

CHAPTER - 2

FORMS OF BUSINESS ORGANISATION**Meaning of Business Organisation**

A business organisation or business concern is an enterprise created to achieve business objectives. It achieves its objectives by engaging in some activities like production or purchase and sale of goods or services. Business undertakings can be distinguished from one another on the basis of ownership, management and control. In India we have the following types of business enterprises.

1. Sole Proprietorship
2. Joint Hindu Family Business
3. Partnership
4. Co-operative Society
5. Joint Stock Company.

**I. SOLE PROPRIETORSHIP**

SOLE
↓

ONLY (single)

PROPRIETOR
↓

OWNER

Sole proprietorship is the form of business, which is owned, managed and controlled by an individual. He is solely responsible for providing the capital, for bearing the risk and for the overall management and control of the business. If the business earns profit, the sole proprietor enjoys all the profit alone and if the business suffers loss, it has to be borne by the

sole trader himself. He conducts the business with the help of his family members or employees. Sole proprietorship is also called single ownership or single proprietorship.

Suitability

Sole trading concerns require lesser amount of capital. It is best suitable for the following types of business:

- 1 Business which are carried out on small scale with modest capital and limited managerial talent, e.g., local grocery store, stationery shops, medical store, bakeries, small factories etc.
- 2 Business where customers demand personalized services such as small beauty parlors, hair cutting saloons tailoring units, internet café etc.

Features of Sole trading Concern**1. Single ownership**

A sole proprietorship is wholly owned by a single person. He supplies the entire capital from his own wealth or from borrowed funds.

2. No legal formalities

There is no legal formality to start as well as to close sole trading concern. Only a license is necessary in certain types of business.

3. Control

A sole proprietor has full control over his business. He can carry out his plans without consulting with others.

4. No legal entity

A sole proprietorship has no separate legal entity from its owner. In the eyes of law, there is no distinction between the sole trader and his business. The assets and liabilities of the business and its owner can't be separated.

5. Unlimited liability

The sole proprietor's liability is unlimited. If the asset of the business is insufficient to meet its debts, the proprietor is liable to pay off the debts out of his personal property.

6. No profit sharing

The sole proprietor alone is entitled to all the profit and losses of the business.

7. Lack of business continuity

Since the owner and the business are same, death, insanity or bankruptcy of the sole trader will cause closure of the business.

Merits or Advantages of sole proprietorship

A sole proprietorship has the following advantages.

1. Easy formation: An important merit of sole proprietorship is the possibility of entering into business with minimal legal formalities.

**2. Quick decisions**

The sole proprietor is completely free to take decisions without consulting with others. Quick decision and prompt actions help to improve the efficiency of the business.

3. Motivation to work

The proprietor alone is entitled to receive all the profit of business and he alone has to bear all the losses, there is direct relation between effort and reward. Therefore, there is an incentive to work hard.

4. Secrecy

Business secrecy is an important factor in every business. A sole trader can keep his all business information and maintain secrecy. He is not bound by law to publish his accounts of business.

6. Flexibility of operations: The small size and simple management structure helps a sole proprietor to adapt easily to changing conditions. He can reduce his business or increase it according to the changing conditions.

7. Economy

Sole proprietorship can be formed with small capital and the least administration expenses.

8. **Self Employment:** It is a means for earning livelihood independently.
9. **Diffusion of ownership:** Under sole trading, business ownership is diffused. The concept of sole proprietorship business creates large number of units in the economy. There is no danger of concentration of economic power in a few hands.
10. **Development of Personality:** Qualities of self-reliance, self-confidence, responsibility and initiative have full scope for development under sole proprietorship.

Demerits or disadvantages of Sole Proprietorship

The sole proprietorship has the following disadvantages

1. Limited Capital

Resources of a sole trader are limited to his personal savings and borrowings from others. Banks generally hesitate to give long term loans to a sole trader. It is difficult for him to expand his business.

2. Unlimited Liability

A major disadvantage of a sole trader is that the owner has unlimited liability. In the case of business losses, if the business assets are not sufficient to meet all business liabilities, the proprietor may have to sell his personal property to pay off the liabilities.

3. Limited Managerial Skill

A sole trader business is a one man show. He wants to perform various functions like purchase, sales marketing, financing etc. It is rare to find an individual who excels in all these areas. Due to limited financial resources, sole trader is not in a position to employ talented employees.

4. Uneconomic Size

Due to small size, sole proprietorship can't enjoy the economics of large scale operations like bulk purchase, division of labour etc.

5. Uncertain life

The existence of sole proprietorship centers on an individual. Death, insolvency or illness of a proprietor affects the business and can lead to its closure.

Special Notes:-

1. “Too many chefs spoil the soup”. There are several advantages in doing business alone. For eg. Mr. Salim runs a tea shop in a market place. He is working as the owner, manager and the labourer of his business. He knew the tastes of his customers and hence he can easily manage his business successfully.
2. “One man control is the best in the world, provided that one man is big enough to manage everything”. The sole proprietorship offers the best promise of motivation, control, self-reliance and self-confidence. It is the most popular form of business in the world.

Fringe Benefit: Fringe benefits are forms of compensation paid by an employer to his employees outside of a stated wage or salary. Common examples of fringe benefits include medical and dental insurance, use of a company car, housing allowance, educational assistance, vacation pay, sick pay, free meals and employee discounts.

