

2.

Comparative Study of Different Forms of Business Organization

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2.1 Introduction :

In business sector we find various forms of business organization. Business organization conducts business at small scale, medium scale and large scale. The business brings together production, manufacturing, buying and selling and customers together for business development.

The main purpose of any business organization is to supply goods and services to the society.

Business is such type of organization which conducts industrial or trade activities, produces, supplies goods and earn profits.

The various types of business organization did not come into existence together. It came into existence as per the need of the society.

In the beginning sole trading concern came into existence, for development of business and to increase capital partnership came into existence. And joint stock company came into existence for collecting huge capital and use of modern technology for large scale production and services.

To provide basic services to the society co-operative society came into existence.

In this topic we are going to study various forms of business organization, features and their comparative study.

❖ Forms of Business Organization :

Following are various forms of organization :

- Sole Trading Concern
- Partnership Firm

- Joint Stock Company
- Co-operative Society

2.2 Sole Trading Concern

2.2.1 Meaning and Definition

- **Meaning:**

When one person starts business investing alone, manage and conduct all activities alone, enjoys profit and suffer losses alone such business is known as Sole Trading Concern. But he needs permission of Local Authorities for starting the business.

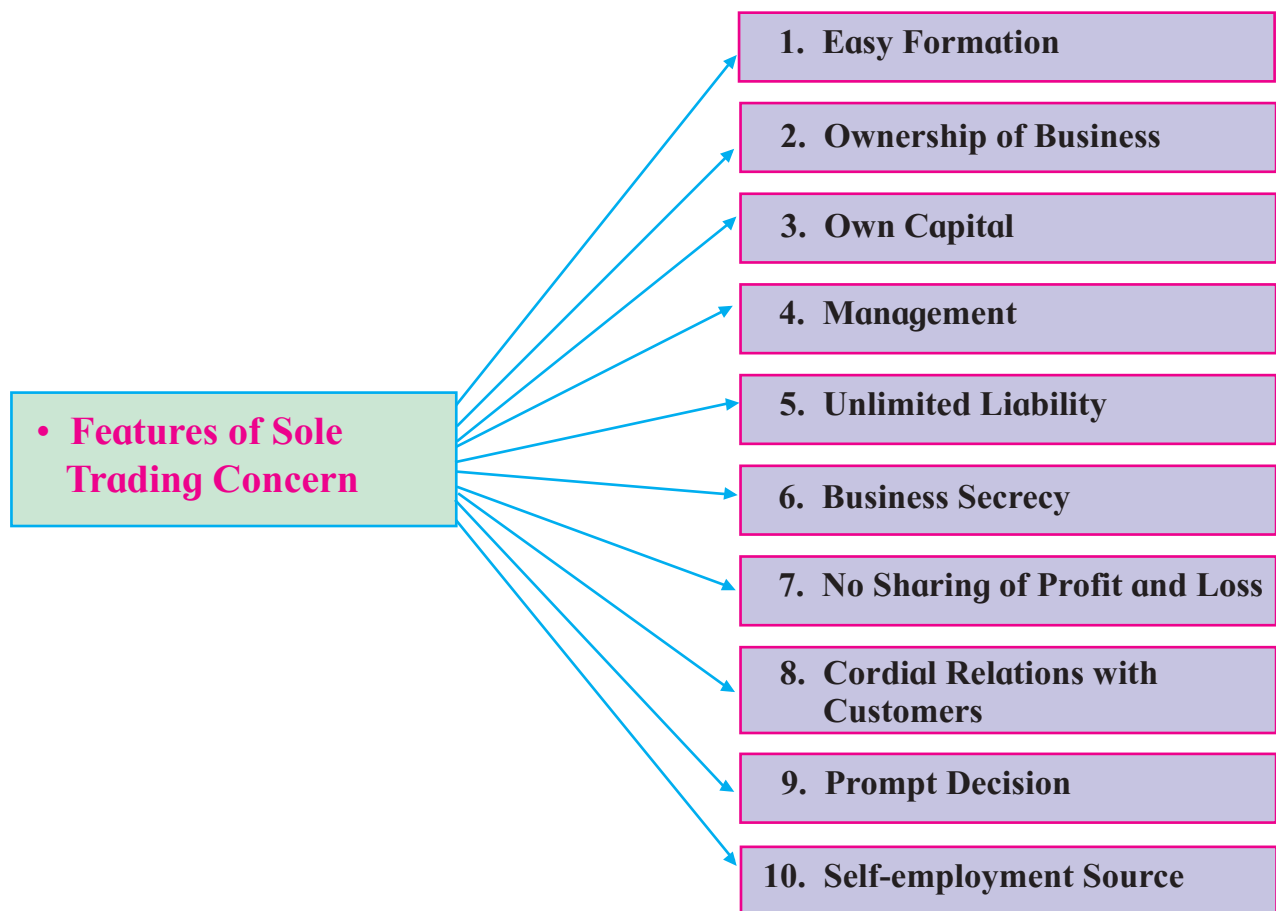


Sole Trading Concern

- **Definition :**

- “The sole proprietorship, is an informal type of business owned by one person and it is a type of business unit where one person is solely responsible for providing the capital, bearing the risk of the enterprises and the management of the business.” - **Prof. James Lundy**
- “In business when one person invest capital, manage and control the business alone and is responsible for profit or loss of business such business is known as Sole trading concern”. - **Dr. John Shubin**

2.2.2 Features of Sole Trading Concern :



