

### 3. Forms of Business Organisations

#### Exercises

##### 1 A. Question

Fill in the blanks in the following sentences with appropriate words:

The business concern that is owned and managed by a single person is called \_\_\_\_\_ .

##### Answer

The business concern that is owned and managed by a single person is called sole trading concern .

Explanation: Sole trading concerns is one of the oldest and simplest form of business organizations, it is owned and managed by a single person who not only enjoys the profits but also shoulders the losses faced by the business.

##### 1 B. Question

Fill in the blanks in the following sentences with appropriate words:

The Indian Partnership Act was passed in the year \_\_\_\_\_ to regulate the affairs of the partnership firms.

##### Answer

The Indian Partnership Act was passed in the year 1932 to regulate the affairs of the partnership firms.

Explanation: Partnership firms are characterized by the division of ownership between two or more partners. In the Partnership Firm Act of 1932, it is defined as the relation between the persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

##### 1 C. Question

Fill in the blanks in the following sentences with appropriate words:

The Maximum number of partners in a firm which carries out banking business is \_\_\_\_\_ .

##### Answer

The Maximum number of partners in a firm which carries out banking business is 10 .

Explanation: In the Partnership Firm Act of 1932, it is defined as the relation between the persons who have agreed to share the profits of a business carried on by all or any of them acting for all. According to this Act, the number of partners for banking businesses have been fixed at 10 while the same is 20 for other general business ventures.

### **1 D. Question**

Fill in the blanks in the following sentences with appropriate words:

The Head of the Hindu undivided family business is known as \_\_\_\_ .

#### **Answer**

The Head of the Hindu undivided family business is known as Karta .

Explanation: 'Karta' or the eldest or senior most member of the family – who is also the head of the family, manages the business.

### **1 E. Question**

Fill in the blanks in the following sentences with appropriate words:

The only business concern under private business organization found in India is \_\_\_\_ .

#### **Answer**

The only business concern under private business organization found in India is Hindu Undivided Family Firms.

Explanation: 'Hindu undivided family business' is an Indian phenomenon as such firms are only found in India. Joint Hindu families, form, own and manage such firms in accordance to the 'Hindu Law'.

### **2 A. Question**

Answer the following questions in one or two sentences each:

Which are the small scale business organizations?

#### **Answer**

Small scale business organizations include sole trading concerns, partnership firms and Hindu undivided family firms.

### **2 B. Question**

Answer the following questions in one or two sentences each:

How do sole trading concerns help the consumers?

#### **Answer**

Sole trading concerns is one of the oldest and simplest form of business organizations, it is owned and managed by a single person who not only enjoys the profits but also shoulders the losses faced by the business. These businesses are directly in contact with the consumers enabling them to better understand the supply and demand patterns.

## **2 C. Question**

Answer the following questions in one or two sentences each:

What are partnership firms?

### **Answer**

Partnership firms are characterized by the division of ownership between two or more partners. In the Partnership Firm Act of 1932, it is defined as the relation between the persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

## **2 D. Question**

Answer the following questions in one or two sentences each:

Who are sleeping or dormant partners?

### **Answer**

Sleeping Partners in a partnership firm are those partners who are not actively involved in the daily work of the business. They contribute a fixed amount of capital and the profits and losses are shared in proportion to this contribution.

## **2 E. Question**

Answer the following questions in one or two sentences each:

How is the dissolution of partnership firm easy ?

### **Answer**

Partnership firms may or may not be registered. Dissolution of such firms is an easy process as a partner who does not wish to continue just needs to notify the others involved fourteen days before. It can also be dissolved through consent of all partners.

## **3 A. Question**

Answer the following questions:

Mention any four merits of sole trading concerns.

### **Answer**

Sole trading concerns is one of the oldest and simplest form of business organizations, it is owned and managed by a single person who not only

enjoys the profits but also shoulders the losses faced by the business. Four advantages of sole trading concerns are as follows –

1. It is started by personal capital and does not require any legal formalities for commencement.
2. These businesses are directly in contact with the consumers enabling them to better understand the supply and demand patterns.
3. They provide employment to different people and enable distribution of wealth in society.
4. Business secrets are better maintained in these concerns as the ownership is under single individual custody.

### **3 B. Question**

Answer the following questions:

Mention any four limitations of sole trading concerns.

#### **Answer**

Sole trading concerns is one of the oldest and simplest form of business organizations, it is owned and managed by a single person who not only enjoys the profits but also shoulders the losses faced by the business. Four limitations of sole trading concerns are as follows –

1. Since these companies are managed by a single person, it limits the managerial ability in the company.
2. Since these concerns have a single investor, the amount of capital is often limited, making the expansion of the concern an impossible venture.
3. The owner cannot move responsibility to others and also suffers solely in case of losses.
4. The life expectancy of such concerns is short as death or insolvency of the sole trader will shut it down.