II. JOINT HINDU FAMILY BUSINESS

It is a special form of business found only in India. This business is owned and managed by members of the Hindu Undivided Family (HUF). This form of business organization is not formed by an agreement or contract, but comes into existence by the operation Hindu Law. Joint Hindu Family or Hindu Undivided Family consists of grandparents, parents and sons. HUF business is managed by the eldest male member known as 'Karta' whose liability is unlimited. All members have equal ownership right over the property of an ancestor. They are known as co-parceners. Examples: **Haldirams, Tata Sons**



FEATURES:

- ❖ **FORMATION:** Joint Hindu family cannot be formed or created by any contract or agreement because this organisation came into existence because by the operation of Hindu succession act 1956.
- ❖ **MEMBERSHIP:** it requires minimum of 2 people {at least one male member}
- ❖ **KARTA:** Is the elder male member of the family, who controls and manages the business.
- ❖ **CO-PARCENERS:** Other family members who by birth acquires an interest in the joint property of the family, whether inherited or acquires by the family. There is no limit for membership because membership is by birth.



There are two conditions for existence of HUF Business:

1. Minimum two members must be there in the family.
2. Existence of some ancestral property.

There are two systems which govern the membership in the Hindu undivided family business, viz., Dayabhaga system and Mitaksharasystem. Dayabhaga system prevails in West Bengal and allows both the male and female members of the family to be co-parceners. Mitaksharasystem, on the other hand, prevails all over India except West Bengal and allows only the male members to be co-parceners in the business.

Features of Joint Hindu Family Business

1. Membership by birth

Membership of the Hindu Undivided Family business is automatic by birth. All the members have equal ownership right over the ancestral property and they are known as Co-Parceners. There are two systems which govern the membership:

- 1) Dayabhaga system-It prevails in West Bengal and allows both the male and female members to be co-parceners.
- 2) Mitakshara system-It prevails all over India except West Bengal and allows only the male members to be Co-Parceners.

2) Formation

For a joint Hindu family business, there should be at least two members in the family and ancestral property to be inherited by them. The business does not require any agreement as membership is by birth.

3) Control

The business is controlled by the eldest male member in the family called Karta. He takes all the decision to manage the business.

4) Minor Members

Since membership is by birth, minors can also be members of the business.

5) Liability

The liability of 'karta is unlimited. But the liability of co-parceners is limited to the extent of the share in the family property.

6) Continuity

The life of HUF business is not affected by the death of the **karta**. After his death the next senior most male member becomes the **karta**.

7) No maximum limit on membership

There is no restriction to the number of members. It depends upon the birth or death members in the family.

Advantages or merits of HUF business

The main advantages of HUF business are the following.

1. Easy Formation

It can be started easily without any legal formalities.

2. Continuity of the business

The death of the Karta will not affect the existence of the business as the next eldest member will then take up the position.

3. Secrecy

Complete secrecy regarding business decisions can be maintained by Karta.

4. Assured share to all members

Every member of a HUF is assured a minimum share of profit, irrespective of their talents, capacity to work and efficiency.

5. Quick decisions

The Karta is free to take any decision without consulting others.

6. Division of labour

The principle of division of labour can effectively be applied by allotting work among members according to their abilities and skills.

7. Limited liability of members

The liability of all partners except karta is limited to their share in the business.

Disadvantages or Demerits of HUF Business**1. Limited Capital**

Joint Hindu Family business can't be carried on very large scale, because the capital contributed by the members of the family is generally insufficient for large scale business.

2. Limited Managerial ability

The whole affair of the business is managed by the Karta. He may not be an expert in all areas of management.

3. **No link between responsibility and reward:** The karta is responsible for manage the business alone. He bears the entire liability for the debts of the family business alone. For all these responsibilities he is not paid with any extra amount as remuneration. He gets his share of profit only as other co-parceners get.
4. **Scope for misuse:** As the karta enjoys full authority over the business; he may misuse the powers for his own benefits.

III. PARTNERSHIP



MEANING AND NATURE OF PARTNERSHIP

- Association of two or more than two persons.
- Result of an agreement between two or more persons.
- Agreement must be to share profit of the business.
- Business must be carried on by all or any of them acting for all.
- Unlimited liability.
- Restriction on transfer of interest.
- Unanimity of consent.
- Agreement must be to carry on some business

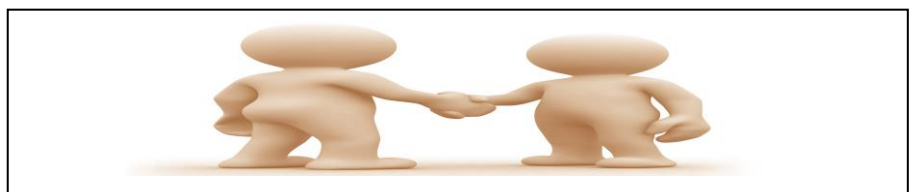
Partnership is an association of two or more persons who agreed to pool together their financial and managerial resources in some business and to share the profit thereof between them. It is formed when there is a need for greater capital investment, varied skills and sharing of risk.

Section 4 of The Indian Partnership Act, 1932 defines partnership as “the relation between two or more persons who have agreed to share the profit of a business carried on by all or any one of them acting for all”. The persons who enter into partnership are individually called 'partners' and collectively a 'firm'. In India partnerships are regulated by partnership Act 1932.

Features of Partnership

1. Formation

The partnership form of business organization is governed by the Indian Partnership Act, 1932. The partnership comes into existence with an agreement among partners.



Without Agreement there is no partnership

2. Agreement

In a partnership there must be an agreement. The agreement may be oral or written. The written agreement is known as Partnership Deed.

3. Number of partners

2 $\Rightarrow$ 100

There must be at least two persons to form a partnership. The maximum number limit is 100

Main aim is to earn PROFIT

4. Profit motive

The business carried on by partnership firm must have profit motive. In this way, orphanage, charitable trust etc. can't become partnership. The partners share the profits in the ratio mentioned in the partnership deed.

5. No separate legal existence

Partnership firm = Partners

The partnership firm has no separate legal existence apart from the partners. Firm can't own property or enter into a contract in its own name. The firm's name is only a symbol representing all partners.

