

# BUSINESS STUDIES

**Class-11**

**Chapter - 02**



## **FORMS OF BUSINESS ORGANISATION**



**SOLE  
PROPRIETORSHIP**

# INTRODUCTION

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

# INTRODUCTION

**Various forms of business organisations from which one can choose the right one include:**

- **Sole Proprietorship**
- **Joint Hindu Family Business**
- **Partnership**
- **Co-operative Society**
- **Company**

# **SOLE PROPRIETORSHIP**

**A business owned, managed and controlled by a single individual is known as a sole proprietorship organisation.**

**Sole trader business is a type of business unit where one person is solely responsible for providing the capital, for bearing the risk and for the management of business.**

# FEATURES OF SOLE PROPRIETORSHIP

The main features of sole proprietorship firm are mentioned below:

- 1. Single Ownership :** The sole proprietorship firm is owned by a single individual only. All the capital is supplied by the single individual from his own wealth or from borrowed fund.

# FEATURES OF SOLE PROPRIETORSHIP

## **2. Formation and Closure :**

**There are no legal formalities required to start and close sole proprietorship firm. There is no separate law governing this form of business. Only in some cases a licence might be required but otherwise forming and closing sole proprietor business is very simple.**

# FEATURES OF SOLE PROPRIETORSHIP

## **3. Unlimited Liability :**

**In sole proprietorship firm the proprietor is personally liable for all the debts of the business. In case of business losses, if the business assets are not sufficient to meet all business liabilities, the proprietor may have to sell personal property to pay off the liabilities.**

# FEATURES OF SOLE PROPRIETORSHIP

## **4. One-man Control :**

**The proprietor is the sole owner of the firm and has full control over it. The ownership and management lies in the hands of one person only. Some persons or manager may be employed to help the owner but ultimate control lies with the sole trader himself.**



# FEATURES OF SOLE PROPRIETORSHIP

## **5. No Separate Legal Entity :**

**A sole proprietorship has no legal identity separate from that of its owner. Law makes no difference between the owner and the enterprise. Business and the owner exist together.**

# FEATURES OF SOLE PROPRIETORSHIP

## **6. Small-size :**

**The sole proprietorship firms operate on a very small scale. As all the funds are arranged by one person, total management and control lies with one person only. A sole trader can arrange limited fund and has limited managerial ability. Therefore the scale of operation is generally limited.**

# MERITS OF SOLE PROPRIETORSHIP FIRM

The merits of sole proprietorship are as follow:

## **1. Quick Decision :**

In sole proprietorship firm all the decisions are taken by the proprietor himself. He is not supposed to consult any one and waste time. By quick decisions, immediate actions can be taken which bring flexibility of operation. There are no delays and business can quickly adapt itself to the changing environment.

# MERITS OF SOLE PROPRIETORSHIP FIRM

## **2. Confidentiality :**

**The sole proprietor is not expected to share with others. There is not legal compulsion for a sole proprietor to publish his accounts. All the decisions are taken by the proprietor. So it becomes easy for him to maintain secrecy and get better competitive strength.**

# MERITS OF SOLE PROPRIETORSHIP FIRM

## **3. Direct Incentive:**

**In sole proprietorship firm there is direct relation between the efforts and reward which means if proprietor puts extra efforts then profit increases and proprietor gets extra income. So proprietor is always motivated to work extra to get extra reward.**

# MERITS OF SOLE PROPRIETORSHIP FIRM

## **4. Easy to Form and Dissolve :**

**A sole proprietorship organisation is easy to form. No legal formalities are involved in setting up this type of organisation. It is not governed by any specific law. The sole proprietor can close the business whenever he desires without any legal formality. It can be closed by paying back its debts.**

# DEMERITS OF SOLE PROPRIETORSHIP FIRM

**Sole proprietorship firm suffers from certain limitations which are:**

## **1. Limited Resources :**

**In sole proprietorship firm finance is supplied by the proprietor himself from his wealth or from borrowings. There is a limit to the credit raising capacity of a single person. This reduces the scope for business growth. The funds are not sufficient for medium- scale or large-scale business.**

# DEMERITS OF SOLE PROPRIETORSHIP FIRM

## 2. Limited Life of a Business:

**The survival and continuity of sole proprietorship firm depends upon one person only. If the proprietor falls ill or becomes insolvent then the business may come to an end.**



# DEMERITS OF SOLE PROPRIETORSHIP FIRM

## 3. Unlimited Liability :

The sole proprietor is personally liable for all the debts. In case of heavy losses the proprietor will not only lose all his business assets but he may have to sell his personal property to pay back his debt.

