

Chapter 1: Forms of Business Organisations

Question: 1

Select the proper option from the options given below and rewrite the completed sentence.

A sole proprietorship is the _____ form of organization.

Options

- private sector
- public sector
- none of

Solution

A sole proprietorship is the **private sector** form of organisation.

Explanation:

A sole proprietorship is completely owned and managed by an individual. This kind of business is not regulated by any government and is controlled and managed by the proprietor himself. Hence, it is regarded as a private sector organisation.

Question: 2

Select the proper option from the options given below and rewrite the completed sentence.

A sole proprietorship has _____ owner/owners.

Options

- one
- two
- unlimited

Solution

A sole proprietorship has **one** owner.

Explanation:

Sole means one and proprietor means owner. Therefore, a sole

proprietorship is the one which is controlled and managed by only one or single owner.

Question: 3

Select the proper option from the options given below and rewrite the completed sentence.

A proprietor has _____ liability.

Options

- unlimited
- limited
- restricted

Solution

A proprietorship has **unlimited** liability.

Explanation:

Under unlimited liability, if the owner fails to pay the debts of the business, then his/her personal property can be utilised to pay the debt. This implies that there is no difference between the property of the owner and the business. The term "unlimited liability" pertains specifically to a sole proprietorship, as the proprietor is solely liable for the debts incurred by the business.

Question: 4

Select the proper option from the options given below and rewrite the completed sentence.

A sole trading concern ensures _____ business secrecy.

Options

- minimum
- maximum
- limited

Solution

A sole trading concern ensures **maximum** business secrecy.

Explanation:

The proprietor is the sole owner of the business; therefore, all decisions are taken by the proprietor himself. All business-related information remains with the owner. Further, it is the prerogative of the proprietor to share business information with others. Thus, a sole proprietorship guarantees maximum secrecy.

Question: 5

Select the proper option from the options given below and rewrite the completed sentence.

Business organization which is controlled by Hindu succession Act is known as _____

Options

- Joint stock company
- partnership firm
- Joint Hindu family firm

Solution

Business organisation which is controlled by Hindu Succession Act is known as **joint Hindu family firm**.

Explanation:

A joint Hindu family business is governed by the Hindu Succession Act. Enacted in 1956, it specifies the rights and liabilities of coparceners. This law has further extended the line of co-parceners to the daughters in a joint Hindu family.

Question: 6

Select the proper option from the options given below and rewrite the completed sentence.

The members of Hindu Undivided family business are called _____

Options

- Karta
- partners
- co-parceners

Solution

The members of Hindu Undivided family business are called **co-parceners**.

Explanation:

Co-parceners refer to the members or the common ownership of the ancestral property. In other words, the members of a Hindu undivided family business enjoy common ownership in the ancestral property; therefore, they are called co-parceners.

Question: 7

Select the proper option from the options given below and rewrite the completed sentence.

Limited managerial skill is the _____ of Joint Hindu family business.

Options

- feature
- limitation
- advantage

Solution

Limited managerial skills is the **limitation** of Joint Hindu family business.

Explanation:

The head of the family, also known as Karta, manages and controls the family business whereas; other members cannot interfere in the decisions of business. Thus, as a joint Hindu family business is managed and controlled by only one person, it results in limited ideas and management.

Question: 8

Select the proper option from the options given below and rewrite the completed sentence.

The Karta in Joint Hindu family Business has _____ Liability.

Options

- Unlimited
- limited
- joint

Solution

The Karta in Joint Hindu family business has **unlimited** liability.

Explanation:

The Karta's property can be used to pay the liabilities of the business if the business assets are not sufficient to pay off the debts, thus, he has unlimited liability. The liabilities of coparceners are limited.

Question: 9

Select the proper option from the options given below and rewrite the completed sentence.

The Head of Joint Hindu family Business is called as _____.

Options

- Proprietor
- Karta
- Director

Solution

The head of a joint Hindu family business is called **Karta**.

Explanation:

The Karta is the eldest male member of a joint Hindu family who controls and manages the joint Hindu family business. He takes all the decisions relating to the family business and has unlimited liability.

Question: 10

The maximum number of partners for a firm carrying on banking business is

Options

- ten
- twenty
- seven

Solution

The maximum number of partners for a firm carrying on banking business is **ten**.

Explanation:

The maximum number of partners in a banking business is 10. For other businesses, the maximum number of partners is 20.

