1. **'Sole' means single and 'proprietorship' means ownership.**

It means only one person or an individual becomes the owner of the business. Thus, the business organization in which a single person owns, manages and controls all the activities of the business is known as sole proprietorship form of business organization. The individual who owns and runs the sole proprietorship business is called a ‘sole proprietor’ or ‘sole trader’. A sole proprietor pools and organizes the resources in a systematic way and controls the activities with the sole objective of earning profit

**Sole proprietorship form of business organizations have the following characteristics:**

1. **Single Ownership**: A single individual always owns sole proprietorship form of business organization. That individual owns all assets and properties of the business. Consequently, he alone bears all the risk of the business. Thus, the business of the sole proprietor comes to an end at the will of the owner or upon his death.
2. No sharing of Profit and Loss: The entire profit arising out of sole proprietorship business goes to the sole proprietor. If there is any loss it is also to be borne by the sole proprietor alone. Nobody else shares the profit and loss of the business with the sole proprietor.
3. One-man’s Capital: The capital required by a sole proprietorship form of business organisation is totally arranged by the sole proprietor. He provides it either from his personal resources or by borrowing from friends, relatives, banks or other financial institutions.
4. One-man Control: The controlling power in a sole proprietorship business always remains with the owner. The owner or proprietor alone takes all the decisions to run the business. Of course, he is free to consult anyone as he wish.
5. Unlimited Liability: The liability of the sole proprietor is unlimited. This implies that, in case of loss the business assets along with the personal properties of the proprietor shall be used to pay the business liabilities.
6. Less Legal Formalities: The formation and operation of a sole proprietorship form of business organization requires almost no legal formalities. It also does not require to be registered. However, for the purpose of the business and depending on the nature of the business, the sole proprietorship has to have a seal. He may, as any other form of business, be required to obtain required license or permissions from the local administration.

**Advantages:**

1. **Easy to Form and Wind up :** A sole proprietorship form of business is very easy to form. With a very small amount of capital you can start the business. There is no need to comply with any legal formalities relating to formation of business except for those businesses which required license from local authorities. Just like formation it is also very easy to wind up the business. It is your sole discretion to form or wind up the business at any time.
2. **Direct Motivation**: The profits earned belong to the sole proprietor alone and bears the risk of losses as well. Thus, there is a direct link between effort and reward. If he works hard, then there is a possibility of getting more profit and of course, he will be the sole beneficiary of this profit. Nobody will share this reward with him. This provides strong motivation for the sole proprietor to work hard.
3. **Quick Decision and Prompt Action**: In a sole proprietorship business the sole proprietor alone is responsible for all decisions. Of course, he can consult others. But he is free to take any decision on his own. Since no one else is involved in decision making it becomes quick and prompt action can be taken on the basis of this decision.
4. **Better Control**: In sole proprietorship business the proprietor has full control over each and every activity of the business. He is the planner as well as the organizer, who co-ordinates every activity in an efficient manner. Since the proprietor has all authority with him, it is possible to exercise better control over business.
5. **Maintenance of Business Secrets**: Business secrecy is an important factor for every business. It refers to keeping the future plans, technical competencies, business strategies, etc, secret from outsiders or competitors. In the case of sole proprietorship business, the proprietor is in a very good position to keep his plans to himself since management and control are in his hands. There is no need to disclose any information to others.
6. **Close Personal Relation**: The sole proprietor is always in a position to maintain good personal contact with the customers and employees. Direct contact enables the sole proprietor to know the individual likes, dislikes and tastes of the customers. Also, it helps in maintaining close and friendly relations with the employees and thus, business runs smoothly.
7. **Flexibility in Operation**: The sole proprietor is free to change the nature and scope of business operations as and when required as per his decision. A sole proprietor can expand or curtail his business according to the requirement. Suppose, as the owner of a bookshop, you have been selling books for school students.
8. **Encourages Self-employment**: Sole proprietorship form of business organization leads to creation of employment opportunities for people. Not only is the owner self-employed, sometimes he also creates job opportunities for others. You must have observed in different shops that there are a number of employees assisting the owner in selling goods to the customers. Thus, it helps in reducing poverty and unemployment in the country.

