SYJC FEB' 19
ORGANISATION OF COMMERCE
SOLUTION

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A.1.

(1) A sole proprietorship has **one** owner.

(2) A sole trading concern ensures **maximum** business secrecy.

(3) Limited managerial skill is the **limitation** of Joint Hindu family business.

(4) Indian Partnerships Act was passed in the year **1932**

(5) The liability of the shareholder in the public limited Joint Stock Company is **limited**

A.2.

Ans – (1 – b) , (2 – c), (3 – e), (4 – f), (5 – g)

A.3.

(1) Co-operative Societies

Indian Co-operative societies Act, 1912, "Co-operative society is a society which has its objectives for the promotion of economic interests of its members in accordance with co-operative principles".

FEATURES OF CO-OPERATIVE SOCIETY

1. **Voluntary Association and Open Membership:** Co-operative organization is a voluntary association of individuals. In other words the membership of a co-operative society is voluntary i.e. the membership is open to all. Because co-operative society is managed and controlled on democratic principles, there is a common goal for all the members which is to work together for the benefits of all the members and any person of any caste, creed or religion can join the organization.
2. **Equal Voting rights:** There is equality in voting rights. The principle of voting is 'one member one vote' unlike a company which follows the principles of 'one share one vote'. Thus the co-operative society members having a very large capital cannot dictate their terms. Similarly, while providing services, all members are treated.
3. **Service Motive:** Co-operative organization differs from other forms of organization in the sense that the main purpose of co-operative organization is not to maximize profit but to provide services to its members. Its main motto is not to accumulate wealth and exploit consumers but to work in the interests of members and provide goods and services to them by treating every member at par with others. Moreover, there is no distinction among members based upon the number of shares held by them.
4. **Limited Liability:** The liability of a member in a co-operative organization is limited to the extent of the unpaid amount of shares held by him i.e. if the business assets are not sufficient to pay off its debts, the personal property of members cannot be utilized for the purpose.
5. **Democratic Management:** The management of a co-operative organization is based on democratic principles. Each member is given an opportunity to express his opinion. The principle of voting is "One member One Vote". Decisions are taken by majority of votes. Managing committee is an elected body of representatives of members of a co-operative organization for its day to day administration.
6. **Independent Existence:** According to the Co-operative Societies' Act, 1912, a co-operative society has an independent legal status different from its members. Therefore, it enjoys a stable and continuous life.

7. **Registration:** The registration of a co-operative society is compulsory as per the relevant act in the concerned state e.g. A Co-operative organization in the state of Maharashtra has to be registered under Maharashtra State Co-operative Societies' Act, 1960.
8. **Surplus Profit:** After payment of dividend and bonus, a part of the profit is transferred to the statutory reserve and remaining is utilized for the welfare of the locality where the co-operative society is situated.
9. **State control:** Every co-operative organization must be compulsorily registered as per the relevant act of the state according to the Co-operative Societies' Act, 1960. The co-operative societies are subjected to state control and supervision. At the same time, they are given various concessions and facilities by the Government.
10. **Separate Legal Stauts:** The co-operative society has a separate legal status according to the co-operative societies Act, 1912. In the eyes of law, the co-operative society and its members are not considered one and the same.

(2) Sole Proprietorship

Definitions of Sole Trading Concern– Prof. James L. Lundy, "The sole proprietorship is an informal type of business owned by one person". Prof. J.L. Hanson, "sometimes known as a 'one man business". It is a type of business unit where one person is solely responsible for providing the capital, bearing the risk of the enterprise and management of the business.

FEATURES OF SOLE TRADING CONCERN

The following are the main features of the Sole Trading Concern.