1. **Easy Formation** : The formation of Sole trading concern is easy. As there is no separate legal act for sole trading concern, therefore, no legal process has to be completed to start sole trading business. The sole trading business can be started by obtaining license and permission from local government and by following the general law of the country.
2. **Ownership of Business** : In Sole trading concern, the sole trader is sole owner of his business. Hence, he is the sole owner of all assets and properties of a business.
3. **Own Capital** : Sole trader alone contributes capital for business. The sole trader can collect capital from his friends, relatives and also by obtaining loan from banks and financial institution.
4. **Management** : Sole trader is the sole owner of business. He himself has to look after the working and management of his business. He takes all the decisions of the business alone. Sole trading is one man show.

5. Unlimited Liability : The liability of a sole trader is unlimited in sole trading concern and in case of heavy losses his private or personal property can be charged to compensate the business losses.

6. Business Secrecy :

Secrecy plays the most important role in the sole trading concern. In sole trading concern maximum secrecy is maintained. As sole trader alone knows all the secrets of the business organization so maximum secrecy is maintained in Sole trading concern.

7. No Sharing of Profit and Loss :

A sole trader alone enjoys all profits of the sole trading business and bears all the losses and risks involved in business. There is no sharing of profits and losses in Sole trading concern.

8. Cordial Relations with Customers :

As sole trader deals directly with his customers and employees. He knows likes, dislikes and requirements of his customers. He listens the grievances of the customers and try to solve them. Hence, he has good (cordial) relations with his customers.

9. Prompt Decision:

The sole trader is the alone owner of the business therefore according to the change in market conditions, consumers demand and choice, discount in the price according to the season, he can take quick decision.

10. Self-employment Source:

In today's world unemployment is increasing. For self-employment sole trading concern is very popular. In some businesses, sole trader's skills are important. Sole trader starts such sole trading business and provides services. Hence, sole trading concern is source of self-employment.



