

Chapter 2: Forms of Business Organisation

NCERT · Class 11 · Business Studies

Textbook exercises

Question 1

The structure in which there is separation of ownership and management is called (a) Sole proprietorship (b) Partnership (c) Company (d) All business organisations

Solution

Ans: (c) Company

Question 2

The karta in Joint Hindu family business has (a) Limited liability (b) Unlimited liability (c) No liability for debts (d) Joint liability

Solution

Ans: (b) Unlimited liability

Question 3

In a cooperative society the principle followed is

(a) One share one vote (b) One man one vote (c) No vote (d) Multiple votes

Solution

Ans: (b) One man one vote

Question 4

The board of directors of a joint stock company is elected by

(a) General public (b) Government bodies (c) Shareholders (d) Employees

Solution

Ans: (c) Shareholders

Question 5

Profits do not have to be shared. This statement refers to

(a) Partnership (b) Joint Hindu family business (c) Sole proprietorship (d) Company

Solution

Ans: (c) Sole proprietorship

Question 6

The capital of a company is divided into number of parts each one of which are called

(a) Dividend (b) Profit (c) Interest (d) Share

Solution

Ans: (d) Share

Question 7

The Head of the joint Hindu family business is called

(a) Proprietor (b) Director (c) Karta (d) Manager

Solution

Ans: (c) Karta

Question 8

Provision of residential accommodation to the members at reasonable rate is the objective of

(a) Producer's cooperative (b) Consumer's cooperative (c) Housing cooperative (d) Credit cooperative

Solution

Ans: (c) Housing cooperative

Question 9

A partner whose association with the firm is unknown to the general public is called (a) Active partner (b) Sleeping partner (c) Nominal partner (d) Secret partner

Solution

Ans: (d) Secret partner

Question 10

Compare the status of a minor in a Joint Hindu Family Business with that in a partnership firm.

Solution

Ans: A male minor child becomes a member of a Joint Hindu Family Business as soon as he is born into the family. The minor has the same ownership rights as the rest of the family over the inherited property.

His liability, on the other hand, is limited to his portion of the joint property.

In the case of a partnership, a minor can be admitted as a member-only when all other partners have given their consent, and only for advantages; he cannot be required to contribute capital or pay the business's losses. Because a minor lacks the legal capacity to enter into legal contracts, he or she cannot be called a partner.

Question 11

If registration is optional, why do partnership firms willingly go through this legal formality and get themselves registered? Explain.

Solution

Ans: Although registration for a partnership firm is optional, many firms choose to do so. This is due to the numerous legal ramifications that come with not registering. Here are a few examples:

1. A non-registered firm's partners cannot sue a third party; but, a partnership firm's non-registration does not restrict other firms from employing it.
2. The firm is prohibited from bringing a lawsuit against any of its partners.

A partner in a non-registered firm, likewise, cannot sue his or her co-partners or the firm.

1. A non-registered partnership firm's claims against a third party cannot be enforced in court. As a result, to avoid these drawbacks, partnerships are formed.

Question 12

State the important privileges available to a private company.

Solution

Ans: When a company is formed as a private company, it receives various benefits and exemptions not available to public companies. The following are some of the significant advantages that a private company has:

1. A private company can be created with only two members, but a public company requires seven.
2. A prospectus is not required because the public is not asked to subscribe to a private company's shares.
3. Shares can be distributed without the requirement of a minimum subscription.

4. A private firm can begin operations as soon as the certificate of incorporation is received. The public corporation, on the other hand, must wait for the certificate of commencement to be received before it may begin operations.
 5. A private business requires only two directors, whereas a public firm requires a minimum of three directors.
 6. A private corporation is not required to maintain a member index, whereas a public firm is required to do so.
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Question 13

How does a cooperative society exemplify democracy and secularism? Explain.