Restricted Transfer

6. Restriction on transfer of Interest

No partner can transfer his share in the partnership without the prior consent of all other partners.



UNLIMITED LIABILITY

- **Unlimited liability** means that each partner is personally and individually liable for all partnership liabilities.
- Creditors' claims attach first to partnership assets. If these are insufficient, the claims then attach to the personal resources of any partner, irrespective of that partner's capital equity in the company.



7. Unlimited Liability

The partners of a firm have unlimited liability. Partners are individually and collectively responsible for the entire debts of the firm. Personal assets may be used for repaying debts in case the business assets are insufficient.

8. Registration

Optional

Registration of partnership is not compulsory. It is optional.

9. Decision making and control

The activities of a partnership firm are managed through the joint efforts of all the partners.


10. Lack of continuity

The retirement, death, insolvency etc. of any partner brings the firm to an end. However, the remaining partners may if they so desire continue the business on the basis of new agreement.

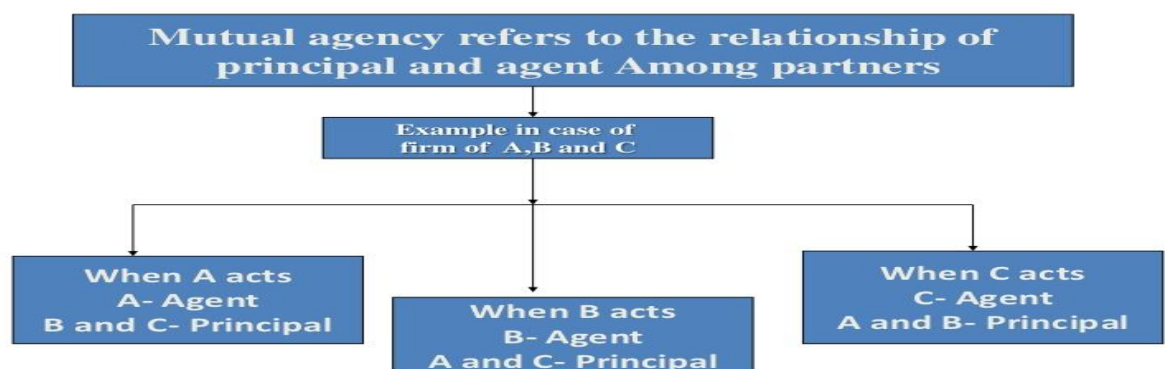


Everyone's
action affects
the team as a
whole

11. Mutual agency

A partner can act simultaneously as a principal as well as an agent of the firm. Each partner is an agent because he can bind other partners by his acts. Similarly he can also be bound by the action of other partners. So he is called a principal.

Meaning of Mutual Agency



Partnership Deed

Partnership is the result of mutual agreement between partners. The agreement may be oral or written. The written agreement is known as Partnership Deed. *Thus, the document containing terms of agreement in writing among partners is called partnership deed.* It contains the terms and conditions relating to partnership and regulations governing the internal management. It should be signed by all partners and stamped properly.

Contents of Partnership Deed



A partnership deed usually contains the following particulars:-

1. Name of the firm
2. Names and addresses of partners
3. Nature of business
4. Duration of partnership, if any
5. Amount of capital contributed by each partner.
6. Profit sharing ratio.
7. Amount of salary, if any, payable to partners.
8. Rate of interest, if any, on capital and drawings.
9. Amount of withdrawals to be allowed to each partner.
10. Rights, duties, powers and obligations of partners.
11. Procedure for admission and retirement etc. of partners.
12. Procedure for dissolution of the firm and settlement of accounts.
13. Methods of valuation of good will and revaluation of assets and liabilities on admission, retirement and death of a partner.

Any other clauses, on which there is mutual agreement among partners, can be included in the partnership deed. If partnership deed is silent on some point, the provisions of the Partnership Act 1932, will apply.

Rules applicable in the absence of Partnership Deed

In the absence of partnership deed or if the deed is silent on any matter, provisions of the partnership act will automatically apply in the following way:

1. The partners are entitled to share **profit** and **losses equally** irrespective of their capital contribution.
2. The partners are **not entitled to get interest on their capitals**.
3. **No interest will be charged on drawings** of the partners.
4. **No partner is entitled to get salary or any other remuneration** for any extra work done for the firm.
5. **Partners are entitled to get Interest @ 6%p.a on loans** granted by partners to the firm.
6. Partner's capital shall be fluctuating (Fluctuating Capital Method).

Types of Partnership

Partnerships can be classified on the basis of duration and liability. On the basis of duration, there are two types of partnerships i.e. particular partnership and partnership at will. On the basis of liability, there are two types of partnership, i.e. general partnership and limited partnership.

1. Classification on the basis of duration

- a) Particular partnership
- b) Partnership at will



a. Particular Partnership

Specific purpose and Time

A particular partnership is one which is formed for a specific time period or for a particular purpose. It is automatically dissolved on the expiry of the specified period or on the completion of the specific purpose for which it was formed.

Eg: Partnership formed to construct a bridge or building will automatically get dissolved after the construction of that bridge or building.

b. Partnership at will

No agreement about its duration

If a partnership is formed without mentioning its duration, it is called partnership at will. It can continue as long as partners want. It can be dissolved by any partner at any time by giving a notice of dissolution to other partners.

2. Classification on the basis of liability

- a) General Partnership
- b) Limited or Special Partnership

a) General Partnership

In general partnership, the liability of partners is unlimited and joint. The partners enjoy the right to participate in the management of the firm. Registration of the firm is optional. The existence of the firm is affected by the retirement, death or insolvency of the partners.

