturing Cooperatives: In this type, producer members are treated as employees of the society and are paid wages for their work. The society provides raw material and equipment to every member.
3. Marketing Cooperatives: These are voluntary associations of independent producers who want to sell their output at remunerative prices. The output of different members is pooled and sold through a centralised agency to eliminate middlemen. The sale proceeds are distributed among the members in the ratio of their outputs.
4. Cooperative Farming Societies: These are voluntary associations of small farmers who join together to obtain the economies of large scale farming. In India farmers are economically weak and their land-holdings are small. In their individual capacity, they are unable to use modern tools, seeds, fertilizers, etc. They pool their lands and do farming collectively with the help of modern technology to maximum agricultural output.
5. Housing Cooperatives: These societies are formed by low and middle-income group people in urban areas to have a house of their own. Housing cooperatives are of different types. Some societies acquire land and give the plots to the members for constructing their own houses. They also arrange loans from financial institutions and Government agencies. Other societies themselves construct houses and allot them to the members who make payment in instalments.
6. Credit Cooperatives: Poor people form these societies to provide financial help and to develop the habit of savings among members. They help to protect members from exploitation of money lenders who charge exorbitant interest from borrowers. Credit cooperatives are found in both urban and rural areas. In rural areas, agricultural credit societies provide loans to members mainly for agricultural activities. In urban areas, non-agricultural societies or urban banks offer credit facilities to the members for household needs.

Advantages of Cooperative Societies

A Co-operative form of business organisation has the following advantages:

1. Easy Formation: Formation of a co-operative society is very easy compared to a joint stock company. Any ten adults can voluntarily form an association and get it registered with the Registrar of Co-operative Societies.
2. Open Membership: Persons having common interest can form a co-operative society. Any competent person can become a member at any time he/she likes and can leave the society at will.
3. Democratic Control: A co-operative society is controlled in a democratic manner. The members cast their vote to elect their representatives to form a committee that looks after the day-to-day administration. This committee is accountable to all the members of the society.
4. Limited Liability: The liability of members of a co-operative society is limited to the extent of capital contributed by them. Unlike sole proprietors and the partners, the personal properties of members of the co-operative societies are free from any kind of risk because of business liabilities.
5. Elimination of Middlemen's Profit: Through co-operatives the members or consumers control their own supplies and thus, middlemen's profit is eliminated.

Disadvantages of Cooperative Societies

1. Limited Capital: The amount of capital that a cooperative society can raise from its member is very limited because the membership is generally confined to a section of the society. Again, due to low rate of return the members do not invest more capital. Government's assistance is often inadequate for most of the co-operative societies.
2. Problems in Management: Generally, it is seen that co-operative societies do not function efficiently due to lack of managerial talent. The members or their elected representatives are not experienced enough to manage the society. Again, because of limited capital they are not able to get the benefits of professional management.
3. Lack of Motivation: Every co-operative society is formed to render service to its members rather than to earn profit. This does not provide enough motivation to the members to put in their best effort and manage the society efficiently.
4. Lack of Co-operation: The co-operative societies are formed with the idea of mutual co-operation. But it is often seen that there is a lot of friction between the members because of personality differences, ego clash, etc. The selfish attitude of members may sometimes bring an end to the society.
5. Dependence on Government: The inadequacy of capital and various other limitations makes cooperative societies dependant on the government for support and patronage in terms of grants, loans subsidies, etc. Due to this, the government sometimes directly interferes in the management of the society and audit their annual accounts.

Joint Stock Companies

Meaning of Joint Stock Company

A company is an association of persons formed for carrying out business activities and has a legal status independent of its members. The company form of organisation is governed by The Companies Act, 1956. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal.

Features of a Joint Stock Company

(i) Artificial person: A company is a creation of law and exists independent of its members. Like natural persons, a company can own property, incur debts, borrow money, enter contracts, sue and be sued but unlike them it cannot breathe, eat, run, talk and so on. It is, therefore, called an artificial person.

(ii) Separate legal entity: From the day of its incorporation, a company acquires an identity, distinct from its members. Its assets and liabilities are separate from those of its owners. The law does not recognise the business and owners to be the same.

(iii) Formation: The formation of a company is a time consuming, expensive, and complicated process involves the preparation of several documents and compliance with several legal requirements before it can start functioning.

(iv) Perpetual succession: A company being a creation of the law, can be ended only by law. It will only cease to exist when a specific procedure for its closure, called winding up, is completed and members may go, but the company continues to exist.

(v) Control: The management and control of the affairs of the company is undertaken by the Board of Directors, which appoints the top management officials for running the business.

(vi) Liability: The liability of the members is limited to the extent of the capital contributed by them in a company. The creditors can use only the assets of the company to settle their claims since it is the company and not the members that owes the debt.

