

## **UNIT- 2 → FORMS OF BUSINESS ORGANISATION**

### **Q.1: What are the different types of business organization?**

Ans: Business organizations are broadly classified under three categories. They are-

- A. Private sector enterprises
- B. Public sector enterprises
- C. Joint sector enterprises

Private sector enterprises are again sub-divided into the following-

- 1. Sole Proprietorship business.
- 2. Partnership business.
- 3. Hindu Undivided Family business.
- 4. Co-operative Societies.
- 5. Joint Stock Company.

Public sector enterprises have the following sub-categories-

- 1. Departmental Organizations.
- 2. Public Corporations.
- 3. Government Companies.

### **Q.2: Define sole-proprietorship business and state its features.**

Ans: A business that is owned, controlled and managed by a single individual is a sole-proprietorship business. Examples are: hair salons, retail shops etc.

The features of sole- proprietorship business are-

- i. A sole trade business is owned, managed and controlled by one person only.
- ii. The formation and closure of this form of business is very easy as it involves no legal formality.
- iii. All profits belong to a single owner only and he alone bears the risk of business.
- iv. All business decisions are taken by the owner alone.
- v. The liability of the sole trader is unlimited. This means that when assets of the business are not sufficient to meet liabilities of the business, he is personally responsible to pay for his debts.

### **Q.3: What are the merits and demerits of sole-proprietorship business?**

Ans: Merits/advantages of sole-proprietorship business are as follows:

- i. A sole-proprietor is free to take decisions of his business alone. This helps in taking decisions without delay.
- ii. It is easy in formation and closure.
- iii. Being the only owner, he can maintain important business secrets.
- iv. A sole proprietor can keep the whole profit with himself.
- v. The owner can have direct contact with customers and employees.

The sole- proprietorship business also suffers from a number of demerits/ disadvantages, such as the following-

- i. A sole-proprietor has limited resources. Due to this, the size of such business is small.
- ii. A sole-proprietor has unlimited liability. If the business assets are not sufficient for payment of debts of the business, his personal assets can be used for making payments.
- iii. Death, illness or insolvency of the proprietor affects the working of the business.
- iv. One person may not be an expert in every function of the business and he may not be able to supervise effectively. Such limited managerial capacity will hinder the growth of business.

**Q.4: Define partnership business and state its features.**

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

Features/characteristics of partnership business are-

- i. Partnership business comes into existence through an agreement among the partners which may be oral or in writing.
- ii. At least two persons are required to start a partnership business and maximum number of members is 50, as per the Indian Partnership Act, 1932.
- iii. Partners agree to share profits in the ratio mentioned in the agreement.
- iv. Decisions of the business are taken with the consent of all the partners.
- v. Business comes to an end on the death, retirement or insolvency of any of the partners.
- vi. There is mutual agency among the partners, i.e. as an agent, a partner can represent other partners and all partners are liable to acts of one another.

**Q.5: What are the merits and demerits of partnership business?**

Ans: The merits/advantages of partnership business are:

- i. Partnership firm is easy to form and close. It comes into existence through an agreement. Registration is not compulsory.
- ii. Business decisions are jointly taken by all the partners. No partner is over-burdened.
- iii. Funds are more as compared to sole proprietorship because capital is contributed by all partners.

- iv. Business risk is jointly shared by all the partners.
- v. A partnership concern is not expected to publish its Profit and Loss Account and Balance Sheet as is necessary for a joint stock company. Thus, partners can keep business secrets to themselves.

Partnership is not free from demerits/disadvantages as well. Some are listed below-

- i. Funds are limited as maximum number of members is restricted.
- ii. Partnership comes to an end on the death, retirement or insolvency of any partners.
- iii. Lack of confidence in each other can be a cause for quarrels and may also lead to dissolution of partnership.
- iv. Partnership firms are not required to publish their financial reports. Therefore, the confidence of public in these firms is very low.