Solution

Ans: In a cooperative society, each member has one vote, regardless of the number of shares they own. This means that all members have equal voting rights, resulting in a fully democratic management structure in which all decisions are made by a majority of the society's members. The company's membership is open and not restricted, and no one is discriminated against because of their religion, caste, or gender. As a result, a cooperative society is representative of a secularist system.

Question 14

What is meant by 'partner by estoppel'? Explain.

Solution

Ans: A person is deemed a partner by estoppel if he or she provides the impression to others that he or she is a partner of the firm through his or her initiative, conduct, or behavior. Even though they do not provide cash or participate in management, such partners are held liable for the firm's debts since they are deemed partners in the perspective of a third party.

Question 15

Briefly explain the following terms in brief.

1. Perpetual succession

Solution

Ans: Perpetual succession: Because a business is a legal creation, it can only be ended by legislation. It will only be decommissioned after a precise procedure known as winding-up is finished. Members may come and go, but the company does not cease to exist.

1. Common seal

Ans: Common seal: Because a company cannot sign any documents because it is an artificial person, it utilizes a common seal in place of signatures. Any agreement that isn't stamped with the business seal isn't legally binding on the company.

1. Karta

Ans: Karta is the family's eldest member, with infinite obligations and complete decision-making authority. A Joint Hindu family's Karta is in charge of running the family company and exercising complete control over it.

1. Artificial person

Ans: Artificial person: Company is an artificial person, yet it has the same rights, liabilities, and functions as a natural person.

It can own property, incur debts, borrow money, enter into contracts, sue, and be sued, yet it cannot breathe, eat, run, talk, or do any of the other things that humans can. As a result, it is referred to as an artificial human.

Question 16

What do you understand by a sole proprietorship firm? Explain its merits and limitation?

Solution

Ans: A sole proprietorship is a type of business entity that is owned, managed, and controlled by a single person who receives all profits and bears all risks. The word "sole" means "only," while

"proprietor" means "owner." As a result, a sole proprietor is the business's owner. The following are some of the advantages of a sole proprietorship business:

1. **Quick Decision-Making:** A solo owner has a lot of leeways when it comes to making business decisions.
2. **Ease of Formation and Closure:** There are very few legal requirements for forming a sole proprietorship business.
3. **Personal Satisfaction:** Working for oneself provides a sense of development. This also gives the person a sense of success and self-assurance in their talents.
4. **Direct Incentive:** A sole proprietor receives all of the revenues and benefits generated by the business. This encourages the solo proprietor to run his or her company efficiently and effectively.

The Following Are Some of the Limitations of a Sole Proprietorship Firm:

1. **Limited Resources:** Alone proprietor's resources are limited to his or her savings and borrowings from others. Banks and other lending institutions may be hesitant to give a solo proprietor a long-term loan. As a result, business does not grow rapidly and often remains modest.
2. **Limited Life of a Business Concern:** The proprietorship and the owner are deemed the same in the eyes of the law. A proprietor's death, insolvency, or illness has an impact on the firm and can lead to its closure.
3. **Unlimited Liability:** If a firm fails, creditors can collect their debts not just from the company's assets, but also from the proprietor's assets.
4. **Limited Managerial Skills:** A sole proprietor is responsible for all of the company's essential tasks, such as purchasing, selling, and financing. A solo entrepreneur may also be unable to hire and retain talented and ambitious personnel due to a lack of resources.

Question 17

Why is partnership considered by some to be a relatively unpopular form of business ownership? Explain the merits and limitations of partnership.

Solution

Ans: Because of the inherent limits that come with partnership, it is seen as a rather unpopular type of corporate ownership. These constraints include infinite liability, limited resources, conflict potential, and a lack of consistency.

1. **Ease of Creation and Closure:** A partnership firm can be formed quickly by putting an agreement in place between prospective partners. There is no requirement for a company to be registered.
2. **Balanced Decision-Making:** Depending on their areas of competence, the partners can manage different functions.

As a result, a partnership firm's decision-making process is more balanced than any other type of corporate ownership.

