NCERT Solution for Class 11 Business Studies Chapter 2 - Forms of Business Organisation

Short Questions for NCERT Business Studies Solutions Class 11 Chapter 2

1. Compare the status of a minor in a Joint Hindu Family Business with that in a partnership firm.

According to Indian Law, a person of 18 years age is said to be a minor. In a Joint Hindu family, a minor becomes a part of family business by virtue of taking birth in the family. The minor gets an equal ownership and right over the property and business like other family members. But, he has limited liability only up to his share in the property.

In a partnership firm, a minor cannot become a partner as mentioned by Indian Partnership Act, 1932. But if all the partners of a firm give their consent, a minor can be inducted and he can share the profits of the firm, but a minor need not contribute capital or bear any liability if it is sustained by business. Minors are not considered to be partners. But, after attaining 18 years, he/she can continue the partnership or withdraw the same.

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

Registration in case of a partnership is not mandatory, but it is better to get it registered as there are many negative points of not doing registration. Some points are highlighted:

1. Partners of a firm that is not registered cannot file a case against a third party, however other firms can seek legal action against the firm even though it is not registered.

2. A non-registered firm cannot book a case against its partner or partners and a partner also cannot do the same against the firm.

3. Claims cannot be enforced against a third party in the court of law.

3. State the important privileges available to a private company.

Following are the privileges that are enjoyed by a private company:

1. A private company can be started by 2 members while minimum 7 persons are necessary to start a public company.

2. Two directors are enough for running operations in a private company while a minimum of 3 is required in a public company

3. A private company can start business from the day of receiving certificate of incorporation. But, a public company has to obtain two certificates namely, certificate of commencement and certificate of incorporation for starting business

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

A co-operative society is managed by people who are selected by all the members through voting. Each member has equal right to vote irrespective of the capital they have invested. Thus, it acts a democracy where all members are treated equally and provide equal rights to all members. Also, there is no discrimination of members based on their caste, religion or sex. All members are free to choose members of managing committee which they feel are best to represent them. Therefore, it signifies secularism.

5. **What is meant by 'partner by estoppel'? Explain**.

Partner by estoppel is referred to as that person who through his/her action, behaviour or words gives the impression to others that he/she is a partner of that particular firm. Such type of partner is not a partner and is not liable to contribute any capital in the firm nor is he/she a part of any profit or loss of firm. But, the same person will be held liable for the debts that the firm owes. And as such for repaying debts can be made by selling off the private assets of the partner by estoppel in case the firm has insufficient assets or funds.

6. Briefly explain the following terms in brief.

(a) Perpetual succession

(b) Common seal

(c) Karta

(d) Artificial person

(a) **Perpetual succession**: The meaning of perpetual succession is that a company will continue to function till it is not made to dissolve by act of law. It also means that a company will not stop functioning in event of death, insolvency or retirement of one or more of its members.

(b) **Common seal**: Common seal is the official signature of the company that can be used by its board members to sign all the major documents. As company is an artificial setup created by law, a common seal helps authenticate the documents which can be used as evidence in the court of law.

(c) **Karta:** Karta is the head of the Hindu Undivided Family. A karta title is given to the eldest member of the family. He is the one who has the ultimate decision making power in the family in terms of business. As a head of family and business organisation, a karta is bestowed with unlimited liabilities and the supreme decision making power in family.

(d) **Artificial person**: A company or business entity is referred to as artificial person as unlike human beings it cannot walk, sleep, breathe and eat. However, it is bound by law as it is created as a legal entity. It can sue or get sued by other firms.

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Long Questions for NCERT Business Studies Solutions Class 11 Chapter 2

1. What do you understand by a sole proprietorship firm? Explain its merits and limitation?

A sole proprietorship firm is managed, owned and controlled by a single individual also known as sole proprietor. He earns all the profits and is responsible for all loses of the business.

Following are the merits of sole proprietorship:

1. Sole proprietorship business is easy to setup as it requires very less legal formalities. Similarly, winding up of the sole proprietorship business is free from hassles.

2. Decision making is quick as only one person is responsible for decision making.

3. The owner is the one who reaps all benefits and also all loses which arises from the business.

Limitations of Sole Proprietorship:

1. Amount of capital invested in a business will be less as only one person is running the business.

2. All the responsibilities of the business are managed by one person which can hamper the business due to lack of expert knowledge

3. The business is impacted in cases of illness or death of the proprietor. Hence stability is uncertain.

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

Partnership is considered as an unpopular form of business ownership due to the factors such as possible conflict between partners, limitation of resources, unlimited liabilities and the lack of continuity in business.

Here are some of the merits of a partnership:

1. A partnership is easy to form as it involves agreement between two or more partners which can be either oral or in a written format. Registration is not compulsory. Also, closure of a partnership can be done any time based on mutual agreement between partners.

2. Decision making involves opinion of all the partners. This helps in forming a balanced decision regarding business.

3. Sharing of risks is among the partners hence a certain individual partner does not have to take all the burden

Limitations of Partnership:

1. All partners have unlimited liability in a partnership. In case of bankruptcy, the personal assets of the partners can be utilized.

2. A firm has limited number of partners hence the finance is limited.

3. As shared decision making model is used. Every individual will have his/her own opinion and that can lead to conflicts.

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

There are various options or types of business to choose and each business will have different set of requirements and risks involved, also the growth prospects of a business will vary according to the type of organisation chosen. Thus it is necessary to choose the suitable one.

Following are the deciding factors:

1. Nature of business: For starting a business an individual needs to decide the type of business he should start with. For e.g. if the business deals with direct customer interaction a sole proprietorship is best, while other business types are suitable where no or less customer interaction is there.

2. Cost: The initial cost of setting up a company is a factor that should be kept in mind. If budget is less the best option is to start with sole proprietorship.