# DEMERITS OF SOLE PROPRIETORSHIP FIRM

## 4. Limited Managerial Skill

In sole proprietorship firm all the activities are performed by a single individual. A single individual cannot be expert in all the fields. He may be a good salesperson but not a good manager. It is difficult to find all the skills and expertise in one person. And sole proprietor generally cannot afford to appoint specialised and expert employees. The proprietor is overburdened with too many tasks.

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## **FORMS OF BUSINESS ORGANISATION**



**HINDU UNDIVIDED FAMILY  
(JOINT HINDU FAMILY)**

# **MEANING OF JOINT HINDU FAMILY BUSINESS**

**The business carried out by the members of a Hindu undivided family is known as Joint Hindu Family Business.**

**This kind of business is not governed by Industrial or Company Act but it is governed by the Hindu Succession Act, Which exists under Hindu law.**

# MEANING OF JOINT HINDU FAMILY BUSINESS

**Conditions for existence of Joint Hindu Family Business.**

**These are:**

- **Minimum two male members must be there in the family.**
- **Existence of some ancestral property.**

# **FEATURES OF JOINT HINDU FAMILY BUSINESS**

## **1. Formation :**

**For the formation of Joint Hindu Family business, there should be at least two members in the family and ancestral property to be inherited by them.**

**Business does not require any agreement as membership is by birth. It is governed by Hindu Succession Act 1956.**

# FEATURES OF JOINT HINDU FAMILY BUSINESS

## 2. Liability :

**The liability of Karta is unlimited whereas liability of all other members of Joint Hindu Family Business is limited up to their share in the business.**

**The Karta's liability is unlimited so his personal assets can also be used for paying back the debt of the business.**

# FEATURES OF JOINT HINDU FAMILY BUSINESS

## **3. Control :**

**The joint Hindu Family Business is managed and controlled by the senior-most member of the family who is called Karta. Only the Karta has legal rights to enter into contract with outsiders.**

**He only takes all the decisions of business. Other members have no right to take decisions in the management of Joint Hindu Family Business.**



# FEATURES OF JOINT HINDU FAMILY BUSINESS

## **4. Minor Members :**

**In joint Hindu Family Business a child becomes a member by birth only so there is no restriction for a minor to become a member of the business.**

# MERITS OF JOINT HINDU FAMILY BUSINESS

The merits of the joint Hindu family business are as follows:

**(i) 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.

# **MERITS OF JOINT HINDU FAMILY BUSINESS**

## **(ii) 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.**

# MERITS OF JOINT HINDU FAMILY BUSINESS

## **(iii) 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.**

# **MERITS OF JOINT HINDU FAMILY BUSINESS**

## **(iv) 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. This helps in securing better cooperation from all the members.**

# DEMERITS OF JOINT HINDU FAMILY BUSINESS

**The following are some of the limitations of a joint Hindu family business.**

**(i) 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.**

# DEMERITS OF JOINT HINDU FAMILY BUSINESS

## **(ii) 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.**

# DEMERITS OF JOINT HINDU FAMILY BUSINESS

## **(iii) 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.**



# DEMERITS OF JOINT HINDU FAMILY BUSINESS

## **(iv) 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.**

**The joint Hindu family business is on the decline because of the diminishing number of joint Hindu families in the country.**

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## **FORMS OF BUSINESS ORGANISATION**



**PARTNERSHIP FIRM**

# MEANING OF PARTNERSHIP

## **Definition :**

**Partnership is the relation between two or more persons who have agreed to share the profits of the business carried on by all or any of them acting for all.**

**--- The Indian partnership Act,1932**

## **Meaning :**

**Partnership is an association of two or more persons who agree to jointly pursue business activity. They pool their managerial and financial resources for the purpose.**

# FEATURES OF PARTNERSHIP

## 1. Formation-

- Partnership firm comes into existence by legal agreement between the partners( Partnership deed).
- The partners must enter into an agreement for carrying a lawful business, run with motive of earning profit.
- For Example, if two people join together for charitable purpose is not partnership, and even two people joining together for unlawful activities, such as robbery, stealing, gambling etc. Is also not partnership.

# FEATURES OF PARTNERSHIP

## 2. Liability-

**The liability of all the members of a partnership firm is unlimited . The partners are individually and collectively liable to pay back the debts of the firm.**

# FEATURES OF PARTNERSHIP

## **3. Risk Bearing –**

**The partners of the partnership firm share the profits of the firm in the ratio specified in the agreement.**

## **4. Decision Making-**

**All the partners are allowed to manage the partnership firm. They may specify the work area of each partner in the partnership deed also.**

# FEATURES OF PARTNERSHIP

## 5. Mutual Agency Relationship-

- Every partner is the owner as well as the agent of the firm and agent of other partners. The act of one partner are binding on other partner.
- Each partner is entitled to take part in the management and to make decisions on behalf of all other partners.
- The contract signed by any one partner is binding on other partners.

