Question 6. State the important privileges available to a private company.
Answer:
A company can be registered as a private company or a public company. When a company is incorporated as a private company, it enjoys certain privileges and exemptions when compared to a public company.
Some of the privileges enjoyed by a Private Company are:

- The minimum number of members required to form a Private Company is only 2, whereas it is 7 in case of a Public Company.
- A Private company can start its business immediately after its incorporation. It need not obtain the Certificate of Commencement of Business.
  'Certificate of Commencement of Business, is issued by the Registrar of Companies to Public Companies. Once a Company has been registered or formed, it shall apply for the Certificate of Commencement of Business in the prescribed form to the ROC (Registrar of Companies). Only after this certificate has been obtained it can commence its business. This certificate has to be obtained within 6 months from the date of incorporation of a Company.
- No qualification shares and consent of the Director to act as a Director is required to be filed with the ROC at any time during the tenure of the company, as in case of a Public company.
- A Private Company is not required to issue or file a prospectus or statement in lieu of prospectus with the Registrar of Companies.
  'Prospectus, is an important document for a public company. It is nothing but an invitation to the public to subscribe for the shares of the Company. In case a public company does not intend to invite the public to subscribe to the shares, it has to file a statement in lieu of prospectus.
- It is not required to have an index of members, as in case of a public company. The reason being the Companies Act limits the maximum number of members required for a Private Company to 50.
- It is not required to hold a statutory meeting or file a statutory report.
  'Statutory meeting is a general meeting of the shareholders of the Company which has to be held within a period of not less than one month and not more than 6 months from the date, on which it is entitled to commence its business."
- It is not required to offer new shares to existing shareholders in proportion to their shareholdings.
  In case of a Public Company further issue of capital shall be made to the persons who at the date of the issue are holders of the equity shares of the Company in proportion to their holding.
- A Private Company need to have a minimum of two directors only whereas a Public Company needs to have a minimum of three directors.
- All the Directors may be appointed by a single resolution in case of a Private Company.

- The Directors of a Private Company need not to retire by rotation i.e., they can be Permanent Directors.

Question 7. How does a cooperative society exemplify democracy and secularism? Explain.
Answer: Cooperative is a form of organization wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of an economic interest for themselves. In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. The right to vote gives the members a chance to choose the members who will constitute the managing committee and this lends the cooperative society a democratic character. Also, 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. The membership of a cooperative society is voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire. Membership is open to all, irrespective of their religion, caste and gender. Thus, by keeping all these points in mind, a cooperative society exemplifies democracy and secularism.

Question 8. What is meant by 'partner by estoppel'? Explain.
Answer: When a person, by words spoken or written or by conduct, represents himself or herself, or consents to another representing him or her to anyone, as a partner in an existing partnership or with one or more persons not actual partners, he or she is liable to any such person to whom such representation has been made, who has, on the faith of such representation, given credit to the actual or apparent partnership and, if he or she has made such representation or consented to its being made in a public manner, he or she is liable to such person, whether the representation has or has not been made or communicated to such person so giving credit by or with the knowledge of the apparent partner making the representation or consenting to its being made, as follows:

1. If a partnership liability results, he or she is liable as though he or she were an actual member of the partnership.
2. If no partnership liability results, he or she is liable jointly with the other persons, if any, so consenting to the contract or representation as to incur liability, otherwise separately.
3. When a person has been thus represented to be a partner in an existing partnership, or with one or more persons not actual partners, that person is an agent of the persons consenting to such representation to bind them to the same extent and in the same manner as though that person were a partner in fact, with respect to persons who rely upon the representation where all the members of the existing partnership consent to the representation, a partnership act or obligation results; but in all other cases it is the joint act or obligation of the person acting and the persons consenting to the representation.

III. Long Answer Type Questions

Question 1. What do you understand by a.sole proprietorship firm? Explain its merits and limitations.
Answer: If entrepreneur starts sole proprietor form of business, then he has the following advantages.
Advantages of Sole Proprietor Form of Business:
1. Easy formation: The formation of sole proprietorship business is very easy and simple. No legal formalities are involved for setting up the business except a license or permission in certain cases. The entrepreneur with initiative and certain amount of capital can set up such form of business.
2. Direct motivation: The entrepreneur owns all and risks all. The entire profit goes to his pocket. This motivates the proprietor to put

his heart and soul in the business to earn more profit. Thus, the direct relationship between effort and reward motivates the entrepreneur to manage the business more efficiently and effectively.

3. Better control: The entrepreneur takes all decisions affecting the business. He chalks out the plan and executes the same. His eyes are on everything and everyone. There is no scope for laxity. This results in better control of the business and ultimately leads to efficiency.

4. Promptness in decision-making: When the decision is to be taken by one person, it is sure to be quick. Thus, the entrepreneur as sole proprietor can arrive at quick decisions concerning the business by which he can take the advantage of any better opportunities.