3. Liability: Individuals starting a business should also think about the liability that comes along with a business. Business forms such as sole proprietorship and partnership carry unlimited liability and need to clear debts by selling off personal assets while a company has limited liability that is based on its assets.

4. Continuity: Business forms such as partnership and sole proprietorship are impacted by the loss of partner or the proprietor. Other forms such as co-operative societies or companies do not get impacted by such factors. If the business is seeking permanency, company or co-operatives are best bet.

5. Control: If one wants sole control over business then sole proprietorship is best, while partnership or company structure is best if shared decision making is needed.

6. Managerial Ability: If the business is large enough where to maintain the business many skilled professionals are required, then company form of business is best option. However, if the business is limited and very little management is required then sole proprietorship is the best choice.

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

Cooperative is an organisation which is formed by voluntary association of individuals who join together to protect and promote their common interests.

Characteristics:

1. It is mandatory to register a cooperative society under the Cooperative Societies Act, 1912. It is granted the status of a separate legal entity upon completion of registration.

2. It follows a democratic form of organisation and a managing committee manages the operations and this committee is selected by members based on one vote per member.

Merits:

1. Simple setup as per Cooperative Societies Act, 1912. Easy to form as minimum 10 members are required. All should be adults.

2. A cooperative society is a continuing form of business organisation that is unaffected by insanity, insolvency or death of its members.

Limitations:

1. Have to follow rules and regulations set by cooperative departments of the state.

2. Have to submit audit report of accounts to government

3. Management comprises of inexperienced people who lack efficiency and may not be well equipped to manage the organisation

Types of Cooperative Societies

1. Consumer Cooperative: These are formed in order to make consumer goods available at reasonable rates to its members.

2. Producer Cooperative: The objective is to procure materials and machinery and supply them to the members at low prices.

3. Farmers' Cooperative: An association of small farmers who join together for maximizing their productivity and earning potential

4. Housing Cooperative: These aim towards providing affordable housing solution to its members.

5. Marketing Cooperative: These cooperatives are formed by farmers, small producers and artisans to promote their services in the market.

6. Credit Cooperative: These cooperatives provide credit to its members at low rates of interest.

5. Distinguish between a Joint Hindu family business and partnership.

Differentiating feature between Joint Hindu family business and Partnership		
Basis of Comparison	**Joint Hindu Family Business**	**Partnership**
Governed by	Hindu Law	Indian Partnership Act, 1932
Controlled By	Karta	All members have equal control
Burden of Liability	The karta or head has unlimited liability, while the other members have limited liability to the extent of capital invested	Each partner has unlimited liability
Decision making and control	The decision making power lies with the Karta	Decision making is jointly shared by all partners
Number of members	Minimum 2 members and there is no upper limit for members	2 members are required to start a partnership, while maximum can be 100 as per the new Companies Act 2013.
Minor	A minor can be a member.	Minor cannot become partners

6.

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

The reason behind choosing sole proprietorship as the business form is due to the many benefits it offer despite limitations in areas of size and resources. The benefits are mentioned below:

1. It is very easy to setup a sole proprietorship business as very less legal formalities are required. Similarly, winding up of the business is also hassle free.

2. As the sole decision maker, the sole proprietor enjoys complete hold over the business, which makes

decisions quick.

3. Sole proprietor enjoys all the profits earned by the business at the same has to bear all the losses.

4. Highly flexible in operations as sole proprietor is the only one person managing the operation.

Application Questions for NCERT Business Studies Solutions Class 11 Chapter 2

1. In which form of organisation is a trade agreement made by one owner binding on the others? Give reasons to support your answer.

In a partnership form of business, a trade agreement made by any one owner becomes legally binding for the other partners. This is due to the fact that every partner is by rule both agent and a principal. So each partner acts as an agent of the firm and binds all other partners and each partner are also principal of the firm, so he is bound by the action of other partners

2. The business assets of an organisation amount to Rs. 50,000 but the debts that remain unpaid are Rs. 80,000. What course of action can the creditors take if
(a) The organisation is a sole proprietorship firm
(b) The organisation is a partnership firm with Anthony and Akbar as partners. Which of the two partners can the creditors approach for repayment of debt? Explain giving reasons

(a) As the sole proprietor has unlimited liability in case of a sole proprietorship. Creditors can claim the personal assets of the proprietor in case of debt repayment.

(b) The creditors can approach both the partners and they need to pay as per their share in partnership. If one of the partners become insolvent then the other partner can be approached for debt repayment.

3. Kiran is a sole proprietor. Over the past decade, her business has grown from operating a neighbourhood corner shop selling accessories such as artificial jewellery, bags, hair clips and nail art to a retail chain with three branches in the city. Although she looks after the varied functions in all the branches, she is wondering whether she should form a company to better manage the business. She also has plans to open branches countrywide.
(a) Explain two benefits of remaining a sole proprietor
(b) Explain two benefits of converting to a joint stock company
(c) What role will her decision to go nationwide play in her choice of form of the organisation?
(d) What legal formalities will she have to undergo to operate business as a company?

(a) The benefits are:
1. All profits of the business are owned by a sole proprietor

2. Independent decision making can be done in case of sole proprietorship

(b) The following are two benefits of converting to a joint stock company.

i. Capital can be expanded by issue of new shares.
ii. The owners' liability is limited only for the amount invested by them as capital.

(c) A joint stock company will best serve her interest if the plan is to go nationwide.

(d) The following formalities need to be completed for operating a joint stock company:

1. Company promotion

2. Creating necessary documents such as Memorandum of Association (MoA), Article of Association (AoA) and the mandatory agreement and declaration.

3. Obtaining Certificate of incorporation

4. Obtaining certificate for commencement of business