

## Exercise

CBSE-11  
Business Studies  
**Forms of Business Organization**

### General Instructions:

- (i) Questions **1-15** are very short answer questions. These are required to be answered in **one sentence** each.
- (ii) Questions **16-35** are short answer questions. Answer to them should not normally exceed **70** words each.
- (iii) Questions **36-45** are long answer questions. The answer to them should not normally exceed **100** words each.
- (iv) Answers should be brief and to the point.

### Very short answer type

(1 mark)

- Question 1.** What is the simplest form of business organization?
- Question 2.** State the particular business firm that exists only in India.
- Question 3.** Who is a "karta"?
- Question 4.** Define co-parceners.
- Question 5.** State the inherent demerits of sole proprietorship.
- Question 6.** Name the Act that regulates the partnership form of business.
- Question 7.** Name the different types of partnership based on duration.
- Question 8.** Name the types of partnership based on liability.
- Question 9.** Is registration of a partnership firm mandatory?
- Question 10.** Is it necessary for a cooperative society to be registered?
- Question 11.** State the name of the decision making body in a cooperative society.
- Question 12.** State the minimum and maximum number of members needed in a private company.

- Question 13.** What must be used after the name of a private company?
- Question 14.** What risks are experienced by business enterprises?
- Question 15.** The artificial person that exists only in the eyes of the law is known as a \_\_\_\_\_.

### Short answer type

(2 & 3 marks)

- Question 16.** What is sole proprietorship?
- Question 17.** Define partnership.
- Question 18.** Explain joint Hindu family business.
- Question 19.** Define joint stock company.
- Question 20.** What are cooperative societies?
- Question 21.** Explain the formation and closure of sole proprietorship.
- Question 22.** Which obligations are associated with the partnership form of business?
- Question 23.** What is meant by sleeping partner in partnership form of business?
- Question 24.** What risks are related to sole proprietorship?
- Question 25.** What is meant by partnership at will?
- Question 26.** Define limited partnership.
- Question 27.** Explain voluntary membership of cooperative societies.
- Question 28.** Who is an artificial person?
- Question 29.** What do you know about producer's cooperative society?
- Question 30.** What do you mean by perpetual succession in Joint Stock Company?
- Question 31.** Give a brief overview of the transfer of interest in Joint Stock Company.
- Question 32.** Explain Oligarchic management.

**Question 33.** What is meant by conflict of interest in a company?

**Question 34.** What is farmer's cooperative society?

**Question 35.** What is a common seal?

### Long answer type

(5 marks)

**Question 36.** Explain the process of formation of company.

**Question 37.** What is a private company?

**Question 38.** Which factors determine the choice of business forms?

**Question 39.** What is a public company?

**Question 40.** Contrast between public companies and private company.

**Question 41.** State the advantages of a joint stock company?

**Question 42.** Briefly explain three types of cooperative societies.

**Question 43.** What are the drawbacks of a joint stock company?

**Question 44.** How can we characterize cooperative society?

**Question 45.** Briefly explain partnership deeds.

## Answer Key

### Very short answer type

(1 mark)

- Answer 1.** The sole proprietorship is the simplest form of business organization.
- Answer 2.** Hindu Undivided Family (HUF) or the Joint Hindu Family business is the particular business firm that exists only in India.
- Answer 3.** Karta is the controller of a joint Hindu family business.
- Answer 4.** Co-parceners are the family members of joint Hindu family business who have equal ownership rights on the ancestral property.
- Answer 5.** Financing and liabilities are the inherent disadvantages of sole proprietorship.
- Answer 6.** The partnership form of business is governed by the "Indian Partnership Act, 1932."
- Answer 7.** The two types of partnership based on duration are partnership at will and particular partnership.
- Answer 8.** There are two types of partnership on the basis of liabilities: general partnership and limited partnership.
- Answer 9.** The registration of a partnership firm is optional.
- Answer 10.** The cooperative societies must be registered under "Cooperative Societies Act, 1912."
- Answer 11.** The elected managing committee is the decision making body in a cooperative society.
- Answer 12.** The minimum and maximum number of members in a private companies are 2 and 50 respectively.
- Answer 13.** The words "Private limited" must be used after the name of a private company.
- Answer 14.** The minimum paid up capital of a public company is Rs.5 Lac.