Liability Unlimited

b) Limited Partnership

Limited partnership is one in which the liability of at least one partner is unlimited whereas the other partners may have limited liability. The limited partners do not enjoy the right to participate in the management of the firm. The registration of limited partnership is compulsory. Such a partnership does not get terminated with the death of any partner with limited liability.

Types of partners

A partnership firm can have different types of partners with different roles and liabilities. They are:

1 Active or working partner


A partner who contributes capital and takes active interest in the day to day affairs of the firm is called active partner. He manages and controls the business and his liability is unlimited.

2 Sleeping or dormant partner


No Management

A partner who does not take part in the working of the concern is called a sleeping or dormant partner. He contributes to the capital of the firm. He is entitled to share the profits of the firm. His liability is unlimited. He is not known to the public as a partner.



Part of Management

3 Secret Partner

A secret partner is one whose association with the firm is unknown to the general public. He contribute capital to the firm, takes part in the management, shares its profit and losses and his liability is unlimited.

4 Nominal or Ostensible Partner

NO-Capital contribution, NO-Part of management

A nominal partner neither contributes capital nor takes any active part, in the management of the business. He only knowingly allows himself to be represented as a-partner. His reputation may be benefited to the firm. He is liable to third partners for all debts of the firm. He is also called a quasi-partner.

5 Partner in profits only

Yes-Profit, No- Loss

When a partner is admitted in a partnership by a special agreement so that he is entitled to share in the profits of the firm but not in the losses, he is known as 'partner

by profit only'. He contributes to the capital of the firm. But he has no right to take part in the activities of the business. His liability is unlimited.

- 6 Partner by estoppels** If a partner by his talk or action gives an impression to third parties that he is a partner, then he is known as partner by estoppels. He is not entitled to share the profit of the firm and does not participate in the management. Such a partner is liable as a true partner to third parties



7 Partner by holding out

When a person is declared as a partner and he does not deny even after becoming aware of it, he is called a partner by holding out. He becomes liable to those who lent money to the firm on the basis of such declaration. He does not bring any capital nor does participate in the management and profits.

Partner by holding out-In this case others give the impression that he is a partner. His mistake is that he never denies it.



Types of Partners

Type	Capital contribution	Management	Share in profit	Liability
Active partner	Contributes capital	Participate in management	Shares profit and losses	unlimited
Sleeping partner	Contributes capital	Does not participate in management	Shares profit and losses	unlimited
Secrete partner	Contributes capital	Participate in management but secretly	Shares profit and losses	unlimited
Nominal partner	Does not contribute capital	Does not participate in management but secretly	Does not share profit and losses	unlimited
Partner by estoppels	Does not contribute capital	Does not participate in management	Does not share profit and losses	unlimited
Partner by holding out	Does not contribute capital	Does not participate in management	Does not share profit and losses	unlimited



MINOR AS A PARTNER

Partnership is based on legal contract between two persons. A minor is a person who has not attained the age of maturity i.e. not completed 18 years old. As such a minor is incompetent to enter into a valid contract with others; so minors can't start a partnership firm. However, a minor can be admitted to the benefits of an existing partnership firm with the mutual consent of all other partners. In such a case his **liability is limited to the capital contributed by him**. He will **not be eligible to take an active part in the management** of the firm. He **can inspect the books of accounts of the firm**. The status of a minor will change when he attains maturity.

Rights of a minor partner

1. A minor has the right to share profit and property of the business.
2. He can inspect the accounts of the firm
3. A minor can file a suit against the partners for nonpayment of his share in the property.

Liability of Minor Partner

- 1) His liability is limited to his share in the business.

Registration of Partnership

Registration is optional but it is advisable

Registration of partnership firm means the entering of the firm's name in the Register of Firms kept with Registrar. It provides conclusive proof of existence of partnership firm. The registration of partnership firms is not compulsory, it is optional. However, an unregistered firm suffers from several draw backs.

Procedure for registration

In order to register a partnership, it must submit an application in the prescribed form along with prescribed fee to the Registrar of Firms of the state in which the firm is situated. The application should contain the following particulars:-

- 1) Name of the firm
- 2) The principal place of business.
- 3) Name of other places where the firm carries on business.
- 4) The date when each partner joined the firm.
- 5) Names and permanent address of the partners.
- 6) Duration of partnership, if any.



The application must be signed by all the partners. If the Registrar of Firms is satisfied with the statement he shall make entry the name of the firm in the **Register of Firms**. After registration the firm must communicate any change in the above mentioned information to the Registrar.

Consequences of Non Registration

An unregistered firm suffers from the following limitations:-

1. An unregistered firm can't sue third parties for the recovery of debts exceeding Rs. 100.
2. An unregistered firm can't sue its own partners.
3. A partner of an unregistered firm can't sue the third parties or his copartners for the recovery of his claims.



However a third party is at full liberty to file a suit against any unregistered firm or against any partner for recovery of bad debts.

Advantage of partnership

A partnership firm enjoys the following advantages:

1. Easy Formation

A partnership firm can be formed easily by putting an agreement between partners. Registration is not compulsory. Closure of the firm is also simple.

2. More Funds

In a partnership, the capital is contributed by a number of partners. This makes it possible to raise larger amount of capital as compared to sole trading concern.

3. Division of labour

Division of labour is possible in partnership. The work and responsibility can be distributed among partners according to their ability. For example Anil, Binil and Ciril started a Bakery as partnership. In a bakery there are various types of activities like purchase, production, sales, finance etc. In that firm there is three partners, so division of labour is possible. Responsibility of purchase can be assigned to Mr Anil, production charge can be assigned to Mr. Binil and sales and finance can be assigned to Mr, Ciril. Division of labour leads to specialization.

4. Balanced decision making

Collective decision making is possible in partnership. So they can take better decisions regarding their business.