Question: 11

Indian Partnership Act was passed in the year.....

Options

- 1912
- 1923
- 1932

Solution

Indian Partnership Act was passed in the year **1932**.

Explanation:

The Indian Partnership Act was passed in the year 1932, According according to which the Indian Partnership Act 1932, "partnership is the relation between two or more persons who have agreed to share the profits of a business carried on by all or any of them acting for all".

Question: 12

Select the proper option from the options given below and rewrite the completed sentence.

Registration of partnership firm is _____ in Maharashtra.

Options

- Compulsory
- no compulsory
- optional.

Solution

Registration of partnership firm is **compulsory** in Maharashtra.

Explanation:

Registration of a partnership firm was made compulsory in Maharashtra with effect from 1 April 1985. It is not compulsory in other states.

Question: 13

Select the proper option from the options given below and rewrite the completed sentence.

In partnership firm the liability of partners is _____.

Options

- limited
- unlimited
- non of above.

Solution

In partnership firm the liability of partners is **unlimited**.

Explanation:

Unlimited liability imply that, if a business's assets are not sufficient to pay the business liabilities, then personal assets of the partners can be used to pay off the debts. Thus, in partnership firm the liability of partners is said to be unlimited.

Question: 14

Select the proper option from the options given below and rewrite the completed sentence.

In a partnership firm every partner is the principal as well as the _____.

Options

- agent
- karta
- partner

Solution

In a partnership firm every partner is the principal as well as the **agent**.

Explanation:

In a partnership firm, every partner is the principal as well as the agent. It means that any partner can enter into a contract with other firms by himself (as the principal), without discussing it with other partners (acting as an agent on behalf of others).

Question: 15

Select the proper option from the options given below and rewrite the completed sentence.

At least _____ persons are required to form a partnership firm.

Options

- two
- one
- three

Solution

At least **two** persons are required to form a partnership firm.

Explanation:

A partnership is not meant for one person. It involves an agreement between two or more persons. Under partnership, two or more person comes into contact with each other and agrees to share profit or loss equally or in some decided ratio.

Question: 16

Select the proper option from the options given below and rewrite the completed sentence.

The maximum number of members in a private limited company are _____

Options

- 50
- 40
- 20

Solution

The maximum number of members in a private limited company are **50**.

Explanation:

As per the Companies Act 1956, the number of members in a private limited company is minimum 2 and maximum 50. On the other hand, in public limited companies, minimum 7 members are required and there is no limit for the maximum number of members.

Question: 17

Select the proper option from the options given below and rewrite the completed sentence.

The liability of the shareholders in the public limited joint stock company is _____.

Options

- limited
- unlimited
- collectively

Solution

The liability of the shareholders in the public limited joint stock company is **limited**.

Explanation:

The liability of shareholders is limited to the amount of their investment in the shares. Because of the company's legal status, the company's liabilities are its own; thus, personal property of shareholders cannot be used to pay the liabilities.

Question: 18

Select the proper option from the options given below and rewrite the completed sentence.

The elected representatives of shareholders are called _____.

Options

- Directors
- Members
- Owners

Solution

The elected representatives of shareholders are called **directors**.

Explanation:

Directors are the representatives of shareholders in a company. This is because the number of shareholders is large and they may belong to different places across the country. Therefore, they cannot take part in meetings. Thus, directors are elected or chosen to attend meetings on their behalf.

Question: 19

Select the proper option from the options given below and rewrite the completed sentence.

A joint stock company is an Artificial person created by _____.

Options

- law
- public
- directors

Solution

A joint stock company is an artificial person created by **law**.

Explanation:

A joint stock company is an artificial person created by the law. It cannot be seen physically but it has a name, it uses the common seal in place of its signature and it can enter into contracts.

Question: 20

Select the proper option from the options given below and rewrite the completed sentence.

Registration of a Joint stock company is _____.

Options

- compulsory
- not necessary
- optional

Solution

Registration of a joint stock company is **compulsory**.

Explanation:

According to the Indian Companies Act 1956, every Indian company has to be registered with the Registrar of Companies.

Question: 21

Select the proper option from the options given below and rewrite the completed sentence.

The minimum numbers of persons required for the registration of a private company is _____.

Options

- 5
- 2
- 7

Solution

The minimum numbers of persons required for the registration of a private company is **2**.

Explanation:

A private company is formed with minimum two persons. Thus, it can be registered when there are atleast two members. On the other hand, a public limited company is formed with minimum 7 members.