**Disadvantages of Sole Proprietorship**

1. Limited Capital: In sole proprietorship business, it is the owner who arranges the required capital of the business. It is often difficult for a single individual to raise a huge amount of capital. The owner’s own funds as well as borrowed funds sometimes become insufficient to meet the requirement of the business for its growth and expansion.
2. Unlimited Liability: In case the sole proprietor fails to pay the business obligations and debts arising out of business activities, his personal properties may have to be used to meet those liabilities. This restricts the sole proprietor from taking risks and he thinks cautiously while deciding to start or expand the business activities.
3. Lack of Continuity: The existence of sole proprietorship business is linked to the life of the proprietor. Illness, death or insolvency of the owner brings an end to the business. The continuity of business operation is therefore uncertain.
4. Limited Size: In sole proprietorship form of business organisation there is a limit beyond which it becomes difficult to expand its activities. It is not always possible for a single person to supervise and manage the affairs of the business if it grows beyond a certain limit.
5. Lack of Managerial Expertise: A sole proprietor may not be an expert in every aspect of management. He/ she may be an expert in administration, planning, etc., but may be poor in marketing. Again, because of limited financial resources it may not possible to employ a professional manager. Thus, the business lacks benefits of professional management.
6. **The Hindu Undivided Family (HUF)**

The Hindu Undivided Family (HUF) business is a form of business organization found only in India. In this form of business, all the members of a Hindu undivided family own the business jointly. The affairs of business are managed by the head of the family, who is known as the “**KARTA”**. A Hindu Undivided Family business comes into existence as per the Hindu Inheritance Laws of India. The membership is limited up to three successive generations. They are also called “Co-parceners”. The term co-parceners imply that such an individual has got the right to ask for a partition of the Hindu Undivided Family business and to have his separate share.

**Karta is the eldest member of the family. Only a coparcener can become Karta.**

Characteristics

1. **Legal Status**: The Hindu Undivided Family business is a jointly owned business just like a jointly owned property. It is governed by Hindu Law.
2. **Membership**: There is no membership other than the members of the joint family.
3. **Profit Sharing:** All co-parceners have equal share in the profits of the business. In the event of death of any of the co-parcener, his wife can claim share of profit.
4. **Management**: The management of a Hindu Undivided Family business is in the hands of the senior-most family member who is known as the karta. He has the authority to manage the business and his ways of managing can not be questioned by the co-parceners.
5. **Liability**: The liability of each member of the Hindu Undivided Family business is limited to the extent of his share in the business. But the liability of the karta is unlimited as, it extends to his personal property.
6. **Fluctuating Share**: The individual share of each co-parcener keeps on fluctuating. This is because, every birth of a male child in the family adds to the number of co-parceners and every death of a co-parcener reduces the number.
7. **Continuity:** A Hindu Undivided Family business continues to exist on the death of any co-parcener. It continues to exist as the next senior most family member becomes karta.
8. **PARTNERSHIP**

Partnership is an association of **two or more individuals who agree to share the profits of a lawful business which is managed and carried on either by all or by any, or some of them acting for all.**

According to Haney, “Partnership is the relation between persons competing to make contract who agree to carry on a lawful business In common with a view of private gain.”

The formation of partnership is easy and simple. It is formed to meet the need for” more capital, effective supervision and control, greater specialization, division of work between proprietors and for spreading of risk Persons from similar background or persons of different ability and skills, may join together to carry on a business.

Each member of such a group is individually known as ‘partner’ and collectively the members are known as a ‘partnership firm’. These firms are governed by the Indian Partnership Act, 1932.

Characteristics

1. **Number of Partners:** A minimum of two persons are required to start a partnership business.
2. **Contractual Relationship**: The relation between the partners of a partnership firm is created by contract. The partners enter into partnership through an agreement which may be verbal, written or implied. If the agreement is in writing it is known as a ‘Partnership Deed’.
3. **Competence of Partners**: Since individuals have to enter into a contract to become partners, they must be competent enough to do so. Thus, minors, lunatics and insolvent persons are not eligible to become partners. However, a minor can be admitted to the benefits of partnership i.e. he can have a share in the profits.
4. **Sharing of Profit and Loss**: The partners can share profit in any ratio as agreed. In the absence of an agreement, they share it equally.
5. **Unlimited Liability**: The partners have unlimited liability. They are liable jointly and severally for the debts and obligations of the firm. Creditors can lay claim on the personal properties of any individual partner or all the partners jointly. Even a single partner may be called upon to pay the debts of the firm. Of course, he can get back the money due from other partners. The liability of a minor is, however, limited to the extent of his share in the profits, in case of dissolution of a firm.
6. **Principal-Agent Relationship:** The business in a partnership firm may be carried on by all the partners or any one of them acting for all. This means that every partner is an agent when he is acting on behalf of others and he is a principal when others act on his behalf. It is, therefore, essential that there should be mutual trust and faith among the partners in the interest of the firm.
7. **Transfer of Interest**: No partner can sell or transfer his interest in the firm to anyone without the consent of other partners.
8. **Legal Status**: A partnership firm is just a name for the business as a whole. The firm means partners and the partners mean the firm. Law does not recognize the firm as a separate entity distinct from the partners.
9. **Voluntary Registration**: Registration of partnership is not compulsory. But since registration entitles the firm to several benefits, it is considered desirable. For example, if it is registered, any partner can file a case against other partners, or a firm can file a suit against outsiders in case of disputes, claims, disagreements, etc.
10. **Dissolution of Partnership**: Dissolution of partnership implies not only a complete closure or termination of partnership business, but it also includes any change in the existing agreement among the partners due to a change in the number of partners.
11. Company

A Company form of business organisation is a voluntary association of persons to carry on business. Normally, it is given a legal status and is subject to certain legal regulations. It is an association of persons who generally contribute money for some common purpose.

