



IV. Higher Order Thinking Skills (HOTS)

Question 1. X is interested in the floatation of a company. Briefly discuss the steps he should take.

Answer: Stages in the formation of a company: The formation of a company involves the following four stages:

1. Promotion,
2. Incorporation,
3. Subscription of capital,
4. Commencement of business.

These four stages are relevant for formation of a public limited company. For a private limited company, only the first two stages are needed.

1. Promotion: Promotion stage includes all the steps right from the identification of a business opportunity till the company is formed. All the tasks during the stage of promotion are performed by a promoter.
2. Incorporation of the company: It means registration of the company under Companies Act, 1956. This second stage involves the following steps:
 1. Filing of documents: An application to the registrar for incorporation must be accompanied with the following documents:
 - (i) Memorandum of Association.
 - (ii) Articles of Association or statement in lieu of the prospectus (in case table A is adopted by Public Limited Company).
 - (iii) Written consent of proposed directors.
 - (iv) Agreement (if any) with proposed managing director, manager, etc.
 - (v) Copy of registrar's letter approving the company's name.
 - (vi) Statutory declaration.
 - (vii) Notice of the exact address of the registered office
 2. Payment of fees: Along with the above documents, necessary fees is to be paid.
 3. Certificate of Incorporation: The registrar issues a certificate of incorporation after being satisfied. Certificate is a conclusive evidence of regularity of incorporation of a company irrespective of any deficiency in its registration.
3. Capital subscription: In the stage, following steps are required to be followed by public company to raise funds from the public:
 - SEBI approval;
 - Filing of prospectus or statement in lieu of prospectus;
 - Appointment of bankers, brokers and underwriters;
 - Minimum subscription;
 - Application to stock exchange.
4. Commencement of business: In this stage, public company makes an application (along with some documents) to registrar for issue of "Certificate of Commencement of Business". The registrar issues the certificate after being satisfied. The company can start its business activities from the date of issue of the certificate.

Question 2. Distinguish between Joint Hindu Family Business and

Partnership.

Answer:

1. Regulating law: A partnership is governed by the provisions of the Indian Partnership Act, 1932. A Joint Hindu Family business is governed by the principles of Hindu law.
2. Mode of creation: A partnership arises out of a contract, whereas a Joint Hindu family business arises by the operation of law and is not the result of a contract.
3. Admission of new members: In a partnership no new partner is admitted without the consent of all the partners, while in the case of a Joint Hindu family firm a new member is admitted just by birth.
4. The position of females: In a partnership women can be full-fledged partners, while in a Joint Hindu family business membership is restricted to male members only. After the passage of the Hindu Succession Act, 1956, females get only co-sharer's interest at the death of a coparcener and they do not become coparceners themselves.
5. Number of members: In partnership the maximum limit of partners is 10 for banking business and 20 for any other business but there is no such maximum limit of members in the case of Joint Hindu Family business.
6. Authority of members: In partnership each partner has an implied authority to bind his co-partners by act done in the ordinary course of the business, there being mutual agency between various partners.
In a joint family business all the powers are vested in the 'Karta' and he is the only representative of the family who can contract debts or bind his coparceners by acts done in the ordinary course of business, there being no mutual agency between various coparceners.
7. Liability of members: In partnership, the liability of the partners is joint and several as well as unlimited. In other words, each partner is personally and jointly liable to an unlimited extent and if partnership liabilities cannot be fully discharged out of the partnership property each partner's separate personal property is liable for the debts of the firm. In a Joint Hindu family business only the 'Karta' is personally liable to an unlimited extent, i.e., his self-acquired or other separate property besides his share in the joint family property is liable, for debts contracted on behalf of the family business. Other coparceners' liability is limited to the extent of their interest in the joint family property and they do not incur any personal liability.
8. Right of members to share in profits: In a partnership each partner is entitled to claim his separate share of profits but a member of a Joint Hindu family business has no such right. His only remedy lies in a suit for partition.

Question 3. Explain the factors which affect the choice of form of business organization.

Answer: The following factors are important for taking decision about form of organization.

1. Cost and Ease in Setting up the Organization: Sole proprietorship is least expensive and can be formed without any legal formalities to be fulfilled. Company is most expensive with a lot of legal formalities.
2. Capital Consideration: Business requiring less amount of finance prefer sole proprietorship and partnership form, whereas business activities requiring huge financial resources prefer company form.
3. Nature of Business: If the work requires personal attention such as tailoring unit, hair cutting saloon, it is generally set up as a sole proprietorship. Units engaged in large scale

manufacturing are more likely to be organized in company form.

4. Degree of Control Desired: A person who desires full and exclusive control over business prefers proprietorship rather than partnership or Co. because control has to be shared in these cases.
5. Liability or Degree of Risk: Projects which are not very risky can be organized in the form of sole proprietorship and partnership. Whereas the risky ventures should be done in company form of organization because the liability of shareholders is limited.

Question 4. Which form of business is suitable for following types of business and why?

- (a) Beauty Saloon;
(b) Garments shop;
(c) Garment Factory.

Answer: (a) Beauty Saloon: Sole Proprietor is the right form of business because:

- It needs limited capital.
- It is easy to form.
- Entire profits will belong to the owner.
- It requires personal attention.