1. **Minimum Government Regulations:** There are minimum government regulations on the activities of a sole trader. Proprietary concerns are not governed by any separate law and are easy to form, because no rigid legal formality has to be followed for either forming, running or closing down the organization. Only the tax laws and labour laws have to be followed.
2. **Unlimited Liability:** The liability of a proprietor is unlimited. The liability of the Sole Trader can be more than the capital invested by him. Unlimited liability means, there is no distinction between his personal and private property and the property of the business. In the case of heavy loss and if it is not possible to make the payment with the help of the assets of the business, then the personal assets of the proprietor can be attached for paying or setting that liability
3. **Freedom in Selection of Business:** A Sole Trader can select any business as per his desire. There is no restriction on the type of business, which may be conducted by a proprietary concern. Any legal business can be conducted by the concern. Any method of keeping books of accounts may be followed by him. Generally Sole Traders in India adopt the Single Entry System of book-keeping.
4. **Secrecy:** Secrecy plays the most important role in the sole trading concern. The information about all the important matters concerning the business rests only with the owner and no outside party can take any undue advantage out of it. The proprietor can ensure maximum business secrecy.
5. **Individual Ownership:** Sole Trader is the sole owner of all the assets and resources of business. There is no other person who shares in the profit or loss of the sole trading concern.
6. **Direct contacts with customers and Employees:** Since a proprietor usually deals directly with his customers and employees, he can maintain good relations with his employees and provide personal attention to his customers.
7. **Suitable for some special Business:** There are some special business and trades which require individual attention and service and can only be started as a sole trade for example, Beauty Parlour, Cake Shop and Agricultural products.
8. **No sharing of profits and risks:** A proprietor gets all the profits of the business concern and assumes all the losses and risks involved in business. There is nobody to share in his profits or losses.

9. **Formation:** The formation of a sole trading concern is very simple. There is no separate legal act governing a proprietary concern. Therefore, no legal formalities are required for its formation, function and closing down. The business can be started without getting it registered. Only a few laws and labour laws are applicable.

10. **Separate legal status:** A sole trading concern does not have a separate legal status. In the eyes of law, the sole trader and his sole trading concern are treated as and the same.

    For eg:

- The income of the business will be considered as income of the proprietor
- A legal case on the proprietary concern will be considered as a legal case on the proprietor.

A.4.

(1) The membership of a Co-operative society is voluntary.

Ans. True

(a) Voluntary associates

Co-opratiove organization is defined as a voluntary association of people who have joined together to promote their common economic interest.

(b) Free to join and quit.

It is voluntary association of persons and not of capital. It is formed with the consent of its members. Any person can join organization at his own will at time and also can leave at any time by giving due notice to the society. No one is compelled to become a member.

(c) Open membership

The membership of a co-operative society is kept open to any person. It is not based on caste or creed. No discrimination is applied on the basis of sex, colour race etc.

(d) Political and religious neutrality

A co-operative society is formed with the basic idea of promoting common social and economics interest. It is expected to remain away from the religion and politics i.e. people can not form a co-operative society for a particular religion or a political party.

(e) Low face value of share

Generally the face value of share is kept at a relatively lower level. It enable everyone to become the member.

A.5.

(1) What is a Partnership Firm? Explain its features.

Indian Partnership Act 1932 (Sec.4): “Partnership is the relation between the persons who have agreed to share the profits of a business carried on by all or any one of them acting for all”

EATURES OF PARTNERSHIP FIRM

1. **Agreement:** A partnership is formed when two or more persons voluntarily agree to do business. This agreement may be oral or written. In France and Italy, a written agreement among partners is a legal requirement. However, in U.S.A., U.K. and India, the partnership agreement may be oral or written. If the firm is not registered, it is however, advisable to have a written agreement due to the following reasons.
   Partnership agreement spells out the terms and conditions regarding internal management, profit sharing and roles of partners.
2. **Lawful Business:** Partnership business cannot undertake any business activity which is forbidden by law, i.e. which is illegal e.g. smuggling or gambling.
3. **Sharing profits and losses:** Partners share profits and losses in the agreed ratio as mentioned in partnership deed. If the partnership deed does not mention the profit sharing ratio, it is assumed that all partners are equal partners.
4. **Number of partners:** The minimum number of partners required for forming a partnership firm is Two. The maximum number of partners for conducting banking business is Ten and maximum number of partners for conducting ordinary business is Twenty.