**Answer 15.** The artificial person that exists only in the eyes of the law is known as a company.

### Short answer type

(2 & 3 marks)

**Answer 16.** The form of business organization that is owned and operated by a single entity or individual is called sole proprietorship. It is one of the most popular forms of a business organization. The formation of sole proprietorship is convenient for the small enterprises, specifically for the initial years of business operations. There are no any specific regulations for the sole proprietorship so, opening and closing of business is easy.

**Answer 17.** Partnership is a form of business organization that involves two or more individuals for pooling money, skills, and various other resources. It is governed by the "Indian Partnership Act, 1932." In the partnership form of business, the sharing of profit and loss is done on the basis of partnership agreement. The liabilities are unlimited for the partners in this form of business organization.

**Answer 18.** The form of business which is owned and operated by the family members of a Hindu undivided family is called joint Hindu family business. This form of business organization is governed by the Hindu Law. The business is controlled by the karta, who is usually the oldest male member of the family. The major features of a joint Hindu family business are limited liability, stability of existence, effective control, and loyalty among the family members.

**Answer 19.** A joint stock company is governed by the "Companies Act, 1956." It is the federation of persons which is established for the purpose of carrying business activities. These companies have legal status that is independent to its members. The joint stock company is owned by the shareholder but the board or executive directors are the controller of the business. The smaller part of the company is called share and the owner is known as shareholders.

**Answer 20.** Cooperative societies are governed by the "Cooperative Societies Act, 1912." There is a compulsion of registration for a cooperative society and only after registration it gets a distinct legal identity. It is formed by the consent of ten adults with the motive of welfare of its members. The members are the capital investors of the cooperative society and shares are issued to them in accordance with their investments.

**Answer 21.** The formation of sole proprietorship is very easy. There are very few legal formalities associated with this type of organization as there are no any particular rules or laws for these organizations. The business and owner are the same entity. Hence, owners are solely responsible for any issues.

It is the least regulated form of business and closure of these businesses depends upon the wish of the owner.

**Answer 22.** The liabilities associated with the partnership form of business are:

- There are unlimited liabilities to the partners of a firm.
- The personal assets of the partners may be used for the repayment of debt in the case of insufficient assets.
- The individual partners may also be responsible for repayment of business debt and it can be recovered from other partners in future.

**Answer 23.** In the partnership form of business, the partner whose involvement in the daily business activities is either limited or null is called sleeping partners. These partners are also known as dormant partners. The involvements of sleeping partners are in capital investments, sharing of profit and loss of the business etc. The sleeping partners also have the unlimited liability. The most important activities of the sleeping partners are providing better guidance and business contacts for the purpose of business development.

**Answer 24.** The risks associated with the sole proprietorship are:

- All the loss of the business is the sole responsibility of the proprietor.
- There is a credit risk in the business, which means the source of funding is limited, which affects the personal spending habits of the proprietors.
- There are major chances of financial errors because the proprietor is involved with the operational works.
- For the sole proprietor, no work means no income.

