

Business Studies 11th (NCERT)

Chapter: 2

Short Questions Answer

1. Compare the status of a minor in a joint hindu family business with that in a partnership.

Ans.

Basis	Minor in Joint Hindu Family	Minor in Partnership
Member/ Partner	A minor becomes member of HUF as soon as he takes birth in the family.	A minor can be admitted to the benefits of the partnership firm with the mutual consent of all other partners.
Share in profit / loss	Sharing profit as well as losses.	He shares profits only.
Change in status	Status of Minor in HUF will remain same when he attains maturity age.	On attaining maturity age, the minor has to decide whether he would like to become a partner in the firm or not.

2. If registration is optional, why do not partnership firms willingly go through this legal formality and get themselves registered? Explain.

Ans. Partnership firms willingly do not go through this legal formality because the partners of the firm do not want to indulge themselves in legal formalities or complexities regarding registration of the firm.

3. State the important privileges available to a private company.

Ans. Important privileges available to a private company are as follows: -

- (i) Only two members can form a private company whereas seven members are required to form a public company.
- (ii) Prospectus is not required in case of private company.
- (iii) Shares can be allotted without receiving the minimum subscription.
- (iv) Private company requires only 2 Directors whereas 3 are required in public company.
- (v) Keeping records of index related to members is not necessary in case of private company whereas same is mandatory in Public company.

4. How does a cooperative society exemplify democracy and secularism? Explain.

Ans. In cooperative society members of management like secretary are elected by other members and each member has one vote irrespective of the capital investment or share in the society. This is democracy. Society works for the welfare of the members irrespective of religion and profit motive is not the main objective. This is secularism.

5. What is meant by partner by estoppel? Explain

Ans. A person is considered partner by estoppel if, through his/ her own initiative, conduct or behaviour, he/ she gives an impression to others that he/ she is a partner of the firm.

OR he/ she gives an impression of his being a partner to others by his words or conduct.

For Example Rajesh accompanies Mahesh as a friend for business deal with Abhishek. While Mahesh was dealing with Abhishek, Rajesh was nodding in affirmative. Abhishek thought that Rajesh is also a partner. In this case Rajesh will be considered as partner by estoppel.

6. Briefly explain the following terms in brief.

- (a) Perpetual succession :- : company is creation of law, and life of a company can be brought to an end only by law. Members can transfer interest. They may come and go, but the company continues to exist.
- (b) Common seal: - A person can sign a document but an artificial person cannot sign a document. Thus common seal is signature of artificial person. A company acts through its board of directors, which enters into agreement with others through a common seal. It is an engraved equivalent of an official signature. Any agreement is legally binding on the company if it has common seal on it.
- (c) Karta: -The Joint Hindu family business is managed and controlled by the eldest male member of the family, known as “Karta” He takes all the decisions and his decisions are binding on the other members. Centralised management in the hand of karta also leads to prompt and flexible decision making. Karta has unlimited liability, which augments the credit worthiness of the firm. So, it is rightly said that “karta is the most active member in case of Joint Hindu family business.
- (d) Artificial person: -A company is a creation of law and exists independent of its members. It cannot breath, eat, talk like normal persons but as an artificial person it can own property, incur debts, borrow money, enter into contracts, sue and be sued.

Long Answer Question

1. What do you understand by a sole proprietorship firm explain its merits and limitations.

Ans. Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks.

This is evident from the term itself. The word “sole” implies “only”, and “proprietor” refers to “owner”. Hence, a sole proprietor is the one who is the only owner of a business. This form of business is particularly common in areas of services such as small shoper in a locality.

Merits

- (i) **Confidentiality of information:** Sole decision making authority enables the proprietor to keep all the information (related to business operations) confidential and maintain secrecy. A sole trader is not bound by law to publish firm’s accounts.
- (ii) **Quick decision making:** A sole proprietor enjoys considerable degree of freedom and can make prompt decision because there is no need to consult others.
- (iii) **Sense of accomplishment:** There is a personal satisfaction involved in working for oneself. It instils in the individual a sense of accomplishment and confidence in one’s abilities particularly if profits are high.
- (iv) **Ease of formation and closure:** There are minimum legal formalities. There is no separate law that governs sole proprietorship. As sole proprietorship is the least regulated form of business, it is easy to start and close the business as per the wish of the owner.
- (v) **Direct incentive:** A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profit.

Limitations:-

- (i) **Limited life of a business concern:** In the eyes of the law the proprietorship and the owner are considered one and the same. Death, insolvency or illness of a proprietor affects the business and can lead to its closure if other members in the family are not willing to continue in the same business.
- (ii) **Limited managerial ability:** The owner has to assume the responsibility of varied managerial tasks such as purchasing, selling, financing, etc. It is rare to find an individual who excels in all these areas. Thus decision making may not be balanced in all the cases.
- (iii) **Limited resources:** Resources of a sole proprietor are limited to his/her personal savings and borrowings from others. Growth is limited due to this reason.