5. Efficient management

In partnership the skill and experience of all partners are brought together. It can secure greater managerial ability as compared to sole trading concern.

6. Sharing of risk

The risks are shared by all the partners. This reduces the anxiety, burden and stress on individual partners.

7. Secrecy

A partnership firm is not legally required to publish its accounts and reports. Hence it can maintain confidentiality of information relating to its operations.

Disadvantages of partnership**1. Unlimited liability**

The partners of a firm have unlimited liability. This may restrict them to take risky decisions. It may badly affect the growth of the business.

2. Non transferability of interest

Restriction

In partnership there is restriction in case of transfer of ownership. A partner can transfer his share to a third party only with the consent of all other partners.

3. Limited Resources

There is a restriction on the number of partners in a firm. Therefore it is not possible to collect huge financial resources.

4. Lack of public confidence

A partnership firm is not legally required to publish its financial reports. As a result the confidence of the public in partnership is generally low.

5. Possibility of conflicts

Partnership is run by group of persons wherein decision making authority is shared. Difference in opinion on some issues may lead to disputes between partners.



6. Lack of continuity

Partnership comes to an end with the death, retirement, insolvency of any partner. However, the remaining partners may continue the business on the basis of a new agreement.



JOINT STOCK COMPANY

The Industrial Revolution and introduction modern factory system etc made large scale production possible. Large scale production required huge capital investment and management skill. It also involved high degree of risk. The sole proprietorship and partnership form of business have limitations such as limited managerial skill, shortage of

capital and unlimited liability. These limitations of sole trading concern and partnership paved the way to a new form of organization called Joint Stock Company.

Meaning

A joint stock company is the largest form of business organization. It is an artificial person having separate legal existence, perpetual succession and a common seal. Companies are compulsorily to be registered under the Indian Companies Act, 2013. A company is a voluntary association of persons formed for some common purpose. It may be formed with the purpose of carrying on some business for profit or carrying on some charitable activity without profit motive. Its capital is divided into small parts called shares. The persons who subscribed shares are known as shareholders. The company is owned by share holders. It is managed by Board of Directors, the elected representatives of share holders. In this way, management and ownership is practically different. The liability of a shareholder is limited to the face value of shares held by him, so every public limited co add the word “Ltd” at the end of its name. For example Reliance Industries Ltd, South Indian Bank Ltd, Kitex Ltd etc.

Top 10 Companies in India	
1. TCS 2. RELIANCE INDUSTRIES LTD 3. HDFC BANK 4. HUL 5. ITC	6. MARUTI SUZUKI 7. INFOSYS 8. KOTAK MAHINDRA BANK 9. SBI 10. ONGC

Facts About Reliance Industries Ltd (RIL)	
Number of equity shares	633,46,51,022 (Out of which 46.32% in Ambani family)
Face value of share	Rs.10
Equity share capital	6334.65 Cr.
Share Price	Rs.976 (on 6-07-2018)

Market capitalization(no shares X price)	6.18 Lakhs Crores
Profit after tax for the year 2017-18	33612 Cr.
Total number of share holders	Around 25 lakhs

Features of a Joint Stock Company

Important feature of a joint stock company are the following:

1. Large members

Minimum number of members to form a Private Ltd. Company is 2 and 7 in case of Public Ltd. The maximum number of members in a private Ltd company is limited to 200 and in Public Limited Company it is unlimited.



2. Created by Law

A company is formed by registered under Indian Companies Act 2013. Formation of a company involves lengthy and complicated procedures.

3. Separate Legal Existence

A company has separate legal existence apart from its members. It can carry on business in its own name, own property, lend and borrow money etc in its own name. It can open bank accounts, sue and be sued in its own name. A company can legally behave like a human being but it is actually not a natural person, so it is called an artificial person. It has to depend upon directors, managers, etc. for getting its works done.

4. Perpetual succession (Permanent life)

Its existence not affected by the death, insolvency or change of ownership through sale of shares by shareholders. Members may come and go, but the company can go

forever. (All the members of a private Ltd company sitting in a general meeting were killed by a bomb. But it was held that the company survived. Not even a hydrogen bomb could have destroyed it.)

5. Limited liability

The liability of a shareholder is limited to the extent of the face value of shares held by him. So the creditors of a company have no right to realize the amount due to them out of the personal property of the members. (For example, suppose Kannan, a shareholder, holding 1,000 shares of Rs.10 each on which he has already paid Rs.8 per share. In the event of loss or company failure to pay debts, his liability can be only up to Rs.2, 000 (i.e. 1000×2))

6. Transferability of shares

Shares of a public company are freely transferable. Members can transfer their shares without the consent of other members. Therefore, a person can become a member at any time by purchasing shares and cease to be a member by selling his shares.

7. Common seal

Common seal is the official signature of a company. Every company has common seal. Every document of the company must bear this seal, otherwise it is valueless.

8. Separation of ownership and management

The company is owned by share holders. But it is managed by Board of Directors, the elected representatives of share holders. As an artificial person it has to depend upon directors, managers etc for getting its works done. In this way there is separation of ownership and management.

9. Compulsory Registration

All companies are compulsorily to be registered under the Indian Companies Act, 2013.

Advantages of a Joint Stock Company

A company form of organization enjoys the following advantages:

1. Huge Capital

A company can raise huge capital through issue of shares and debentures because there is no limit to the maximum number of members in a public company. Thus, there is greater scope for growth and expansion.

2. Limited Liability

The liability of a shareholder of a company is limited to the face value of shares held by him. His personal property can't be attached even if the company is unable to meet its creditors claim. This reduces the degree of risk

3. Transferability of Shares

Shares of a public company are generally listed in stock exchanges so that a member can sell his share at any time. There is no need to get permission from other members for this. It provides liquidity to their investment. However, it is restricted in the case of private company.