Activity :-

1. Sole trading concern is one man show. Discuss

2.3 Partnership Firm :



Partnership Firm

2.3.1 Meaning and Definition :

- **Meaning :**

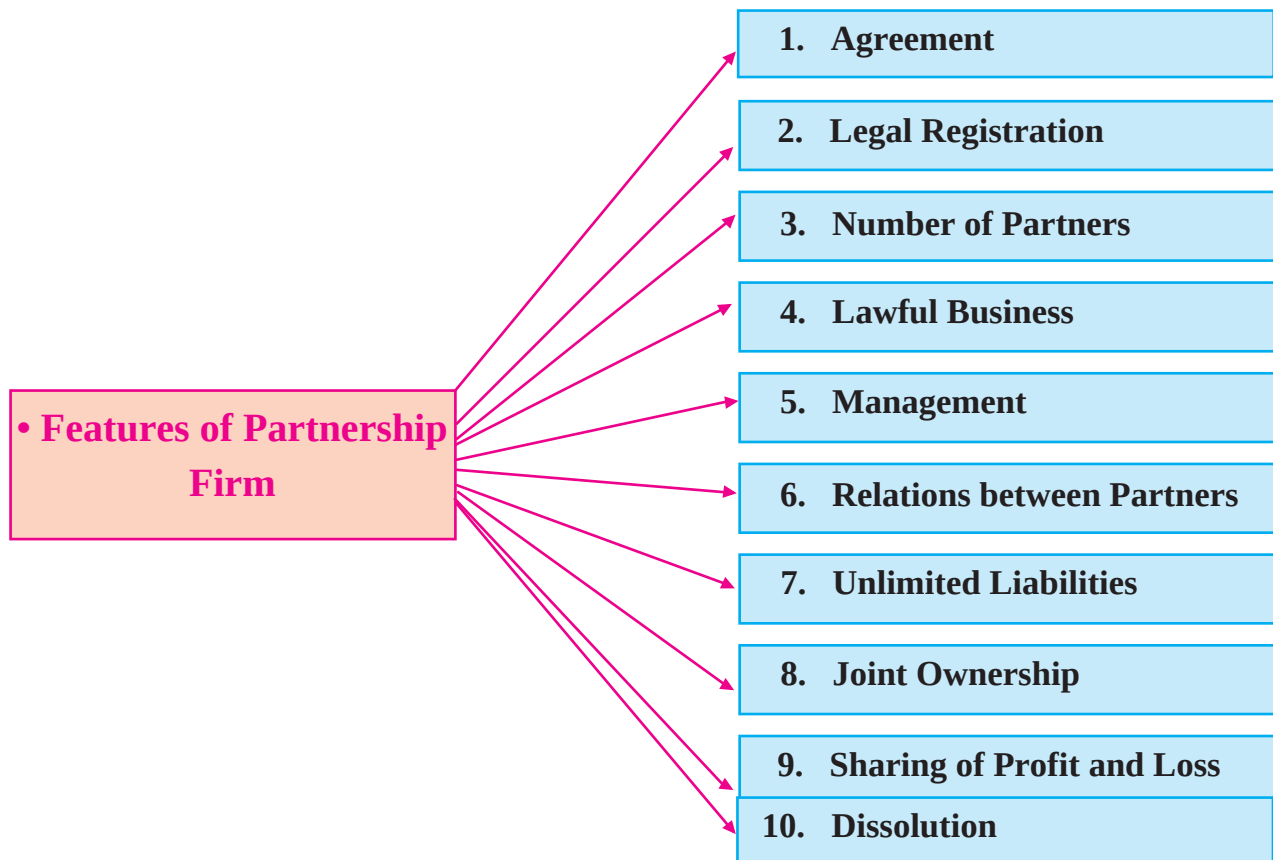
As there were many limitations in sole trading concern like limited capital, managerial skill, etc. so to remove the drawbacks of sole trading new form of business organization came into existence. To expand the business and for more capital and managerial skill. When two or more persons comes together and conducts the business jointly it is known as Partnership firm.

- **Definition:**

- “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”.
- Indian Partnership Act,1932
- “Two or more than two persons with oral or written agreement takes collective responsibility of the business by establishing partnership firm”.

- Dr. J. A. Shubin

2.3.2 Features of Partnership Firm :



1. **Agreement :** Partnership comes into existence due to partnership agreement. Partnership agreement is base (foundation) of partnership firm. For internal working the agreement among partners is necessary. The terms and conditions of partnership are mentioned in partnership agreement. Partnership agreement may be written or oral. But it is advisable to have written partnership agreement to avoid future problems. In written agreement, the rights, duties and responsibilities of partners are clearly mentioned. The agreement between the partners is known as partnership deed.
2. **Legal Registration :** Registration of partnership is optional. But in Maharashtra registration of partnership firm is compulsory. Partnership can be registered at registrar office as per the provision of Indian Partnership Act, 1932. Written agreement is beneficial.
3. **Number of Partners :** Minimum two partners are required for partnership firm and maximum fifty partners are allowed.
4. **Lawful Business :** Partnership firm must conduct lawful business. Partnership firm has to conduct business activity within the framework of the law. Partnership firm cannot conduct unlawful business.
5. **Management :** The management of partnership is conducted jointly by all the partners. But some partners surrender their rights to other partners for smooth working but the responsibility of management is on all partners.

6. **Relations between Partners :** The relationship of partners in partnership is that of principal and agent. Each partner is co-owner in partnership at the same time he is agent of partnership when dealing with others.
7. **Unlimited Liabilities :** In Partnership Firm, the liability of each and every partner except minor partner is unlimited, joint and several. In case of heavy losses, the private or personal property of partners can be charged for compensation of loss.
8. **Joint Ownership :** All the partners are joint owner of all assets and properties of partnership firm. They use these assets for partnership business. Partners cannot utilize assets of partnership for personal use.
9. **Sharing of Profit and Loss :** The sharing of profit or loss in partnership firm is mentioned in partnership agreement. Sharing profit by doing business is the main purpose of partnership business. If profit sharing is not mentioned in partnership agreement then all the partners share profit and loss equally.
10. **Dissolution :** Dissolution means closing down the partnership business. The partnership firm dissolve due to death, retirement, insolvency or insanity of any partner. Partnership at will can be dissolved by giving 14 days notices by one or more partners. It is easy to dissolve the partnership firm.



Activity :-

2. Partnership deed is a foundation of Partnership Firm. Discuss.

2.4 Joint Stock Company



Joint Stock Company

Industrial revolution took place in 1760 in England and due to atomization goods were manufactured on large scale and business was expanded to national and international level.