1. **More Funds:** In a partnership, each partner contributes a portion of the money. As a result, compared to a sole proprietor, it is possible to obtain a larger quantity of money and perform extra operations as needed.
2. **Risk Sharing:** All partners share the risks that come with running a partnership firm. Individual partners have less anxiety, strain, and stress as a result of this.
3. **Confidentiality:** A partnership firm is not compelled by law to publish its financial statements or submit reports. As a result, it can keep information about its operations discreet.

The Partnership has the Following Limitations:

1. **Unlimited Liability:** If the business's assets are insufficient to meet its debts, partners are responsible to repay debts from their assets.
2. **Limited Resources:** Because the number of partners is limited, capital investment contributions are usually insufficient to support large-scale commercial activities. As a result, partnership businesses have difficulty growing beyond a particular size.
3. **Conflicts of Interest:** In a partnership firm, decision-making authority is divided among the partners.

This is also contingent on their levels of ability, capability, and foresight.

1. **Lack of Continuity:** A partnership comes to an end when one of the partners dies, retires, becomes bankrupt, or becomes insane.

The surviving partners, on the other hand, can engage in a new agreement and continue to operate the company.

Question 18

Why is it important to choose an appropriate form of organization? Discuss the factors that determine the choice of form of organization.

Solution

Ans: It is critical to select an appropriate form of company organization since one of the most crucial decisions to make when starting a business or growing an existing one is the form of organization. A company can be owned and operated in a variety of ways. It is tough to change a business model after it has been chosen. As a result, the type of commercial enterprise should be chosen with caution and deliberation.

The Following Considerations Influence the Choice of Organizational Structure:

1. **Cost and Convenience of Beginning a Business:** A sole proprietorship is simple to start in terms of initial business costs and legal requirements; a partnership, on the other hand, has the advantage of fewer legal formalities and lower costs due to its smaller scale of operations. In the case of cooperative societies and businesses, registration is required. The process of forming a business is time-consuming and costly.
2. **Liability:** In the case of a sole proprietorship or a partnership, the owners/partners' liability is unlimited. This could lead to debt repayment using the owners' assets.
3. **Continuity:** Events such as the death, insolvency, or insanity of the owners can disrupt the continuity of sole proprietorship and partnership businesses. Such elements, on the other hand, have little bearing on the longevity of the business in organizations such as joint Hindu family businesses, cooperative societies, and corporations.
4. **Management Skills:** It is tough for a sole proprietor to be knowledgeable in all aspects of the business. In other types of organizations, such as partnerships and corporations, members divide their labor, allowing management to specialize in specialized areas and make better decisions.
5. **Capital Requirements:** For big-scale activities, the corporate form is best since it can raise a huge quantity of money by issuing shares. Partnership or single proprietorship are two options for

medium and small businesses. Expansion capital requirements can also be handled more simply in the form of a corporation.

6. Degree of Control: A sole proprietorship allows for complete control over operations and decision-making authority. However, if the owners desire to share ownership to make better decisions, they can join a partnership or a company.
7. Nature of Business: A sole proprietorship is better suited to enterprises that require direct human interaction with consumers, such as a beauty salon or a grocery shop. Large production units benefit from the company type of organization.

In the case of professional services, the partnership form is far more appropriate.

Question 19

Discuss the characteristics, merits, and limitations of a cooperative form of organization. Also, describe briefly different types of cooperative societies.

Solution

Ans: "A cooperative organization is a society whose objectives are for the development of economic interests of its members under cooperative principles," according to the Indian Cooperative Societies Act, 1912. The following are characteristics of a cooperative organization:

1. Voluntary Membership: A cooperative society's membership is entirely voluntary. An individual has the freedom to join a cooperative organization and to leave at any moment.
2. Legal Status: Cooperative society registration is required. Society gains a distinct identity from its members as a result of this. Society has the authority to enter into contracts and hold property in its name, as well as to sue and be sued by others.
3. Limited Liability: The members of a cooperative society's liability is limited to the amount of capital they have contributed.
4. Control: Decisions are made by an elected managing committee, which is elected by all members of society using the "one man, one vote" system.
5. Service Motive: Society's primary goal is to emphasize the virtues of mutual aid and wellbeing. As a result, the motive of service guides its operations.