# MERITS/ADVANTAGES OF PARTNERSHIP

**Following are the merits of Partnership firm:**

## **1. Easy to form-**

**It is very easy to form a partnership firm, as no legal formalities are required to be completed.**



# MERITS/ADVANTAGES OF PARTNERSHIP

## **2. Balanced Decision Making-**

- **In partnership the partners can divide to work according to their skill and knowledge.**
- **The division of work leads to specialisation and efficiency in management and other activities of the firm.**

# **MERITS/ADVANTAGES OF PARTNERSHIP**

## **3. Risk sharing-**

- **In Partnership firm all the partners share the risk in the same ratio as they share the profit.**
- **The sharing of risk motivates partners to undertake riskier projects and earn more profit**

# MERITS/ADVANTAGES OF PARTNERSHIP

## **4. Secrecy-**

- **The partnership firm is not required to publish its accounts. Therefore the affairs of the partnership firm remain secret.**
- **All the activities of partnership firm are carried on by the partners. Only they take all the major decisions, so there are no chances of leakage of trade secrets.**

# DEMERITS/DISADVANTAGES OF PARTNERSHIP

## 1. Unlimited Liability-

**The liability of all the partner is unlimited. In case of losses the partners will not only lose their business property but creditors can claim over their personal property also to get their accounts settled.**

# DEMERITS/DISADVANTAGES OF PARTNERSHIP

## 2. Limited Resources-

**There is restriction on number of partners and hence contribution in terms of capital investment is not sufficient for large scale enterprise. As a result partnership face problems of expansion beyond a specified size.**

# DEMERITS/DISADVANTAGES OF PARTNERSHIP

## 3. Conflicts –

**The partners in partnership firm come different background, different families, therefore, they may have differences of opinion. If partners adopt a rigid attitude then it may lead to conflict among the partners.**

# DEMERITS/DISADVANTAGES OF PARTNERSHIP

## 4. Lack of continuity –

The existence of partnership firm gets affected by death, insolvency or incapacity of any one partner. Even a partner can demand dissolution of the firm and time he desires so.

# DEMERITS/DISADVANTAGES OF PARTNERSHIP

## **5. Lack of public confidence-**

**The public has less trust and faith in partnership firm because the account and annual reports of partnership firm are not published. So people do not have trust in their dealings.**



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## **FORMS OF BUSINESS ORGANISATION**



**TYPES OF  
PARTNERSHIP FIRM**

# TYPES OF PARTNERSHIP FIRM

## **1. Partnership at will-**

- **The partnership formed for an indefinite period is known as partnership at will.**
- **This type of partnership exists at the will of the partners and comes to an end whenever partners desire so.**
- **Any one partner can give notice of dissolution and partnership will come to an end.**

# TYPES OF PARTNERSHIP FIRM

## 2. Fixed period partnership-

- The partnership formed for a specific period of time, say 3 years or 5 years etc., is known as fixed period partnership.
- This type of partnership firm automatically gets terminated on expiry of that specified time period.

# TYPES OF PARTNERSHIP FIRM

## 3. Particular Partnership-

- The partnership which is formed to carry on a particular venture is known as particular partnership.
- This typed of partnership comes to an end automatically on completion of that venture.
- For example, if two persons jointly get a contract for construction of a bridge then these two persons may form a partnership to construct the bridge. When bridge gets constructed and is ready then the partnership automatically comes to an end.

# TYPES OF PARTNERSHIP FIRM

## **4. General partnership –**

- **The partnership in which liability of all the members is unlimited is known as general partnership which means if the assets of the firm are not enough then creditors can settle their accounts by having claim over the personal property of the partners.**
- **Each partner of general partnership firm can actively participate in the activities of the firm. In India, all the partnerships are general partnership firms.**

# TYPES OF PARTNERSHIP FIRM

## **5. Limited liability partnership(LLP) –**

- **A limited liability partnership Act was passed in India on 13<sup>th</sup> December,2008. so, in India, LLP started from 2008.**
- **LLP is a special type of partnership where partners enjoy limited liability. It is a body corporate and legal entity separate from its partners.**

# TYPES OF PARTNERS

## **1. Active partner-**

**The active partner participate in the management of the firm. His liability is unlimited and he contributes capital in the firm. He gets share in the profit or loss of the company.**

# TYPES OF PARTNERS

## **2. Sleeping or Dormant partner-**

**The partner who does not participate in the management of the firm. These partners are bound by the activities of other active partners. These partner contribute capital and get share in the profit or loss of the firm. The liability of sleeping partner is unlimited.**



# TYPES OF PARTNERS

## **3. Secret partner-**

**The partner is one whose association or relation with the firm is not known to outsider. He contributes capital, participates actively in the management, his liability is also unlimited.**

