CHAPTER -2

FORMS OF BUSINESS ORGANISATION

Various forms of Business organisations are:

1. Sole proprietorship
2. Partnership
3. Joint Hindu family
4. Co-operative society
5. Joint stock company

Sole proprietorship

A business concern owned and managed by a single person is called as sole proprietorship. It is also called as sole trader or one man business.

Features

1. Formation and Closure

It can be easily started by anyone as there are no legal formalities.

2. Liability

A Sole trader has unlimited liability. That is he is personally liable for the debts of the firm in case the assets of the business are not sufficient to meet all the debts.

3. Sole Risk bearer and Profit Recipient

He alone has to bear all the business risks and he is the sole recipient of all the profits.

4. Control

The right to run the business and make all decision lies absolutely with the sole trader

5. No Separate Entity

The business does not have an identity separate from the owner. That is, no distinction is made between the owner and his business.

6. Lack of Business Continuity

The death, insanity, insolvency, imprisonment etc., of the owner may lead to closure of business.

Merits

1. Quick Decision Making

As there is no need to consult others, a sole trader can take quick decisions.

2. Confidentiality of Information

A sole trader can keep all the information related to business operation confidential.

3. Direct Incentive

Sole trader is the sole recipient of all profit of business. This provides maximum incentive to the sole trader to work hard.

4. Sense of Accomplishment

A sole trader works for himself. The success of his business creates self-confidence and a sense of accomplishment in him.

5. Ease of Formation and Closure

It is easy to start and close the business as per the wish of the owner.

Limitations

1. Limited Resources

The financial resources of a sole trader are limited to his personal savings and borrowing from others. Banks and other lending institutions hesitate to give long- term loans to sole trader.

2. Limited Life

Death, Insanity or illness of sole trader affects business and can lead to its closure.

3. Unlimited Liability

As the liability of a sole trader is unlimited, he has to use his personal asset to pay of the debts of the firm if the business assets are insufficient to pay off business debts.

4. Limited Managerial Ability

A sole trader may not have all the managerial ability to conduct the business.

Partnership

The Indian Partnership Act 1936 defines Partnership as "the relation between persons who have agreed to share the profits of the business carried on by all or any one of them acting for all".

Features of Partnership

1. Formation

The partnership is formed by an agreement between persons. It is governed by the Indian Partnership Act 1932.

2. Liability

The liability of partners is unlimited. Personal assets may be used for repaying debts in case the business assets are insufficient.

3. Risk Bearing

The partners bear the risks involved in running a business as a team.

4. Decision making and control

The decision making responsibility and controlling the business are shared by the partners.

5. Continuity

There is lack of continuity of business since the death, retirement or insanity of any partner may lead to reconstitution of partnership.

6. Membership

The minimum number of members needed to start a partnership firm is two. The maximum number is 50 as per Rule 10 of The Companies (miscellaneous) Rules 2014.

7. Mutual Agency

Every partner is both an agent and principal. He is an agent when he binds others through his acts and he is a principal when he is bound by the acts of other partners.

Partnership Deed

It is necessary to have an agreement to form a partnership. Such agreement may be oral or written. The written agreement among partners which specifies the terms and conditions of partnership is called partnership deed.

Contents of Partnership Deed

1.Name of firm

2.Name and address of partners

3.Nature and location of business

4.Duration of business

5.Capital contributed by each partner

6.Profit sharing ratio

7.Rights and duties of partners

8.Salaries of partners

9.Interest on capital and interest on drawings

10.Preparation of accounts and their audits

11.Procedure for dissolution of the firm

Co-operative Society

The co-operative society is a voluntary association of persons, who join together with the motive of welfare of the members. Registration of a co-operative society is compulsory under the Co-Operative Societies act 1912. There must be at least 10 adult persons to form a society.

Features of Co-operative Society

1. Voluntary Membership

A person is free to join a society and can also leave anytime as per his desire. Membership is open to all, irrespective of their religion, caste and gender.

2. Legal Status

Registration of a co-operative society is compulsory. It has a separate legal entity apart from its members. It can enter into contract, and purchase property in its own name, sue and be sued by others.

3. Limited Liability

The liability of the members is limited to the amount of capital contributed by members

4. Control

The control of a co-operative society is vested with a managing committee elected from among the members.

5. Service Motive

The objective of a co-operative society is to render service to its members and not making profit.

Joint Stock Company

A company is an association of many persons who contribute money or money's worth to a common stock and employs it in some trade or business and who share the profit or loss arising there from. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal. It is governed by the Indian companies Act 1956. The capital of a company is divided into a number of units of equal value. One such unit is called a share. The person who takes up shares is called shareholder and shareholders are the owners of the company.

Features of Joint Stock Company 1. Artificial Person

A company is an artificial person created by Law. It is an incorporated association registered under the Companies Act.

2. Separate Legal Entity

On registration a company acquires an identity distinct from its members . It can own property, sue and be sued in its own name.

3. Formation

A company is formed through registration under the Indian Companies Act 1956. Registration is compulsory for joint stock companies.

4. Perpetual Succession

A company being a creation of the Law, can be brought to an end only by Law. Members may come and members may go, but the company continues to exist. The death, insolvency or insanity of members will not affect its existence.

5. Control

The management and control of a company is vested with the Board of Directors. They are elected from among the shareholders in their general meeting.

6. Liability

The liability of members is limited to the extent of capital contributed by them in a company. That is the personal property of the members cannot be used to pay off debts of the company.

7. Common Seal

As a joint stock company is an artificial person, it cannot sign documents for itself. So a common seal with the company's name is used for its signature.

Private company

A Private company is a company which by its Articles:

a)restricts the right of members to transfer its shares.

b)has a minimum of 2 and a maximum of 200 members.

c)does not invite public to subscribe to its share capital.

A private company must add the word ‘Private Limited’ after its name. If a private company contravenes any of the above said provisions, it ceases to be a private company and loses all its privileges.

Public Company

As per Indian Companies Act, a public company is one which:

a)has a minimum of 7 members and no limit on maximum members.

b)has no restriction on transfer of shares.

c)is not prohibited from inviting the public to subscribe to its capital

Privileges of a Private Company

1.A private company can be formed by only two members.

2.There is no need to issue a prospectus.

3.Allotment of shares can be done without receiving the minimum subscription.

4.A private limited company can start business as soon as it receives the certificate of incorporation.

5.A private company needs to have only two directors.

6.A private company is not required to keep an index of members.

Differences between Public Company and Private Company

No.	Basis	Public company	Private company
1	Number of Members	Min-7 Max- No limit	Min- 2 Max – 200
2	Minimum No. of Directors	Three	Two
3	Index of members	Compulsory	Not compulsory
4	Transfer of shares	No restriction	Restriction on transfer
5	Minimum Paid up Capital	₹ 5 Lakhs	₹ 1 Lakh
6	Invitation to Public	Can invite	Cannot invite