



TEXTBOOK QUESTIONS SOLVED

I. Multiple Choice Questions

Tick the appropriate answer.

Question 1. The structure in which there is separation of ownership and management is called

- (i) Sole proprietorship
- (ii) Partnership
- (iii) Company
- (iv) All business organizations

Question 2. The Karta in Joint Hindu family business has:

- (i) Limited liability
- (ii) Unlimited liability
- (iii) No liability for debts
- (iv) Joint liability

Question 3. In a cooperative society the principle followed is:

- (i) One share one vote
- (ii) One man one vote
- (iii) No vote
- (iv) Multiple votes

Question 4. The board of directors of a joint stock company is elected by:

- (i) General public
- (ii) Government bodies
- (iii) Shareholders
- (iv) Employees

Question 5. The maximum number of partners allowed in the banking business are:

- (i) Twenty
- (ii) Ten
- (iii) No limit
- (iv) Two

Question 6. Profits do not have to be shared. This statement refers to:

- (i) Partnership
- (ii) Joint Hindu family business
- (iii) Sole proprietorship
- (iv) Company

Question 7. The capital of a company is divided into number of parts each one of which are called:

- (i) Dividend
- (ii) Profit
- (iii) Interest
- (iv) Share

Question 8. The Head of the Joint Hindu family Business is called

- (i) Proprietor
- (ii) Director
- (iii) Karta
- (iv) Manager

Question 9. Provision of residential accommodation to the members at reasonable rates is the objective of

- (i) Producer's cooperative
- (ii) Consumer's objective
- (iii) Housing cooperative

(iv) Credit cooperative

Question 10. A partner whose association with the firm is unknown to the general public is called

(i) Active partner

(ii) Sleeping partner

(iii) Nominal partner

(iv) Secret partner

Answer:

1. (iii)

2. (ii)

3. (ii)

4. (iii)

5. (ii)

6. (iii)

7. (iv)

8. (iii)

9. (iii)

10. (iv)

II. Short Answer Type Questions

Question 1. For which of the following types of business do you think a sole proprietorship firm of organization would be more suitable, and why?

(i) Grocery store

(ii) Medical store

(iii) Legal consultancy

(iv) Craft centre

(v) Internet cafe

(vi) Chartered accountancy firm

Answer: Sole proprietorship will be more suitable for grocery store, medical store, and internet cafe because:

- It has easy formation and closure.
- It needs limited resources.
- He will be sole risk bearer which is not so high and profit recipient.
- He will have 100% control.

Question 2. For which of the following types of business do you think a partnership firm of organization would be more suitable, and why?

(i) Grocery store

(ii) Medical store

(iii) Legal consultancy

(iv) Craft centre

(v) Internet cafe

(vi) Chartered accountancy firm

Answer: For legal consultancy and chartered accountancy firm, partnership firm will be more suitable because it has:

- Ease of formation and closure
- Balanced decision making
- More funds
- Sharing of risks
- Maintain secrecy

Question 3. Explain the following terms in brief:

(i) Perpetual succession

(ii) Common seal

(iii) Karta

(iv) Artificial person

Answer:

(i) Perpetual Succession: Perpetual succession refers to continuous succession of a corporation. Perpetual succession is one of the remarkable features of a corporation. The very objective of a

corporation is to have a perpetual succession, for there can not be a succession forever without incorporation. The company has perpetual succession. The death or insolvency of a shareholder does not affect its existence. A company comes into end only when it is liquidated according to provision of the Companies Act.

(ii) Common Seal: The expression 'Common Seal' is not defined in the Companies Act, 1956. General practice is to adopt the Common Seal, at the first Board Meeting of the company. It must be kept under the safe custody of authorized director/officer. The Articles of Association, may set out how and when the common seal has to be affixed.

(iii) Karta: Karta is the head of Joint Hindu family business. He has unlimited liability and final decision making power.

(iv) Artificial Person: A person in the eyes of law is called an artificial person. An entity which has a separate legal entity in the eyes of law is called artificial person. A joint stock company and a cooperative society are artificial persons.

Question 4. Compare the status of a minor in a Joint Hindu Family Business with that in a partnership firm.

Answer: A minor becomes a member of Joint Hindu Family Business by virtue of his birth. On the other hand, in partnership, minor can be a partner only in profits.

Question 5. If registration is optional, why do partnership firms willingly go through this legal formality and get themselves registered? Explain.

Answer: However registration is optional, partnership firms willingly go through this legal formality and get themselves registered because it has some merits:

1. Settlement of Claims: Registered firms can file suit against the third parties. So the rights of registered firms are safeguarded by law. But an un-registered firm or its partner cannot enforce its claim against the third parties or its co-partner.
2. Protection of Rights: The rights and privileges of new partner are also protected in registered firm. But if incoming partner fails to register himself, he will incur great risk, because he will not be in a position to file suit for his dues against his firm or his co-partners.
3. Protection of Property: The property of the retired or deceased partner continues to be liable for the acts firm does after his death or retirement until public notice is served for the change to registrar, So there is strong inducement for partners of registered firms to have the changes noted in the register. But if there is unregistered firm, the private property of the out-going partner will be considered liable to charge the debts in spite of retirement.
4. Protection to Creditors: Registered firm has to maintain correct, complete and up-to-date record of its partners who will be liable for the obligations of the firm. The statement recorded in the register regarding constitution of firm would afford a strong safeguard against untrue refusal of partnership and the evasion of liability to persons who want to deal with the firm.

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