# TYPES OF PARTNERS

## **4. Nominal partners-**

- **The nominal partners are not the real partners of the firm. These partners do not contribute capital and do not participate in the management , do not have unlimited liability, do not get any share in the profit or loss of the firm.**
- **The nominal partner only lends his name and reputation for the benefit of the firms. He is liable to outsiders for the debts which outsiders have given to the firm, believing he is a partner is that firm.**

# TYPES OF NOMINAL PARTNERS

**There are two types of nominal partners:**

❖ **Nominal partner by estoppel -**

- **The person who accepts that he is a partner in the partnership firm by his own words or conduct is known as nominal partner by estoppel. He is liable for the debts which the firm gets because of his reputation.**

# TYPES OF NOMINAL PARTNERS

- For example, if Mr. X, as the active partner of a partnership firm, applies for a loan. Mr. A, who is not the partner requests the financier to give loan to firm as he is also a partner in that firm then Mr. A will be considered as nominal partner by estoppel. If the partnership firm fails to pay back the loan then financier can claim the loan from Mr. A.

# TYPES OF NOMINAL PARTNERS

## ❖ **Nominal partner by holding out -**

- **The partner who does not call himself as a partner in the firm by who does not object when others call him as a partner in the firm, then he is called partner by holding out.**
- **For example, Mr. X applies for a loan saying that Mr. A is also a partner in the firm and Mr. A shows no objection to the statement of Mr. X then Mr. A will be called nominal partner by holding out. He will be liable to pay back the debts which the company got by using his name.**

# MINOR PARTNER

- **The Partnership Act, 1932 does not permit a minor to become a partner in the partnership firm. The minor can only be admitted to the benefits of the existing firm.**
- **Minor partners do not contribute any capital. These partners are not allowed to participate in the management of the firm. The minor partner is liable to outsiders. He does not get any share in the loss, he gets only share in the profit.**

# MINOR PARTNER

- **After attaining the age of majority the minor has to give a public notice stating whether he will remain as a partner in the firm or not. If he does not give any notice within a prescribed period then he will be deemed to become an active partner in the firm.**
- **On attaining the age of majority his liability will become unlimited and he will get share in the profit and loss of the company, he will also be allowed to participate in the management, like any other active partner.**

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## **FORMS OF BUSINESS ORGANISATION**



**FORMATION OF  
PARTNERSHIP FIRM**



# FORMATION OF PARTNERSHIP FIRM

- A partnership firm is formed when two or more persons enter into an agreement to form a partnership firm. This agreement can be oral or written.
- After signing the agreement the partnership firm comes into existence.
- It is not compulsory to get the firm registered but partners of the firm prefer to get the firm registered because a registered firm gets some benefits which unregistered firms do not get.

# **PARTNERSHIP DEED**

- **The document containing the terms and conditions of the partnership agreement is known as Partnership Deed. It is a stamped paper on which the rules, regulations and terms and conditions of partnership are written. It also contains the rights and duties of the partnership firm. The common contents of Partnership Deed are :**
  - Name of the firm**
  - Names and addresses of the partners**
  - Nature of business the firm will carry on**
  - Place of business (address of offices)**
  - Capital contributed by each partner**
  - Profit sharing ratio of partners**
  - The rights and duties of the partners for the management of the business**
  - The mode of maintaining accounts**
  - The rate of interest payable to partners on their capital**

# **PARTNERSHIP DEED**

- **The rate of interest to be paid by partners on amount withdrawn by them**
- **The amount of salary payable to partners**
- **Provision regarding retirement and dissolution**
- **Methods of solving disputes**
- **Whether interest is payable on the loan provided by partners arc.**

# REGISTRATION OF PARTNERSHIP FIRM

**Legally, it is not compulsory for a partnership firm to get itself registered but then also partners prefer to get the firm registered because an unregistered firm suffers from the following serious problems:**

- **A partner of an unregistered firm cannot file a case against the partnership firm.**

# REGISTRATION OF PARTNERSHIP FIRM

- **A partner of an unregistered firm cannot file a case against any other partner of the unregistered firm.**
- **An unregistered firm cannot file a suit against any third party or outsider for recovery of claim.**
- **The unregistered firm cannot file a case against any of the partners.**

# **PROCEDURE FOR REGISTRATION OF THE PARTNERSHIP FIRM**

- **A Partnership firm can be registered any time, that is at the time of formation or later on whenever partners desire to get it registered. To get the firm registered the partners have to apply to the registrar in a prescribed form along with the registration fees. Along with application the following information must be supplied. Name of the firm**
- **The principal place of the business of the firm (Address of the Head Office)**
- **The name of any other place where firm will be carrying on the business (Address of the Branch Office)**
- **Date of admission of the partners in the firm**
- **Names and permanent addresses of all the partners**
- **Duration of the firm.**