### **3 C. Question**

Answer the following questions:

How are partnership firms started ? Explain briefly.

#### **Answer**

Sole trading concerns characterized by their sole owners faced several disadvantages. Lack of capital for expansion, limited managerial abilities, singular burden of loss, short life expectancy was some of the problems affecting sole trading concerns. This led to the formation of partnership firms. Partnership firms are characterized by the division of ownership between two or more partners. In the Partnership Firm Act of 1932, it is defined as the relation between the persons who have agreed to share the profits of a

business carried on by all or any of them acting for all. According to this Act, the number of partners for banking businesses have been fixed at 10 while the same is 20 for other general business ventures.

### **3 D. Question**

Answer the following questions:

Who are the different types of partners ?

#### **Answer**

Partnership firms are characterized by the division of ownership between two or more partners. In the Partnership Firm Act of 1932, it is defined as the relation between the persons who have agreed to share the profits of a business carried on by all or any of them acting for all. The different forms of partners are as follows –

- **Active Partners** – these partners are actively involved in the daily work of the business. They contribute a fixed amount of capital and the profits and losses are shared in proportion to this contribution.
- **Sleeping Partners** - these partners are not actively involved in the daily work of the business. They contribute a fixed amount of capital and the profits and losses are shared in proportion to this contribution.
- **Nominal Partners** – these partners are neither actively involved in the daily business matters nor do they contribute capital. They are thus not entitled to any share of the profit but are often liable for the losses.
- **Minor Partners** – the age of a person determines this. Minor partners are below 18 years of age, and can only be added to the business as partners by the consensus among the other partners. They are eligible for the profits but excluded from the losses.

Beyond these four types, concerns also witness other types of partners which include secret partners, limited partners and also those who are eligible only for profits.

### **3 E. Question**

Answer the following questions:

Mention any four merits of partnership firms.

#### **Answer**

Partnership firms are characterized by the division of ownership between two or more partners. In the Partnership Firm Act of 1932, it is defined as the relation between the persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Four merits of partnership firms are as follows –

1. These firms are easily formed without hindrance from legal aspects with a larger capital investment because of the presence of more owners.
2. More owners also translate into better managerial ability which increases efficiency and the loss in business is also borne by all involved.
3. Since the partners have unlimited liability, it increases the credit worthiness of the business.
4. Partnership firms can be easily dissolved as a partner who does not wish to continue just needs to notify the others involved fourteen days before. It can also be dissolved through consent of all partners.

### **3 F. Question**

Answer the following questions:

Mention any four demerits of partnerships firms.

#### **Answer**

Partnership firms are characterized by the division of ownership between two or more partners. In the Partnership Firm Act of 1932, it is defined as the relation between the persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Four demerits of partnership firms are as follows –

1. Limitation of the number of partners allowed to do business together leads to a limitation on the amount of capital available for business.
2. Sometimes the business may suffer losses because of a single partner's decisions and disunity among partners can also lead to disputes which hamper the business.
3. It lacks the secrecy that sole trading concerns often enjoy as there are others at the same level in the business who knows the things that need a strict secrecy policy.
4. Death or insolvency of one partner can affect the business and lead to its dissolution in spite of other partners being present.

### **3 G. Question**

Answer the following questions:

What are the advantages of registering a partnership firm ?

#### **Answer**

Partnership firms are characterized by the division of ownership between two or more partners. In the Partnership Firm Act of 1932, it is defined as the relation between the persons who have agreed to share the profits of a business carried on by all or any of them acting for all. As opposed to sole

trading concerns, partnership firms can be registered, a decision which is left for the discretion the partners. Following are the advantages of registration –

- Unlike an unregistered firm, a registered firm can file a suit in the court of law against third party.
- In a registered firm it is possible to file a case against other partners regarding loans they owe to the firm.
- Any partner can file a case against the firm or other partners for the dissolution of the firm or for the settlement of accounts.

### **3 H. Question**

Answer the following questions:

Explain briefly about “Hindu undivided family business”.

#### **Answer**

‘Hindu undivided family business’ is an Indian phenomenon as such firms are only found in India. Joint Hindu families, form, own and manage such firms in accordance to the ‘Hindu Law’. They consist of only the male members in a family and only three successive generations of male members acquire the birth right or interest in the ancestral property. ‘Karta’ or the eldest or senior most member of the family – who is also the head of the family, manages the business. He has unlimited liability, while the liability of the others is limited to the extent of their share in the business.