2

Forms of Business Organisation

2.1 Introduction

In the previous lesson, you have learnt that business activities consist of industrial and commercial activities. The units which undertake these activities are known as business organisations. They are also called business undertakings, enterprises, concerns or firms. We must look into the formation, of such organisations in order to understand how to organise a business because the right form of business organisation is largely responsible for the success of an enterprise. In this lesson, we are going to study business organisations in detail.

2.2 Objectives:

After studying this lesson you will be able to:

- explain the meaning of the term business organisation
- identify the different forms of business organisation
- explain the meaning and characteristics of Sole Proprietorship, Joint Hindu Family Business, Partnership, Joint Stock Company and Co-operative Societies
- identify the advantages and disadvantages of the above
- distinguish between:
  - sole proprietorship and partnership
  - partnership and joint Hindu family business
- partnership and joint stock company
- joint stock company and co-operative societies

- enumerate the relative advantages and disadvantages of different forms of business organisations
- identify the factors influencing the choice of an appropriate form of business organisation

### 2.3 Business Organisation

**Meaning**

Business organisation refers to all necessary arrangements required to conduct a business. It refers to all those steps that need to be undertaken for establishing relationship between men, material, and machinery to carry on business efficiently for earning profits. This may be called the process of organising. The arrangement which follows this process of organising is called a *business undertaking* or *organisation*. A business undertaking can be better understood by analysing its characteristics.

**Characteristics**

1. **Distinct Ownership**: The term ownership refers to the right of an individual or a group of individuals to acquire legal title to assets or properties for the purpose of running the business. A business firm may be owned by one individual or a group of individuals jointly.

2. **Lawful Business**: Every business enterprise must undertake such business which is lawful, that is, the business must not involve activities which are illegal.

3. **Separate Status and Management**: Every business undertaking is an independent entity. It has its own assets and liabilities. It has its own way of functioning. The profits earned or losses incurred by one firm cannot be accounted for by any other firm.

4. **Dealing in goods and services**: Every business undertaking is engaged in the production and/or distribution of goods or services in exchange of money.

5. **Continuity of business operations**: All business enterprises engage in operation on a continuous basis. Any unit having just one single operation or transaction is not a business unit.

6. **Risk involvement**: Business undertakings are always exposed to risk and
uncertainty. Business is influenced by future conditions which are unpredictable and uncertain. This makes business decisions risky, thereby increasing the chances of loss arising out of business.

2.4 Forms of Business Organisation

While establishing a business the most important task is to select a proper form of organisation. This is because the conduct of business, its control, acquisition of capital, extent of risk, distribution of profit, legal formalities, etc. all depend on the form of organisation.

The most important forms of business organisation are as follows:

• Sole Proprietorship
• Joint Hindu Family Business
• Partnership
• Joint Stock Company
• Co-operative Society

Sole Proprietorship

Meaning

When the ownership and management of business are in control of one individual, it is known as sole proprietorship or sole tradership. It is seen everywhere, in every country, every state, every locality. The shops or stores which you see in your locality — the grocery store, the vegetable store, the sweets shop, the chemist shop, the paanwala, the stationery store, the STD/ISD telephone booths etc. come under sole proprietorship. It is not that a sole tradership business must be a small one. The volume of activities of such a business unit may be quite large. However, since it is owned and managed by one single individual, often the size of business remains small.

Characteristics:

1. Ownership: The business enterprise is owned by one single individual, that is the individual has got legal title to the assets and properties of the business. The entire profit arising out of business goes to the sole proprietor. Similarly, he also bears the entire risk or loss of the firm.

2. Management: The owner of the enterprise is generally the manager of the business. He has got absolute right to plan for the business and execute them without any interference from anywhere. He is the sole
decision maker.

3. **Source of Capital**: The entire capital of the business is provided by the owner. In addition to his own capital he may raise more funds from outside through borrowings from close relatives or friends, and through loans from banks or other financial institutions.

4. **Legal Status**: The proprietor and the business enterprise are one and the same in the eyes of law. There is no difference between the business assets and the private assets of the sole proprietor. The business ceases to exist in the absence of the owner.

5. **Liability**: The liability of the sole proprietor is unlimited. This means that, in case the sole proprietor fails to pay for the business obligations and debts arising out of business activities, his personal property can be used to meet those liabilities.

6. **Stability**: The stability and continuity of the firm depend upon the capacity, competence and the life span of the proprietor.

7. **Legal Formalities**: In the setting up, functioning and dissolution of a sole proprietorship business no legal formalities are necessary. However, a few legal restrictions may be there in setting up a particular type of business. For example, to open a restaurant, the sole proprietor needs a license from the local municipality; to open a chemist shop, the individual must have a license from the government.

**Advantages of Sole Proprietorship:**

1. **Easy Formation**: The biggest advantage of a sole tradership business is its easy formation. Anybody wishing to start such a business can do so in many cases without any legal formalities.

2. **Better Control**: The owner has full control over his business. He plans, organises, co-ordinates the various activities. Since he has all authority, there is always effective control.

3. **Prompt Decision Making**: As the sole trader takes all the decisions himself the decision making becomes quick, which enables the owner to take care of available opportunities immediately and provide immediate solutions to problems.

4. **Flexibility in Operations**: One man ownership and control makes it possible for change in operations to be brought about as and when necessary.

5. **Retention of Business Secrets**: Another important advantage of a
sole proprietorship business is that the owner is in a position to maintain absolute secrecy regarding his business activities.

6. **Direct Motivation**: The owner is directly motivated to put his best efforts as he alone is the beneficiary of the profits earned.

7. **Personal Attention to Consumer Needs**: In a sole tradership business, one generally finds the proprietor taking personal care of consumer needs as he normally functions within a small geographical area.

8. **Creation of Employment**: A sole tradership business facilitates self-employment and also employment for many others. It promotes entrepreneurial skill among the individuals.

9. **Social Benefits**: A sole proprietor is the master of his own business. He has absolute freedom in taking decisions, using his skill and capability. This gives him high self-esteem and dignity in the society and gradually he acquires several social virtues like self-reliance, self-determination, independent thought and action, initiative, hard work etc. Thus, he sets an example for others to follow.

