Unit 2

Part A

1. Name any one form of Business Organization.

Sole Proprietorship

2. Give the 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.

3. Give an example for Sole Proprietorship.

Golgappa vendor

4. State the nature of liability of a Sole Proprietor.

Unlimited liability

5. Name the form of business organization which is found only in India?

Hindu Undivided family

6. In which country only do you find Hindu Undivided Family Business?

India

7. Which Law governs Hindu Undivided Family in India?

Hindu Undivided family Act

8. Give the meaning of Hindu Undivided Family business.

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

9. Who is the head of Hindu Undivided Family Business?

Normally, the senior- most member of the family acts as Karta.

10. Who is Karta?

The senior- most member of the family acts as Karta

11. Who are co-parceners?

All members have equal ownership right over the property of an ancestor and they are known as co-parceners.

12. State the nature of liability of Karta.

The liability of the Karta is unlimited.

13. State the nature of liability of co-parceners.

The liability of all members except the karta is limited to their share of co-parcenery property of the business.

14. State the minimum number of persons required to set up a partnership.

Two members

15. Which Act governs partnership business in India?

Indian Partnership Act, 1932

16. Who is a Minor Partner?

A partner who is below the age of 18 and cannot enter into a contract

17. State any one consequence of Non-Registration of Partnership firm.

A partner of an unregistered firm cannot file a suit against the firm or other partners

18. State any one type of Partnership.

Partnership at Will

19. Which Act governs Co-operative Societies in India?

Cooperative Societies Act 1912.

20. State the minimum number of persons required to form a co-operative society.

Minimum number of members is 10

20. State the nature of liability of the members of co-operative societies.

Limited liability

21. State the main objective of co-operative societies.

Service motive

22. State the voting principle in co-operative societies.

One person one vote

23. Mention any one type of co-operative societies.

Credit Cooperative

24. Which Act governs the Joint Stock Companies in India?

Companies Act, 1956

25. State any one type of Joint Stock Companies.

Private Company

26. Mention the minimum number of members in a private company.

Two members

27. Mention the maximum number of members in a private company.

Fifty members

28. Mention the minimum number of members in a public company.

Seven members

29. Mention the maximum number of members in a public company.

No limit on number of members

30. Name the type of company in which its shares are freely transferable.

Public company

31. Which type of company restricts the free transferability of its shares?

Private company

32. State any one feature of public company.

Can freely transfer shares

33. State any one feature of private company.

Restricts the transfer of shares

Part B

1. State any two merits of Sole Proprietary Organization.
   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.
   b) Direct Motivation: The profits earned belong to the sole proprietor alone and he bears the risk of losses as well.
2. Specify any two demerits of Sole Proprietary Organization.
   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.
3. Give the meaning of Hindu Undivided Family business

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.

4. Define Partnership.

The Indian Partnership Act, 1932 defines partnership as “the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.”

5. Who is an 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.

6. Who is a Sleeping 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.

7. Who is a 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.

8. Who is a 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

9. Compare active partner with partner by estoppel by taking capital contribution and sharing of profits and losses as the bases

Type	Capital contribution	Share in profit and loss
Active partner	Contributes capital	Shares profits and losses
Partner by Estoppel	Does not contribute capital	Does not share profits/ losses

10. Give the meaning of Partnership Deed.

The written agreement which specifies the terms and conditions that govern the partnership is called the partnership deed.

11. State any two contents of Partnership Deed.

The partnership deed generally includes the following aspects:

- Name of firm
- Nature of business and location of business

12. What is Particular Partnership?

Partnership formed for the accomplishment of a particular project say construction of a building or an activity to be carried on for a specified time period is called particular partnership.

13. What is Partnership at Will?

his type of partnership exists at the will of the partners. It can continue as long as the partners want and is terminated when any partner gives a notice of withdrawal from partnership to the firm.

14. What is General Partnership?

In general partnership, the liability of partners is unlimited and joint. The partners 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.

15. Give the meaning of unlimited liability.

If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor. A poor decision or an unfavourable circumstance can create serious financial burden on the owners.

16. State any two consequences of Non-Registration of partnership firm.

The consequences of non-registration of a firm are as follows:

a) A partner of an unregistered firm cannot file a suit against the firm or other partners,
b) The firm cannot file a suit against third parties

17. Give the meaning of Co-operative Societies.

The cooperative society is a voluntary association of persons, who join with the motive of welfare of the members. They are driven by the need to protect their economic interests in the face of possible exploitation at the hands of middlemen obsessed with the desire to earn greater profits.

18. State the minimum and maximum number of members in Co-operatives.

A minimum of 10 members are needed to start a cooperative society. There are no limitation on maximum number of members in a cooperative society.

19. State any two types of Co-operative Societies.

Producer cooperative societies and credit cooperative societies

20. Give the meaning of Consumers' Co-operative Societies.

The consumer cooperative societies are formed to protect the interests of consumers. The members comprise of consumers desirous of obtaining good quality products at reasonable prices.

21. Give the meaning of Producers' Co-operative Societies.

These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers.