- Answer 25.** The partnership at will is the type of partnership on the basis of duration. These partnerships exist on the will of the partners and there is no any predefined agreement of partnership term. It means that partnership will be continued till they want the termination and there is no any obligation or liability for the same. The partnership will be terminated or dissolved after the partner gives the partnership withdrawal notice to the organization.
- Answer 26.** Limited partnership is defined as the partnership in which at least one partner has unlimited liabilities whereas the others have limited liabilities. These partners are only associated with extent of the amount of invested money in the business organization. The limited partners have no right to receive any dividends while they have direct access to the movement of income and expenses. The important advantage of this partnership is that the owners are not liable for debt of the company in general condition.
- Answer 27.** The voluntary membership is a feature of the cooperative society. It states that the cooperative societies' membership is voluntary. Any person can join the cooperative society irrespective of the gender, religion or cast. The people are free to join the society and also can leave the society anytime. There are no any restrictions for joining and leaving the cooperative society. The members required to give notice before quitting the society.
- Answer 28.** The company is known as the artificial person because like other human beings, it can own property, borrow and lend money, sue and be sued but does not have life. It comes under the "Companies Act, 1956" and its existence is independent of its members. The company also has the separate legal entity, common seal and the perpetual succession. The laws like environmental regulations can be applied on the company just like other ordinary human beings.
- Answer 29.** The producers' societies are those societies which protects the interest of small producers. It helps in eliminating the intervention of their employers. The producers' cooperative societies are divided into two groups, which are industrial service cooperatives and manufacturing cooperatives. The industrial service cooperatives are associated with selling of the output to the cooperative society. On the other hand, manufacturing cooperatives are associated with production of goods at a common place or in the houses.

- Answer 30.** The meaning of perpetual succession is that the life of company cannot be determined by its members, shareholders or anyone else. A company is created by the company law and it can be demolished or end only by law. The company cannot be dead despite of bankruptcy, death or exit of a member, stock transfer etc. These are issues which can be managed or replaced but company will run continuously.
- Answer 31.** The transfer of interest is one of the most important merits of the Joint Stock Company. Transfer of interest means the transfer of ownership of the company. It is an advantage for the investors, as whenever they require money or wants to exit from the ownership, they can transfer the ownership for the cash in an easy way. It helps the company in avoiding the investment blockage.
- Answer 32.** The oligarchic management states that the company may have hundreds of owners but only few people have the controlling power. The company law states that, a company is a democratic institution in which all the shareholders are owner of the company and the board of directors is their representatives. However, the large companies have minimum control by shareholders and all the decisions are taken by the board of directors.
- Answer 33.** Conflict of interest is one of the most important limitations of the company that must be managed intelligently. The conflict of interest arises among the various groups associated with the company due to their different desires, thought process and ideas. The demand of higher salary by an employee, demand of good quality products at cheaper cost by customers and higher returns by shareholders is a major issue that should be managed efficiently.
- Answer 34.** The farmer's cooperative societies are established for the protection of interest of the farmers. It provides better inputs at justifiable costs. The farmer's cooperative society includes farmers who want to engage in farming activities. The goal of the farmer's cooperative is to increase the productivity with help of large scale farming activities. These societies help the farmers in getting good quality of fertilizers, seeds, machinery etc.
- Answer 35.** Common seal is one of the most important features of the joint stock company. A company is created by the company law and it is an artificial person. The company acts through its board of directors with a common seal which indicates the approval. The common seal is an engraved which is equivalent to the official signature. The agreement or official papers that does not have common seal cannot bind the company legally.



**Answer 36.** The formation of a company starts with an idea. This idea may be the brainchild of an individual or a group of people for the accomplishment of a business opportunity with the help of men, money, material, and management. The formation of company consists of four stages, which are:

- Promotion Stage: It includes finding of opportunities, input requirements and funding proposition.
- Company name: The company name is required for the identification (legal and business purpose).
- Registration stage: A company will be called a registered company only if it fulfills the legal formalities.
- Fund raising: Fund raising is the important stage that deals with the capital requirement of the company.

**Answer 37.** A private company is a type of company which is operated and controlled by private individuals. It consists of members between 2 – 50, excluding the past and present employees. The private company does not provide the subscription invitation for its shares and the minimum paid up capital is Rs. 1 Lac or the amount, which is prescribed in the company law.

There is a compulsion for private companies to use the word “private limited” after its name. The private companies are bound to follow the rules and regulations of company law and the violation leads to end of being a private company and the various privileges.