10. **Equitable Distribution of Wealth**: A sole proprietorship business is generally a small scale business. Hence there is opportunity for many individuals to own and manage small business units. This enables widespread dispersion of economic wealth and diffuses concentration of business in the hands of a few.

**Disadvantages of Sole Proprietorship**:

1. **Unlimited Liability**: In sole proprietorship, the liability of business is recovered from the personal assets of the owner. It restricts the sole trader to take more risk and increases the volume of his business.

2. **Limited Financial Resources**: The ability to raise and borrow money by one individual is always limited. The inadequacy of finance is a major handicap for the growth of sole proprietorship.

3. **Limited Capacity of Individual**: An individual has limited knowledge and skill. Thus his capacity to undertake responsibilities, his capacity to manage, to take decisions and to bear the risks of business are also limited.

4. **Uncertainty of duration**: The existence of a sole tradership business is linked with the life of the proprietor. Illness, death or insolvency of the owner brings an end to the business. The continuity of business operation is, therefore, uncertain.
Suitability of Sole Proprietorship:

Sole proprietorship business is suitable where the market is limited, localised and where customers give importance to personal attention. This form of organisation is suitable where the nature of business is simple and requires quick decision. For business where capital required is small and risk involvement is not heavy, this type of firm is suitable. It is also considered suitable for the production of goods which involve manual skill e.g. handicrafts, filigree works, jewellery, tailoring, haircutting, etc.

Intext Questions 2.1

1. Which of the following statements are True or False?
   a. A sole proprietorship business is started by one person
   b. The liability of a sole trader is limited
   c. Sole tradership business can be expanded to any limit
   d. A sole trader can not maintain business secrecy
   e. Sole tradership is suitable for small scale business
   f. Registration of sole proprietorship firm is a must
   g. There is no risk involved in sole proprietorship business

II Match the following with reference to sole proprietorship business:

1. Liability a. dissolution of business
2. Formation b. minimum
3. Resources c. prompt
4. Death of owner d. limited
5. Decision making e. unlimited
6. Legal formalities f. easy

2.5 Joint Hindu Family Business

Meaning

The Joint Hindu Family (JHF) business is a form of business organisation found only in India. In this form of business, all the members of a Hindu undivided family own the business jointly. The affairs of business are managed
by the head of the family, who is known as the “KARTA”.

A Joint Hindu Family business comes into existence as per the Hindu Inheritance Laws of India. In a joint Hindu family business only the male members get a share in the business by virtue of their being part of the family. The membership is limited up to three successive generations. Thus, an individual, his sons(s), and his grandson(s) become the members of a Joint Hindu Family by birth. They are also called “Co-parceners”. The term co-parceners implies that such an individual has got the right to ask for a partition of the Joint Hindu Family business and to have his separate share. A daughter has no right to ask for a partition and is, therefore, not a co-parcener.

Characteristics :

1. **Legal Status** : The Joint Hindu Family business is a jointly owned business just like a jointly owned property. It is governed by Hindu Law. It can enter into partnership agreement with others.

2. **Membership** : There is no membership other than the members of the joint family. Inside the family also, it is restricted only to male members who are co-parceners by birth.

3. **Profit Sharing** : All co-parceners have equal share in the profits of the business. In the event of death of any of the co-parcener, his wife can claim share of profit.

4. **Management** : The management of a joint Hindu family business is in the hands of the senior-most family member who is known as the karta. He has the authority to manage the business and his ways of managing can not be questioned by the co-parceners.

5. **Liability** : The liability of each member of the Joint Hindu Family business is limited to the extent of his share in the business. But the liability of the karta is unlimited as, it extends to his personal property.

6. **Fluctuating Share** : The individual share of each co-parcener keeps on fluctuating. This is because, every birth of a male child in the family adds to the number of co-parceners and every death of a co-parcener reduces the number.

7. **Continuity** : A Joint Hindu Family business continues to exist on the death of any co-parcener. Even on the death of the karta, it continues to exist as the next seniormost family member becomes karta. However, a Joint Hindu Family business can be dissolved any time either through mutual agreement between members or by partition.
Advantages of Joint Hindu Family Business :

1. **Assured share in profits**: Every co-parcener is assured a share in the profits irrespective of his contribution to the successful running of the business. This, in a way safeguards the interests of some members of the family like minors, sick, disabled and widows.

2. **Freedom in managing**: The karta enjoys full freedom in conducting the family business. It enables him to take quick decisions without much interference.

3. **Sharing of knowledge and experience**: A Joint Hindu Family business provides opportunity for the young members of the family to get the benefit of knowledge and experience of the elder members and also helps in inculcating virtues like discipline, self-sacrifice, tolerance etc.

4. **Unlimited liability of the karta**: The liability of the co-parceners is limited, except for that of the karta. This makes the karta to manage the business in the most efficient manner.

5. **Continued existence**: A Joint Hindu Family business is not affected by the insolvency or death of any member including that of karta. Thus it can continue for a long period of time.

Disadvantages of Joint Hindu Family Business :

1. **Limited resources**: Joint Hindu Family business has generally limited financial and managerial resource. Therefore, it can not undertake big and risky business.

2. **Lack of motivation**: There is always a lack of motivation among the members to work hard. It is because the benefit of hard work does not go entirely to any individual member but shared by all the co-parceners.

3. **Scope for misuse of power by the karta**: Since the karta has absolute freedom to manage the business, there is scope for him to misuse it for his personal gains. An inefficient karta can also do harm to the business.

4. **Scope for conflict**: In a Joint Hindu Family business the male members of three successive generations are involved. It always leads to conflict between generations.

5. **Instability**: The continuity of business is always under threat. It may be due to a small rift within the family and if a co-parcener ask for a partition the business is closed.
Suitability of Joint Hindu Family Business:

The success of Joint Hindu Family business is mostly dependent upon the efficiency of the karta and the mutual understanding between the co-parceners. Nevertheless, this type of business is losing its ground with the gradual decline in the joint Hindu family system.