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- (iv) **Unlimited liability:** Unlimited liability of the business means that creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor. A poor decision can create serious financial burden on the owner. This can lead to insolvency. That is why a sole proprietor is less inclined to take risks or expand his business.

2. Why is partnership considered by (some) to be a relatively unpopular form of business ownership? Explain the merits and limitations of partnership.

Ans. Partnership is considered by some to be a relatively unpopular form of business ownership because of the following reasons.

- (i) **Mutual agency:** Every partner is both an agent and a principal. He is an agent of other partners as he represents them and thereby binds them through his acts. He is a principal as he too can be bound by the acts of other partners
- (ii) **Unlimited liability:** - The partners of a firm have unlimited liability. Personal assets may be used for repaying debts in case if business assets are insufficient. Further, the partners are jointly and individually liable for payment of debts.
- (iii) **Possibility of conflicts:** Partnership is run by a group of persons wherein decision making authority is shared. Difference in opinion on some issues may lead to disputes between partners. Further, decisions of one partner is binding on other partners. Thus an unwise decision by someone may result in financial ruin for all others.
- (iv) **Limited resources:** There is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient to support large scale business operations. As a result, partnership firms face problems in expansion.
- (v) **Lack of public confidence:** A partnership firm is not legally required to publish its financial reports or make other related information public. It is, therefore, difficult for any member of the public to ascertain the true financial status of a partnership firm.
- (vi) **Lack of continuity:** Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. It may result in lack of continuity. However a firm may continue to exist.

3. Why is it important to choose an appropriate form of organisation? Discuss the factors that determine the choice of form of organisation.

Ans. After studying various forms of business organisations, it is evident that each form has certain advantages as well as disadvantages. It, therefore, becomes vital that certain basic considerations are kept in mind while choosing an appropriate form of organisation. These are:

- (i) **Cost and ease in setting up the organisation:** As far as initial business setting-up costs are concerned, sole proprietorship is the most inexpensive way of starting a business. In case of partnership also, the advantage of less legal formalities and lower cost is there. Cooperative societies and companies have to be compulsorily registered. Formation of a company involves a lengthy and expensive legal procedure. From the point of view of initial cost, sole proprietorship is the preferred form as it involves least expenditure.
- (ii) **Liability:** In case of sole proprietorship and partnership firms, the liability of the owners/ partners is unlimited. This may call for paying the debt from personal assets of the owners. In joint Hindu family business, only the karta has unlimited liability. In cooperative societies and companies, however, liability is limited and creditors can force payment of their claims only to the extent of the company's assets. Hence, from the point of view of investors, company is more suitable as the risk involved is limited.
- (iii) **Continuity:** The continuity of sole proprietorship and partnership firms is affected by events such as death, insolvency or insanity of the owners. However, such factors do not affect the continuity of business in the case of organisations like joint Hindu family business, cooperative societies and companies. In case the business needs a permanent structure, company or cooperatives are more suitable. For short term ventures, proprietorship or partnership may be preferred.
- (iv) **Management ability:** A sole proprietor may find it difficult to have expertise in all functional areas of management. In other forms of organisations like partnership and

company, there is no such problem. Division of work among the members in such organisations allows the managers to specialise in specific areas, leading to better decision making. Further, if the organisation's operations are complex in nature and require professionalised management, company is a better alternative. Proprietorship or partnership may be suitable, with people having limited skills to run the business.

- (v) **Capital considerations:** Companies are in a better position to collect large amounts of capital by issuing shares to a large number of investors. Partnership firms also have the advantage of combined resources of all partners. But the resources of a sole proprietor are limited. Thus, if the scale of operations is large, company is suitable whereas for medium and small sized business one can opt for partnership or sole proprietorship.
 - (vi) **Degree of control:** If direct control over operations and absolute decision making power is required, proprietorship may be preferred. But if the owners do not mind sharing control and decision making, partnership or company can be adopted.
 - (vii) **Nature of business:** If direct personal contact is needed with the customers such as in the case of a grocery store, proprietorship may be more suitable. For large manufacturing units, however, when direct personal contact with the customer is not required, the company form of organisation may be adopted.
4. Discuss the characteristics, merits and limitation of cooperative form of organisation. Also describe briefly different types of cooperative societies.

Ans. **Features**

The characteristics of a cooperative society are listed below.

- (i) **Legal status:** - A cooperative society enjoys a separate legal status same as company.
- (ii) **Service motive:** - Main motive of cooperative society is to provide services to its members.
- (iii) **Limited liability:** - Members of cooperative society have limited liability.
- (iv) **Voluntary membership:** - Members of cooperative society are free to take decision about joining or leaving membership.
- (v) **Control:** - Members of cooperative society have full control over the affairs of society.

