

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**

STAGES

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 :

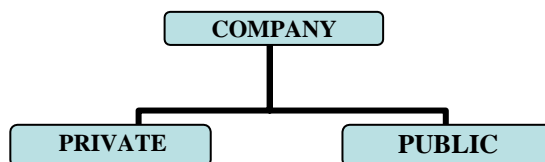
1. **Active partner:** An active partner is a partner who gives capital, participates in management, shares the profits and losses, and has unlimited liability.
2. **Sleeping partner:** A Partner who does not take part in business activities.
3. **Secret partner:** A partner who has an association with 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.

Cooperative society

A Cooperative society is a voluntary association of persons for the promotion of their common economic interest. The word co-operation implies joint effort. Through joint efforts, we can attain greater success than individual effort. For example in Consumers Cooperative Society consumers may join together to provide goods at cheaper rates by establishing direct contacts with producers and thereby eliminating the profits of middlemen. The motto of cooperative society is "each for all and all for each". Co-operative form of business

Features of Co-operative Societies

1. Voluntary Association A co-operative society is a voluntary association of persons. Any person having a common interest can join a cooperative society and can leave any time by giving a prior notice.
2. Compulsory registration A cooperative society is compulsorily registered under the Cooperative Societies Act, 1912.

3. Number of members Minimum number of members required to form a cooperative society is 10. Maximum number of members is unlimited.
4. Limited liability The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital.
5. Open membership The membership of a co-operative society is open to all irrespective of cast, creed, religion or sex. Democratic Control There is equality of status between members of a cooperative society. Business is managed by a managing committee which is elected by members on the principle one member one vote
6. Service motive It is formed with the motive of service to its members, not to earn profits.
7. Finance The capital of cooperative society is raised from its members through issue of shares. It can also raise loans from the banks.

Advantages of cooperative societies

1. Easy formation Any ten adult persons can form a cooperative society. The registration procedure is simple involving a few legal formalities.
2. Limited liability The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. Their personal properties are safe from being used to repay business debts.
3. Democratic Management The principle one man one vote guarantees democratic management

Disadvantages of a cooperative society

1. Unsuitable for large business A co-operative society is formed with limited capital contribution from its members. It is not able to mobilize adequate capital for large scale operations.
2. Inefficient Management Cooperative society is managed by elected members who may not be competent and experienced. A Co-operative Society is not in a position to employ expert professional managers at high salary.
3. Excessive State Regulation The excessive state regulation and control restrict flexibility and initiative.
4. Lack of Secrecy The affairs of a co-operative society are openly discussed in meetings of members. Therefore, it becomes difficult to keep the secrets of business.
5. Absence of Motivation There is no direct link between effort and reward. Hence members are not willing to put their maximum efforts.

Types of Co-operative Societies

On the basis of function they perform, Co-operative Societies are classified as follows:-

1. Consumers Co-operative Society.
2. Producers Co-operative Society
3. Marketing Co-operative Society

4. Co-operative Credit Society.
5. Co-operative Farming Society
6. Co-operative Housing Society.

1. Consumers Co-operative Society.

Consumer's cooperative societies are established to remove middlemen from the field of trade. It is formed to ensure steady supply of essential commodities of standard quality at fair prices. It purchases goods on wholesale basis and sell these goods to members at cheaper rates than the market price. However, the goods are sold to nonmembers at the market price. These societies protect lower and middle class people from the exploitation of profit hungry businessmen. The profits of the society are distributed among members in the ratio of purchases made by them during the year. Eg Triveni super market

2. Producers Co-operative Society.

It is formed to protect the interest of small scale producers. A producers Co-operative Society is organized by small scale producers to face competition and to increase production. The members of the society produce goods in their house or at common place. The raw materials, tools, equipments, money etc. are provided to them by the society. The output is collected by the society and sold in the market at the wholesale rate. The profit is distributed among the members in proportion to the goods supplied by each member. Producer's co-operative societies help members in obtaining raw materials, in improving quality of products, and in securing the economics of large scale production. Eg. Haryana Handloom

3. Marketing Co-operative Society

These societies are formed by small producers and manufacturers who find it difficult to sell their products individually. The society collects the products from the individual members and takes the responsibility of selling those products in the market. It pools the output of individual members and performs marketing functions like grading, transportation, warehousing, packaging, marketing research etc. to sell the output at the best possible price. Profits are distributed according to ratio of goods supplied by them. Gujarat Co-operative Milk Marketing Federation that sells AMUL milk products is an example of marketing co-operative society.

4. Co-operative Credit Societies

5. These societies are formed by poor people to provide financial help and to develop the habit of savings among members. They help to protect members from exploitation of money lenders who charge very high interest from borrowers. Credit cooperatives are found in both urban and rural areas. In rural areas, agricultural credit societies provide loans to members mainly for agricultural activities. In urban areas, non-agricultural societies or urban banks offer credit facilities to the members for purchase of raw material, tools and household needs. They raise funds by accepting deposits from the members as well as from the public and grant loans to its members. Kumaramangalam Service Co-operative Society and Thodupuzha Urban Cooperative Banks etc are examples of co-operative credit society.
5. Co-operative Farming Society These are voluntary associations of small farmers who join together to obtain the economics of large scale farming. In India farmers are economically weak and their land-holdings are small. In their individual capacity, they are unable to use modern tools, seeds, fertilizers, etc. They pool together their land and undertake cultivation collectively. It provides better quality seeds, fertilizers, large scale farming tools like tractors, harvesters etc.

6. Co-operative housing societies

These societies are formed by low and middle income group people in urban areas to have a house of their own. Housing cooperatives are of different types. Some societies acquire land and give the plots to the members for constructing their own houses. They also arrange loans from financial institutions and Government agencies. Other societies themselves construct houses and allot them to the members who make payment in installments.

