

**Chapter: Forms of Business Organisation**

**1. Meaning of Business Organisation**

A business organisation is an entity formed for the purpose of carrying on commercial enterprise. It can be classified into different forms based on ownership, liability, and decision-making structure.

**2. Major Forms of Business Organisation**

**A. Sole Proprietorship**

**Meaning:**

A business owned and managed by a single individual who bears all the risks and profits.

**Features:**

* Single ownership
* Unlimited liability
* Sole decision-maker
* No legal formalities
* Direct control

**Merits:**

* Easy to start and close
* Full control and quick decisions
* Confidentiality
* Direct incentive

**Limitations:**

* Limited resources
* Unlimited liability
* Limited managerial ability
* Lack of continuity

**B. Hindu Undivided Family (HUF)**

**Meaning:**

A business owned by members of a Hindu Undivided Family and governed by Hindu Law.

**Features:**

* Membership by birth
* Control by 'Karta'
* Continuity
* Liability of Karta is unlimited

**Merits:**

* Continuity
* Effective control
* Limited liability of co-parceners

**Limitations:**

* Limited to Hindus
* Limited capital
* Dominance of Karta

**C. Partnership**

**Meaning:**

A form of business where two or more persons agree to share profits and losses.

**Governed by:**

**Indian Partnership Act, 1932**

**Features:**

* Agreement-based
* Shared profits/losses
* Unlimited liability
* Mutual agency
* Maximum of 20 partners (10 in banking)

**Merits:**

* Easy formation
* More funds
* Shared risks
* Better decision-making

**Limitations:**

* Unlimited liability
* Lack of continuity
* Conflicts may arise
* Limited resources

**D. Cooperative Society**

**Meaning:**

A voluntary association of persons to promote common economic interests.

**Features:**

* Voluntary membership
* Service motive
* Democratic management (one member, one vote)
* State control
* Separate legal identity

**Merits:**

* Easy to form
* Limited liability
* Equal voting rights
* Elimination of middlemen

**Limitations:**

* Limited resources
* Inefficient management
* Lack of secrecy
* Government interference

**E. Joint Stock Company**

**Meaning:**

A company is an artificial person created by law, having a separate legal entity and perpetual succession.

**Types:**

* Private Company
* Public Company

**Features:**

* Separate legal entity
* Limited liability
* Transferability of shares
* Perpetual succession
* Common seal

**Merits:**

* Large capital
* Limited liability
* Professional management
* Transferability of shares

**Limitations:**

* Complex formation
* Legal formalities
* Lack of secrecy
* Separation of ownership and control

**F. Choice of Form of Business Organisation**

Factors influencing choice:

* Cost and ease of formation
* Liability
* Continuity
* Capital consideration
* Managerial ability
* Degree of control
* Nature of business