The Following are Some of the Advantages of a Cooperative Organization:

1. **Voting Equality:** The cooperative society is governed by the idea of "one man, one vote," regardless of the amount of capital invested.
2. **Restricted Responsibility:** A cooperative society's members' liability is limited to the amount of their capital contribution.
3. **Stable Existence:** A cooperative society's continuance is unaffected by the death, bankruptcy, or insanity of its members.
4. **Cost-Effectiveness of Operations:** Members typically provide honorary services to society. Because the focus is on eliminating middlemen, costs are reduced.

The following are some of the limitations of the cooperative type of organization:

1. **Limited Resources:** A cooperative society's resources are comprised of capital contributions from members with limited means.
2. **Management Inefficiency:** Due to their unwillingness to pay high salaries, cooperative organizations are unable to attract and retain experienced managers.
3. **Lack of Confidentiality:** It is difficult to preserve secrecy regarding a cooperative society's operations due to open discussions at member meetings and disclosure duties under the Societies Act (7).
4. **Government Control:** In exchange for the benefits provided by the government, cooperative societies must follow a set of laws and regulations relating to account auditing, filing of accounts, and so on.
5. **Differences of Opinion:** Internal quarrels coming from opposing ideas can make decision-making harder.

1. **Consumer Cooperative Societies** are one type of cooperative organization. They are founded to provide consumer goods at reasonable costs to their members.
2. **Producer Cooperative Societies:** The goal of producer cooperative societies is to obtain low-cost raw materials and other inputs for small producers.
3. **Marketing Cooperative Societies:** These organizations pool members' outputs and provide marketing services such as transportation, labeling, packaging, and warehousing.

4. Farmers' Cooperative Societies: These organizations are made up of small farmers who pool their resources to gain access to the benefits of large-scale operations. These organizations ensure that farmers have access to higher-quality, more modern inputs at affordable prices.
5. Credit Cooperative Societies: These organizations ensure that funds are available to their members at a low-interest rate and on appropriate terms.

Question 20

Distinguish between a Joint Hindu family business and partnership.

Solution

Ans:

Basis of Difference	Joint Hindu Family Business	Partnership
Governance	Hindu law governs the area.	The Partnership Act of 1932 governs this relationship.
Liability	The liability of the head is unlimited, whereas that of the other members is limited to their portion of the business.	All of the partners are liable indefinitely.
Decision making and control	The Karta is in charge of the business's management and control.	The firm is managed and controlled by all of the partners jointly.
Number of Members	2 is the bare minimum Maximum: There is no limit.	2 is the bare minimum Maximum: ten for banks and twenty for other enterprises.

Question 21

Despite limitations of size and resources, many people continue to prefer sole proprietorship over other forms of organization? Why?

Solution

Ans: A sole proprietorship is a type of business that is owned, managed, and controlled by a single person who bears all risks and reaps all profits. There are numerous advantages to operating as a sole proprietorship over other business structures. As a result, many individuals still prefer it. Here are a few examples:

1. **Ease of Formation and Closure:** There are very few legal requirements for forming a sole proprietorship business. Because a sole proprietorship is the least regulated type of business, it is simple to open and close the business according to the owner's wishes.
2. **Quick Decision-Making:** A solo owner has a lot of leeways when it comes to making business decisions.
3. **Direct Incentive:** A sole proprietor receives all of the revenues and gains generated by the business. This encourages the solo proprietor to run his or her company efficiently and effectively.
4. **Operational Flexibility:** A sole proprietorship is extremely flexible in its operations. It can adapt to a variety of conditions and incorporate important changes, depending on the dynamism of the business environment.