# **PROCEDURE FOR REGISTRATION OF THE PARTNERSHIP FIRM**

- **The application must be signed by all the partners. The registrar will verify the above-said information and if satisfied with the authenticity of the information he will issue a certificate of registration.**
- **The certificate of registration is an evidence of existence of firm and firm gets benefits of a registered firm.**
- **After registration, if any changes are made in the information submitted with registrar then the same change must be communicated to the registrar.**

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## **FORMS OF BUSINESS ORGANISATION**



**CO-OPERATIVE SOCIETIES**



# MEANING OF CO-OPERATIVE SOCIETY

## Definition:

**“Co-operative organisation is a society which has its objectives for the promotion of economic interest of its members in accordance with cooperative principles.”**

**– The Indian Cooperative Societies Act, 1912**

## Meaning:

- **The co-operative society or organisation is a voluntary association of persons who join together for mutual help.**
- **A Minimum of 10 persons are required to form a co-operative society. The registration of co- operative society is compulsory and the capital of co-operative organisation is contributed by the members only in the form of share capital.**

# FEATURES OF CO-OPERATIVE ORGANISATIONS

The common features of co-operative societies are given below :

## **1. Voluntary Association :**

- The cooperative society is a voluntary association Of persons. Any person can join the cooperative society if he / she has common interest.
- There is no restriction on entry or exit of members. They can join or leave the co-operative organisation of their own will and wish.
- The Membership is open to all the members irrespective of their caste, creed and religion.

# FEATURES OF CO-OPERATIVE ORGANISATIONS

## **2. Legal Status:**

- **It is compulsory for a co-operative society to get itself registered under the Co-operative Societies Act.**
- **After registration, the co-operative organisation gets a separate legal entity, which means the co-operative society is considered separate from its members .**
- **It can buy and sell property In its own name and can enter into contract in its own name.**

# FEATURES OF CO-OPERATIVE ORGANISATIONS

## 3. Limited Liability :

**The liability of members of co-operative society is limited to the extent of amount contributed by them as capital.**

# FEATURES OF CO-OPERATIVE ORGANISATIONS

## **4. Control :**

**In co-operative society the power to take decision lies in the hands of an elected managing committee. The committee is elected through voting by members.**

# FEATURES OF CO-OPERATIVE ORGANISATIONS

## **5. Equal Voting Rights :**

**The cooperative societies work with democratic principle of “one man-one vote”. All the members get only one voting right irrespective of capital contributed by them.**

# MERITS OF CO-OPERATIVE ORGANISATIONS:

The advantage of cooperative organisation are:

## 1. Equality in voting Status:

- The co-operative societies work with the democratic system. They are based on the principal of one-man-one-vote.
- All members have equal rights and equal chance to participate in the management irrespective of capital contributed by them.

# **MERITS OF CO-OPERATIVE ORGANISATIONS:**

## **2. Limited Liability :**

- **The liability of members of co-operative organisation is limited to the extent of their capital contribution in the co-operative organisation.**
- **At the time of losses the creditors cannot have claim over the personal property of members.**



# **MERITS OF CO-OPERATIVE ORGANISATIONS:**

## **3. Stable Existence :**

- **The cooperative society has a separate legal existence. The death, insolvency or incapacity of any member does not affect the existence of society.**
- **The co-operative organisation has a stable and continuous life and exists for a long period of time.**

# **MERITS OF CO-OPERATIVE ORGANISATIONS:**

## **4. Economical Functioning :**

- **The operation of a co-operative organisation is quite economical. As most of the activities are performed by the members themselves and while purchasing goods or raw materials middlemen are eliminated so they can get the raw materials and goods at low cost.**
- **The co-operative organisations do not maintain large stocks. Due to cash trading there are no bad debts. There is saving in advertising and selling expenses also.**

# **MERITS OF CO-OPERATIVE ORGANISATIONS:**

## **5. Support from Government :**

- **The co-operative organisations get various benefits from the government. The government provides various concessions and rebate in taxes. These organisations can get raw materials etc. at subsidised rates.**
- **Government offers loans at lower rate of interest and on easy terms and conditions to co-operative organisations.**

# DEMERITS OF CO-OPERATIVE ORGANISATIONS

**Co-operative societies suffer from the following drawback:**

## **1. Limited Capital :**

- **The co-operative organisation is formed by the people who have limited resources and there is no compulsion to contribute some minimum amount of capital to become a member.**
- **The principal one-man-one-vote also discourages people to invest more so co-operative organisations always face a shortage of capital due to low rate of return.**

# DEMERITS OF CO-OPERATIVE ORGANISATIONS

## **2. Inefficient Management :**

- **The co-operative organisation is managed by its members only. Generally, all the activities are performed by the members only.**
- **These members are not professional experts. They are inexperienced persons. The co-operative organisation cannot afford to pay high salary to professional and qualified people.**