Question: 22

Select the proper option from the options given below and rewrite the completed sentence.

The minimum number of Directors in a public company are _____.

Options

- two
- three
- five.

Solution

The minimum number of directors in a public company are **three**.

Explanation:

A public company needs to have at least three directors. On the other hand, a private company must have at least two directors.

Question: 23

Select the proper option from the options given below and rewrite the completed sentence.

The minimum amount of paid up capital for public company is _____.

Options

- Five lakhs
- one lakh
- ten lakhs

Solution

The minimum amount of paid up capital for public company is **five lakhs**.

Explanation:

According to Section 3(I)(4) of the Companies Act 1956, the minimum amount of paid-up capital for a public company is five lakhs. Whereas, it is 1 lakh in case of private company.

Question: 24

Select the proper option from the options given below and rewrite the completed sentence.

The minimum of members allowed in a co-operative society is _____.

Options

- 20
- 10
- 7

Solution

The minimum of members allowed in a co-operative society is **10**.

Explanation:

A co-operative society can be formed with a minimum of 10 members. There is no maximum limit on the number of members in a co-operative society.

Question: 25

Select the proper option from the options given below and rewrite the completed sentence.

In a co-operative society the principle followed is _____.

Options

- one share one vote

- one man one vote
- on vote.

Solution

In a co-operative society the principle followed is **one man one vote**.

Explanation:

“One man, one vote” means that equal voting rights are given to all members of a co-operative society. Hence, there exists a democratic style of management in a co-operative society.

Question: 26

Select the proper option from the options given below and rewrite the completed sentence.

The Co-operative societies act was passed in the year _____

Options

- (a) 1932
- (b) 1912
- (c) 1956

Solution

Question: 27

Select the proper option from the options given below and rewrite the completed sentence.

The Maharashtra State co-operative societies Act was came in force in _____.

Options

- 1956
- 1960
- 1932

Solution

The Maharashtra State co-operative societies Act came in force in **1960**.

Explanation:

In 1960, the Maharashtra State Co-operative Societies Act was passed. All

co-operative societies in Maharashtra are required to register themselves under the Maharashtra State Co-operative Societies Act.

Question: 28

Select the proper option from the options given below and rewrite the completed sentence.

While selecting the place of business _____ is important.

Options

- locality
- region
- capital

Solution

While selecting the place of business **locality** is important.

Explanation:

Availability of raw material, labor, modes of transportation and other facilities are important for any business. Thus, while selecting the place of business, it is important to consider the locality and ensure that all these components are easily available.

Question: 29

Select the proper option from the options given below and rewrite the completed sentence.

From the point of continuity _____ business organizations is the most suitable.

Options

- company
- partnership
- sole proprietorship

Solution

From the point of continuity **company** business organisation is the most suitable.

Explanation:

A joint stock company enjoys a continuous and stable life. This feature is

known as perpetual succession, which means that the company remains unaffected by the death, retirement, insolvency or insanity of its members. Thus, from the point of continuity, a company form of business organisation is the most suitable.

Question: 30

Match the correct pairs.

	Group "A"		Group "B"
a)	Private company	1)	Compulsory
b)	Public company	2)	Minimum 7 members
c)	Common Seal	3)	Maximum 50 members
d)	Registration of a company	4)	61% share capital
e)	Government company	5)	51% share capital
		6)	Symbol of a company
		7)	Optional
		8)	Simple formation
		9)	Easy dissolution
		10)	Hindu succession Act 1956

Solution

	Group A		Group B
a)	Private company	3)	Maximum 50 members
b)	Public company	2)	Minimum 7 members
c)	Common Seal	6)	Symbol of a company
d)	Registration of a company	1)	Compulsory
e)	Government company	5)	51% share capital

Explanation:

a. A private company can have minimum 2 members and maximum 50 members. Hence, as per the definition of a private company, any company with less than two members will be regarded as a sole proprietorship firm. On the other hand, if the number of members exceeds 50, it will be regarded as a public company.

b. A public company can have a minimum of seven members, but there is no limit on the maximum number of members.

c. A company is an artificial person; therefore, it cannot sign its documents.

However, to validate the documents, the directors of the company use a common seal on behalf of the company. Hence, the common seal is regarded as the symbol of the company.

d. According to the Indian Companies Act 1956, every company has to be registered with the Registrar of Companies.

e. In a government company, minimum 51% of share capital is owned by the government and the rest 49% can be owned by the private players of the market. Therefore, the decision-making power rests with the government.