4. Economies of Large Scale

Huge capital and professional management facilitate large scale operations. Therefore, a company can fully secure the advantages of large scale production, purchase, marketing etc.

5. Efficient Management

A company can afford to pay higher salaries to professional managers. It will increase the efficiency of management.

6. Public Confidence

A company enjoys public confidence and good reputation in the business world. It has to disclose its results and follow all legal regulations. Its activities are subject to scrutiny by auditors and the government. Therefore, people have trust in a public company.

7. **Long term projects:** A company is the only form organization with continuous stability. The funds invested in the company by shareholders are not withdrawal until it is wound up. So company can undertake long term projects and attract further investments in business.

8. Perpetual Existence

Being a separate legal entity, existence of a company is not affected by death, resignation or insolvency of a member.

9. Greater Scope for Expansion

Retained earnings and vast financial resources and managerial ability help a company to expand its business.

Disadvantages of a Joint Stock Company

A company form of organization faces the following disadvantages:

1. Difficulty of formation

Formation of a company is time consuming and expensive process. It involves preparation of several documents fulfilling several legal formalities. Registration of a company is compulsory under the Indian Companies Act, 2013.

2. Delay indecision making

Control and management of the company is subject to provisions of Companies Act 2013. There are certain matters which can be decided only in Board meetings. More important matters require approval of shareholders in their meeting. This results in unavoidable delay in decision making.

3. Lack of Secrecy

Everything about a company is required to discuss in board meeting. A company is required to publish its annual accounts and other reports. It is available to the general public also. So trade secret can't be maintained.

4. Excessive regulation of law

A company is required to file a number of returns and reports with various authorities. It involves considerable time and money.

5. Lack of flexibility

A company should undertake its business only within the objective already stated in the objective clause of Memorandum of Association. So it can't divert its business activities according to the changing conditions without altering its memorandum.

6. Development of monopoly

The joint stock form of organization creates large scale business with a huge capital base. This might lead to concentration of economic power and monopoly in the economy.

7. Unhealthy Speculation

The directors have all information about the functioning of the company; they can use it for their personal advantage. For example, the director can easily speculate the price of a share by knowing the ups and downs in the profit of the company.

Types of Companies

Companies are classified as:

1. Private Company
2. Public Company
3. One Person Company

1. Private Company

A private company means a company by its Articles of Association.

- 1) Restricts the right to transfer its shares.
- 2) Limits the number of its members to 200(As per Companies Act, 2013).

- 3) Prohibits an invitation to the public to subscribe its shares or debentures.
- 4) Puts the minimum paid up capital to be rupees one lakh.

A private company can be formed with a minimum number of two persons. A private company must add the ward 'private limited' or (P) Ltd or (Pvt.) Ltd. in its name.

Bg:- Lunar Private Limited or Lunar (P) Ltd.

2. Public Company

A public company is one which is not a private company. In other words, it is a company which by its Articles of Association.

- 1) Put no restrictions on the right of its members to transfer their shares.
- 2) Does not limit the number of members to 200.
- 3) It is free to make an invitation to the general public to subscribe its shares or debentures.
- 4) Puts the minimum paid up capital to be rupees five lakh.

Minimum number of share holders to start a public company is 7. A public company must add the word limited or Ltd to its name. Eg:- Reliance Industries **Ltd.**, Bajaj Auto **Ltd.**, Federal Bank **Ltd.**



Reliance Industries Ltd



Lunar Rubbers Private Ltd

Difference between Public and Private Companies

	Point of Difference	Private Company	Public Company
1	Minimum Number of members	2	7
2	Maximum Number of members	200	No limit
3	Minimum paid up share capital	1 Lakh	5 Lakh

	Point of Difference	Private Company	Public Company
4	Minimum Number of directors	2	3
5	Quorum (Minimum number of members present in a general meeting)	2	5 if the total number of members is not more than 1000.(30 if total number is above 5000,15 if total number is between 1000-5000)
6	Invitation to the public to subscribe its shares or debentures	It can't invite	It can invite
7	Commencement of business	It can start business immediately after receiving <i>Certificate of Incorporation</i> '.	It can start business only after getting ' <i>Certificate of commencement of Business</i> '.
8	Transfer of shares	Transfer of shares restricted	Its shares are freely transferable
9	Statutory meeting	Not compulsory	Compulsory
10	Statutory Report	It need not file a statutory reports	It must file Statutory reports
11	Allotment of shares	It can allot shares without receiving minimum subscription	It can't allot shares without receiving minimum subscription
12	Managerial remuneration	There is no restriction in this regard	Total annual managerial remuneration payable to its directors and mangers never exceeds 11 % of net profit of the company
13	Articles of Association	It must file its own Articles	It can adopt Table A instead of Articles of Association
14	Qualification shares	The directors need not subscribe for qualification shares.	The directors of a company must subscribe for qualification shares

**Special Privileges of Private Limited Company**

A company can be registered as a private company or a public company. When a company is incorporated as a private company it enjoys certain privileges and exemptions when compared to a public company. The special privileges enjoyed by a private company are the following.

1. The minimum number of members required to form a private company is only 2 whereas it is 7 in case of public company.
2. A private company can start business immediately after its incorporation.
3. A private company need not issue a prospectus or not required to file with the Register a statement in lieu of prospectus. It can raise capital privately.
4. It need not hold a statutory meeting or file a statutory report.
5. It can be managed with two directors and they are given the privilege of continuing the office even after the age of 65.
6. There is no restriction with regard to the remuneration payable to directors.
7. It need not keep the index of its members
8. Only two members can make the quorum for a meeting.
9. It is not required to offer new shares to existing shareholders in proportion to their share holdings.