# DEMERITS OF CO-OPERATIVE ORGANISATIONS

## **3. Lack of Secrecy :**

**In co-operative organisations these are open discussions in the meetings by members so it is difficult to maintain secrecy about operations of co-operative society.**

# DEMERITS OF CO-OPERATIVE ORGANISATIONS

## **4. Excessive Government Control :**

- **As co-operative organisations get various concessions and benefits from the governments, in the return there is excessive government regulation and control by the government .**
- **It is essential for a cooperative organisation to get its accounts audited by the auditors of the co-operative department and to submit its accounts with the registrar. All these regulations restrict the flexibility and efficiency of co-operative organisation.**

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## **FORMS OF BUSINESS ORGANISATION**



**TYPES OF  
CO-OPERATIVE SOCIETIES**



# **TYPES OF CO-OPERATIVE SOCIETIES**

## **1. Consumer's Cooperative Societies :**

**This society consists of consumers who join together to eliminate the middlemen. The consumer co-operative societies purchase goods directly from manufacturer and sell them to the members at reasonable price.**

# **TYPES OF CO-OPERATIVE SOCIETIES**

**The main objectives of forming consumer co-operative are:**

- (i) To ensure steady supply of essential goods.**
- (ii) To supply the goods at reasonable price by eliminating the profit margin of middlemen.**
- (iii) To supply the goods and services of high quality.**

# **TYPES OF CO-OPERATIVE SOCIETIES**

## **2. Producer's Cooperative Societies :**

**This society consists of small producers who individually find it difficult to procure the inputs and get the machinery and latest technology. There are two types of producers' co-operatives:**

- (a) The one which provides raw material, inputs, machinery, etc. so that producer can concentrate on production.**
- (b) The one which sells the goods produced by these producers.**

# **TYPES OF CO-OPERATIVE SOCIETIES**

**The main objectives of producers' co-operative are:**

- (i) To ensure steady supply of raw material, input etc. at reasonable price**
- (ii) To provide latest machinery and new technology of production.**
- (iii) To ensure smooth distribution and sale of goods produced by members.**
- (iv) Helping the producers to concentrate their attention on production of goods.**

# TYPES OF CO-OPERATIVE SOCIETIES

## **3. Marketing Co-operative Societies :**

**The co-operative marketing society consists of small producers who find it difficult to sell their products at profit. The output of all the small producers is brought together and sold at the best price. Such a society helps to improve the bargaining power and competitive position of its members.**

# **TYPES OF CO-OPERATIVE SOCIETIES**

**It performs various marketing functions such as transportation, warehousing, packaging, grading etc. The profit and the sale proceeds are distributed among the member according to their respective shares in the common sales pool. The main objectives of marketing co-operative society are :**

- i. To ensure a steady and favourable market for the output of its members.**
- ii. To ensure the best price for the output.**

# **TYPES OF CO-OPERATIVE SOCIETIES**

- iii. To provide facility of transportation, warehousing, packaging etc., which individually cannot be afforded the members.**
- iv. To ensure honest trading practices in weighing, measuring and accounting.**
- v. To eliminate the middlemen and have direct dealing with the customers.**

# TYPES OF CO-OPERATIVE SOCIETIES

## **4. Credit Co-operative Societies :**

**It consists of people with limited means who find it difficult to arrange credit and loans. These societies provide financial assistance to its members and promote habits of saving among the members. The funds of these societies consist of share capital contributed by the members and deposits made by members and outsiders.**



# **TYPES OF CO-OPERATIVE SOCIETIES**

**The main motives of credit co-operative organisations are :**

- (i) To protect the members from the exploitation of moneylenders.**
- (ii) To ensure loans on easy terms and low rate of interest.**
- (iii) To develop the habit of saving among the members.**

# **TYPES OF CO-OPERATIVE SOCIETIES**

## **5. Farmer's Co-operative Societies :**

**These consist of small farmers who join together to avail the benefits of large – scale mechanised farming. Such societies are particularly important in the case of countries such as India, where agriculture suffers from excessive subdivision and fragmentation of land.**

# **TYPES OF CO-OPERATIVE SOCIETIES**

**The main objectives of farming co-operatives are :**

- (i) Helping the small farmers to get the benefits of mechanised farming**
- (ii) Providing improved seeds, fertilisers, irrigation and other modern techniques**
- (iii) Providing social and economic security to peasants.**

# TYPES OF CO-OPERATIVE SOCIETIES

## **6. Co-operative Housing Societies :**

**These societies are formed to provide residential accommodation to their members. These societies purchase a big plot of land, construct flats on that and sell these flats to its members on installment and easy terms. Some housing co-operatives provide loans to their members for building houses. These societies are very popular in urban areas.**