Question: 31

Match the correct pairs.

Solution

	Group A		Group B
a)	Sole proprietorship	7)	Maximum business secrecy
b)	Joint stock company	8)	Common seal
c)	Partnership Act	9)	1932
d)	Co-operative society	5)	One member, one vote
e)	Joint Hindu family firms	6)	Karta

a. A sole trading concern ensures maximum business secrecy. All the information related to the business remains with the owner and it is up to him whether he wants to share the information with others or not. So, others cannot take undue advantage.

b. In 1956, the Indian Companies Act was enacted. It specifies the rules and regulations for companies.

c. The Indian Partnership Act was passed in 1932. As per the act, "partnership is the relation between the persons who have agreed to share the profits of a business carried on by all or any of them acting for all".

d. In a co-operative society, the principle of "one man, one vote" is followed. It means that one person can cast vote only once. This gives equal voting rights to all members of a co-operative society.

e. The head of a joint Hindu family business is called the Karta. He is the eldest male member of a joint Hindu family. He controls and manages the business and has unlimited liability.

Question: 32

Write a word or a phrase or a term which can substitute the following.
The business organization which has minimum ten members.

Solution

The business organisation which has minimum ten members - **Co-operative society.**

Explanation:

As per the Co-operative Societies Act 1912, minimum 10 persons are required to start a co-operative society.

Question: 33

Write a word or a phrase or a term which can substitute the following.
The type of commercial organization established for providing services to its members.

Solution

The type of commercial organisation established for providing services to its members- **Co-operative society.**

Explanation:

The purpose of a co-operative society is not to earn profits but to provide services to its members. It is registered under the Cooperative Societies Act 1912.

Question: 34

Write a word or a phrase or a term which can substitute the following.
An elected body of representatives of a co-operative organization for its day-to-day administration.

Solution

An elected body of representatives of a co-operative organisation for its day to day administration- **Managing committee.**

Explanation:

A cooperative society is formed to provide services to its members. It is managed and controlled by the managing committee which is a body that consists of elected representatives of cooperative organisation.

Question: 35

Write a word or a phrase or a term which can substitute the following.
The rules and regulations laid down by the managing committee of a co-operative organization.

Solution

The rules and regulation laid down by the managing committee of a co-operative organisation- **one member one vote.**

Explanation:

The rules and regulation laid down by the managing committee of a co-operative organisation is 'one member one vote'. This implies that, in a co-operative organisation, any decision or rule is passed only after consulting each member. It is done through voting, where each member's vote is counted as one vote. If the majority is in favor, then the rule is passed, otherwise not.

Question: 36

Write a word or a phrase or a term which can substitute the following.
The owner is the sole manager and decision maker of his business.

Solution

The owner is the sole manager and decision maker of his business- **Sole proprietorship.**

Explanation:

In a sole proprietorship, the business is owned and managed by one individual. This individual is solely responsible of the business and doesn't share profits and loss with anyone.

Question: 37

Write a word or a phrase or a term which can substitute the following.
The commercial organization which has maximum secrecy.

Solution

The commercial organisation which has maximum secrecy- **Sole proprietorship.**

Explanation:

A sole trading concern ensures maximum business secrecy. All the information related to the business remains with the owner and it is up to him whether he wants to share the information with others or not. So, others cannot take undue advantage.

Question: 38

Write a word or a phrase or a term which can substitute the following.
'One man show' type of business organization.

Solution

One man show type of business- **Sole proprietorship.**

Explanation:

A sole proprietorship is owned, controlled and managed by one person. Therefore, it is also known as one-man show. The proprietor receives all the profits. At the same time, he/she is responsible for the losses.

Question: 39

Write a word or a phrase or a term which can substitute the following.
An artificial person created by law.

Solution

An artificial person created by law- **Joint Stock company.**

Explanation:

A joint stock company is created as a separate legal entity. It is independent of its members. It cannot be seen physically, but it has a name, it uses the common seal in place of its signature and it can enter into contracts.

Question: 40

Write a word or a phrase or a term which can substitute the following.
The senior most family member of joint Hindu family firm.

Solution

The senior most family member of Joint Hindu Family Firm- **Karta.**

Explanation:

The eldest male member of a joint Hindu family business is called Karta. He controls and manages the business. Other members are called coparceners.