5. **Joint Ownership:** All partners are Joint owners of business, therefore all the business assets and properties must be utilized for conducting business and not for personal use.
6. **Unlimited liabilities:** The liability of every partner of a firm is unlimited, joint and several. Thus if the business assets are not sufficient to pay off the third party debts, no distinction will be made between the business and person. Property of partners may be attached to fully settled liabilities.
   The partners of a firm are jointly liable to third parties for liabilities. At the same time each partner is severally liable to third parties for liabilities. If any one of the partners is declared insolvent, his liability will be borne by the solvent partners.
7. **Dissolution:** The death, insolvency or insanity of any partner results into dissolution of partnership unless specified. Otherwise the remaining partners may continue to conduct business on the basis of a fresh agreement among them.
   The partnership at will is compulsorily dissolved when any partner serves at 14 days' notice to other partners regarding his unwillingness to continue the business.
8. **Joint Management:** All the partners have equal managerial rights as per the Act. However for convenience, some partners act as managing partners and other partners voluntarily surrender their managerial right in favour of managing partners. However, the responsibility of partners is joint and several.
9. **Principal agent Relationship:** Every partner of the firm works in two capacities – viz – As a principal and as a agent. When he is with other partners, he is known as a principal and when he is working with third parties on behalf of the firm he is known as an agent.
10. **Secrecy:** The partners are the managers of the partnership firm. Therefore, all information is only with them. Further, the partnership firm is not required to publish its financial statements. Thus, the partnership firm can maintain fair business secrecy.

(2) What is Joint Stock Company? Explain its features.

Prof. Haney : "A joint Stock Company is a voluntary association of individuals for profit having capital divided into transferable shares, the ownership of which is the condition on membership."

FEATURES OF JOINT STOCK COMPANY

1. **Artificial Legal Person:** A company is artificial person created by law. It has a separate name and uses a common seal as a substitute for its signature, it doesn't have a physical existence because it is not a natural person. However, it can enter into contracts with third parties e.g. it can buy and sell property, borrow money, etc.
2. **Separate Legal Entity:** A Joint stock company is created by law and enjoys an independent legal status different from its members. Therefore the company's liabilities are its own i.e. shareholders are not liable for the debts of the company. Similarly shareholders cannot act on behalf of the company or bind person or persons.
3. **Limited Liabilities:** The most important advantages of a joint stock company is limited liability to the extent of unpaid amount on shares held by them. They cannot be held liable for debts of the company. Their personal property under no circumstances be used for satisfying the claims of creditors of the company.
4. **Common Seal:** The company is an artificial person, which cannot sign as a human being. Therefore a common seal is used as a substitute for the signature of the company. It is the symbol of the company incorporate existence. The common seal shows the name of the company which is engraved in a particular manner. It is to be affixed on all the important documents of the company and is to be witnessed by the signature of two directors of the company.
5. **Registration:** The registration of Joint Stock Company is compulsory. Every Indian company should be registered with the Registrar of companies as per Indian companies Act, 1956.
6. **Transferability of Shares:** The ownership capital of the company is divided into shares, the ownership of which is the pre-condition on membership. These shares are freely transferable in a public limited company, i.e. members can buy or sell these shares without seeking permission from the company or other members of the company. Thus there is a high degree

or liquidity involved in buying shares of the company. The shares of private limited company however cannot be transferred freely.

7. **Separation between ownership and Management:** The shareholder in the company is large and they are spread all over the country. Therefore they cannot take part in the day to routine of the company. So in order to run the affairs of the company they elect their representative who are called directors and Directors form the 'Board of Directors' to run the business on their behalf. Thus, ownership of Joint Stock Company is separated from its management.
8. **Membership:** In the case of public limited company, minimum number of members is seven. However, there is no maximum limit on the number of members. Such large membership helps in raising large capital. In private companies minimum 2 and maximum 50 shareholders can come together.
9. **Registered Office:** The address of the registered office of the company must be mentioned in the domicile clause of Memorandum of association. The registered office of the company is very important since it is such a place, where all the important documents of the company like Register of Members, Annual returns, Minute Books etc. are kept, to be inspected by the members and general public. Moreover, all the correspondence between the Registrar and the company on one hand and between the company and shareholders, creditors and third parties on the other hand take place through the registered office.
10. **Voluntary Association:** A joint stock company is a voluntary association of persons. To become a member, any person of any caste, creed, religion can buy number of shares at any time. At the same time the shares may be sold by a member at his free will (except in a private limited company) moreover, the company business is managed on democratic principles.
11. **Perpetual Succession:** Joint Stock Company ensures perpetual succession, i.e. it enjoys continuous and stable life. Joint Stock Company is an artificial person created by law, having a common seal which acts as a substitute for its signature. It enjoys an independent legal status different from its members. The death, retirement, insolvency or insanity of any of its member does not result into dissolution of company.