Intext Questions 2.3

1. Are the following statements ‘True’ or ‘False’?
   a. Anybody can be a member of a Joint Hindu Family business
   b. The liability of the Karta is unlimited
   c. A Joint Hindu Family business continues to exist on the death of a co-parcener
   d. A Joint Hindu Family business ceases to exist on the death of the Karta
   e. A Joint Hindu Family business comes into existence by Hindu Law

II. State whether it is an advantage or a disadvantage of Joint Hindu Family business. Write ‘A’ for advantage and ‘D’ for disadvantage
   a. A Joint Hindu Family business is run by the Karta through the co-operative efforts of the family members
   b. Male members of three successive generations can be members of a Joint Hindu Family business
   c. Young family members gain knowledge and experiences from older members

2.6 Partnership

Meaning

A partnership form of organisation is one where two or more persons are associated to run a business with a view to earn profit. Persons from similar background or persons of different ability and skills, may join together to carry on a business. Each member of such a group is individually known as ‘partner’ and collectively the members are known as a ‘partnership firm’. These firms are governed by the Indian Partnership Act, 1932.
Characteristics:

1. **Number of Partners**: A minimum of two persons are required to start a partnership business. The maximum membership limit is 10 in case of banking business and 20 in case of all other types of business.

2. **Contractual Relationship**: The relation between the partners of a partnership firm is created by contract. The partners enter into partnership through an agreement which may be verbal, written or implied. If the agreement is in writing it is known as a ‘**Partnership Deed**’.

3. **Competence of Partners**: Since individuals have to enter into a contract to become partners, they must be competent enough to do so. Thus, minors, lunatics and insolvent persons are not eligible to become partners. However, a minor can be admitted to the benefits of partnership i.e. he can have a share in the profits.

4. **Sharing of Profit and Loss**: The partners can share profit in any ratio as agreed. In the absence of an agreement, they share it equally.

5. **Unlimited Liability**: The partners have unlimited liability. They are liable jointly and severally for the debts and obligations of the firm. Creditors can lay claim on the personal properties of any individual partner or all the partners jointly. Even a single partner may be called upon to pay the debts of the firm. Of course, he can get back the money due from other partners. The liability of a minor is, however, limited to the extent of his share in the profits, in case of dissolution of a firm.

6. **Principal-Agent Relationship**: The business in a partnership firm may be carried on by all the partners or any one of them acting for all. This means that every partner is an agent when he is acting on behalf of others and he is a principal when others act on his behalf. It is, therefore, essential that there should be mutual trust and faith among the partners in the interest of the firm.

7. **Transfer of Interest**: No partner can sell or transfer his interest in the firm to anyone without the consent of other partners.

8. **Legal Status**: A partnership firm is just a name for the business as a whole. **The firm means partners and the partners mean the firm.** Law does not recognise the firm as a separate entity distinct from the partners.

9. **Voluntary Registration**: Registration of partnership is not compulsory. But since registration entitles the firm to several benefits, it is considered desirable. For example, if it is registered, any partner can file a case
against other partners, or a firm can file a suit against outsiders in case of disputes, claims, disagreements, etc.

10. **Dissolution of Partnership**: Dissolution of partnership implies not only a complete closure or termination of partnership business, but it also includes any change in the existing agreement among the partners due to a change in the number of partners.

**Advantages of Partnership Firm**: 

1. **Easy Formation**: A partnership can be formed without many legal formality and expenses. Every partnership firm need not be registered.

2. **Larger Resources**: As compared to sole proprietorship, a partnership firm can pool larger financial resources. Thus it can enter into bigger operations and can have more credit facilities. It can also have better managerial talent.

3. **Flexibility in operation**: There is flexibility of operation in partnership business due to a limited number of partners. These partners can change their operations and amend objectives if necessary by mutual consent.

4. **Better Management**: Partners take more interest in the affairs of business as there is a direct relationship between ownership, control and profit. They often meet to discuss the affairs of business and can take prompt decision.

5. **Sharing of Risk**: In partnership, risk of loss is easier to bear by individual partners as it is shared by all the partners.

6. **Protection of minority interest**: Every partner has an equal say in decision making. A partner can prevent a decision being taken if it adversely affects his interests. In extreme cases a dissenting partner may withdraw from partnership and can dissolve it.

7. **Better Public Relations**: In a partnership firm the group managing the affairs of the firm is generally small. It facilitates cordial relationship with the public.

**Disadvantages of partnership Firm**: 

1. **Instability**: A partnership firm does not continue to exist indefinitely. The death, insolvency or lunacy of a partner may bring about an unexpected end to partnership.

2. **Unlimited Liability**: As the liability of partners is joint and several to an unlimited extent, any one of the partners can be called upon to
pay all the debts even from his personal properties. Further, as every partner has a right to take part in the management of the firm, any wrong decision by a single partner may lead to heavy liabilities for others.

3. **Lack of Harmony**: Since every partner has equal right, there are greater possibilities of friction and quarrel among the partners. Differences of opinion may lead to mistrust and disharmony which may ultimately result in disruption and closure of the firm.

4. **Limited Capital**: As there is a restriction on the maximum number of partners, the capital which can be raised is limited.

**Suitability of Partnership Firm:**

In a partnership firm, persons from different walks of life having ability, managerial talent and skill join together to carry on a business. This increases the administrative strength of the organisation, the financial resources, the skill and expertise, and reduce risk. Such firms are most suitable for comparatively small business such as retail and wholesale trade, professional services, medium sized mercantile houses and small manufacturing units. Generally it is seen that many organisations are initially started as partnership firms and later, when it is economically viable and financially attractive for the investors, it is converted into a company.

**Intext Question 2.3**

I. **Fill in the Blanks:**

a. A partnership firm requires at least——— persons.

b. The partners are liable——— and——— for all the debts and obligations of the firm.

c. Registration of a partnership firm is———.

d. There exists a ———— relationship between partners.

e. The persons who own the partnership business are individually called——— and collectively known as———

II. **Which of the following statements are TRUE or FALSE?**

a. A minor can become a partner

b. The interests of partners are freely transferable

c. A partnership firm has separate legal entity
d. There is a direct relationship between ownership, control and profit in a partnership business

e. Partners can not admit new members

2.7 Joint Stock Company

Meaning:

A Joint Stock Company form of business organisation is a voluntary association of persons to carry on business. Normally, it is given a legal status and is subject to certain legal regulations. It is an association of persons who generally contribute money for some common purpose. The money so contributed is the capital of the company. The persons who contribute capital are its members. The proportion of capital to which each member is entitled is called his share, therefore members of a joint stock company are known as shareholders and the capital of the company is known as share capital. The total share capital is divided into a number of units known as shares. You may have heard of the names of joint stock companies like Tata Iron & Steel Co. Limited, Hindustan Lever Limited, Reliance Industries Limited, Steel Authority of India Limited, Ponds India Limited etc.

