

CHAPTER - 2

FORMS OF BUSINESS ORGANISATION

- **Introduction:**

A decision relating to the form of an organization plays an important role if one has to start a business. The forms of organization are

- a. Sole proprietorship
- b. Partnership
- c. Joint Hindu Family business.
- d. Co-operative society
- e. Joint Stock Company.

- **Important Concept**

- **Meaning of Sole Proprietorship:** It refers to a form of business organization that is owned, managed, and controlled by an individual who receives all profits and bearer of all risks.

Features:

- a) Easy to form and close
- b) Liability
- c) Only bearer of profit and loss
- d) Control
- e) separate entity.
- f) Lack of business continuity.

Merits:

- a. Quick decision making
- b. Personal satisfaction
- c. Information will be kept secretly
- d. Direct incentive
- e. Ease of formation and closure.

Demerits:

- a. Limited resources
- b. The limited life of a business concern.
- c. Unlimited liability

d. Limited managerial ability.

- **Meaning of Joint Hindu Family Business:** Karta's eldest member of the family controls the business.

Features:

- a. Formation
- b. Liability
- c. Control
- d. Continuity
- e. Minor members.

Merits:

- a) Effective control
- b) Continuity of business
- c) limited liability of members
- d) Increased loyalty.

Demerits:

- a) Limited resources
- b) unlimited liability of Karta
- c) Karta's dominance
- d) limited managerial skills.

- **Meaning of Partnership:** Relation between persons to share the profits of the business carried on by all the partners or any one of the partners acting on behalf of all the other partners

Features:

- a) Formation
- b) Liability
- c) Risk bearing
- d) decision making
- e) continuity
- f) Member

Merits:

- a) Easy to start and close
- b) proper decision making
- c) More money

d) secrets are maintained.

Limitations:

- a) Unlimited liability
- b) Fights exist
- c) Chances for closure
- d) No public confidence.

Types

- a) Active
- b) sleeping
- c) secret
- d) Nominal
- e) partner by behaviors
- f) partner by holding out.

Kinds of partnership:

- a) At Interest
- b) Formed for completing a work

Partnership deed: It contains the rules and regulations for carrying on partnership.

- **Meaning of Cooperative Society:** It is a voluntary association of persons formed for protecting the consumers from middlemen.

Features:

- a) Voluntary association
- b) service motive
- c) power to take decisions
- d) limited liability
- e) Registration is compulsory so they have legal status.

Merits:

- a) Equal voting rights.
- b) Continuous existence
- c) low cost of operation
- d) Government support
- e) Easy to start
- f) limited liability.

Limitations:

- a) Resources are little
- b) A difference of opinion.
- c) Management is not proper
- d) Strict rules from the government.

Types:

- a) Consumer
- b) Producer
- c) Marketing
- d) Farmer's Credit Cooperative housing societies.

- **Meaning Of Joint Stock Company:** Company is an artificial person with continuous existence & common seal.

Features:

- Artificial person
- Formation is difficult
- The company has a separate identity.
- Continuous existence
- The control of the company is made by directors.
- liability is limited.
- Common seal.

Merits:

- a) Liability is limited
- b) Chances are there for expansion
- c) Managed by professional people
- d) Continuous existence
- e) Shares can be easily transferred from one person to another person.

Demerits:

- a) Very difficult to form
- b) No secrecy
- c) No personal involvement.
- d) More rules and regulations.
- e) very slow in decision making

f) owners have less control.

Types of Companies:

- a) Private company
- b) Public company.

Choice of a form of Business organization:

- a) less costly in setting up the organization
- b) Limited liability
- c) continuous existence
- d) Form of raising capital
- e) Control to be made
- f) Nature of business.

- **Formation of a Company**

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Promotion: Functions of a Promoter:

- a) Finding out a business opportunity
- b) Conducting studies
- c) Getting the name approved.
- d) Fixing up persons to sign Memorandum of association
- e) Appointment of professionals.
- f) preparation of necessary documents.