# **TYPES OF CO-OPERATIVE SOCIETIES**

**The main objectives of housing cooperative societies are:**

- (i) Providing residential accommodation to their members**
- (ii) Helping members to purchase houses at lower cost**
- (iii) Providing civic amenities such as roads, parks, streetlights, parking etc.**

# BUSINESS STUDIES

**Class-11**

**Chapter - 02**



## **FORMS OF BUSINESS ORGANISATION**



**JOINT STOCK COMPANY**

# DEFINITION OF JOINT STOCK COMPANY

## **Definition:**

**“A Joint stock company is an artificial person, invisible, intangible and existing only in the eyes of law.”**

**-----Chief justice Marshall**

# FEATURES OF JOINT STOCK COMPANY

**Following are the chief characteristics of the company form of organisation.**

## **1. Separate Legal Existence**

**A company has a separate legal entity. A company can carry on business in its own name, it can buy and sell assets in its own name, it can enter into contract with outsiders in its own name; the company and its members are separate individuals.**



# FEATURES OF JOINT STOCK COMPANY

## 2. Artificial Person :

**A company does not have a physical body like a natural human being. It is an artificial person created by law. Its operations are performed by the elected representatives of members, Known as directors, although business is run in the name of the company.**

# FEATURES OF JOINT STOCK COMPANY

## 3. Registration

**It is legally compulsory for a company to get itself registered under the Companies Act, 2013. Without registration no company can come into existence.**

# FEATURES OF JOINT STOCK COMPANY

## **4. Perpetual Succession.**

- **A company has continuous existence independent of its members. A company is created by law and only law can bring an end to its existence.**
- **The death, insolvency or incapacity of any member does not affect the existence of company. Members may come and members may go but the company goes on for ever.**
- **The life of the company can come to an end through legal procedure of winding up.**

# FEATURES OF JOINT STOCK COMPANY

## **5. Common Seal :**

- **Being an artificial person the company cannot sign, therefore, there is need for common seal with its name engraved on it.**
- **The activities of the company are carried through a group of people. Anyone acting on behalf of the company can use common seal in place of signature of the company to bind the company.**
- **Any document which does not bear the common seal of the company is not binding on the company.**

# FEATURES OF JOINT STOCK COMPANY

## **6. Limited Liability :**

**The liability of members of the company is limited to the extent of their share capital contribution in the company. For example, if a person has purchased 1000 shares of value ₹ 10 each, then his liability is limited up to ₹ 10,000 only.**

# MERITS OF JOINT STOCK COMPANY

## **1. Limited Liability :**

**The liability of members of the company is limited to the extent of their share capital contribution in the company. For example, if a person has purchased 1000 shares of value ₹ 10 each, then his liability is limited up to ₹ 10,000 only.**

# MERITS OF JOINT STOCK COMPANY

## **2. Transfer of Interest :**

- **The shares of the company can be easily bought and sold in the market. If the owner of shares is in need of cash, he can easily sell the shares and get cash.**
- **The easy transferability of shares brings liquidity of investment. At any time the share investment can be converted into cash and the same amount can be used to buy the shares of other company.**

# MERITS OF JOINT STOCK COMPANY

## **3. Perpetual Existence :**

- **The company form of business enjoys perpetual succession. As it has separate existence, it is formed by law and can end by legal procedure of winding up only.**
- **The death, insolvency and incapacity of any members does not affect the existence of company.**



# MERITS OF JOINT STOCK COMPANY

## **4. Growth and Expansion :**

**In company form of business there is more scope for growth and expansion. The company has large financial resources and their rate of profit is also high They can easily use large amount of accrued or retained profit for expansion and growth.**

# MERITS OF JOINT STOCK COMPANY

## **5. Large Amount of Capital :**

- **The biggest advantage of company form of business is that it can collect a large amount of capital by issuing of shares to general public.**
- **The people having small savings can also buy the shares of company because the value of a share is very small.**
- **Apart from share capital, the company can collect funds by raising loans from financial institutions and by issue of debentures and other securities.**

# DEMERITS OF JOINT STOCK COMPANY

The following are main limitations of a company organisation :

## **1. Complexity in Formation:**

- The formation of company involves a lengthy and complicated procedure. Many legal formalities have to be completed, many documents have to be prepared and submitted.
- Various permissions have to be obtained. To perform these activities experts are hired, who charge high fees. Even registration fees have to be paid to the registrar.

