

CHAPTER-29

EMERGENCE OF DIFFERENT BUSINESS ORGANISATIONS



After studying this chapter you would :

- Know the types of business organisations.
- Understand the features, advantages and disadvantages of partnership firms.
- Know about Hindu undivided family business concerns.
- Know the partnership registration procedure.

Today we see different forms of business organizations. They may be classified into four types. They are:

1. Business organizations in the private sector.
2. Business organizations in the public sector.
3. Joint sector business organizations.
4. Public utilities.

In this chapter and the next one we shall learn briefly about the small scale business organizations and large scale business organizations that come under Private sector. The small scale business organizations under private sector are mainly divided into three types. They are: Sole trading concerns, Partnership firms, and Hindu undivided family firms.

Sole trading concerns : It is run by a single person. He is the owner, and the manager. He enjoys all the profits and fully responsible for losses. He is the sole investor of capital to run the business.

Features : It is one of the oldest and simplest forms of business organizations. It is owned and managed by a single person. It is easy to start a business. These concerns are run by the sole traders for profits. The sole trader uses his own skill and responsible for all the losses. There are no legal constraints to close or to start the business concerns. He takes the help of his family members or appoints some workers to help him in business. Generally they are small in size. But now a days they run on large scales also.

Advantages of Sole Trading concerns : No legal formalities are required to commence the business. It can be started by own capital. No difficulties arise in day to day running of the business. The owner enjoys all the profits and bears all the losses. They directly come into contact with the consumers. They render some social services also. They provide employment to some people. They help in distribution of wealth. They understand the likes and dislikes of the customers and supply goods accordingly. They pay taxes to the government. They are in a position to take quick decisions regarding business. They maintain business secrets. The owner can implement his creative ideas in the business to the fullest extent.

Disadvantages of Sole trading concerns : Sole trading concerns are not free from some disadvantages. They are : Capital is limited and they cannot expand the business. Since it is run by a single person the managerial ability is limited, (two heads are always better to take decisions). All the losses are to be borne by a single person. With the death or insolvency of the sole trader, the trading concerns may have to be closed.

PARTNERSHIP FIRMS

The limitations of the sole trading concerns lead to the formation of partnership firms. In these firms two or more persons join together and carry out the business. Partnership firms Act was passed in 1932. According to the section 4 of partnership act the partnership firm is defined as the relation between the persons who have agreed to share the profits of a business carried on by all or any of them acting for all. The maximum number of partners is Ten if they carry out the financial business then, twenty in case of carrying out general partnership business.

Types of partners : There are several types of partners, but generally we find: Active or working partners, Sleeping partners, Nominal partners and Minor partners.

1) Active Partners : They contribute fixed amount of capital, and share profits and losses in proportion to their capital contribution and take active part in carrying out the day-to-day affairs of the business.

2) Sleeping Partners : They contribute capital but do not take active part in day-to-day transactions of the firm. The profits and losses are shared in proportion to their share of the capital.

3) Nominal Partners : They neither contribute capital nor take active participation in day to day transactions of the firm. They are not entitled for any share in profit but they are liable for business losses.

4) Minor Partners : These partners are those who have not yet attained the age 18 years. A minor cannot become a partner. But by mutual agreement of all the partners a minor can be admitted as a partner. The minor partners are eligible for profits but not eligible for defaults or losses. When a new partnership is started the minor cannot be admitted.

In addition to these types there are secret partners, limited partners and partial partners. Partners eligible only for profits.

Partnership deed : There shall be a deed of partnership. Generally it is in writing, duly stamped and signed by all the partners. It differs from firm to firm. It contains all the terms and conditions of the firm. Generally it contains the name of the firm, names and addresses of partners, the addresses of the firm, nature of business, address of the branches if any, date of the commencement of business, shares of capital by each partner, the ratio of sharing profits and losses, duties of each partner, division of work among partners, the conditions to be followed at the time of admission of a new partner, calculation of goodwill in case of death or retirement of a partner, at the time of admission of a partner or at the time of closing the business, the procedure to be followed whenever differences arise among the partners.

