NCERT SOLUTIONS

CLASS - 11th



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Class : 11th

Subject : Business Studies

Chapter : 2

Chapter Name : Forms of business organisation

Q1 The structure in which there is separation of ownership and management is called

(a) Sole proprietorship

(b) Partnership

(c) Company

(d) All business organisations

Answer. (c) Company

Page : 56 , Block Name : Multiple Choice Questions

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Q2 The karta in Joint Hindu family business has

(a) Limited liability

(b) Unlimited liability

(c) No liability for debts

(d) Joint liability

Answer. (b) Unlimited liability

Page : 56 , Block Name : Multiple Choice Questions

Q3 In a cooperative society the principle followed is

(a) One share one vote

(b) One man one vote

(c) No vote

(d) Multiple votes

Answer. (b) One man one vote

Page : 56 , Block Name : Multiple Choice Questions

Q4 The board of directors of a joint stock company is elected by

(a) General public

(b) Government bodies

(c) Shareholders

(d) Employees

Answer. (c) Shareholders

Page : 56 , Block Name : Multiple Choice Questions

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Q5 Profits do not have to be shared. This statement refers to

(a) Partnership

(b) Joint Hindu family business

(c) Sole proprietorship

(d) Company

Answer. (c) Sole proprietorship

Page : 56 , Block Name : Multiple Choice Questions

Q6 The capital of a company is divided into number of parts each one of which are called

(a) Dividend

(b) Profit

(c) Interest

(d) Share

Answer. (d) Share

Page : 56 , Block Name : Multiple Choice Questions

Q7 The Head of the joint Hindu family business is called

(a) Proprietor

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(b) Director

(c) Karta

(d) Manager

Answer. (c) Karta

Page : 56 , Block Name : Multiple Choice Questions

Q8 Provision of residential accommodation to the members at reasonable rates is the objective of

(a) Producer's cooperative

(b) Consumer's cooperative

(c) Housing cooperative

(d) Credit cooperative

Answer. (c) Housing cooperative

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Page : 56 , Block Name : Multiple Choice Questions

Q9 A partner whose association with the firm is unknown to the general public is called

(a) Active partner.

(b) Sleeping partner

(c) Nominal partner

(d) Secret partner

Answer. (d) Secret partner

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Q1 Compare the status of a minor in a Joint Hindu family business with that in a partnership firm.

Answer. In a Joint Hindu Family business, the membership is by birth. The minor member of the family also acts as a full fledged member of the business.

However in a partnership business, the membership is given only to major members. If a minor wants to become a member in the partnership firm, then he may join the firm only for profits only by the mutual consent of all the partners.

In a joint hindu family business, the membership isn't governed by any contract or agreement. Every member of the family can become a member irrespective of his age. However in a partnership firm, the minor members can be admitted with limited liability and is governed by the agreement.

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Q2 If registration is optional, why do partnership firms willingly go through this legal formality and get themselves registered? Explain.

Answer. The registration of a partnership firm isn't compulsory. However the firms should register themselves with the registrar of the firms. If it will not get registered then it will be deprived of the following rights -

- The partner of the unregistered firm cannot file a suit against the firm or other partners.
- The firm cannot file a suit against the partners or the third parties.
- The firm cannot hold property in its own name.

Page : 57 , Block Name : Short Answer Questions

Q3 State the important privileges available to a private company.

Answer. The important privileges available to a private limited company are :

1) Ease of formation : The minimum number of members required to form a private company is two. However in the case of a public company, it is seven.
2) A private company isn't required to get certification of commencement. It can start its business after getting a certificate of incorporation.
3) It can allot shares even without receiving the minimum subscription.
4) A private company needs to have only two directors whereas, a minimum of three directors in the case of a public company is required.

Page : 57 , Block Name : Short Answer Questions

Q4 How does a cooperative society exemplify democracy and secularism? Explain.