Question: 41

Write a word or a phrase or a term which can substitute the following.
The members of the Joint Hindu family firm.

Solution

The members of the Joint Hindu Family Firm- **Co-parceners.**

Explanation:

The members of a joint Hindu family business are called coparceners. The word "coparceners" means "common ownership in the ancestral property". The head of the business is called Karta.

Question: 42

Write a word or a phrase or a term which can substitute the following.

A partner who gives his name to a partnership firm.

Solution

A partner who gave his name to partnership firm- **nominal partner**.

Explanation:

A nominal partner is the one who only lends his name to the business. He neither contributes capital nor shares the profits or losses of the business.

Question: 43

Write a word or a phrase or a term which can substitute the following.

A partner in partnership firm who takes active participation in day to day work.

Solution

A partner in partnership firm who takes active participation in day to day work- **Active Partner**.

Explanation:

Active partners are the one who contribute capital and take part in the management of the business. They share profits and losses and have unlimited liability.

Question: 44

Distinguish between the following.

Sole Trading concern and partnership firm.

Solution

Basis of Difference	Sole Trading Concern	Partnership Firm
Formation	Formed at the will of the owner.	Formed with a mutual agreement (oral or written) among the partners.
Management and control	Managed and controlled solely by the owner.	Management and control of ownership are shared by the partners.
Sharing of profits and losses	Profits and losses belong to the owner.	Profits and losses are shared among the partners in a predecided ratio.

Number of members	Only one member (owner) runs it.	Minimum-2, Maximum (in case of a banking business)- 10, Maximum (in case of ordinary business)- 20.
Governance	There is no regulating act to govern it.	It is governed by the Indian Partnership Act 1932.
Decision making	Decision making is rapid, as all the decisions are taken by the sole proprietor.	Decision making is relatively delayed, as it requires the consent of all partners.

Question: 45

Distinguish between the following.

Joint Hindu family firm and Sole Trading concern

Solution

Basis of Difference	Joint Hindu Family Firm	Sole Trading Concern
Members	No limit on the maximum number of members in a family business.	Has only one member (owner).
Continuity	It continues even after the death of the Karta. The next eldest member of the family becomes the Karta.	It comes to an end after the death, lunacy or insolvency of the owner.
Sharing of profits	Profits and losses are shared by the coparceners.	Profits or losses belong to the owner and are not shared with anyone.
Governance	It is governed by the Hindu laws & the Hindu Succession Act 1956.	There is no regulating act.

Liability	Liability of all members is limited, but Karta has unlimited liability.	Liability of the sole proprietor is unlimited.
Decision making	All decisions are taken by the Karta.	All decisions are taken by the sole proprietor.

Question: 46

Distinguish between the following.
Joint Hindu Family firm and Partnership

Solution

Basis of Difference	Joint Hindu Family Firm	Partnership Firm
Regulating Act	Governed by the Hindu laws & the Hindu Succession Act 1956.	Governed by the Indian Partnership Act 1932.
Number of members	Minimum: 2 Maximum: No limit	Minimum: 2 Maximum: 10 for banking business and 20 for other businesses
Minor	Minors can be members	Minors cannot be members
Liability	Liability of all members is limited, but the liability of the Karta is unlimited.	Liability of the partners is unlimited
Management and control	Management and control lie in the hands of the Karta.	Management and control are shared by the partners
Decision making	All decisions are taken by the Karta.	Any decision requires the consent of all partners.

Question: 47

Distinguish between the following.
Partnership firm and Joint Stock company

Solution

Basis of Difference	Partnership Firm	Joint Stock Company
Regulating Act	Governed by the Indian Partnership Act 1932	Governed by the Companies Act 1956.
Number of members	Minimum: 2 Maximum: 10 for banking business and 20 for other businesses	In case of a private company: Minimum: 2 Maximum: 50 In case of a public company: Minimum: 7 Maximum: No limit
Liability	Partners have unlimited liability.	Shareholders have limited liability to the extent of the unpaid amount on the shares held by them.
Management and control	Management and control are shared by partners.	Management and control lie in the hands of the managing director.
Formation	Easy to form, as there are no legal formalities.	Difficult to form, as there are many legal formalities.
Financial resources	It can raise limited financial resources.	It can raise a large amount of financial resources.

