

- SOLE PROPRIETORSHIP
- PARTNERSHIP
- HINDU UNDIVIDED FAMILY BUSINESS
- CO-OPERATIVE SOCIETY
- COMPANY
- FORMATION OF COMPANY AND CHOICE OF FORM OF BUSINESS ORGANISATION

SOLE PROPRIETORSHIP

Concept Explanation: Sole proprietorship is a form of business organization owned, managed, and controlled by a single individual. The owner bears all risks and receives all profits. It is the simplest and most common form of business.

Key Definitions / Features

- According to J. L. Hansen, "Sole trader is a type of business unit where a person is solely responsible for providing the capital, bearing the risk, and managing the business."
- Unincorporated business with no legal distinction between owner and business.
- Owner has unlimited liability.
- Business does not have a separate legal identity.
- Easy to start and close.
- Death or incapacity of owner affects business continuity.

Merits

- Quick decision making.
- Confidentiality of information.
- Direct incentive to owner.
- Sense of accomplishment.
- Ease of formation and closure.

Limitations

- Limited resources.
- Limited life of business.
- Unlimited liability.
- Limited managerial ability.

Illustrative Example

A local grocery shop owned and managed by one person is a typical sole proprietorship.

Practice Set

Level 1 – Easy

Define sole proprietorship and list two features.

Level 2 – Moderate

Explain the merits and limitations of sole proprietorship.

Level 3 – Challenging

Discuss the impact of unlimited liability on the sole proprietor.

Answer Key

Answers should include definitions, features, merits, limitations, and explanation of unlimited liability with examples.

Quick Reference

- Owner: Single individual
- Liability: Unlimited
- Legal status: Not separate
- Control: Owner

Glossary

- **Unlimited Liability:** Owner is personally responsible for all business debts.
- **Proprietorship:** Business owned by one person.

PARTNERSHIP

Concept Explanation: Partnership is a business organization where two or more persons agree to share profits and losses of a business carried on by all or any one of them acting for all.

Key Definitions / Features

- Defined by Indian Partnership Act, 1932 as a relation between persons sharing profits.
- Formed through a legal agreement called partnership deed.
- Partners have unlimited liability.
- Profits and losses shared in agreed ratio.
- Mutual consent required for decisions.
- Minimum 2 partners, maximum 50 as per government rules.
- Each partner acts as agent and principal for others (mutual agency).

Merits

- Ease of formation and closure.
- Balanced decision making.
- More funds available.
- Sharing of risks.
- Secrecy maintained.

Limitations

- Unlimited liability.
- Limited resources compared to companies.
- Possibility of conflicts among partners.
- Lack of continuity.
- Lack of public confidence.

Types of Partnership

- **On basis of duration:**
 - Partnership at will: Can be terminated by any partner giving notice.
 - Particular partnership: Ends when purpose is fulfilled or time expires.
- **On basis of liability:**
 - General partnership: All partners have unlimited and joint liability.
 - Limited partnership: At least one partner has unlimited liability; others have limited liability.

Partnership Deed Contents

- Name of firm
- Nature and location of business
- Duration
- Investment by partners
- Profit and loss sharing ratio
- Duties and obligations
- Interest on capital and drawings
- Dissolution procedure

- Dispute resolution method

Registration of Partnership Firm

Optional but advisable. Non-registration consequences include inability to sue or be sued by partners or third parties.

Types of Partners

- **Active/Managing Partner:** Participates actively and acts as agent for others.
- **Dormant/Sleeping Partner:** Does not participate in daily business but shares profits and losses.
- **Nominal Partner:** Lends name but no capital or profit share; liable to outsiders.
- **Partner by Estoppel:** Represented as partner though not one; liable accordingly.
- **Secret Partner:** Association unknown to public.

Practice Set

Level 1 – Easy

Define partnership and list its features.

Level 2 – Moderate

Explain merits and limitations of partnership.