3. One Person Company

According to Indian Companies Act 2013 it is possible to form One Person Company (OPC). An OPC means a company with only one person as its member.

According to section 3(1) of the Indian Companies Act 2013:-

- Only a natural person who is an Indian citizen and resident in India shall be eligible to incorporate OPC.
- No person shall be eligible to incorporate more than one OPC.
- OPC to compulsory convert itself into public or private company when its capital exceeds 50 lakh or its average annual turnover during year exceeds 2 crore.



CO-OPERATIVE SOCIETY IN INDIA

A co-operative society is a voluntary association of persons started with the objective serving its members. It is primarily designed for promotion of economic interest of its members with co-operation principles. It is based on an important philosophy known as “all for each and each for all”.

A Cooperative society is a voluntary association of persons for the promotion of their common economic interest. The word co-operation implies joint effort. Through joint efforts, we can attain greater success than individual effort. For example in Consumers Cooperative Society consumers may join together to provide goods at cheaper rates by establishing direct contacts with producers and thereby eliminating the profits of middlemen. The motto of co-operative society is “each for all and all for each”. Co-operative form of business organization fundamentally differs from other business organizations. Their basic objective is service rather than profit.



Growth of Cooperatives in India

- > National Cooperative Development Corporation (NCDC) was established in 1963 under NCDC Act 1962 to promote production, marketing and export of agricultural produce.
- > Number of Cooperatives Societies increased from 35 thousand in 1965-66 to 545 thousand in 2002-03.
- > Today, Cooperatives cover each & every village of India.

Role of Cooperatives in Indian Economy

During the year 2002-03, Cooperatives accounted for:

- 46% of Agriculture Credit disbursement.
- 36% of fertilizer distribution.
- 59% of Sugar production.
- 32% of Wheat procurement.
- 65% of Storage facility.

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Features of Co-operative Societies

1. Voluntary Association

A co-operative society is a voluntary association of persons. Any person having a common interest can join a cooperative society and can leave any time by giving a prior notice.

2. Compulsory registration

A cooperative society is compulsorily registered under the Cooperative Societies Act, 1912.

3. Number of members

Minimum number of members required to form a cooperative society is 10. Maximum number of members is unlimited.

4. Limited liability

The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital.

5. Open membership

The membership of a co-operative society is open to all irrespective of cast, creed, religion or sex.

6. Democratic Control

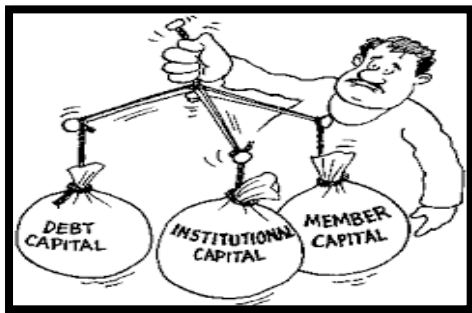
There is equality of status between members of a cooperative society. Business is managed by a *managing committee* which is elected by members on the principle **one member one vote**.

7. Service motive

It is formed with the motive of service to its members, not to earn profits.

8. Finance

The capital of cooperative society is raised from its members through issue of shares. It can also raise loans from the banks.



State Assistance

★ Central and State assistance;

- in the form of capital contribution;
- loans at low rates of interest;
- exemption in tax;
- subsidies in repayment of loans, etc.

9. Distribution of surplus

In cooperative society, surplus is distributed among members not on the basis of shares held by them but on the basis of their transactions with the society.

According to the Co-operative Societies Act the following provisions are to be followed for the disposal of surplus:-

- a) Only 9% of the profit distributed as dividends.
- b) 25% of profits transferred to reserve fund.

- c) 10% of profit to be used for general social welfare activities
- d) The rest used to give bonus to members on the basis of share effected by them.

Advantages of cooperative societies

1. Easy formation

Any ten adult persons can form a cooperative society. The registration procedure is simple involving a few legal formalities.

2. Limited liability

The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. Their personal properties are safe from being used to repay business debts.

3. Democratic Management

The principle *one man one vote* guarantees democratic management.

4. Government assistance

Government gives all kind of support to cooperative societies in the form of relief in taxation, subsidies and low interest rates on loans.

5. Social importance

A co-operative movement eliminates concentration of wealth in a few and provides employment to many people.

6. Stable existence

A co-operative society has a separate legal existence from its members. So, its life is not affected by death, insolvency, bankruptcy etc of a member.

7. Economic upliftment of weaker sections

The Co-operative Societies give financial assistance at lower rates of interest to poor farmers, artisans etc. They also give marketing facilities by enabling to sell the produce at reasonable prices. Hence they save the members from being exploited by local money lenders and merchants.

Disadvantages of a cooperative society**1. Unsuitable for large business**

A co-operative society is formed with limited capital contribution from its members. It is not able to mobilize adequate capital for large scale operations.

2. Inefficient Management

Cooperative society is managed by elected members who may not be competent and experienced. A Co-operative Society is not in a position to employ expert professional managers at high salary.

3. Excessive State Regulation

The excessive state regulation and control restrict flexibility and initiative.

4. Lack of Secrecy

The affairs of a co-operative society are openly discussed in meetings of members. Therefore, it becomes difficult to keep the secrets of business.

5. Absence of Motivation

There is no direct link between effort and reward. Hence members are not willing to put their maximum efforts.

6. Non transferability of Shares

The shares of a co-operative society are not transferable. A member who wants to quit the society has to surrender his share to the society in order to get his money back.

Types of Co-operative Societies

On the basis of function they perform, Co-operative Societies are classified as follows:-

1. Consumers Co-operative Society.
2. Producers Co-operative Society
3. Marketing Co-operative Society
4. Co-operative Credit Society.
5. Co-operative Farming Society
6. Co-operative Housing Society.