The money so contributed is the capital of the company. The persons who contribute capital are its members.

The proportion of capital to which each member is entitled is called his share, therefore members of a company are known as shareholders and the capital of the company is known as share capital.

The total share capital is divided into a number of units known as ‘shares’.

Tata Iron & Steel Co. Limited, Hindustan Lever Limited, Reliance Industries Limited, Steel Authority of India Limited, Ponds India Limited etc.

**The companies are governed by the Indian Companies Act, 2013. The Act defines a company as an artificial person created by law, having separate entity, with perpetual succession and a common seal.**

Characteristics

1. **Artificial Legal Person**: A company is an artificial person as it is created by law. It has almost all the rights and powers of a natural person. It can enter into contract. It can sue in its own name and can be sued.
2. **Incorporated Body:** A company must be registered under Companies Act. By virtue of this, it is vested with corporate personality. It has an identity of its own. Although the capital is contributed by its members called shareholders yet the property purchased out of the capital belongs to the company and not to its shareholders.
3. **Capital Divisible into Shares**: The capital of the company is divided into shares. A share is an indivisible unit of capital. The face value of a share is generally of a small denomination which may be of Rs 10, Rs 25 or Rs 100.
4. **Transferability of Shares:** The shares of the company are easily transferable. The shares can be bought and sold in the stock market.
5. **Perpetual Existence**: A company has an independent and separate existence distinct from its shareholders. Changes in its membership due to death, insolvency etc. does not affect its existence and its continuity.
6. **Limited Liability**: The liability of the shareholders of a company is limited to the extent of face value of shares held by them. No shareholder can be called upon to pay more than the face value of the shares held by them. At the most the shareholders may be asked to pay the unpaid value of shares.
7. **Representative Management:** The number of shareholders is so large and scattered that they cannot manage the affairs of the company collectively. Therefore they elect some persons among themselves to manage and administer the company. These elected representatives of shareholders are individually called the ‘directors’ of the company and collectively the Board of Directors

**TYPES OF COMPANY:-**

Private Company A private company has –

* limit on maximum to two hundred members other than present and past employees;
* restrict the right to transfer its shares; and.
* prohibits any invitation to the public to subscribe for any securities of the company. A private company (or a private limited company) may have two members normally or single member in case such private company is a one person company (OPC).

**STATUTORY BODIES AND CORPORATIONS**

**That is created under an Act of Parliament or an Act of State Legislatures. Examples:** Reserve Bank of India under the Reserve Bank of India Act, State Bank of India under a similar Act.

A statutory corporation or public body is an autonomous corporate body created and set up by statute.

The Act or statute defines its objectives, powers and functions. A public corporation seeks to combine the flexibility of private enterprise with public ownership and accountability.

A statutory corporation does not include corporations owned by shareholders whose legal personality derives from being registered under a relevant company statute.

In the words of Roosevelt, “a public Corporation is an organisation that is clothed with the power of the government, but is possessed with the flexibility and initiative of private enterprise.”

A public corporation is thus a combination of public ownership, public accountability and business management for public end. Examples: Life Insurance Corporation of India, Employees State Insurance Corporation.

It must be remembered that, an enterprise does not become a public corporation simply by using the word ‘corporation’ in its name. For instance, the State Trading Corporation of India is a government company and not a public corporation.

Features

1. Corporate Body: It is a body corporate established through a special Act of Parliament or Stat Legislature. The Act defines its powers and privileges and its relationship with government departments and ministries.
2. Legal Entity: It enjoys a separate legal entity with perpetual succession and common seal. It can acquire an own property in its own name. It can sue and be sued and can enter into contracts in its own name.
3. Government Ownership: The public corporation is wholly owned by the Central and/ or State Government(s).
4. Financial Independence: It enjoys financial autonomy. Its initial capital and borrowings are provided by the government but it is supposed to be self-supporting. It can borrow money from the public and is empowered to plough back its earnings.
5. Accounting System: The Corporation is not subject to the budgetary, accounting and audit regulations applicable to government departments. It is generally exempt from the rigid rules applicable to the expenditure of public funds.
6. Management and Personnel: A public corporation is managed by a Board of Directors **appointed** by the Government. However, its employees need not necessarily be civil servants. They can be employed on terms and conditions laid down by the corporation itself.
7. Service Motive: The primary motive of the corporation is public service rather than private profits. It is, however, expected to operate in a business-like manner.

