Question 4. Explain meaning, features, merits and demerits of partnership firm.
Answer: Partnership is a voluntary association of two or more persons who agree to carry on some business jointly and share its profits and losses. The partnership was evolved to overcome the shortcomings of sole proprietorship and Joint Hindu Family business.
Features:

- Two or more persons: There must be at least two persons to form a partnership. The maximum number of persons is 10 in banking business and 20 in non-banking business.
- Agreement: It is an outcome of an agreement among partners which may be oral or in writing.
- Lawful business: It can be formed only for the purpose of carrying on some lawful business.
- Decision making and control: Every partner has a right to participate in management and decision making of the organization.
- Unlimited liability: Partners have unlimited liability.
- Mutual agency: Every partner is an implied agent of the other partners and of the firm. Every partner is liable for acts performed by other partners on behalf of the firm.
- Lack of continuity: Firms existence is affected by the death, lunacy and insolvency of any of its partner. It suffers from lack of continuity.

Merits:

- Ease of formation and closure: It can be easily formed. Only an agreement among the partners is required.
- Larger financial resources: There are more funds as capital is contributed by number of partners.
- Balanced decisions: As decisions are taken jointly by partners after consulting each other.
- Sharing of risks: In it, risk gets distributed among partners which reduces anxiety, burden and stress on individual partner.
- Secrecy: Secrecy can be easily maintained about business affairs as they are not required to publish their accounts or to file any report to the government.

Limitations:

- Limited resources: There is a restriction on the number of partners and hence capital contributed by them is also limited.
- Unlimited liability: The liability of partners is unlimited and they are liable individually as well as jointly. It may prove to be a big drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.
- Lack of continuity: Partnership comes to an end with the death, retirement, insolvency or lunacy of any of its partners.
- Lack of public confidence: Partnership firms are not required to publish their reports and accounts. Thus they lack public confidence.

Question 5. Explain meaning, features, merits and demerits of joint stock company.
Answer: Joint stock company is a voluntary association of persons having a separate legal existence, perpetual succession and common seal. Its capital is divided into transferable shares.
Features:

- Separate legal existence: It is created by law and it is a distinct legal entity independent of its members. It can own property, enter into contracts, can file suits in its own name.
- Perpetual existence: Death, insolvency and insanity or change of members has no effect on the life of a company. It can come to an end only through the prescribed legal procedure.
- Limited Liability: The liability of every member is limited to the nominal value of the shares bought by him or to the amount, guaranteed by him.
- Transferability of shares: Shares of public company are easily transferable. But there are certain restrictions on transfer of share of private company.
- Common seal: It is the official signature of the company and it is affixed on all important documents of company.
- Separation of ownership and control: Management of company is in the hands of elected representatives of shareholders known individually as director and collectively as board of directors.

Merits:

- Limited liability: Limited liability of shareholders reduces the degree of risk borne by him.
- Transfer of Interest: Easy transferability of shares increases the attractiveness of shares for investment.
- Perpetual existence: Existence of a company is not affected by the death, insanity, insolvency of member or change of membership. Company can be liquidated only as per the provisions of companies Act.
- Scope for expansion: A company can collect huge amount of capital from unlimited number of members who are ready to invest because of limited liability, easy transferability and chances of high return.
- Professional management: A company can afford to employ highly qualified experts in different areas of business management.

Limitations:

- Legal formalities: The procedure of formation of company is very long, time consuming, expensive and requires lot of legal formalities to be fulfilled.
- Lack of secrecy: It is very difficult to maintain secrecy in case of public company, as company is required to publish and file its annual accounts and reports.
- Lack of motivation: Divorce between ownership and control and absence of a direct link between efforts and reward lead to lack of personal interest and incentive.
- Delay in decision making: Red tapism and bureaucracy do not permit quick decisions and prompt actions. There is little scope for personal initiative.
- Oligarchic management: Company is said to be democratically managed but actually managed by a few people i.e., Board of Directors. Sometimes they take decisions keeping in mind their personal interests and benefit, ignoring the interests of Shareholders and company.

Question 6. Explain the meaning, features, merits and demerits of cooperative society.

Answer: A cooperative society is a voluntary association of persons of moderate means, who unite together to protect and promote their common economic interests.
Features:

- Voluntary association: Everyone having a common interest is free to join a cooperative society and can also leave the society after giving proper notice.
- Legal status: Its registration is compulsory and it gives it a separate identity.
- Limited liability: The liability of the member is limited to the extent of their capital contribution in the society.
- Democratic control: Management and control lies with the managing committee elected by the members by giving vote. Every member has one vote irrespective of the number of shares held by him.
- Service motive: The main aim is to serve its members and not to maximize the profit.
- State control: They have to abide by the rules and regulations framed by government for them.
- Distribution of surplus: The profit is distributed on the basis of volume of business transacted by a member and not on the basis of capital contribution of members.