The companies are governed by the Indian Companies Act, 1956. The Act defines a company as an artificial person created by law, having separate entity, with perpetual succession and a common seal.

Characteristics:

1. Artificial Person: A Joint Stock Company is an artificial person in the sense that it is created by law and does not possess physical attributes of a natural person. However, it has a legal status.

2. Separate Legal Entity: Being an artificial person, a company has an existence independent of its members. It can own property, enter into contract and conduct any lawful business in its own name. It can sue and can be sued in the court of law. A shareholder cannot be held responsible for the acts of the company.

3. Common Seal: Every company has a common seal by which it is represented while dealing with outsiders. Any document with the common seal and duly signed by an officer of the company is binding on the company.

4. Perpetual Existence: A company once formed continues to exist as long as it fulfils the requirements of law. It is not affected by the death, lunacy, insolvency or retirement of any of its members.
5. **Limited Liability**: The liability of a member of a Joint Stock Company is limited by guarantee or the shares he owns. In other words, in case of payment of debts by the company, a shareholder is held liable only to the extent of his share.

6. **Transferability of Shares**: The members of a company are free to transfer the shares held by them to anyone else.

7. **Formation**: A company comes into existence only when it has been registered after completing the formalities prescribed under the Indian Companies Act 1956. A company is formed by the initiative of a group of persons known as **promoters**.

8. **Membership**: A company having a minimum membership of **two** persons and maximum **fifty** is known as a **Private Limited Company**. But in case of a **Public Limited Company**, the minimum is **seven** and the maximum membership is **unlimited**.

9. **Management**: Joint Stock Companies have democratic management and control. Even though the shareholders are the owners of the company, all of them cannot participate in the management process. The company is managed by the elected representatives of shareholders known as **Directors**.

10. **Capital**: A Joint Stock Company generally raises a large amount of capital through issue of shares.

**Advantages of Joint Stock Company:**

1. **Limited Liability**: In a Joint Stock Company the liability of its members is limited to the extent of shares held by them. This attracts a large number of small investors to invest in the company. It helps the company to raise huge capital. Because of limited liability, a company is also able to take larger risks.

2. **Continuity of existence**: A company is an artificial person created by law and possesses independent legal status. It is not affected by the death, insolvency etc. of its members. Thus it has a **perpetual existence**.

3. **Benefits of large scale operation**: It is only the company form of organisation which can provide capital for large scale operations. It results in large scale production consequently leading to increase in efficiency and reduction in the cost of operation. It further opens the scope for expansion.

4. **Professional Management**: Companies, because of complex nature of activities and operations and large volume of business, require
professional managers at every level of organisation. And because of their financial strength they can afford to appoint such managers. This leads to efficiency.

5. **Social Benefit**: A joint stock company offers employment to a large number of people. It facilitates promotion of various ancillary industries, trade and auxiliaries to trade. Sometimes it also donates money for education, health, community service and renders help to charitable and social institutions.

6. **Research and Development**: A company generally invests a lot of money on research and development for improved processes of production, designing and innovating new products, improving quality of product, new ways of training its staff, etc.

**Disadvantages of Joint Stock Company:**

1. **Formation is not easy**: The formation of a company involves compliance with a number of legal formalities under the companies Act and compliance with several other Laws.

2. **Control by a Group**: Companies are controlled by a group of persons known as the **Board of Directors**. This may be due to lack of interest on the part of the shareholders who are widely dispersed; ignorance, indifference and lack of proper and timely information. Thus, the democratic virtues of a company do not really exist in practice.

3. **Speculation and Manipulation**: The shares of a company are purchased and sold in the stock exchanges. The value or price of a share is determined in terms of the dividend expected and the reputation of the company. These can be manipulated. Besides there is excessive speculation which is regarded as a social evil.

4. **Excessive government control**: A company is expected to comply with the provisions of several Acts. Non-compliance of these invites heavy penalty. This affects the smooth functioning of the companies.

5. **Delay in Policy Decisions**: A company has to fulfill certain procedural formalities before making a policy decision. These formalities are time consuming and, therefore, policy decisions may be delayed.

6. **Social abuses**: A joint stock company is a large scale business organisation having huge resources. This provides a lot of power to them. Any misuse of such power creates unhealthy conditions in the society e.g. having monopoly of a particular business, industry or product; influencing politicians and government in getting their work done; exploiting workers, consumers and investors.
Suitability of Joint Stock Company:

A joint stock company is suitable where the volume of business is quite large, the area of operation is widespread, the risk involved is heavy and there is a need for huge financial resources and manpower. It is also preferred when there is need for professional management and flexibility of operations. In certain businesses like banking and insurance, business can only be undertaken by joint stock companies.

Intext Questions 2.4

1. Which of the following statements are TRUE or FALSE?
   
a) The maximum membership for a public limited company is 50
   
b) A company is dissolved with the death of its members
   
c) The members of a company transfer their shares through consent of all members
   
d) The liability of the members of a Joint Stock Company is unlimited
   
e) Any document with the signature of the officer of a company is binding on it.