(b) Garments Shop: Sole Proprietor is the right form of business because:

- It needs limited capital.
- It is easy to form.
- Entire profits will belong to the owner.

(c) Garment Factory: Partnership is more suitable because:

- It can be easily started and closed without any legal formalities.
- He is not expected to share his business decisions and secrets with anybody.
- Direct relationship between efforts and reward provide incentive to the sole trader to work hard.
- The sole trader can maintain personal contacts with his customers and employees.
- It provides employment to persons with limited money who are not interested to work under others. It prevents concentration of wealth in a few hands.

Question.5. Differentiate between a Joint Stock Company and a Cooperative Society.

Answer. The main differences between Cooperative Organisation and Company Organisation are given below:

1. Governing statute: A company is governed by the Companies Act, 1956 while a co-operative organisation is subject to the provisions of the Cooperative Societies Act, 1912 or State Cooperative Societies Acts.
2. Basic objects: The primary objective of a cooperative society is to provide service, whereas a company seeks to earn profits. This does not mean that a cooperative society does not earn profits or a company does not render service to society.
It simply means that all the activities of a cooperative society are guided by service motive and profits are incidental to this objective. On the other hand, the activities of a company are inspired by profit taking and services rendered to society are incidental to profit motive.
3. Number of members: The minimum number of persons is 7 in a public company and 2 in a private company. A cooperative

requires at least 10 members. The maximum number of members is 50 in a private company and 100 in cooperative credit society. There is no maximum limit in case of public companies and non-credit cooperative societies.

4. Member's liability: The liability of members of a company is generally limited to the face value of shares held or the amount of guarantee given by them though the Companies Act permits unlimited liability to companies. The members of a cooperative society can opt for unlimited liability. But in practice their liability is generally limited.
5. Management and control: The management of a cooperative society is democratic as each member has one vote and there is no system of proxy. In a company, the number of votes depends upon the number of shares and proxies held by a member.

There is little separation between ownership and management in a cooperative society due to limited and local membership.

6. Distribution of surplus: The profits of a company are distributed as dividends in proportion to the capital contributed by the members.

In a cooperative society a minimum part of surplus must be set aside as a reserve and for the general welfare of the public. The rest is distributed in accordance with the patronage provided by different members after paying dividend up to 10 per cent on capital.

7. Share capital: In a company, one member can buy any number of shares but an individual cannot buy more than 10 per cent of the total number of shares or shares worth Rs 1,000 of a cooperative society.

A public company must offer new shares to the existing members while a cooperative society issues new shares generally to increase its membership.

The subscription list of a cooperative society is kept open for new members whereas, the subscription list of a company is closed after subscriptions. A company is thus capitalistic in nature while a cooperative society is socialistic.

8. Transferability of interest: The shares of a public limited company are freely transferable while the shares of cooperative society cannot be transferred but can be returned to the society in case a member wants to withdraw his membership. A member of a cooperative society can withdraw his capital by giving a notice to the society. A shareholder, on the other hand, cannot demand back his capital from the company until it's winding up.

Question 6. How is a partnership firm different from a sole proprietorship?

Answer: The difference between a partnership and sole proprietorship form of business may be as follows. This helps the entrepreneur in selecting form of business of his choice.

- Membership: Partnership is owned by two or more persons subject to the limit ten in banking business and twenty in case of other business. Sole proprietorship is owned by one and only one person.
- Formation: It is formed through an agreement which may be oral or in writing, is formed quite easily as it is the outcome of a single person's decision without any legal administrative approval.
- Registration: The registration is not compulsory. It needs no registration except some compliance.
- Regulating law: It is governed by the rules contained under the Indian Partnership Act, 1932. There is no specific statutory law to govern the functioning of sole proprietors business.
- Capital: There is more scope for raising a larger amount of

capital as there are more than one person. It has a limited financial capability. Hence, the scope for rising capital is naturally least.

- Quickness in decision-making: Decision-making in partnership is corporately delayed as the partners arrive at decision after consultation with one another. The decision of the sole proprietor is prompt as he need not consult anyone.
- Maintenance of secrecy: Maintenance of absolute secrecy is not possible if partnership as business secrets are accessible to more than one partners. The sole proprietor need not share his business secrets with anybody.
- Management: Every partner has the right to take active part in the management of the business. Each partner also enjoys the authority to bind the firm and other partners for his acts in the ordinary course of business. The sole proprietorship is self-managed one and a few employees may support him. However, the decision of the proprietor is final and binding.
 - (i) Risk: The risk connected with the business is comparatively less as it is shared by all the partners. The risk of the sole proprietor is greater than that of partnership form of business.
 - (ii) Duration: It continues as long as the partners desire. Even though legally it comes to an end on the death, insolvency or retirement of any of the partners, the business is continue with the remaining partners. It comes to an end with the death, insolvency incapacity of the proprietor. Thus, there is uncertainty of duration of sole proprietorship

V. Value Based Questions

Question 1. From social welfare point of view, which type of organization is most desirable from employment generation point of view?

Answer: Sole Proprietorship is most desirable from employment generation point of view because it is done at a small scale and small scale labour intensive methods are used. It will create more employment opportunities.

Question 2. Which value is of utmost importance when partnership form of business is used?

Answer: Maintaining trust and confidentiality of information is of utmost importance in a partnership business. It is also important to use mutual agency in utmost good faith keeping in mind the interests of all partners.

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