Answer. A cooperative society exemplifies democracy and secularism in the following ways :

- The decision making authority is the elected body of members which is elected by all the members.
- The members of the society have equal voting rights irrespective of the shares held by them.
- Anyone can join a cooperative society irrespective of his age, caste, region, religion etc.
- This society is formed for social, charitable, religious or such other purposes.

Hence, these are the characteristics that lends cooperative society a democratic character.

Page : 57 , Block Name : Short Answer Questions

Q5 What is meant by ‘partner by estoppel’? Explain.

Answer. A partner by estoppel is the partner who through his actions or initiatives makes an impression on others that he is a partner of the firm, although he isn't a partner. He may through his behaviour, conduct or speech or initiative makes others believe that he is a partner of the firm. Such a partner is liable to the third parties for the debts of the firms to unlimited extent. However he cannot claim the amount of profits in the firm. They don't contribute any capital but are partners in the eyes of the third parties.

Page : 57 , Block Name : Short Answer Questions

Q6 Briefly explain the following terms in brief.

(a) Perpetual succession

(b) Common seal

(c) Karta

(d) Artificial person

Answer. (a) Perpetual succession : A company being a creation of the law, can be brought to an end only by law. Thus it isn't affected by the status of the members. Members may come and go but the company continues to exist.

(b) Common seal : Common signature is the official signature of the company which must be affixed on all the documents of the company for granting them legal status. However as per the Companies Act, 2013, a company may or may not have a common seal.

(c) Karta : Karta is the eldest member of the family and he is the person who controls, manages and directs the joint hindu family business. His decisions are binding on the others.

(d) Artificial person : A company or any corporate body which is created by law and which exists independent of its members is known as the artificial person. It can perform all other functions like natural persons except the activities of personal nature like marriage, breathe etc.

Page : 57 , Block Name : Short Answer Questions

Q1 What do you understand by a sole proprietorship firm? Explain its merits and limitations?

Answer. Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by only one individual. He is the recipient of all profits and bearer of all risks. For example - a beauty parlour, general store etc.

The merits of a sole proprietorship business are as follows -

(i) Quick Decision Making : The decision making authority lies in the hands of only one individual. He doesn't have to consult others nor take any permission from others. Thus he can make decisions quickly.

(ii) Confidentiality of Information : The sole proprietorship business is managed and controlled by only one individual who isn't required to disclose the information of the business to anyone. This confidentiality is maintained in this business. (iii) Direct Incentive : The sole proprietor is the bearer of all the risk of the business. He is the only owner and thus he isn't required to share his profits with anyone. This provides maximum incentive to the sole proprietor to work hard.

The limitations of the sole proprietorship business are as follows -

(i) Limited Resources : The resources of a sole proprietorship are limited to his savings or borrowings from his friends or relatives. Banks usually don't advance large amounts of loans to them. Hence it may affect their size and growth prospects.

(ii) Limited Life of a Business Concern : The sole proprietorship business only exists till the life of the individual who is running the business. Hence in case of the death, insanity, permanent incapacity of the sole proprietor, the business comes to an end.

(iii) Unlimited liability : The liability of the sole proprietor is unlimited. It means that his personal property can also be used in the repayment of the debts of the business. Hence, poor financial decisions can lead to huge losses.

Page : 57, Block Name : Long Answer Question

Q2 Why is partnership considered by some to be a relatively unpopular form of business ownership? Explain the merits and limitations of partnership.

Answer. The partnership business is the form of business which is carried on by a group of individuals to earn profits and who agree to carry on the business either by all of them or any one of them acting for all. It is an unpopular form of organization because of its disadvantages which exceed its advantages. This can be described below.

The merits of a partnership firm are as follows -

(i) Ease of formation and closure : The formation and closure of a partnership firm is a very easy process. A group of individuals can form a partnership firm by mutual consent with minimal legal formalities.

(ii) Balanced decision making : The decision making authority lies in the hands of all the partners and thus they make rational decisions because of having expertise and knowledge.