CO-OPERATIVES, SOCIETIES AND TRUSTS

The term co-operation is derived from the Latin word co-operari, where the word ‘co’ means ‘with’ and ‘operari’ means ‘to work’. Thus, co-operation means working together.

So, those who want to work together with some common economic objective can form a society which is termed as “co-operative society”.

It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as mutual help.

The main objective is to provide support to the members. Nobody joins a cooperative society to earn profit. People come forward as a group, pool their individual resources, utilise them in the best possible manner, and derive some common benefit out of it.

Any ten persons can form a co-operative society.

It functions under the Cooperative Societies Act, 1912 and other State Co-operative Societies Acts. The co-operatives are formed primarily to render services to its members. Generally it also provides some service to the society.

International Labour Organisation: "Cooperative is an association of person usually of limited means, who have voluntarily joined together to achieve a common economic, end through the formation of a democratically controlled business organisation, make equitable contribution to the capital required and accepting a fair share of risks and benefits of the undertaking

The Indian Cooperative Societies Act, 1912: Section 4 of this Act defines cooperatives "as a society which has its objectives the promotion of economic interest, its members in accordance with cooperative principles. "Cooperative Society is that society which has been registered under the Cooperative Societies Act, 1912, or under any other law for the time being in force in any state registration of cooperative society."

**The main objectives of co-operative society are**:

* rendering service rather than earning profit,
* mutual help instead of competition, and
* self help in place of dependence. Although all types of cooperative societies work on the same principle, they differ with regard to the nature of activities they perform.

**Followings are different types of co-operative societies that exist in our country**.

1. Consumers’ Co-operative Society: These societies are formed to protect the interest of general consumers by making consumer goods available at a reasonable price. They buy goods directly from the producers or manufacturers and thereby eliminate the middlemen in the process of distribution. Kendriya Bhandar, Apna Bazar and Sahkari Bhandar are examples of consumers’ co-operative society.
2. Producers’ Co-operative Society: These societies are formed to protect the interest of small producers by making available items of their need for production like raw materials, tools and equipments, machinery, etc. Handloom societies like APPCO, Bayanika, Haryana Handloom, etc., are examples of producers’ co-operative society.
3. Co-operative Marketing 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. Gujarat Co-operative Milk Marketing Federation that sells AMUL milk products is an example of marketing co-operative society.
4. Co-operative Credit Society: These societies are formed to provide financial support to the members. The society accepts deposits from members and grants them loans at reasonable rates of interest in times of need. Village Service Co-operative Society and Urban Cooperative Banks are examples of co-operative credit society.
5. Co-operative Farming Society: These societies are formed by small farmers to work jointly and thereby enjoy the benefits of large-scale farming. Lift-irrigation cooperative societies and pani-panchayats are some of the examples of co-operative farming society.
6. Housing Co-operative Society: These societies are formed to provide residential houses to members. They purchase land, develop it and construct houses or flats and allot the same to members. Some societies also provide loans at low rate of interest to members to construct their own houses. The Employees’ Housing Societies and Metropolitan Housing Co-operative Society are examples of housing co-operative society.

LIMITED LIABILITY PARTNERSHIP

Limited Liability Partnership entities, the world wide recognized form of business organization has been introduced in India by way of Limited Liability Partnership Act, 2008.

A Limited Liability Partnership, popularly known as LLP combines the advantages of both the Company and Partnership into a single form of organization.

In an LLP one partner is not responsible or liable for another partner's misconduct or negligence; this is an important difference from that of a unlimited partnership.

In an LLP, all partners have a form of limited liability for each individual's protection within the partnership, similar to that of the shareholders of a corporation.

However, unlike corporate shareholders, the partners have the right to manage the business directly.

An LLP also limits the personal liability of a partner for the errors, omissions, incompetence, or negligence of the LLP's employees or other agents. Limited Liability Partnership is managed as per the LLP Agreement, however in the absence of such agreement the LLP would be governed by the framework provided Limited Liability Partnership Act, 2008 which describes the matters relating to mutual rights and duties of partners of the LLP and of the limited liability partnership and its partners. LLP has a separate legal entity, liable to the full extent of its assets, the liability of the partners would be limited to their agreed contribution in the LLP. Further, no partner would be liable on account of the independent or unauthorized actions of other partners, thus allowing individual partners to be shielded from joint liability created by another partner’s wrongful business decisions or misconduct. Limited Liability Partnership Act, 2008 came into effect by way of notification dated 31st March 2009.