II. Fill in the blanks:

   a) A company has——— existence.
   
b) A company enjoys the benefits of ————operation
   
c) A company is managed by———
   
d) When the area of operation of the business is———a company form is preferred
   
e) The shares of a Joint Stock Company may be——— in the stock market

2.8 Co-operative Society

Meaning

Any ten persons can form a co-operative society. It functions under the Co-operative Societies Act, 1912 and other State Co-operative Societies Acts. A co-operative society is entirely different from all other forms of organisation
discussed above in terms of its objective. The co-operatives are formed primarily to render services to its members. Generally it also provides some service to the society. The main objectives of co-operative society are: (a) rendering service rather than earning profit, (b) mutual help instead of competition, and (c) self help in place of dependence. On the basis of objectives, various types of co-operatives are formed:

a. **Consumer co-operatives**: These are formed to protect the interests of ordinary consumers of society by making consumer goods available at reasonable prices. Kendriya Bhandar in Delhi, Alaka in Bhubaneswar and similar others are all examples of consumer co-operatives.

b. **Producers co-operatives**: These societies are set up to benefit small producers who face problems in collecting inputs and marketing their products. The Weavers co-operative society, the Handloom owners co-operative society are examples of such co-operatives.

c. **Marketing co-operatives**: These are formed by producers and manufactures to eliminate exploitation by the middlemen while marketing their product. Kashmir Arts Emporium, J&K Handicrafts, Utkalika etc. are examples of marketing co-operatives.

d. **Housing Co-operatives**: These are formed to provide housing facilities to its members. They are called co-operative group housing societies.

e. **Credit Co-operatives**: These societies are formed to provide financial help to its members. The rural credit societies, the credit and thrift societies, the urban co-operative banks etc. come under this category.

f. **Forming Co-operatives**: These are formed by small farmers to carry on work jointly and thereby share the benefits of large scale farming.

Besides these types, other co-operatives can be formed with the objective of providing different benefits to its members, like the construction co-operatives, transport co-operatives, co-operatives to provide education etc.

**Characteristics:**

1. **Voluntary association**: Individuals having common interest can come together to form a co-operative society. Any person can become a member of such an organisation and leave the same.

2. **Membership**: The minimum membership required to form a co-operative society is ten and the maximum number is unlimited. At times the co-operatives after their formation fix a maximum membership limit.
3. **Body corporate**: Registration of a society under the Co-operative Societies Act is a must. Once it is registered, it becomes a body corporate and enjoys certain privileges just like a joint stock company. Some of the privileges are:

(a) The society enjoys perpetual succession.

(b) It has its own common seal.

(c) It can own property in its name.

(d) It can enter into contract with others.

(e) It can sue others in court of law.

4. **Service Motive**: The primary objective of any co-operative organisation is to render services to its members in particular and to the society in general.

5. **Democratic Set up**: Every member has a right to take part in the management of the society. Each member has one vote. Generally the members elect a committee known as the Executive Committee to look after the day to day administration and the said committee is responsible to the general body of members.

6. **Sources of Finances**: A co-operative organisation starts with a fund contributed by its members in the form of units called shares. It can also raise loans and secure grants from the government easily. One fourth of the profits of the co-operative are transferred to its fund every year.

7. **Return on capital**: The return on capital subscribed by the members is in the form of a fixed rate of dividend after deduction from the profit.

**Advantages of Co-operative Society:**

1. **Easy Formation**: Formation of a co-operative society is easy as compared to a company. Any 10 persons can voluntarily form an association and get themselves registered with the Registrar of Co-operative societies.

2. **Limited Liability**: The liability of the members is limited to the extent of capital contributed by them.

3. **Open Membership**: There is no restriction on any individual to be a member of any co-operative.

4. **State Assistance**: Co-operatives get a lot of patronage in the form of
exemptions and concessions in taxes and financial assistance from the state governments which no other organisation gets.

5. **Middleman’s Profit Eliminated** : Through the co-operative the consumers control their own supplies and by this means the middleman’s profit is eliminated.

6. **Management** : A co-operative functions in a democratic manner. Each member has only one vote.

7. **Winding up** : The dissolution of a co-operative firm is quite difficult. It does not cease to exist in case of death, or insolvency or resignation of a member. It has thus a fairly stable life.

**Disadvantages of Co-operatives** :

1. **Limited Capital** : The amount of capital that a co-operative can generate is limited because of the membership remaining confined to a locality or region or a particular section of people.

2. **Problems in Management** : Generally it is seen that co-operative do not function efficiently due to lack of managerial talent.

3. **Lack of Motivation** : Co-operatives are formed to render service to its members than to earn profit. This does not provide enough motivation to manage the co-operatives effectively.

4. **Lack of Co-operation** : Co-operatives are formed with the very idea of co-operation. But, it is often seen that there is lot of friction and bickering among the members due to personality differences, ego clash etc.

5. **Lack of Secrecy** : Maintenance of business secrecy is one of the important factors for the success of enterprise which the co-operatives always lack.

6. **Dependence on Government** : The inadequacy of capital and various other limitations make co-operatives dependant on the government for support and patronage in terms of grants, loans and subject themselves to interference.

**Suitability of Co-operatives** :

When the purpose of business is to provide service than to earn profit and to promote common economic interest, the co-operative society is the only alternative. Co-operatives are also preferred as it is easier to raise capital through assistance from financial institutions and government. Generally it seems that a co-operative society is suitable for small and medium size
operations. However, the large sized ‘IFFCO’ [Indian Farmers and Fertilisers Co-operative] and the Kaira Co-operative Processing Milk under the brand name ‘AMUL’ are the illustrious exceptions.

**Intext Questions 2.5**

I. Which of the following statement are **TRUE** or **FALSE**?

(a) The members of a co-operative get a fixed rate of dividend from profit

(b) A co-operative society can not enter into any contract

(c) The liability of the members of a co-operative is unlimited

(d) A co-operative society needs not be registered

(e) The members of a co-operative society have ‘one man - one vote’

II. Fill in the blanks:

(a) A co-operative society has a fairly ———— life.

(b) Membership of a co-operative is ————.

(c) A co-operative’s primary motive is ————.

(d) The minimum membership to get a co-operative registered is ————.

(e) Dissolution of a co-operative society is ————.

**2.9 Differences between various forms of Business Organisation:**

We have learnt about the various forms of business organisation. If we analyse their characteristics we find that each one is different from the other. Let us try to distinguish between these different forms of organisation.

**Sole Proprietorship and Partnership**

<table>
<thead>
<tr>
<th><strong>Basis</strong></th>
<th><strong>Sole Proprietorship</strong></th>
<th><strong>Partnership</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Membership</strong></td>
<td>Only one member</td>
<td>Minimum membership is two, maximum membership is ten in case of banking business and</td>
</tr>
</tbody>
</table>
2. **Functioning**  
A sole trader manages his business at his free will.  
May be managed by all partners or any one on behalf of all others.

3. **Formation**  
Easy and can be formed at any time the owner decides.  
An agreement is required between the partners to start a business.

4. **Secrecy**  
Business secrets are not open to anyone other than the proprietor.  
Business secrets are open to every partner.