(iii) More funds : The partnership firm comprises a large number of individuals who contribute capital and thus the amount of funds available to them are more as compared to a sole proprietorship business.

The following are the limitations of the partnership firm -

(i) Unlimited liability : The liability of the partners of a firm is unlimited. It means that their personal property can also be used for the payment of the debts of the firm.

(ii) Possibility of conflicts : Partnership is an association of a number of people who may have diverse thinking or background. This may lead to differences in opinions among the partners while making decisions.

(iii) Lack of continuity : Partnership comes to an end with the death, retirement, insolvency or lunacy of a partner which may lead to a lack of continuity.

Page : 57, Block Name : Long Answer Questions

Q3 Why is it important to choose an appropriate form of organisation? Discuss the factors that determine the choice of form of organisation.

Answer. It is important to choose an appropriate form of organisation so that it can be carried on for a longer period of time and managed efficiently in the long run fetching greater profits.

The important factors that determine the choice of organisation are discussed below :

1. Cost and Ease of Starting Business : When we compare and contrast all the forms of organisation we can easily come up with a decision that a sole proprietorship is the most inexpensive form of business and can be started with minimal investment. In case of Partnership firm there are very less legal formalities and costs are also limited due to limited scale of operations. Cooperative Societies and companies are to be mandatorily registered. Formation of company requires too much legal formalities to be fulfilled. Hence sole proprietorship form of business is the most preferred form of business as far as cost is concerned because company form of organisation is way too expensive.
2. Liability : In case of a sole proprietorship and partnership firms, the liability of the owners/partners is unlimited. This may result in payment of debt from personal assets of the owners. In joint Hindu family business, only the karta has unlimited liability. In co-operative societies and companies, however, liability is limited and creditors can force payment of their claims only to the extent of the company's assets.
3. Continuity : The continuity of sole proprietorship and partnership firms is affected by events such as death, insolvency or Insanity of the owners. However, such factors do not affect the continuity of business in the case of organisations like Joint Hindu family business, co-operative societies and companies.

Page : 57, Block Name : Long Answer Questions

Q4 Discuss the characteristics, merits and limitation of cooperative form of organisation. Also describe briefly different types of cooperative societies.

Answer. The characteristics of a cooperative society are listed below.

(i) Voluntary membership: 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. There cannot be any compulsion for him to join or quit a society. Although procedurally a member is required to serve a notice before leaving the society, there is no compulsion to remain a member. Membership is open to all, irrespective of their religion, caste, and gender.

(ii) Legal status: Registration of a cooperative society is compulsory. This accords a separate identity to the society which is distinct from its members. The society can enter into contracts and hold property in its name, sue and be sued by others. As a result of being a separate legal entity, it is not affected by the entry or exit of its members.

(iii) Limited liability: The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. This defines the maximum risk that a member can be asked to bear.

(iv) Control: 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.

Merits

The cooperative society offers many benefits to its members. Some of the advantages of the cooperative form of organisation are as follows.

(i) Equality in voting status: 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.

(ii) Limited liability: The liability of members of a cooperative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.

(iii) Stable existence: Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society. A society, therefore, operates unaffected by any change in the membership.

(iv) Economy in operations: The members generally offer honorary services to the society. As the focus is on elimination of middlemen, this helps in reducing costs. The customers or producers themselves are members of the society, and hence the risk of bad debts is lower.

(v) Support from government: The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.

(vi) Ease of formation: The cooperative society can be started with a minimum of ten members. The registration procedure is simple involving a few legal formalities. Its formation is governed by the provisions of Cooperative Societies Act 1912.

Limitations

The cooperative form of organisation suffers from the following limitations:

(i) Limited resources: Resources of a cooperative society consists of capital contributions of the members with limited means. The low rate of dividend offered on investment also acts as a deterrent in attracting membership or more capital from the members.

(ii) Inefficiency in management: Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries. The members who offer honorary services on a voluntary basis are generally not professionally equipped to handle the management functions effectively.