22. Give the meaning of Housing Co-operative Societies.

Cooperative housing societies are established to help people with limited income to construct houses at reasonable costs. The members of these societies consist of people who are desirous of procuring residential accommodation at lower costs.

23. Give the meaning of Marketing Co-operative Societies.

Such societies are established to help small producers in selling their products. The members consist of producers who wish to obtain reasonable prices for their output.

24. Give the meaning of Farmers' Co-operative Societies.

These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The members comprise of farmers who wish to jointly take up farming activities. The aim is to gain the benefits of large scale farming and increase the productivity.

25. Give the meaning of Credit Co-operative Societies.

Credit cooperative societies are established for providing easy credit on reasonable terms to the members. The members comprise of persons who seek financial help in the form of loans.

26. State any two advantages of Co-operative Societies.

a) Equality in voting status: The principle of 'one man one vote' governs the cooperative society.
b) Limited liability: The liability of members of a cooperative society is limited to the extent of their capital contribution.

27. State any two limitations of Co-operative Societies.

a) Limited resources: Resources of a cooperative society consists of capital contributions of the members with limited means
b) Inefficiency in management: Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries

28. Give the meaning of a 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

29. Define Joint Stock Company.

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. Prof. Haney

30. State any two features of a 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,

31. State any two features of a public company.

A public company means a company which:

a) Has a minimum paid-up capital of Rs. 5 lakhs or a higher amount which may be prescribed from time-to-time;
b) Has a minimum of 7 members and no limit on maximum members;

32. State the minimum and maximum number of members in a public company.

A public company must have a minimum of 7 members. There are no restrictions on the maximum number of members.

33. State the minimum and maximum number of members in a private company.

A private company must have a minimum of 2 members. It can have a maximum of 50 members.

34. State any two differences between public and private companies.

Basis	Private	Public
Members	Minimum 2, maximum 50	Minimum 7, no limit on maximum number of members
Share Transfer	Restriction on transfer of shares	Shares are freely transferable

35. State any two merits of Joint Stock Company.

a) Limited liability: The shareholders are liable to the extent of the amount unpaid on the shares held by them.

b) 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.

36. State any two limitations of Joint Stock Company.

a) 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.

b) 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

Part C

1. Explain briefly any four features of Sole Proprietorship form of business organization.
   a) 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.
   b) 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.
   c) 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.
   d) 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.

2. Explain briefly any four merits of Sole Proprietorship form of business organization.

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.

3. Explain briefly the limitations of sole proprietorship form of business organization.
   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.
4. Explain briefly any four features of Hindu Undivided Family business.
   a) Liability: The liability of all members except the karta is limited to their share of co-parcenery property of the business. The karta, however, has unlimited liability.
   b) Control: The control of the family business lies with the karta. He takes all the decisions and is authorised to manage the business. His decisions are binding on the other members.
   c) Continuity: The business continues even after the death of the karta as the next eldest member takes up the position of karta, leaving the business stable. The business can, however, be terminated with the mutual consent of the members.
   d) Minor Members: The inclusion of an individual into the business occurs due to birth in a Hindu Undivided Family. Hence, minors can also be members of the business.

5. Explain briefly the merits of Hindu Undivided Family business.
   a) Effective control: The karta has absolute decision-making power. This avoids conflicts among members as no one can interfere with his right to decide. This also leads to prompt and flexible decision making.
   b) Continued business existence: The death of the karta will not affect the business as the next eldest member will then take up the position. Hence, operations are not terminated, and continuity of business is not threatened.
   c) Limited liability of members: The liability of all the co-parceners except the karta is limited to their share in the business, and consequently their risk is well-defined and precise.
   d) Increased loyalty and cooperation: Since the business is run by the members of a family, there is a greater sense of loyalty towards one other. Pride in the growth of business is linked to the achievements of the family.
6. Explain briefly the limitations of Hindu Undivided Family business.
   a) Limited resources: The joint Hindu family business faces the problem of limited capital as it depends mainly on ancestral property. This limits the scope for expansion of business.
   b) Unlimited liability of karta: The karta is burdened not only with the responsibility of decision making and management of business, but also suffers from the disadvantage of having unlimited liability. His personal property can be used to repay business debts.
   c) Dominance of karta: The karta individually manages the business which may at times not be acceptable to other members. This may cause conflict amongst them and may even lead to break down of the family unit.
   d) Limited managerial skills: Since the karta cannot be an expert in all areas of management, the business may suffer as a result of his unwise decisions. His inability to decide effectively may result into poor profits or even losses for the organisation.

7. Explain briefly any four 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.

8. Explain briefly any four merits of Partnership.

(i) Ease of formation and closure: A partnership firm can be formed easily by putting an agreement between the prospective partners into place whereby they agree to carry out the business of the firm and share risks. There is no compulsion with respect to registration of the firm. Closure of the firm too is an easy task.

(ii) Balanced decision making: The partners can oversee different functions according to their areas of expertise. Because an individual is not forced to handle different activities, this not only reduces the burden of work but also leads to fewer errors in judgements.

(iii) More funds: In a partnership, the capital is contributed by a number of partners. This makes it possible to raise larger amount of funds as compared to a sole proprietor and undertake additional operations when needed.