Question: 48

Distinguish between the following.
Joint Hindu family firm and Joint stock company

Solution

Basis of Difference	Joint Hindu Family Firm	Joint Stock Company

Governance	Governed by the Hindu laws	Governed by the Companies Act 1956
Number of members	Minimum: 2 Maximum: No limit	In case of a private company: Minimum: 2 Maximum: 50 In case of a public company: Minimum: 7 Maximum: No limit
Minor	Minors can be members	Minors cannot be members
Management and Control	Managed and controlled by the Karta.	Managed and controlled by the managing director.
Liability	Karta has unlimited liability; other members enjoy limited liability.	Shareholders have limited liability to the extent of the unpaid amount on the shares held by them.
Formation	Easy to form, as few legal formalities need to be fulfilled.	Comparatively difficult to form, as several legal formalities need to be fulfilled.

Question: 49

Distinguish between the following.

Private Limited company and Public limited company

Solution

Basis of Difference	Private Limited Company	Public Limited Company
Number of members	Minimum: 2 Maximum: 50	Minimum: 7 Maximum: No limit
Number of directors	Minimum two directors are required.	Minimum three directors are required

Minimum paid-up capital	Rs 1 lakh	Rs 5 lakhs
Prospectus	Not compulsory to issue prospectus or a statement in lieu of prospectus	Compulsory to issue prospectus or a statement in lieu of prospectus (in case of absence of prospectus).
Minimum subscription	Minimum subscription is not required for a private company.	Minimum subscription is required for a public company.
Share certificates	It cannot issue share certificates.	It can issue share certificates.

Question: 50

Distinguish between the following.

Sole trading concern and Joint stock company

Solution

Basis of Difference	Sole Trading Concern	Joint Stock Company
Governance	Not governed by any law	Governed by the Companies Act 1956.
Members	It has only one member who is the owner of the business.	In case of a private company: Minimum: 2 Maximum: 50 In case of a public company: Minimum: 7 Maximum: No limit
Liability	Liability of the sole owner is unlimited.	Shareholders have limited liability to the extent of the unpaid amount on the shares held by them.
Formation	Easy to form, as there are no legal formalities.	Difficult to form, as there are several legal formalities.
Decision making	All decisions are taken solely by the sole proprietor.	All decisions are taken by the board after the approval of shareholders.

Management and control	Management and control lie in the hands of the owner.	Management and control lie in the hands of the managing director.

Question: 51

Write short notes on the following.

Features of a proprietorship

Solution

Features of a proprietorship:

i. Easy formation and closure: This form of organisation requires minimum legal formalities while forming and closing down the business.

ii. Unlimited liability: A sole proprietor has unlimited liability; this implies that the personal assets of the proprietor can be utilised in case the business assets fall short of debt obligations.

iii. Direct incentives: As the sole proprietor enjoys all the profits and bears all the risks and losses associated with the business, he/she gets direct incentives while running the business.

iv. Single ownership: It is managed and controlled single-handedly by the proprietor only.

v. Secrecy of information: In a proprietorship firm, all the decisions are taken by the proprietor; therefore, he/she retains maximum business-related secrecy.

vi. Minimum government regulations: As a sole proprietorship firm is not governed by any laws and acts, there is minimum government interference in its operations.

Question: 52

Write short note on the following.

Merits of a proprietorship

Solution

Merits of a proprietorship:

i. Ease of formation and closure: There are hardly any legal formalities required while forming and shutting down a sole proprietorship firm; hence, its formation is relatively easy.

ii. Quick decision making: A sole proprietor enjoys complete control over the business. This makes the decision-making process quick and easy.

iii. Minimum government regulations: There is minimum interference by the government, as this business form is not governed by any laws and acts.

iv. Direct incentives: The profits and losses wholly belong to the proprietor. Hence, he/she enjoys direct incentives for operating the business.

v. High degree of flexibility: There exists a high degree of operational flexibility, as all the decisions are taken by the proprietor alone. Thus, for any variation in business plans, the proprietor enjoys complete flexibility.

vi. Secrecy of information: In a proprietorship firm, all the decisions are taken by the proprietor; therefore, he/she retains maximum business-related secrecy.

Question: 53

Write short note on the following.
Features of partnership firm.