Merits:

- Ease of formation: It can be started with minimum of 10 members. Registration is also easy as it requires very few legal formalities.
- Limited liability: The liability of members is limited to the extent of their capital contribution.
- Stable existence: Due to registration it is a separate legal entity and is not affected by death, lunacy or insolvency of any of its members.
- Economy in operations: There is economy in operation due to elimination of middle man and voluntary services provided by its members.
- Government support: Government provides support by giving loans at lower interest rates, subsidies and by charging less taxes.
- Social utility: It promotes personal liberty, social justice and mutual cooperation. They help to prevent concentration of economic power in a few hands.

Limitations:

- Shortage of capital: It suffers from shortage of capital as it is usually formed by people with limited means.
- Inefficient management: Cooperative society is managed by elected members who may not be competent and experienced. Moreover it can’t afford to employ expert and experienced people at high salaries.
- Lack of motivation: Members are not inclined to put their best efforts as there is no direct link between efforts and reward.
- Lack of secrecy: Its affairs are openly discussed in its meeting which makes it difficult to maintain secrecy.
- Excessive government control: It suffers from excessive rules and regulations of the government. It has to get its accounts audited by the auditor and has to submit a copy of its accounts to registrar.
- Conflict among members: The members are from different sections of society with different view points. Sometimes when some members become rigid, the result is conflict.

Question 7. Explain different types of partners.
Answer: The different kinds of partners that are found in

partnership firms are as follows:

1. Active or managing partner: A person who takes active interest in the conduct and management of the business of the firm is known as active or managing partner. He carries on business on behalf of the other partners. If he wants to retire, he has to give a public notice of his retirement; otherwise he will continue to be liable for the acts of the firm.
2. Sleeping or dormant partner: A sleeping partner is a partner who 'sleeps', that is, he does not take active part in the management of the business. Such a partner only contributes to the share capital of the firm, is bound by the activities of other partners, and shares the profits and losses of the business. A sleeping partner, unlike an active partner, is not required to give a public notice of his retirement. As such, he will not be liable to third parties for the acts done after his retirement.
3. Nominal or ostensible partner: A nominal partner is one who does not have any real interest in the business but lends his name to the firm, without any capital contributions, and doesn't share the profits of the business. He also does not usually have a voice in the management of the business of the firm, but he is liable to outsiders as an actual partner.
4. Partner by estoppel or holding out: If a person, by his words or conduct, holds out to another that he is a partner, he will be stopped from denying that he is not a partner. The person who thus becomes liable to third parties to pay the debts of the firm is known as a holding out partner.
   There are two essential conditions for the principle of holding out : (a) The person to be held out must have made the representation, by words written or spoken or by conduct, that he was a partner ; and (b) The other party must prove that he had knowledge of the representation and acted on it, for instance, gave the credit.
5. Partner in profits only: When a partner agrees with the others that he would only share the profits of the firm and would not be liable for its losses, he will own as partner in profits only.
6. Minor as a partner: A partnership is created by an agreement. And if a partner is incapable of entering into a contract, he cannot become a partner. Thus, at the time of creation of a firm a minor (i.e., a person who has not attained the age of 18 years) cannot be one of the parties to the contract. But under section 30 of the Indian Partnership Act, 1932, a minor 'can be admitted to the benefits of partnership, with the consent of all partners. A minor partner is entitled to his share of profits and to have access to the accounts of the firm for purposes of inspection and copy.
   He, however, cannot file a suit against the partners of the firm for his share of profit and property as long as he remains with the firm. His liability in the firm will be limited to the extent of his share in the firm, and his private property cannot be attached by creditors.
   On his attaining majority, he has to decide within six months whether he will remain regular partner or withdraw himself from partnership. The choice in either case is to be intimated through a public notice, failing which he will be treated to have decided to continue as a partner, and he becomes personally liable like other partners for all the debts and obligations of the firm from the date of his admission to its benefits (and not from the date of his attaining the age of majority). He also becomes entitled to file a suit against other partners for his share of profit and property.
7. Other partners: In partnership firms, several other types of partners are also found, namely, secret partner who does not want to disclose his relationship with the firm to the general

public. Outgoing partner, who retires voluntarily without causing dissolution of the firm, limited partner who is liable only up to the value of his capital contributions in the firm, and the like.

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