5. Secrecy: Each and every aspect of the business is looked after by the proprietor and the business secrets are known to him only. He has no legal obligation to publish his accounts. Thus, the maintenance of adequate secrecy leaves no scope to his competitors to be aware of the business secrets.

6. Flexibility in operations: The sole proprietorship business is undertaken on a small scale. If any change is required in business operations, it is easy and quick to bring the changes.

7. Scope for personal touch: There is scope for personal relationship with the entrepreneur and customers in sole proprietorship business. Since the scale of operations is small and the employees work under his direct supervision, the proprietor maintains a harmonious relationship with the employees. Similarly, the proprietor can know the tastes, likes and dislikes of the customers because of his personal rapport with the customers.

8. Free from Government control: Sole proprietorship is the least regulated form of business. Regulated laws are almost negligible in its formation, day-to-day operation and dissolution.

Disadvantages of Sole Proprietor Form of Business:

The sole proprietorship business is not free from criticism. It suffers from certain limitations and drawbacks, because of its very nature and scope of operations. These points may be duly taken care of while entrepreneur adopting this mode of business.

1. Limited resources: The financial resources of any small business as an individual is limited. He mainly finances from his own savings or borrows from financial institutions, friends and relatives as per his capacity. Thus, limited resource is the major drawback of this form of business.

2. Limited managerial capability: Modern business requires updated managerial skills in each and every sphere of activity. We cannot hope a single individual to possess all the managerial, talents necessary to carry on a business efficiently. The limited financial resources of the sole proprietorship is a hindrance to hire the services of managers with expertise in different areas, thereby the growth of the business.

3. Unlimited liability: Since the liability of the sole proprietor is unlimited, the private properties of the proprietor is also at risk. When the business fails, the private properties of the owner are utilized to pay off the business debts. Thus, the proprietor must have to look this aspect carefully.

4. Uncertainty of continuity: The continuity of the business is uncertain because the business may come to an end due to the incapacity or death of the proprietor. Even if at all the business passes on to the successor of the proprietor, it is unlikely that they may pose the business acumen like that of the proprietor. The discontinuance of the business is a social loss.

5. Not suitable for large-scale business: The limited financial resources, limited managerial capability of the proprietor, risk to the private property etc. makes the proprietorship business unsuitable for large-scale business. This system of business cannot afford for large-scale operation.

6. Difficult to maintain personal contact Even though there is scope

for personal touch in sole proprietorship business, it is unlikely to happen when the business is undertaken in different areas. It is not so easy on the part of the proprietor to have personal contact with customers and suppliers at the same time.

Question 2. Why is partnership considered by some to be a relatively unpopular form of business ownership? Explain the merits and limitations of partnership.
Answer: Partnership is considered by some to be relatively unpopular form of business ownership because:

1. Uncertainty of duration: A partnership suffers from a possible limited span of life. Legally, a partnership firm must be dissolved on the retirement, death, bankruptcy, or lunacy of any partner or demanded by any partner. The probability of any one of these events occurring when the number of partners is much greater than in the case of a sole proprietor.
2. Risks of additional liability: It is true that like the sole proprietor, each partner has unlimited liability. But his liability may arise not only from his own acts but also from the acts and mistakes of co-partners over whom he has no control.
3. Lack of harmony: The old saying that "too many cooks spoil the broth" can be apt for a business partnership. Harmony may be difficult to achieve, especially when there are many partners. Lack of centralized authority and conflicts in policy can disrupt the organization.
4. Difficulty in withdrawing investment: Investment in a partnership can be simple, but its withdrawal may be difficult or costly when this aspect is considered from the point of view of individual partners. This is so because no partner can withdraw his interest from the firm without the consent of all partners.
5. Lack of public confidence: A partnership may suffer from lack of public confidence
6. Lack of public confidence: A partnership may suffer from lack of public confidence because, like that of a company there is no legal mechanism to enforce the registration of a partnership firm and the disclosure of its affairs.
7. Limited resources: A partnership is good as it can be started with limited capital. However, it becomes a handicap in the growth and expansion phases of the business. There is a limit beyond which it is almost impossible for partners to collect capital. This limit is generally up to the personal properties of the partners.
8. Unlimited liability: Unlimited liability discourages partners to undertake risky ventures, and therefore, their risk-taking initiative is very risky.

Merits of Partnership

- It is easy to set up.
- It has more capital, which can be brought into the business.
- Partners brings new skills and ideas to a business.
- Decision-making can be much easier with more brains to think about a problem.
- Partners share responsibilities and duties of the business.
- Division of labour is possible as partners may have different skills.

Limitations of Partnership

- There is an unlimited liability: All the partners are responsible for the debts of the firm and if the business goes bankrupt, all the partners will have to clear the debts even if they have to sell off their personal belongings.
- Disagreement among the partners can lead to problems for

the business.

- There is a limit to the capital invested. Because of the fact that maximum 20 members are allowed, the business may find it difficult to expand after a certain limit.
- There is no continuity of existence. Partnership is dissolved if one of the partners die or resigns or becomes bankrupt.

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