5. **Finance**  
Scope for raising capital is limited.  
Scope for raising capital is relatively more.

6. **Continuity of business**  
Comes to an end with the death of the sole trader.  
The business of a firm does not come to an end if a partner leaves the firm.

7. **Decision Making**  
Owner alone takes decision and so it is quick.  
All partners must agree to important decisions and so decision making may take time.

8. **Liability**  
Unlimited and the burden is heavy.  
Unlimited but less burdensome as it is shared by partners.

---

**Joint Hindu Family Business and Partnership**

<table>
<thead>
<tr>
<th>Basis</th>
<th>Joint Hindu Family firm</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Membership</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Members are called co-parceners</td>
<td>a. Members are called partners</td>
<td></td>
</tr>
<tr>
<td>b. No maximum limit</td>
<td>b. Maximum membership must not exceed 10 in case of banking business and 20 in case of other business</td>
<td></td>
</tr>
<tr>
<td>c. Individuals become co-parceners by virtue of their birth</td>
<td>c. Individuals become partners by virtue of an agreement</td>
<td></td>
</tr>
<tr>
<td>d. Women can not become co-parceners</td>
<td>d. Women can be admitted as members</td>
<td></td>
</tr>
</tbody>
</table>
2. **Regulation**

- Governed by Hindu Law
- Governed by Indian Partnership Act

3. **Registration**

- Not required
- There is a provision for registration

4. **Management**

- Only karta is entitled to manage
- Each partner has a right to take part in the management of the firm

5. **Profit Sharing**

- Every co-partner enjoys equal share
- Profit sharing ratio is decided by mutual agreement among partners

6. **Liability**

- Only the liability of the karta is unlimited
- Every partner has unlimited liability

---

### Partnership and Joint Stock Company

<table>
<thead>
<tr>
<th>Basis</th>
<th>Partnership</th>
<th>Joint Stock Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Formation</strong></td>
<td>It is easy to form as registration is not compulsory</td>
<td>It requires many legal formalities to be completed before the company comes into existence.</td>
</tr>
<tr>
<td>2. <strong>Operation</strong></td>
<td>Governed by the Partnership Act, 1932</td>
<td>Governed by the companies Act, 1956</td>
</tr>
<tr>
<td>3. <strong>Membership</strong></td>
<td>Minimum is two, maximum is 10 in banking business and 20 in other business.</td>
<td>In case of Private Company minimum is 2, maximum is 50; in case of Public company minimum is 7 and maximum unlimited.</td>
</tr>
<tr>
<td>4. <strong>Legal Status</strong></td>
<td>No separate legal entity</td>
<td>Separate legal entity from that of its members</td>
</tr>
<tr>
<td>5. <strong>Liability</strong></td>
<td>Joint and several to an unlimited extent</td>
<td>Limited to the value of shares held for limited companies</td>
</tr>
<tr>
<td>6. <strong>Management</strong></td>
<td>All or any one on behalf of all partners are entitled</td>
<td>Only the Board of directors is authorised</td>
</tr>
</tbody>
</table>
7. **Transfer of shares**

Consent of all partners required

Shares are freely transferable

8. **Existence**

Dissolves with the death, retirement or insanity of a partner

Perpetual existence, unaffected by death, retirement, insolvency etc. of the shareholders

9. **Finance**

Relatively limited scope for raising finance

Vast and unlimited scope for raising finance

---

**Joint Stock company and Co-operative Society**

<table>
<thead>
<tr>
<th><strong>Basis</strong></th>
<th><strong>Joint Stock Company</strong></th>
<th><strong>Co-operative Society</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Formation</strong></td>
<td>Comes into existence when registered with the Registrar of Companies on payment of registration fee and stamp duty</td>
<td>Comes into existence when registered with the Registrar of Co-operative Societies. There is no registration fee or stamp duty</td>
</tr>
<tr>
<td>2. <strong>Membership</strong></td>
<td>Members can be from the whole country or from any other country of the world. Minimum number of members for a Private company is 2 and for a Public company it is 7. The maximum membership for the former is 50 and for the latter is unlimited.</td>
<td>Members are mostly from a particular locality or a region. The minimum membership is 10 and maximum unlimited.</td>
</tr>
<tr>
<td>3. <strong>Purpose</strong></td>
<td>Usually run a business and earn profit</td>
<td>To render services to its members in particular and to the society in general</td>
</tr>
<tr>
<td>5. <strong>Management</strong></td>
<td>The affairs of the company are managed by a Board of Directors, elected by the shareholders. Elected member has as many votes as the number of shares held by him</td>
<td>The affairs of the societies are managed by an Executive Committee elected by members on the basis of one member - one vote.</td>
</tr>
</tbody>
</table>
6. **Transfer of Interest**
   Shares are freely transferable and passed on to the legal heirs [except in case of a Private company].
   Shares are not generally transferable, but can be passed on to legal heirs or reverted back to the society at the Member’s discretion.

7. **Liability**
   Liability of its members is generally limited to the value of shares held or amount guaranteed by them.
   Liability of its members is generally limited but the society may opt for unlimited liability.

8. **Payment of Dividend**
   The rate of dividend is decided by the company every year and it may vary.
   A fixed rate of dividend is payable to its members as per the provisions of the Co-operative Societies Act.

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### 2.10 Choice of an appropriate form of Business Organisation

Selection of a suitable form of business organisation on the basis of ownership and management is one of the important tasks of the entrepreneur. Once a form of organisation is chosen, it is very difficult to switch over to another form because it needs the winding up of the existing organisation which is a waste of time, effort and money. Therefore, the form of organisation must be chosen after thought and consideration.

There are a number of factors to be considered while selecting an appropriate form of business organisation. Let us look into those factors one by one which are inter-related and inter-dependent as well.

1. **Nature of Business** : The selection of a particular form of organisation is dependant upon the nature of business activity. For service activity it can be ideally done through sole proprietorship or partnership. But if it is a manufacturing business then a partnership or company is preferable.

2. **Volume of Business** : If the volume of business or scale of operation is small, a sole proprietorship or partnership form is ideal. But if the volume of business is on a large scale, company form is the best.

3. **Area of Operation** : If the business is spread over a wide area, the company form is better suited, but if it is confined to a particular locality or region, other forms may be suitable.