Level 3 – Challenging

Discuss the importance of partnership deed and consequences of non-registration.

Answer Key

Answers should cover definitions, features, types, deed contents, registration, merits, limitations, and partner types.

Quick Reference

- Minimum partners: 2
- Maximum partners: 50
- Liability: Unlimited
- Legal status: Not separate

Glossary

- **Partnership Deed:** Written agreement governing partnership terms.
- **Mutual Agency:** Each partner acts as agent and principal for others.

HINDU UNDIVIDED FAMILY BUSINESS

Concept Explanation: A business owned and managed by members of a Hindu Undivided Family (HUF) governed by Hindu law. It is unique to India.

Key Definitions / Features

- Business carried on by family members, including three successive generations.
- Control lies with the eldest male member called Karta.
- Members other than Karta have limited liability; Karta has unlimited liability.
- Business continues after death of Karta, with next eldest member becoming Karta.
- Minors can be members.
- According to Hindu Succession (Amendment) Act, 2005, daughters are also coparceners.

Merits

- Effective control by Karta.
- Continuity of business.
- Limited liability for members except Karta.
- Increased loyalty and cooperation.

Limitations

- Limited resources.
- Unlimited liability of Karta.
- Dominance of Karta may limit other members.
- Limited managerial skills.

Practice Set

Level 1 – Easy

What is a Hindu Undivided Family business? List its features.

Level 2 – Moderate

Explain the role of Karta in HUF business.

Level 3 – Challenging

Discuss the advantages and limitations of HUF business.

Answer Key

Answers should include definitions, features, role of Karta, merits, and limitations.

Quick Reference

- Control: Karta
- Liability: Karta unlimited, others limited
- Continuity: Perpetual

Glossary

- **Karta:** Eldest male member managing HUF business.
- **Coparcener:** Family member with ownership rights.

CO-OPERATIVE SOCIETY

Concept Explanation: A voluntary association of individuals formed to promote their economic interests through mutual help and self-help.

Key Definitions / Features

- Registered under Co-operative Societies Act, 1912.
- Requires minimum 10 adult members to form.
- Separate legal entity distinct from members.
- Limited liability of members.
- Control vested in elected managing committee.
- Service motive rather than profit motive.
- Voluntary membership.

Merits

- Equality in voting rights.
- Limited liability.
- Stable existence.
- Economy in operations.
- Government support.
- Ease of formation.

Limitations

- Limited resources.
- Inefficiency in management.
- Lack of secrecy.
- Government control.
- Differences of opinion among members.

Types of Co-operative Societies

- Consumer's co-operative societies: Protect consumer interests.
- Producer's co-operative societies: Support small producers.

- Marketing co-operative societies: Help small producers sell products.
- Farmer's co-operative societies: Provide inputs to farmers at reasonable cost.
- Credit co-operative societies: Provide easy credit to members.
- Co-operative housing societies: Help low-income people build houses.

Practice Set

Level 1 – Easy

Define co-operative society and list its features.

Level 2 – Moderate

Explain merits and limitations of co-operative societies.

Level 3 – Challenging

Discuss different types of co-operative societies with examples.

Answer Key

Answers should include definitions, features, types, merits, and limitations.

Quick Reference

- Members: Minimum 10
- Liability: Limited
- Legal status: Separate entity
- Motive: Service

Glossary

- **Co-operative Society:** Voluntary association for mutual economic benefit.
- **Managing Committee:** Elected body controlling society.

COMPANY

Concept Explanation: A company is a legal entity formed by a group of individuals to carry on business with a separate legal identity, limited liability, and perpetual succession.

Key Definitions / Features

- Artificial person created by law.
- Separate legal identity distinct from members.
- Perpetual succession.
- Limited liability of shareholders.
- Managed by Board of Directors accountable to shareholders.
- Common seal as official signature.

- Complex and time-consuming formation process.

Merits

- Limited liability protects shareholders.
- Transferability of shares.
- Perpetual existence.
- Scope for expansion and raising large capital.
- Professional management.