**Q.6: What are the different types of partnership?**

Ans: Partnership can be divided into certain categories:

- a) Particular Partnership: when the partnership is started for a particular work then it is called particular partnership. When the work is completed, the partnership automatically comes to an end.
- b) Fixed-period Partnership: This type of partnership is started for a specific period of time and comes to an end when that period is over.
- c) Partnership-at-will: In this type of partnership, the business of the firm continues as long as the partners desire and is terminated when any partner gives a notice of dissolution.
- d) Limited Partnership: It is the partnership in which the liability of at least one member is limited to the extent of his capital in the business and the liability of other partners is unlimited.
- e) General Partnership: This type of partnership is formed not for a particular task and the liability of members is unlimited.

**Q.7: What are the different types of partners?**

Ans: There are different kinds of partners namely,

- 1) Active Partner: A partner who contribute capital and actively participate in the management and day-to-day working of the business, is known as active partner. He may also be called a working partner.
- 2) Sleeping Partner: A partner who contributes capital, shares profit and losses but does not participate in the management and day-to-day working of the business is known as sleeping partner.

- 3) Secret Partner: A partner whose membership in the firm is not known to outsiders is known as secret partner. He also contributes capital, shares profits and losses, takes part in the workings of the business and has unlimited liability.
- 4) Nominal Partner: A partner who allows the partnership firm to use his/her name but does not contribute capital or take part in the working of the business is known as nominal partner. He does not share profits and losses of the firm but he is liable to the creditor for repayment of the firm's debts.
- 5) Partner by Estoppels or by Holding-out: When a person is not a partner, but poses himself as a partner either by words or in writing or by his acts, he is called partner by estoppels or by holding-out. Such a partner shall be liable to outsiders who deal with the firm on the presumption of that person being a partner. He also does not contribute anything to the business.
- 6) Minor as a partner: A minor is a person below 18 years of age. According to Indian Contract Act, a minor cannot enter into a contract. Thus, a minor cannot enter into a contract of partnership. However, a minor may be admitted to the benefits of an existing partnership with the consent of all partners. The minor is not personally liable for liabilities of the firm, but his share in the partnership, property and profits of the firm will be liable for debts of the firm.

#### **Q.8: What is Partnership Deed?**

Ans: The document containing the partnership agreement among partners is called Partnership Deed. It contains the terms and conditions of the partnership firm.

The Partnership Act, 1932 does not make it compulsory to have a written agreement. However, to avoid all kinds of misunderstanding and disputes among the partners, it is always good to have a written agreement known as Partnership Deed.

The contents of Partnership Deed are-

- i. Name of the firm.
- ii. Nature and location of business.
- iii. Duration of partnership.
- iv. Methods for preparing accounts and their auditing.
- v. Rules regarding banking transactions.
- vi. Profits sharing ratio.
- vii. Capital invested by each partner.
- viii. Duties and responsibilities of the partners.
- ix. Salaries and drawings of the partners.
- x. Rules applicable for accounting treatment on admission, retirement or death of the partner.
- xi. Procedure for dissolving the firm.

**Q.9: Is registration of partnership firm compulsory?**

Ans: It is not compulsory for the partnership firms to get themselves registered. However, it is beneficial to get registration done because an unregistered firm has to suffer from the following consequences-

- i. A partner of an unregistered firm cannot file a suit against the firm or other partners.
- ii. An unregistered firm cannot file a suit against third parties.
- iii. An unregistered firm cannot file a suit against the partners.

**Q.10: Explain the procedure for registration of partnership firms.**

Ans: Registration of firms is done in the following procedure-

1. Application for Registration

An application in prescribed format, duly signed by all the partners, is to be submitted to the Registrar of firms, containing the following:

- Name of the firm,
- Location of the firm,
- Name of other places from where the firm conducts its business,
- Date of admission of each partner,
- Names and addresses of all the partners,
- Duration of business.

2. Fees

A required amount of fee is to be deposited with the Registrar of firms.

3. Certificate

When the Registrar is satisfied with all the formalities, he enters the firm's name in the register of firms and issues a Certificate of Registration.