1. Consumers Co-operative Society.

Consumer's cooperative societies are established to remove middlemen from the field of trade. It is formed to ensure steady supply of essential commodities of standard quality at fair prices. It purchases goods on wholesale basis and sell these goods to members at cheaper rates than the market price. However, the goods are sold to non-members at the market price. These societies protect lower and middle class people from the exploitation of profit hungry businessmen. The profits of the society are distributed among members in the ratio of purchases made by them during the year. Eg Triveni super market

Consumers' Co-operative Society

- For protecting interest of general consumers;
- by making consumer goods available at a reasonable price;
- Source goods directly from the producers or manufacturers;
- eliminates middlemen in the distribution process.
- Some examples:
 - Kendriya Bhandar,
 - Apna Bazar
 - Sahkari Bhandar
 - Employees consumer co-operative societies; Etc.





CONSUMERFED

Kerala State Co-operative
Consumers' Federation Ltd

2. Producers Co-operative Society.

It is formed to protect the interest of small scale producers. A producers Co-operative Society is organized by small scale producers to face competition and to increase production. The members of the society produce goods in their house or at common place. The raw materials, tools, equipments, money etc. are provided to them by the society. The output is collected by the society and sold in the market at the wholesale rate. The profit is distributed among the members in proportion to the goods supplied by each member. Producer's co-operative societies help members in obtaining raw materials, in improving quality of products, and in securing the economics of large scale production. Eg. Haryana Handloom



3. Marketing Co-operative Society.

These societies are formed by small producers and manufacturers who find it difficult to sell their products individually. The society collects the products from the individual members and takes the responsibility of selling those products in the market. It pools the output of individual members and performs marketing functions like grading, transportation, warehousing, packaging, marketing research etc. to sell the output at the best possible price. Profits are distributed according to ratio of goods supplied by them. Gujarat Co-operative Milk Marketing Federation that sells AMUL milk products is an example of marketing co-operative society.

4. Co-operative Credit Societies

These societies are formed by poor people to provide financial help and to develop the habit of savings among members. They help to protect members from exploitation of money lenders who charge very high interest from borrowers. Credit cooperatives are found in both urban and rural areas. In rural areas, agricultural credit societies provide loans to members mainly for agricultural activities. In urban areas, non-agricultural societies or urban banks offer credit facilities to the members for purchase of raw material, tools and household needs. They raise funds by accepting deposits from the members as well as from the public and grant loans to its members. Kumaramangalam Service Co-operative Society and Thodupuzha Urban Cooperative Banks etc are examples of co-operative credit society.



5.Co-operative Farming Society

These are voluntary associations of small farmers who join together to obtain the economies of large scale farming. In India farmers are economically weak and their land-holdings are small. In their individual capacity, they are unable to use modern tools, seeds, fertilizers, etc. They pool together their land and undertake cultivation collectively. It provides better quality seeds, fertilizers, large scale farming tools like tractors, harvesters etc.



6. Co-operative housing societies.

These societies are formed by low and middle income group people in urban areas to have a house of their own. Housing cooperatives are of different types. Some societies acquire land and give the plots to the members for constructing their own houses. They also arrange loans from financial institutions and Government agencies. Other societies themselves construct houses and allot them to the members who make payment in installments.

Choice of form of business organization

A business firm can be owned and managed in several forms. Choice of form of business is a very crucial decision because it determines the risks, responsibility, liability and control of the enterprise and the division of profit or loss. Once a form of business is chosen it is difficult to change it. Therefore, the form of business enterprise should be selected with due care and thought. Several factors influence the choice of the form of business enterprise. These factors are given below: -

1. Nature of business

Business providing direct services eg. small retailers, hair dressing saloons, tailors etc. professional service, eg. Doctors, lawyer etc. depend for their success upon personal attention. They are therefore organized as sole trading concern.

Business activities requiring pooling of skills and funds, eg. Wholesale trade, stock broking firms etc are better organized as partnerships.

Manufacturing organizations of large size are more commonly setup as private and public companies.

2. Degree of Control Desired

A person who desires direct control prefers proprietorship or partnership form of organization. In case the owner is not interested in direct personal control but in large scale operation, it would be desirable to adopt the company form of ownership.

3. Degree of risk and liability

An individual not afraid of unlimited liability may go in for sole proprietorship or partnership firm. But people who prefer safety than return can select company form of organization, where liability is limited to the face value of shares held by him.

4. Duration of Business

Temporary and ad hoc ventures can be organized as sole proprietorship or partnership as they are easy to form and dissolve. Enterprises of permanent nature can be better organized as joint stock companies and co-operative societies because they enjoy perpetual succession.

5. Amount of Capital required

Enterprises requiring heavy investments should be organized as joint stock company. Where the funds required initially are small and scope for expansion is not desired, sole trading or partnership is better choice.

6. Government Regulation and Control

Sole trading concerns and partnership are subject to little regulation and control by the government. Companies and co-operative societies have to undergo several legal formalities.

7. Managerial Requirements

Small business using simple process of production and distribution can be managed effectively as proprietorships or partnerships. On the other hand an enterprise involving the use of complex techniques and procedures requires professional management. Such enterprises can be managed efficiently as joint stock companies.

8. Size and area of operations

Large scale enterprises catering to national and international markets can be organized more successfully as joint stock companies. The reason is that large sized enterprises require large financial and managerial resources which are beyond the capacity of a single person or a few partners. On the other hand, small and medium scale firms are generally set up as partnership or proprietorship.

9. Division of Surplus

If a person is ready to bear unlimited personal liability and desires maximum share of profit, the best choice is sole proprietorship

Education = Knowledge

Knowledge= Power

Power= Respect

Respect=Happiness

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