Limitations

- Complex formation process.
- Lack of secrecy.
- Impersonal work environment.
- Numerous regulations.
- Delay in decision making.
- Oligarchic management.
- Conflicts of interest.

Types of Companies

- **Private Company:**
 - Restricts share transfer.
 - Minimum 2, maximum 200 members.
 - Cannot invite public to subscribe shares.
 - Name ends with "Private Limited".
 - Privileges include no need for prospectus, fewer directors, and no index of members.
- **Public Company:**
 - Minimum 7 members, no maximum limit.
 - No restriction on share transfer.
 - Can invite public to subscribe shares.
- **One Person Company (OPC):**
 - Single shareholder who is a resident and citizen of India.
 - Only one director allowed.
 - Nominee appointed to take over in case of death or incapacity.
 - Exemptions from holding meetings and other compliances.

Practice Set

Level 1 – Easy

Define company and list its characteristics.

Level 2 – Moderate

Explain merits and limitations of companies.

Level 3 – Challenging

Compare private company, public company, and one person company.

Answer Key

Answers should include definitions, features, types, merits, limitations, and examples.

Quick Reference

- Legal status: Separate entity
- Liability: Limited
- Management: Board of Directors
- Existence: Perpetual

Glossary

- **Board of Directors:** Group managing company affairs.
- **Perpetual Succession:** Continuity despite changes in membership.
- **Nominee:** Person designated to take over OPC in contingencies.

FORMATION OF COMPANY AND CHOICE OF FORM OF BUSINESS ORGANISATION

Concept Explanation: Formation of a company involves a series of legal steps to create a separate legal entity. Choice of business form depends on factors like capital, liability, control, and nature of business.

Process of Formation

- **Promotion:** Conceiving business idea, feasibility studies (technical, financial, economic), name approval, appointment of professionals, preparation of documents.
- **Incorporation:** Submission of documents (Memorandum of Association, Articles of Association, consent of directors, agreements, statutory declarations, fees) to Registrar of Companies.
- **Subscription of Capital:** Raising funds from public or members through prospectus, allotment of shares.

Key Documents

- **Memorandum of Association (MOA):** Defines company objectives and relationship with outsiders. Contains clauses like Name, Registered Office, Objects, Liability, Capital.

- **Articles of Association (AOA):** Contains rules for internal management, must not contradict MOA.

Role of Promoters

- Undertake formation and set company going.
- Personally liable for contracts before incorporation if not ratified.
- Must disclose profits; cannot make secret profits.

Registration and Certificate of Incorporation

- Registrar issues Certificate of Incorporation after verifying documents.
- Company becomes legal entity from date of incorporation.
- Corporate Identity Number (CIN) allotted.

Raising Funds from Public

- SEBI approval.
- Filing prospectus.
- Appointment of bankers, brokers, underwriters.
- Minimum subscription.
- Application to stock exchange.
- Allotment of shares.

Choice of Form of Business Organisation

- Depends on cost and ease of setup.
- Liability considerations.
- Continuity of business.
- Management ability.
- Capital requirements.
- Degree of control desired.
- Nature of business activity.

Practice Set

Level 1 – Easy

List the stages in formation of a company.

Level 2 – Moderate

Explain the contents of Memorandum and Articles of Association.

Level 3 – Challenging

Discuss factors influencing the choice of form of business organisation.

Answer Key

Answers should include detailed explanation of formation stages, documents, promoter role, and choice factors.

Quick Reference

- Formation stages: Promotion, Incorporation, Capital Subscription
- Key documents: MOA, AOA
- Choice factors: Cost, liability, continuity, control, capital, nature

Glossary

- **Promotion:** Activities to bring business into existence.
- **Incorporation:** Legal registration of company.
- **Prospectus:** Invitation to public to subscribe shares.
- **SEBI:** Securities and Exchange Board of India.

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