# DEMERITS OF JOINT STOCK COMPANY

## 2. Lack of Secrecy :

**As per companies act 1956, the company is required to provide lot of information to the office of the registrar of companies. Such information is available to general public also. So it is therefore difficult to maintain complete secrecy about the operations of company.**

# DEMERITS OF JOINT STOCK COMPANY

## **3. Numerous Regulations :**

- **The company form of business has to comply with various legal formalities at different stages and there is penalty if the company fails to meet any of the formalities.**
- **A company has to file return and annual reports with the registrar. This legal interference in day-to-day operations results in lack of secrecy and a lot of time and money is spent.**

# DEMERITS OF JOINT STOCK COMPANY

## **4. Conflicts in Interests :**

**In company, various groups of people are involved such as shareholder, debenture holders, employees, directors etc. Each group has different interests, for example, debenture holders want their rate of interest to increase whereas shareholders want to reduce it so that leftover income is more. There is possibility of conflicts between various groups.**

# **TYPES OF JOINT STOCK COMPANY**

## **1. Private Ltd. Company :**

**Private Company as per section 2(68) of Indian Companies Act, 2013**

**Private company means a company which by its articles:**

- (i) Restricts the rights to transfer its shares.**
- (ii) Has minimum 2 and a maximum of 200 members, excluding the present and past employees.**
- (iii) Prohibits any invitation to the public to subscribe for any securities of the company.**

# **TYPES OF JOINT STOCK COMPANY**

## **2. Public Ltd. Company :**

**A public company is company which is not private company. As per the Companies Act, a public company is the one which:-**

- (i) Has minimum 7 members and maximum no limit.**
- (ii) Has no Restriction on Transfer of securities.**
- (iii) Not prohibited to invite general public to subscribe its securities.**



# TYPES OF JOINT STOCK COMPANY

- However, a private company which is the subsidiary of public company is also treated as public company.
- **Company Limited by Guarantee** means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.

# TYPES OF JOINT STOCK COMPANY

**Company Limited by Shares** means a company means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.

# TYPES OF JOINT STOCK COMPANY

## **3. One person Company**

- **The 2013 Act introduces a new type of entity to the existing list, i.e., apart from forming a public or private limited company, the 2013 Act enables the formation of a new entity a 'one-person company' (OPC).**
- **An OPC means a company with only one person as its member [section 3 (1) of 2013 Act].**

# **BUSINESS STUDIES**

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## **FORMS OF BUSINESS ORGANISATION**



**CHOICE OF FORM OF  
BUSINESS ORGANISATION**

# CHOICE OF FORM OF BUSINESS ENTERPRISE

- **As discussed earlier, we can see that there are different types of business organisations, each having its own features, merits and demerits. On comparing their features, merits and demerits, it is very difficult to say which is the best form of business.**
- **Each form is suitable for a different business venture. The selection of the suitable form of business organisation is generally made keeping in mind the following factors:**

# CHOICE OF FORM OF BUSINESS ENTERPRISE

## **1. Nature of Business :**

- **The type of business activities is the most important factor for selecting the form of business. If the business requires personal attention and direct contact, sole proprietorship and partnership is preferred.**
- **Firms requiring heavy investment prefer company form.**

# **CHOICE OF FORM OF BUSINESS ENTERPRISE**

**For example, tailoring shops, beauty parlours, small retailers prefer sole proprietorship due to demand of personal attention; professional like CA, lawyers etc. prefer partnership; departmental stores, basic industries prefer company form.**

# CHOICE OF FORM OF BUSINESS ENTERPRISE

## **2. Capital Consideration :**

- **Another important factor which helps in deciding the form of business is amount of finance required.**
- **Business requiring less amount of finance prefers sole proprietorship and partnership form, whereas business activities requiring huge financial resources prefer company form.**



# CHOICE OF FORM OF BUSINESS ENTERPRISE

## 3. Degree of Control :

**If the business desire complete and independent control over the business, then he has to prefer sole proprietorship firm. If businessmen don't mind sharing the control then they can go for partnership or company form.**

# CHOICE OF FORM OF BUSINESS ENTERPRISE

## 4. Legal Formalities :

**If businessmen want to avoid legal formalities and prefer easy formation then the most suitable form is sole proprietorship and partnership, whereas there are many legal formalities involved in company form and co-operative form of business organisation.**

# CHOICE OF FORM OF BUSINESS ENTERPRISE

## **5. Liability :**

- **Another important factor which helps in selecting the form of business enterprise is the degree of risk involved.**
- **For high risk of ventures people prefer company form of business or co-operative organisation because liability of members is limited.**
- **Because of unlimited liability people avoid sole proprietorship and partnership form of business. These forms are suitable for less risky ventures.**

# CHOICE OF FORM OF BUSINESS ENTERPRISE

## 6. Flexibility of Operation :

**The business which requires high degree of flexibility should prefer sole proprietorship or partnership firm, whereas making changes and taking decisions takes a long time in company form of business.**

# CHOICE OF FORM OF BUSINESS ENTERPRISE

## **7. Continuity :**

- **Temporary and ad-hoc business should prefer sole proprietorship and partnership form as these are easy to form and dissolve.**
- **Enterprises set up for long run and of permanent nature should prefer company form so that they can arrange large funds and expand and grow.**