(iv) Sharing of risks: The risks involved in running a partnership firm are shared by all the partners. This reduces the anxiety, burden and stress on individual partners

9. Explain briefly any four limitations of Partnership.

a) Unlimited liability: Partners are liable to repay debts even from their personal resources in case the business assets are not sufficient to meet its debts. The liability of partners is both joint and several which may prove to be a drawback for those partners who have greater personal wealth.

b) Limited resources: There is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient to support large scale business operations. As a result, partnership firms face problems in expansion beyond a certain size.

c) Possibility of conflicts: Partnership is run by a group of persons wherein decision-making authority is shared. Difference in opinion on some issues may lead to disputes between partners. Further, decisions of one partner are binding on other partners.

d) Lack of continuity: Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. It may result in lack of continuity.

10. Explain briefly the types of Partnership.

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.

11. Explain briefly any four types of partners.

a) 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.

b) 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.

c) 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.

d) 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.

12. Explain briefly the procedure for the registration of Partnership firm.

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.

13. State any eight contents of Partnership Deed.
    I. Name of the firm
    II. Names, addresses, occupation of partners
    III. Amount of capital contributed by partners
    IV. Ratio of sharing profits and losses
    V. Nature of the business to be carried on
    VI. Duration of the agreed partnership
    VII. Amount of drawings that can be made by each partner
    VIII. Rate of interest on capital payable to partners

14. Explain briefly any four features of Co-operative societies.
    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.

15. Explain briefly any four merits of Co-operative societies.

a. 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.

b. 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.

c. 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.

d. 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.

16. Explain briefly any four limitations of Co-operative societies.

a. 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.

b. 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.

c. 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.

d. 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.

17. Explain briefly any two types of Co-operative societies.
    a. 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.
    b. 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.

18. Explain in brief any four features of Joint Stock Companies.
    a. 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.
    b. 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.
    c. 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.
    d. 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.

19. Explain in brief any four merits of Joint stock Companies.
    a. 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.
    b. 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.

c. 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.
d. 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.

20. Explain in brief any four limitations of Joint stock Companies.
  a. Complexity in formation: The formation of a company requires greater time, effort and extensive knowledge of legal requirements and the procedures involved.
  b. 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.
  c. 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.
  d. 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.

21. State any four privileges of a private company as against a public company.
  a. A private company can be formed by only two members whereas seven people are needed to form a public company.
  b. There is no need to issue a prospectus as public is not invited to subscribe to the shares of a private company.
  c. Allotment of shares can be done without receiving the minimum subscription.
  d. 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.

22. State any four differences between public and private companies.

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

Part D

1. Explain any four merits and four demerits of Sole Proprietorship form of business organization.
   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) 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.
   f) 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.
   g) 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.
   h) 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.

2. Explain any four merits and four limitations of Partnership form of business.
   a) Ease of formation and closure: A partnership firm can be formed easily by putting an agreement between the prospective partners into place whereby they agree to carry out the business of the firm and share risks. There is no compulsion with respect to registration of the firm. Closure of the firm too is an easy task.
   b) Balanced decision making: The partners can oversee different functions according to their areas of expertise. Because an individual is not forced to handle different activities, this not only reduces the burden of work but also leads to fewer errors in judgements.
   c) More funds: In a partnership, the capital is contributed by a number of partners. This makes it possible to raise larger amount of funds as compared to a sole proprietor and undertake additional operations when needed.
   d) Sharing of risks: The risks involved in running a partnership firm are shared by all the partners. This reduces the anxiety, burden and stress on individual partners
   e) Unlimited liability: Partners are liable to repay debts even from their personal resources in case the business assets are not sufficient to meet its debts. The liability of partners is both joint and several which may prove to be a drawback for those partners who have greater personal wealth.
   f) Limited resources: There is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient to support large scale business operations. As a result, partnership firms face problems in expansion beyond a certain size.
   g) Possibility of conflicts: Partnership is run by a group of persons wherein decision-making authority is shared. Difference in opinion on some issues may lead to disputes between partners. Further, decisions of one partner are binding on other partners.
   h) Lack of continuity: Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. It may result in lack of continuity.

3. Explain the types of co-operative societies.
    a. 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.
    b. Producers Cooperatives: Producers or industrial cooperatives are voluntary associations of small producers and artisans who join hands to face competition and increase production.
    c. 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.
    d. 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.
    e. 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.
    f. 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.

4. Explain any four merits and four limitations of Co-operative societies.

    a. 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.

    b. 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.

    c. 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.

    d. 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.

    e. 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.

    f. 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.

    g. 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.

    h. 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. Explain the features of Joint Stock Company.
    a. 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.
    b. 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.
    c. 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.
    d. 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.
    e. 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.
    f. 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.
    g. 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
    h. 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.

6. Explain any four merits and four limitations of Joint Stock Company.
    a. 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.
    b. 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.
    c. 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.
    d. 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.
    e. Complexity in formation: The formation of a company requires greater time, effort and extensive knowledge of legal requirements and the procedures involved.
    f. 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.
    g. 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.
    h. 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.