(iii) Lack of secrecy: As a result of open discussions in the meetings of members as well as disclosure obligations as per the Societies Act (7), it is difficult to maintain secrecy about the operations of a cooperative society.

(iv) Government control: In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc. Interference in the functioning of the cooperative organisation through the control exercised by the state cooperative departments also negatively affects its freedom of operation.

Types of Cooperative Societies

Various types of cooperative societies based on the nature of their operations are described below:

(i) Consumers cooperative societies: The consumer cooperative societies are formed to protect the interests of consumers. The members comprise of consumers desirous of obtaining good quality products at reasonable prices. The society aims at eliminating middlemen to achieve economy in operations. It purchases goods in bulk directly from the wholesalers and sells goods to the members, thereby eliminating the middlemen. Profits, if any, are distributed on the basis of either their capital contributions to the society or purchases made by individual members.

(ii) Producers cooperative societies: These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of

goods to meet the demands of consumers. The society aims to fight against the big capitalists and enhance the bargaining power of the small producers. It supplies raw materials, equipment and other inputs to the members and also buys their output for sale. Profits among the members are generally distributed on the basis of their contributions to the total pool of goods produced or sold by the society.

(iii) Marketing cooperative societies: Such societies are established to help small producers in selling their products. The members consist of producers who wish to obtain reasonable prices for their output. The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products. It pools the output of individual members and performs marketing functions like transportation, warehousing, packaging, etc., to sell the output at the best possible price. Profits are distributed according to each member's contribution to the pool of output.

(iv) Farmer's cooperative societies: These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The members comprise farmers who wish to jointly take up farming activities. The aim is to gain the benefits of large scale farming and increase the productivity.

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Page : 57, Block Name : Long Answer Questions

Q5 Distinguish between a Joint Hindu family business and partnership.

Answer.

Basics of comparison	Partnership	Joint Hindu family business
Formation	Registration is optional, easy formation	Less legal formalities , exemption to registration, easy formation
Members	Minimum – 2 Maximum - 50	At least 2 member for division of property, no maximum limit

Capital contribution	Limited but more than that can be raised in sole partnership	Ancestral property
Liability	Unlimited and joint	Unlimited (Karta) Limited (other members)
Control and management	Partner takes decision	Karta takes decision
Continuity	More stable but affected by partner status	Stable business Continues even if Karta dies

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Q6 Despite limitations of size and resources, many people continue to prefer sole proprietorship over other forms of organisation? Why?

Answer. Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who bears all risks and receives all profits. This form of business is suited mainly in areas of personalised services and small scale activities due to shortage of capital and limited abilities of an individual who is the proprietor. Still many people continue to prefer sole proprietorship over other forms of organisation as sole proprietorship offers many advantages such as

1. Prompt Decision Making The decision making is prompt under sole proprietorship as there is a considerable degree of freedom in making business decisions and there is no need to consult others as in case of partnership or co-operative. This results in effective capitalisation of market opportunities as and when they arise.
2. Confidentiality All the information related to business operations is kept confidential and secrecy is maintained as the sole decision making authority rests with the proprietor unlike partnership or co-operative form. A sole proprietor is also not bound legally to publish firm's accounts as in case of a company.

3. Incentive to Work The sole proprietor receives all the business profits as a reward for bearing the business risk He is the single owner and does not need to share profit. This provides an incentive to the sole proprietor to work hard.
4. Sense of Accomplishment There is a sense of personal satisfaction involved in working for oneself. It instils a sense of accomplishment and confidence in the individual as he/she is the one who takes all the decisions without any interference from others which is present in all other forms of organisation.
5. Ease of Formation and Closure An important merit of sole proprietorship is the possibility of entering into business with minimal legal formalities. There is no separate law that governs sole proprietorship unlike other forms like co-operative or company. As sole proprietorship is the least regulated form of business, it is easy to start and close the business as per the wish of the owner.

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