(vii) Common seal: The company being an artificial person acts through its Board of Directors. The Board of Directors enters into an agreement with others by indicating the company's approval through a common seal

(viii) Risk bearing: The risk of losses in a company is borne by all the shareholders. This is unlike the case of sole proprietorship or partnership firm where one or few persons respectively bear the losses.

Merits of Joint Stock Companies

1. Limited liability: The shareholders are liable to the extent of the amount unpaid on the shares held by them. Also, only the assets of the company can be used to settle the debts, leaving the owner's personal property free from any charge. This reduces the degree of risk borne by an investor.
2. Transfer of interest: The ease of transfer of ownership adds to the advantage of investing in a company as the share of a public limited company can be sold in the market and as such can be easily converted into cash in case the need arises.
3. Perpetual existence: the death, retirement, resignation, insolvency, or insanity of its members does not affect Existence of a company as it has a separate entity from its members. A company will continue to exist even if all the members die. It can be liquidated only as per the provisions of the Companies Act.
4. Scope for expansion: As compared to the sole proprietorship and partnership forms of organisation, a company has large financial resources. Further, capital can be attracted from the public as well as through loans from banks and financial institutions.
5. Professional management: A company can afford to pay higher salaries to specialists and professionals. It can, therefore, employ people who are experts in their area of specialisations.

Limitations of Joint Stock Companies

(i) Complexity in formation: The formation of a company requires greater time, effort and extensive knowledge of legal requirements and the procedures involved.

(ii) Lack of secrecy: The Companies Act requires each public company to provide from time-to-time a lot of information to the office of the registrar of companies.

(iii) Impersonal work environment: Separation of ownership and management leads to situations in which there is lack of effort as well as personal involvement on the part of the officers of a company.

(iv) Numerous regulations: The functioning of a company is subject to many legal provisions and compulsions. A company is burdened with numerous restrictions in respect of aspects including audit, voting, filing of reports and preparation of documents, and is required to obtain various certificates from different agencies.

(v) Delay in decision making: Companies are democratically managed through the Board of Directors which is followed by the top management, middle management, and lower level management.

(vi) Oligarchic management: In theory, a company is a democratic institution wherein the Board of Directors are representatives of the shareholders who are the owners

(vii) Conflict in interests: There may be conflict of interest amongst various stakeholders of a company. The employees, for example, may be interested in higher salaries, consumers desire higher quality products at lower prices, and the shareholders want higher returns

Types of Companies

Private Company

A private company means a company which:

a) Restricts the right of members to transfer its shares;
b) Has a minimum of 2 and a maximum of 50 members, excluding the present and past employees;
c) Does not invite public to subscribe to its share capital; and
d) Must have a minimum paid up capital of Rs.1 lakh or such higher amount which may be prescribed from time-to-time.

The following are some of the privileges of a private limited company as against a public limited company:

1. A private company can be formed by only two members whereas seven people are needed to form a public company.
2. There is no need to issue a prospectus as public is not invited to subscribe to the shares of a private company.
3. Allotment of shares can be done without receiving the minimum subscription.
4. A private company can start business as soon as it receives the certificate of incorporation. The public company, on the other hand, must wait for the receipt of certificate of commencement before it can start a business.
5. A private company needs to have only two directors as against the minimum of three directors in the case of a public company.
6. A private company is not required to keep an index of members while the same is necessary in the case of a public company.
7. There is no restriction on the amount of loans to directors in a private company. Therefore, there is no need to take permission from the government for granting the same, as is required in the case of a public company.

Basis	Private Company	Public Company
Members	Minimum – 2 Max – 50	Minimum – 7 Maximum - unlimited
Minimum number of directors	Two	Three
Minimum paid up capital	Rs. 1 lakh	Rs. 5 lakhs
Index of members	Not compulsory	Compulsory
Transfer of shares	Restriction on transfer	No restriction on transfer
Invitation to public to subscribe to shares	Cannot invite public to subscribe to its shares and debentures	Can invite public to subscribe to its shares and debentures

Choice of Form of Business Organization

(i) Cost and ease in setting up the organisation: As far as initial business setting-up costs are concerned; sole proprietorship is the most inexpensive way of starting a business. However, the legal requirements are minimum, and the scale of operations is small

(ii) Liability: In case of sole proprietorship and partnership firms, the liability of the owners/partners is unlimited. This may call for paying the debt from personal assets of the owners

(iii) Continuity: The continuity of sole proprietorship and partnership firms is affected by such events as death, insolvency or insanity of the owners. However, such factors do not affect the continuity of business in the case of organisations like joint Hindu family business, cooperative societies and companies.