Documents: Memorandum of association:

- I. Name clause
- II. Registered office clause
- III. Objects clause
- IV. Liability clause
- V. Capital clause
- VI. Association clause.
- VII. Articles of association.
- VIII. Consent of directors
- IX. Agreement with the managing director or whole-time director
- X. Statutory declaration

Incorporation: The memorandum of association must be duly stamped, signed, and witnessed. (ii) The articles of association duly stamped and witnessed. (iii) Written permission of the directors. (iv) Agreement with the managing director/manager. (v) A copy of the registrar's letter permitting the name. (vi) A declaration that all the legal requirements are followed. (vii) A notice about the exact office of the registered office. (viii) Documents showing the payment of fees.

Capital subscription:

(i) SEBI approval (ii) Filing of the prospectus. (iii) Appointment of brokers, bankers, etc., (iv) Collection of minimum subscription (v) Application to stock exchange (vi) Allotment of shares.

Commencement of Business:

(i) A declaration about meeting the minimum subscription requirement. (ii) A declaration regarding the application and allotment money paid by the directors as the same as others. (iii) A declaration that no money is payable to the applicants because of the failure of the company. (iv) A statutory declaration that the above particulars are followed. (v) The registrar shall examine the documents if these are found satisfactory a certificate of commencement of business will be issued.

Key Concepts in Nutshell:

FORMS OF BUSINESS ORGANISATION

Sole proprietorship Partnership Hindu Undivided Family Co operative Society Company

Meaning Of Sole Proprietorship:

Sole means only Proprietor means the owner

Merits of a sole proprietorship:

1. A sole proprietor can make decisions quickly.
2. Information can be kept secret without any leakage.
3. No need to share profits.
4. He gets self-satisfaction for the work he has done.
5. Easy to start and to close because of fewer rules and regulations.

Partnership

Types of Partners :

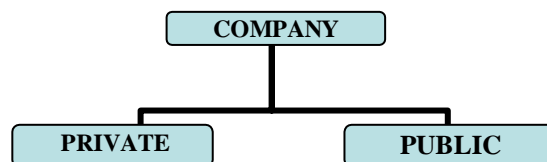
1. **Active partner:** An active partner is a partner who gives capital, participates in management, shares the profits and losses, and has unlimited liability.
2. **Sleeping partner:** A Partner who does not take part in business activities.
3. **Secret partner:** A partner who has an association with the firm but unknown to the public.
4. **Nominal partner:** A partner who allows his name to be used by the firm
5. **Partner by estoppel:** A person who by behavior sets an impression to others that he/she is a partner of the firm.

Partner by holding out: A person who is not a partner but allows himself to be represented as a partner in a firm.

Consequences of Non-Registration:

1. A Partner of an unregistered firm cannot file a case against the firm or other partners.
2. The firm cannot file a case against third parties.
3. The firm cannot file a case against the partners.

Types Of Companies



- **Public Company:**

1. Members: Minimum 7, Maximum unlimited
2. Minimum number of directors: 3
3. Minimum paid-up capital: 5 lakhs.
4. Index of members: Compulsory.
5. Transfer of shares: Shares can be transferred easily from one person to another.

6. Invitation to the public: It can invite the public to purchase the share and debentures

- **Private Company:**

1. Members: Minimum 2, Maximum -50.
2. Minimum number of directors: 2
3. Minimum paid-up capital: 1 lakh
4. Index of members: Not compulsory.
5. Transfer of shares: Shares cannot be transferred from one person to another.
6. Invitation to the public: It cannot invite the public to purchase the share and debentures.

- **Memorandum of Association:**

1. It defines the objects for which the company is formed.
2. This is the main document of the company.
3. This defines the relationship of the company with outsiders.
4. Every company has to file a Memorandum of Association.
5. Alteration of Memorandum of Association is difficult.

- **Articles of Association:**

1. It defines the objectives of the company that is to be achieved.
2. This is the subsidiary document of the company.
3. Articles define the relationship between the members and the company.
4. It is not necessary for the public limited company.
5. It can be altered by passing a special resolution.