Merits of Partnership Firms

1) Easy to form : No legal formalities are required for the formation of partnership firms. Even the registration of partnership firm is not compulsory, therefore the partnership firms are started easily.

2) More capital : Partnerships are formed by more than two persons ,so the capital investment is more.

3) Greater efficiency : There are more than one person as partners. Division of labour can easily be adopted, so there is better managerial ability and it increases efficiency.

4) Trust worthiness : The liability of partners is unlimited so it leads to increase in trust worthiness.

5) Sharing of business loss : All the partners have to share the profits and losses. The loss is not borne by one but it is shared among all the partners.

6) Secrecy of business : The partnership firms need not publish their accounts. Thus there is a scope for maintaining secrets of business.

7) Simple dissolution : Partnership firms can be dissolved easily. Any partner can apply for dissolution by giving fourteen days notice or with the consent of all the partners it can be dissolved.

Demerits of partnership firms :

1. Sometimes the disunity among the partners may hamper business and it leads to disputes.
2. Since the number of partners is limited, the capital investment is also limited.
3. Liability is unlimited, so it discourages many people to join as partners.
4. Reckless and foolish decisions of some partners may lead to heavy setbacks
5. Partnership firms lack stability; the death or insolvency of any partner may lead to dissolution.
6. It is difficult to transfer the share of partners to others.
7. Owing to lack of control by the government and publishing of accounts, partnership firms can not gain public support.
8. The secrecy of the business can not be maintained since there are two or more than two partners.

Registration of partnership firms

There is no provision for registration of sole trading concern. The Indian Partnership Act of 1932 provides for the registration of partnership firms. But it is not compulsory. It is left to the discretion of the partners. Registration can be made at any time. For the purpose of registration a statement in the prescribed form duly filled with correct particulars must be submitted to the registrar of firms, appointed by the government along with the prescribed fees. The Registrar checks, issues a certificate called "Certificate of Registration".

Advantages of Registration of firms.

1. A Registered firm can file a suit in the court of law against third party. In case the loan amount is more than Rs. 100/-. But it is not possible in case of an unregistered firm.
2. A Registered firm can file a case against the other partners against the loans they owe to the firm.
3. However third parties can file a case against an unregistered firm or against its partners for the recovery of loans.
4. Any partner can file a case against the firm or other partners for the dissolution of the firm or for the settlement of accounts.

Hindu undivided family business concerns

They are found only in India. They are in accordance with "HINDU LAW". They are the firms which consist of all the male members of the Hindu family, who are the descendants from a common male ancestor. Only three successive generations of male members namely, father, sons, grandsons and great grandsons acquire the birth right or hold on the ancestral property. The eldest or senior most member of the family manages the business and he is called "KARTA". The liability of Karta is unlimited. While the liability of other members is limited to the extent of their share in the business.

EXERCISES

I Fill in the blanks with suitable words :

- 1 The concern that is owned and managed by a single person is called _____.
- 2 The Indian Partnership Act was passed in the year _____ to regulate the affairs of the partnership firms.
- 3 The Maximum number of partners in a firm which carries out banking business is _____.
- 4 The Head of the Hindu undivided family business is known as _____.
- 5 The only business concern under private business organization found in India is _____.

II Answer the following questions in one or two sentences each :

- 6 Which are the small scale business organizations ?
- 7 How do sole trading concerns help the consumers ?
- 8 What are partnership firms ?
- 9 Who are sleeping dormant partners ?
- 10 How is the dissolution of partnership firm easy ?

III Answer the following questions :

- 11 Mention any four merits of sole trading concerns.
- 12 Mention any four limitations of sole trading concerns.
- 13 How are partnership firms started ? Explain briefly.
- 14 Who are the different types of partners ?
- 15 Mention any four merits of partnership firms.
- 16 Mention any four demerits of partnerships firms.
- 17 What are the advantages of registering a partnership firm ?
- 18 Explain briefly about “Hindu undivided family business”.

IV Activity :

- 19 Collect two advertisements and study them in the context of your lesson.

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