**Answer 38.** The factors that influence the choice of business forms are:

- Capital availability: It is most advantageous for company and least advantageous for sole proprietorship.
- Formation cost: The formation cost is most advantageous for the sole proprietorship while least advantageous for a company.
- Ease of formation: It is most advantageous for the sole proprietorship while least for the company.
- Ownership transfer: It is most advantageous for the Public Company while least advantageous for the partnership.
- Liability: It is most advantageous for the company while least advantageous for the sole proprietorship.

**Answer 39.** A public company is a type of company which is operated and controlled by either owners or their representatives. It consists of a minimum 7 shareholders and 3 directors. The directors and the shareholders in a public company can be the same person. The public company must issue securities through the IPO (Initial Public Offering) and must be traded in one stock exchange or in Over the Counter market. The minimum share capital should be Rs.5,00,000 . The public companies have several advantages over private companies like, selling of future equity and increased access to debt markets. It is mandating for the public company to answer its shareholders.

**Answer 40.** The differences between a private company and a public company are:

<b>Basis</b>	<b>Private company</b>	<b>Public company</b>
Members	The members should be between 2 – 50	The minimum requirement is 7 members while there is no maximum limit
Directors	The minimum number of directors is 2	The minimum number of directors is 3
Paid up capital	The minimum paid up capital is Rs.1 Lac	The minimum paid up capital is Rs.5 Lac
Share transfer	Share transfer is not compulsory	Share transfer is compulsory
Invitation of share subscription	It cannot invites public for subscription of its shares	It can invites public for the subscription of its shares

**Answer 41.** The advantages of joint stock companies are:

- Natural cause: It includes risks due to the natural factors like floods, cyclones; earthquakes etc. It results in heavy loss to the business.
- Human causes: It includes dishonesty, negligence of employees, production issues, riots, strikes etc. These risks can be managed with better planning.
- Economic causes: The economic causes include the demand uncertainty, market competition, price, credit recovery from the customers, change in production method, technology change, etc. In addition to the above reasons, it also include increase in operation and production cost.
- Other causes: The unforeseen reasons such as political disturbances, troubles in national and international markets etc. can be the causes of business risks.

**Answer 42.** The three important cooperative societies are:

- Consumer's cooperative societies: It is created or formed for the protection of the consumer's interest. The members of the society are entitled for good quality of products at reasonable prices by eliminating the middleman.
- Producer's cooperative societies: It came into existence for the protection of small producers. The priority is to enhance bargaining power for the small producer and to fight against the big capitalists.
- Farmer's cooperative societies: It includes the farmers for the protection of their interest. It provides better inputs for the production at reasonable price by gaining benefits of large scale farming.

**Answer 43.** The drawbacks faced by joint stock companies are:

- Excessive legal formalities: The formation of joint stock companies has excessive legal formalities. Hence, it consumes too much time.
- Delay in decision making: The decision making process can be lengthy due to red-tapism. It results in loss of opportunities.
- Separation of ownership and control: The management may not operate the company in an efficient manner because the shareholders do not participate in the daily affairs of the company.
- Conflict: The disunity among the directors and shareholders of the company to arise conflict that affects the decision making of the company.

**Answer 44.** Characteristics of cooperative societies are:

- Voluntary membership: The cooperative societies' membership is voluntary. Any person can join the cooperative society irrespective of their gender, religion or cast. There are no any restrictions for joining and leaving a cooperative society.
- Legal status: The cooperative societies have legal status because its registration is compulsory. It is a separate entity and is not effected by joining or leaving of its members.
- Limited liability: The members have limited liability to the extent of capital contribution.
- Service motive: The motive of the cooperative society is the service motive. It gives emphasis on the mutual help and welfare of its members.

**Answer 45.** The partnership deed is also known as the partnership agreement. The partnership deed is a document that contains details of the agreement about the obligation and rights of the partners in the venture. In other words, a partnership deed contains the business name, the address or business place, summary of nature of business, and the obligation and rights of the partners. It is basically designed to guide the partners for conducting the business. It also helps in avoiding disputes and disagreements among the partners. The partnership deed includes the investments, accounting, withdrawals, expulsion, arbitration, and dissolution of the business.