4. **Finance** : Where the initial as well as the working capital required to carry on the business is very large, one has to opt for a company form.
In other cases one can go for any other form.

5. **Ownership and Control**: When direct control over the business is desired, one should go for a sole proprietorship or partnership instead of company or co-operative form.

6. **Liability**: A person who can bear the unlimited liability of business can go for sole proprietorship or partnership form, but if he does not have the capability to shoulder the burden of unlimited liability, he may opt for either company or co-operative form.

7. **Independence**: The company or co-operative organisations are subject to strict government regulations. So if the entrepreneur wants to have a freedom in business with little governmental interference, he has to go for either sole proprietorship or partnership.

### Intext Questions 2.6

I. The features of different forms of organisation [five each] are mentioned below in a jumbled manner. **Reorganise** them.

<table>
<thead>
<tr>
<th><strong>Sole proprietorship</strong></th>
<th><strong>Partnership</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(A)</td>
<td>(B)</td>
</tr>
<tr>
<td>1. Perpetual existence</td>
<td>1. Democratic management</td>
</tr>
<tr>
<td>2. Service motive</td>
<td>2. One man control</td>
</tr>
<tr>
<td>4. Exemptions given during registration</td>
<td>4. No legal formalities</td>
</tr>
<tr>
<td>5. Artificial person</td>
<td>5. Large scale operation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Joint Stock Company</strong></th>
<th><strong>Co-operatives</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>(C)</td>
<td>(D)</td>
</tr>
<tr>
<td>1. Maximum membership is ten in case of banking business</td>
<td>1. Direct motivation</td>
</tr>
<tr>
<td>2. Service motive</td>
<td>2. One man control</td>
</tr>
<tr>
<td>3. Unlimited liability</td>
<td>3. Registration voluntary</td>
</tr>
<tr>
<td>4. Restricted transferability of shares</td>
<td>4. Huge finance</td>
</tr>
<tr>
<td>5. Principal agent relationship</td>
<td>5. Better management</td>
</tr>
</tbody>
</table>
### Relatives Advantages and Disadvantages of the various forms of Business Organisations:

<table>
<thead>
<tr>
<th>Basis</th>
<th>Sole Proprietorship</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Formation</td>
<td>Most easy to form. Can be started only</td>
<td>Can be started only on the basis of an agreement between the partners. Registration is not compulsory.</td>
</tr>
<tr>
<td>2. Financial</td>
<td>Limited Capital is arranged by the owner alone.</td>
<td>Larger Capital is arranged by contributions from the partners.</td>
</tr>
<tr>
<td>Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Management</td>
<td>Not very efficient, Depends upon acumen of the sole trader.</td>
<td>Relatively better as more individuals are</td>
</tr>
<tr>
<td>4. Liability</td>
<td>Unlimited. This reduces the sole trader’s risk taking capacity and the volume of business burden is shared.</td>
<td>Unlimited. Partners are liable severally and jointly for all the debts and obligations of the firm. So the</td>
</tr>
<tr>
<td>5. Scale of</td>
<td>Suitable only for small scale operation to medium scale</td>
<td>Scale of operation can be increased</td>
</tr>
<tr>
<td>Operation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Stability</td>
<td>Unstable</td>
<td>Relatively stable</td>
</tr>
<tr>
<td>7. Flexibility</td>
<td>Highly Flexible</td>
<td>Moderater flexible</td>
</tr>
<tr>
<td>Operation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Forms of Business Organisation

<table>
<thead>
<tr>
<th>Basis</th>
<th>Joint Stock Company</th>
<th>Co-operative Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Formation</td>
<td>Most difficult to form. Several legal formalities are required to be complied with. Registration is a must. Huge.</td>
<td>Relatively easier to than a JSC, Registration is compulsory as per the Co-operative societies Act.</td>
</tr>
<tr>
<td>2. Financial Resources</td>
<td>Capital is raised by issue of shares to a large number of investors.</td>
<td>Major part of finance is through Govt. assistance, loans etc.</td>
</tr>
<tr>
<td>3. Management</td>
<td>Most efficient. Can use professional managers.</td>
<td>Can be efficient if done with utmost co-operation interest and less friction among members.</td>
</tr>
<tr>
<td>4. Liability</td>
<td>Limited. This helps to increase the size of finance by attracting investors and encourages risk taking</td>
<td>Limited. Helps members in going for more risks</td>
</tr>
<tr>
<td>5. Scale of Operation</td>
<td>Generally operates on large scale thereby enjoying its benefits</td>
<td>Suitable for small and Medium scale operation</td>
</tr>
<tr>
<td>7. Flexibility Operation</td>
<td>Limited flexibility</td>
<td>Limited flexibility</td>
</tr>
<tr>
<td>8. Contribution to the Society</td>
<td>Creates huge employment opportunities. Promotes ancillary industries, trade and auxiliaries to trade. Contributes to national income, to research and development, in education, health, community services etc.</td>
<td>Protects interests of consumers, producers, farmers and those who are in need of any financial help, house etc. Encourages unity and fraternity. Provides opportunity for people to come together to solve common problems.</td>
</tr>
<tr>
<td>Basis Co-operative Society</td>
<td>Sole Proprietorship</td>
<td>Partnership</td>
</tr>
<tr>
<td>----------------------------</td>
<td>---------------------</td>
<td>-------------</td>
</tr>
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<td>on the basis of an</td>
<td></td>
</tr>
<tr>
<td></td>
<td>agreement between</td>
<td></td>
</tr>
<tr>
<td></td>
<td>the partners.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Registration is not</td>
<td></td>
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<tr>
<td></td>
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<td>7. Flexibility</td>
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<td>Moderately flexible</td>
</tr>
<tr>
<td>Operation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 2.11 What Have You Learnt

**Business Organisation**

A business organisation is a unit that involves an arrangement to conduct a business.

**Characteristics**

- **Distinct Ownership**
- **Lawful Business**
• Separate State and Management
• Dealing in goods and services
• Continuity of business operation
• Risk involvement

Sole Proprietorship

Sole proprietorship is a form of business organisation in which an individual invests his own capital, uses his own skill and intelligence in the management of its affairs and is solely responsible for the results of its operations.