Merits of cooperative society are ...

The cooperative society offers many benefits to its members. Some of the advantages of the cooperative

Society are as follows.

- (i) **Limited liability:** The liability of members of a cooperative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.
- (ii) **Stable existence:** Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society. A society, therefore, operates unaffected by any change in the membership.
- (iii) **Equality in voting status:** The principle of 'one man one vote' governs the cooperative society. Irrespective of the amount of capital contribution by a member, each member is entitled to equal voting rights.
- (iv) **Ease of formation:** The cooperative society can be started with a minimum of ten members. The registration procedure is simple involving a few legal formalities. Its formation is governed by the provisions of Cooperative Societies Act 1912.
- (v) **Support from government:** The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.
- (vi) **Economy in operations:** The members generally offer honorary services to the society. As the focus is on elimination of middlemen, this helps in reducing costs. The customers

or producers themselves are members of the society, and hence the risk of bad debts is lower.

A corporative society also suffers from following limitations

- (i) **Limited resources:** Resources of a cooperative society consists of capital contributions of the members with limited means. The low rate of dividend offered on investment also acts as a deterrent in attracting membership.
- (ii) **Government control:** In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc.
- (iii) **Inefficiency in management:** Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries.
- (iv) **Differences of opinion:** Internal quarrels arising as a result of contrary viewpoints may lead to difficulties in decision making. Personal interests may start to dominate the welfare motive and the benefit of other members may take a back seat if personal gain is given preference by certain members.
- (v) **Lack of secrecy:** As a result of open discussions in the meetings of members as well as disclosure obligations as per the Societies Act (7), it is difficult to maintain secrecy about the operations of a cooperative society.

Types of Cooperative Societies...

Various types of cooperative societies based on the nature of their operations are described below:

Consumer's cooperative societies: The consumer cooperative societies are formed to protect the interests of consumers. The members comprise of consumers desirous of obtaining good quality products at reasonable prices. The society aims at eliminating middlemen to achieve economy in operations. It purchases goods in bulk directly from the wholesalers and sells goods to the members, thereby eliminating the middlemen.

Producer's cooperative societies: These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers. The society aims to fight against the big capitalists and enhance the bargaining power of the small producers. It supplies raw materials, equipment and other inputs to the members and also buys their output for sale.

Marketing cooperative societies: Such societies are established to help small producers in selling their products. The members consist of producers who wish to obtain reasonable prices for their output. The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products.

Farmer's cooperative societies: These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The members comprise of farmers who wish to jointly take up farming activities. The aim is to gain the benefits of large scale farming and increase the productivity. Such societies provide better quality seeds, fertilisers, machinery and other modern techniques for use in the cultivation of crops.

Credit cooperative societies: Credit cooperative societies are established for providing easy credit on reasonable terms to the members. The members comprise of persons who seek financial help in the form of loans. The aim of such societies is to protect the members from the exploitation of lenders who charge high rates of interest on loans.

Housing Cooperative societies: Cooperative housing societies are established to help people with limited income to construct houses at reasonable costs. The members of these societies consist of people who are desirous of procuring residential accommodation at lower costs.

5. Distinguish between a joint Hindu family business and partnership.

Ans.

Formation	Registration is optional, easy formation	Easy formation, less legal formalities
Members	Min. - 2 Max. - 50 Banking - 10	At least 2 people for division of family's property. No maximum limit.
Capital Contribution	Limited	Ancestral property
Liability	Unlimited and jointly by all partners.	Unlimited for karta Limited for other members
Control and Management	Partners take decision consent of all partners is needed.	Karta takes all decisions
Continuity	More stable but affected by the status of partners.	Stable business, continues even if karta dies.

6. Despite limitation of size and resources many people continue to prefer sole proprietorship over other forms of organisation. Why?

Ans. Despite limitation of size and resources many people continue to prefer sole proprietorship over other forms of organisation because of the following reasons:-

- (i) **Liberty** :- There is no interference of others while making decisions. Thus a proprietor enjoys full liberty.
- (ii) **Quick decision** :- Decision making is prompt and no need to consult with others as only one person is running business.
- (iii) **Confidential** :- Sole trader can keep business informations confidential with himself as there is no need to disclose the financial position to the others.
- (iv) **Ease of formation and disclouser**: - Sole trader can easily start business with very less legal formalities and wind up any time without legal intervention.
- (v) **Direct incentive**: - Profit is directly related to the hard work of the owner and there is no need to share the profits with others.
- (vi) **Sense of self satisfaction**: - As business grows and success, it provide self satisfaction to the owner specially in cases where profit is very high.