Solution: 1

Features of a partnership firm:

i. Risk bearing: The risk associated with the fluctuations in the firm's profits is borne jointly by the partners.

ii. Decision making and control: In a partnership firm, decisions are jointly taken by the partners. Also, the operations are controlled jointly by the partners.

iii. Unlimited liability: In a partnership firm, all the partners have unlimited liability. That is, all the partners are liable for the debts of the firm to an unlimited extent.

iv. Agreement: A partnership requires an agreement (either oral or written) between two or more partners.

v. Number of members: In a partnership firm, the minimum and maximum numbers of members are 2 and 20, respectively. However, for a banking business, the maximum number of members is 10.

vi. Continuity: According to the Partnership Act, the death, lunacy, insolvency or insanity of any of the partners ends the partnership.

Solution: 2

The following are the five features of a partnership firm:

i. Easy formation: A partnership firm requires an agreement (oral or written) among the members on the share of profits and losses.

ii. Unlimited liability: In a partnership, all partners have unlimited liability. That is, all partners are liable for the debts of the firm to an unlimited extent.

iii. Risk bearing: The risk associated with the fluctuations in the firm's profits is borne jointly by the partners. This reduces the burden on each partner.

iv. Sharing of decision making and control: In a partnership firm, the decision making and control are jointly shared by the partners.

v. Number of members: In a partnership business, the minimum number of members is 2 and the maximum number of members is 20. However, for a banking business, the maximum number of members is 10.

Question: 54

Long answer type question.

Define a Joint Hindu family firm. Explain its merits and demerits.

Solution

A joint Hindu family firm is owned and managed by the members of a Hindu undivided family. Membership in this business is by birth; that is, as soon as a child is born in the family, he/she becomes the member of the family business. This type of organisation is governed by the Hindu Succession Act 1956.

Merits of a joint Hindu family business:

i. Easy formation: The formation of a joint Hindu family business requires the existence of ancestral property and at least two family members. It is governed by the Hindu Succession Act 1956 and does not require any agreement for its formation.

ii. Continuity: The continuity of a joint Hindu family business remains unaffected by the death of the Karta. This is because, in case of the death of the existing Karta, the next eldest member of the family takes over his

responsibilities. Thus, the business continues to operate even after the death of the existing Karta.

iii. Limited liability: In a joint Hindu family business, the liability of all members is limited to the amount of capital invested by them in the business. In other words, the personal property of the members cannot be used to meet the liabilities of the business. However, the liability of the Karta is unlimited.

Demerits of a joint Hindu family business:

i. Limited capital: The amount of capital available with a joint Hindu family firm is limited to the amount of inherited wealth. The limited availability of funds, in turn, restricts the scope of expansion of the business.

ii. Limited managerial skills: The management of the family business lies in the hands of the Karta, who may not be professionally skilled to handle all the business operations. Thus, the efficiency in the management of the business solely depends on the managerial skills of the Karta.

iii. Unlimited liability of Karta: The liability of the Karta is unlimited in a joint Hindu family firm. In other words, if the business assets are insufficient to meet the business debts, then the personal property of the Karta can be utilised for the purpose.

Question: 55

Long answer type question.

Define a Joint Hindu family firm. Explain features of joint Hindu family firm.

Solution

A joint Hindu family firm is owned and managed by the members of a Hindu undivided family. Membership in this business is by birth; this means that as soon as a child is born in the family, he/she becomes the member of the family business. This type of organisation is governed by the Hindu Succession Act 1956.

The following characteristics distinguish a joint Hindu family business from other forms of organisations:

i. Easy formation: The formation of a joint Hindu family business requires the existence of ancestral property and at least two family members. It is governed by the Hindu Succession Act 1956 and does not require any agreement for its formation.

ii. Liability: In a joint Hindu family business, the liability of all members

except the Karta is limited to their amount of share in the family property. However, the liability of the Karta is unlimited.

iii. Control: The Karta is solely responsible for all the management and decision making in the family business. In other words, he has complete control over the business. Other members have a share in the decision making; however, the final decision is taken by the Karta only.

iv. Continuity: The continuity of a joint Hindu family business remains unaffected by the death of the Karta. This is because, in case of the death of the existing Karta, the next eldest member of the family takes over his responsibilities. Thus, the business continues to operate even after the death of the existing Karta.

v. Status of minors: In a joint Hindu family, membership in the family business is by birth. This means that as soon as a boy is born in a Joint Hindu family, he is automatically entitled to a share in the family business. In such cases, a minor has equal ownership rights over the inherited property. However, his liability is limited to the extent of his share in the joint property.

v. Quick decision making: In a joint Hindu family business, the Karta takes all important decisions; he need not consult other members of the family. Thus, it results in quick decision making.