Features:
• One Man Ownership
• Management, Control and Capital formation by owner
• Full risk taking, loss bearing and profit keeping by owner
• Unlimited liability of the owner
• No separate legal entity of business
• Minimum legal formalities in formation

Advantages:
• Easy formation
• Better control
• Prompt decision making
• Flexibility in operation
• Retention of business secrets
• Direct motivation
• Personal attention to consumer needs
• Creation of employment
• Social Benefits
• Equitable distribution of wealth and income
Disadvantages:

- Unlimited liability
- Limited financial resources
- Limited capacity of individual
- Uncertainty of duration

**Joint Hindu Family Business**

In a JHF business, the members of a Hindu joint family own the business jointly. Only the male members of the family up to three successive generations become members by virtue of their birth. They are called ‘Co-parceners’. The senior most co-parcener is called the ‘Karta’.

**Features:**

- Comes into existence by Hindu Law
- No outside membership. Male members up to three successive generations of a family own the business jointly.
- The senior most co-parcener, known as KARTA has the implied authority to run the business.
- Even if the co-parceners have equal share, it fluctuates with every birth and death of a male in the family.
- The liability of the members are limited to the extent of their share but the liability of the karta is unlimited.

**Advantages:**

- Assured share in profits
- Sharing of knowledge and experience among members
- Co-operative efforts
- Unlimited liability of the karta
- Continued existence

**Disadvantages:**

- Limited resources
- Lack of motivation among members
• Scope for misuse of power by karta
• Scope for conflict and instability

**Partnership**

A Partnership firm comes into existence when two or more persons enter into contractual agreement as per some governing statutes of the concerned country to share the profits of the business carried on by all. Each member of such an organisation is known as a partner and collectively they are known as partnership firm.

**Features :**

- Minimum membership 2. Maximum membership 10 for banking business, 20 for other types
- Registration is voluntary
- Contractual Relationship
- Principal-Agent Relationship among partners
- Liability, joint and several to an unlimited extent
- Relationship of Trust and Faith between partners
- Minors, lunatics, insolvent persons are not eligible to become partners
- Restricted Transferability of Shares

**Advantages :**

- Easy formation
- Larger resources
- Flexibility in operation
- Burden of risk shared among partners
- Better public relation

**Disadvantages :**

- Instability of the firm
- Limited resources due to restriction on maximum membership
• Unlimited liability
• Scope for friction and quarrel

**Joint Stock Company**

A company is defined as an artificial person created by law, having separate legal entity, with perpetual succession and a common seal.

**Features:**

• Artificial Person
• Separate legal Entity
• Common Seal
• Perpetual Existence
• Limited liability of Members
• Transferability of Shares
• Minimum membership – 2 for Private limited company, 7 for public limited company
• Maximum membership – 50 for Private limited company, Unlimited for Public limited company

**Advantages:**

• Limited liability
• Continuity of existence
• Benefits of large scale operation
• Professional management
• Contribution to the society through creation of employment, promoting ancillary industries etc.
• Research and Development

**Disadvantages:**

• Compliance with several laws and fulfillment of a number of legal formalities during formation
• Management and control by a group
• Shares are subject to manipulation and speculation
• Government interference
• Scope of misuse of resource power

Co-operative Society

A co-operative society is formed particularly to provide services to its members and to the society in general. Individuals, producers, consumers, farmers etc. who are in need and wish to protect themselves can go for co-operatives.

Features:
• It is a body corporate that enjoys certain privileges like a joint stock company.
• Its primary objective is to render services to its members in particular and society in general.
• Its management is most democratic in nature as compared to other forms of business organisations.
• Its major finance is raised through government loans, grants, subsidies and outside donations.
• Members get return on capital at a fixed rate of dividend from the profit as per the Societies Act.

Advantages:
• Formation relatively easy than a Joint Stock Company.
• Democratic management
• Assistance from the government
• Elimination of middlemen’s profit
• Fairly stable life

Disadvantages:
• Limited capital
• Lack of managerial talent
• Lack of motivation
• Lack of secrecy
• Dependence on the government
Choice of an appropriate form of business organisation:

The following factors can be considered while selecting an appropriate form of business organisation:

- Nature of business
- Volume of business
- Area of operation
- Finance required
- Ownership and control
- Liability
- Independence

2.12 Terminal Exercise

1. What are the limitations of sole tradership?
2. Discuss the social desirability of a sole tradership business.
3. Give six advantages of a sole trading business?
4. What is a joint Hindu family business?
5. What are the disadvantages of a JHF business?
6. State the advantages of a partnership business.
7. Give five advantages of a joint stock company.
8. Name any five type of co-operatives.
9. What are the disadvantages of co-operative societies?
10. What are the characteristics of a business organisation?
11. What is a sole trading firm? What are its features? Discuss in details.
12. Can sole trading firm survive in the present day economy? If so why?
13. Discuss the characteristics of a partnership firm. How is it different than sole proprietorship?
14. Compare a Joint Hindu Family business and a partnership firm.
15. What is a joint stock company? What are its features?

16. Discuss the disadvantages of a Joint Stock Company.

17. Differentiate between a company and a co-operative society?

18. A co-operative society is the best form of business organisation. Do you agree?

19. Discuss the relative advantages and disadvantages of the sole proprietorship, partnership, joint stock company and co-operatives.

20. What are the factors to be considered while selecting an appropriate business organisation?

2.13 Answer to Intext Questions:

2.1

II. 1.e 2.f 3.d 4.a 5.c 6.b

2.2

I. a.F b.T c.T d.F e.T
II. a.A b.D c.A

2.3

I. a. two b. jointly and severally c. voluntary d. principal-agent e. partners, firm
II. a.F b.F c.F d.T e.F

2.4

I. a.F b.F c.F d.F e.F
II. a. perpetual b. large scale c. Board of Directors d. widespread e. speculated

2.5

I. a.T b.F c.T d.F e.T
II. a.stable b.open c.service d.ten e.difficult
2.6

I. Sole proprietorship: B-2, B-3, C-3, D-1, D-2

Partnership: A-3, C-1, C-4, C-5, D-3

Joint stock company: A-1, A-5, B-5, D-4, D-5

Co-operatives: A-2, A-4, B-1, B-3, C-2