Question: 56

Long answer type question.

Define Co-operative society. Explain its features.

Solution

The word "co-operative" means "an organisation wherein the stakeholders work with one another". Thus, a co-operative society is a voluntary association of individuals who work together to protect or promote their common interests.

Features of a co-operative society:

i. Separate legal entity: The registration of a co-operative society is compulsory under the Co-operative Societies Act 1912. Once the registration is complete, the company is granted the status of a separate legal entity. This implies that it can hold properties in its name and enter into contracts. Also, the company can sue others and can be sued by others.

ii. Management and control: In a co-operative society, the management and control lie in the hands of a managing committee formed by its

members.

iii. Democratic Management: A co-operative society is a democratic form of organisation, as it is managed and controlled by a managing committee formed by its members following the principle of "one member, one vote".

iv. Equal voting rights: A co-operative society grants equal voting rights to all its members. This implies that each member in the society has an equal voting right, irrespective of the amount of capital contributed by him/her in the society.

v. Limited liability: In a co-operative society, the liability of all members is limited to amount of capital invested by them in the business. In other words, the personal property of the members cannot be used for paying off the liabilities of the business.

vi. Service motive: The primary objective of a co-operative organisation is to provide services to its members, while its secondary objective is to earn profit. Thus, it works in the interest of its members and provides goods and services to them.

Question: 57

Long answer type question.

Define Co-operative society. Explain its merits and demerits.

Solution

The word "co-operative" means "an organisation wherein the stakeholders work with one another". Thus, a co-operative society is a voluntary association of individuals who work together to protect or promote their common interests.

Merits of a co-operative society:

i. Ease of formation: The formation of a co-operative society is quite easy, as it requires the induction of only 10 adult members. Its registration procedure under the Co-operative Societies Act 1912 is quite simple.

ii. Continued existence: A co-operative society is a stable form of organisation, as it enjoys the status of a separate legal entity. As a result, the life of a co-operative society remains unaffected by the death, insolvency or insanity of its members.

iii. Democratic management: In co-operative societies, the management is democratic in nature. This implies that every member has a voting right and the decision with maximum votes is implemented. This welcomes the participation of every member in the voting process.

Limitations of a co-operative society:

i. Excessive government control: Co-operative societies have to follow rules and regulations framed by the co-operative departments of the concerned state governments. These rules include submission and auditing of accounts.

ii. Inefficiency in management: The management of a co-operative society generally comprises part-time or inexperienced people. They may not be skilled enough to handle managerial functions effectively. Consequently, co-operative societies often lack efficiency.

iii. Limited resources: All resources available with a co-operative society are limited to the extent of capital contribution by its members. The limited availability of resources restricts its scope of expansion.

Question: 58

Long answer type question.

Define Joint Stock Company. Explain its merits and demerits.

Solution

A joint stock company refers to an organisation formed by a group of persons to perform business activities together. It is considered the most superior form of business organization.

Merits of a joint stock company:

i. Limited liability: In a joint stock company, the liability of the shareholders is limited to the amount paid by them for the purchase of the shares. This implies that in case of unpaid debts, personal property of the shareholders cannot be used for the payment of outstanding business liabilities. Only the company's assets and funds can be used for the payment of debts.

ii. Perpetual existence: A company, being a separate legal entity, cannot come to an end by itself. It continues to operate even after the death of all its members. This is because the death, retirement or insolvency of any of the members of the organisation cannot cease its existence. Thus, a company enjoys perpetual existence.

iii. Scope for expansion: A company can easily grow and expand its capital. This is because the capital of a company comprises the amount received on its shares. As a result, the company enjoys a large financial resource base. Therefore, in case of expansion, a company can raise additional funds by issuing new shares.

Limitations of a joint stock company:

i. Complexity information: The formation of a company involves a large number of procedures and formalities. The legal procedures involved in the formation are not only lengthy but also expensive.

ii. Impersonal work environment: The management and ownership in a company are separate. Also, the compensation of the management is not directly affected by the profits of the company. This results in lack of efficiency on part of the managers. Moreover, because of the large size of the company, it becomes difficult for the owners to keep track of all operations of the business.

iii. High degree of regulations: A company is required to follow legal formalities like auditing of the accounts, filing of the reports and documents and voting. These legal provisions make it difficult for the company to operate freely.