Huge capital, management skill and capacity to suffer huge loss was not possible for sole trading and partnership firm. Due to large scale production and revolution in transport sector the market was expanded. In economic system of the country to do business and production efficiently Joint stock company came into existence.

2.4.1 Meaning and Definition

- **Meaning :**

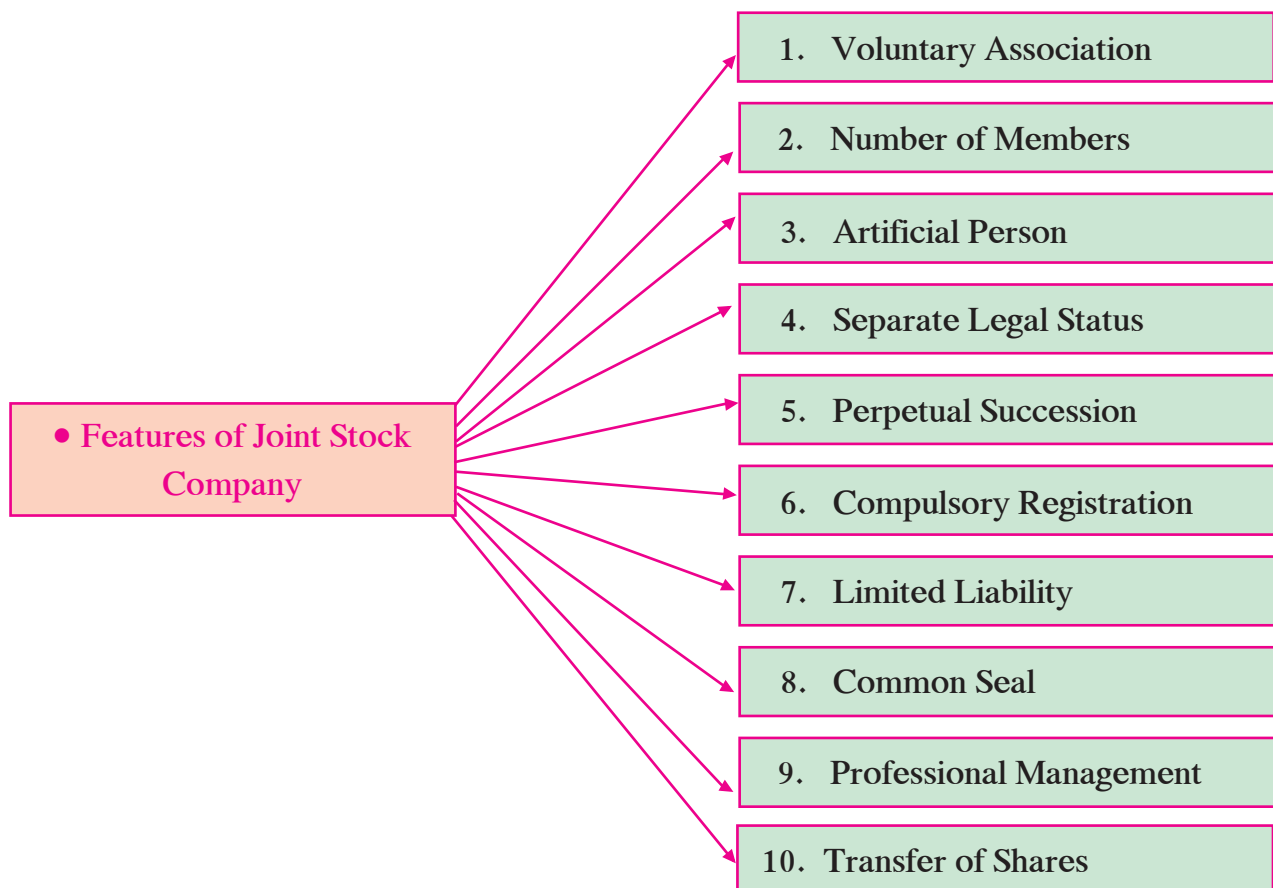
The business started by registering under The Indian Companies Act 2013 is known as Joint Stock Company. There is no limit for maximum number of members in Joint stock company.

The organization started by various people having common need and independent status is known as Joint stock company.

- **Definition :**

- “The company established, registered and which comes into existence according to The Companies Act 2013 is known as joint stock company”. – Indian Companies Act, 2013
- “An incorporated voluntary association having legal entity, common seal, perpetual succession, artificial person created by law is known as Joint stock company”.

2.4.2 Features of Joint Stock Company :



1. **Voluntary Association :** Joint stock company is an voluntarily association of persons. A person of any caste, religion and community can purchase shares of the company and become shareholder(member) of the company.
2. **Number of Members :** According to The Companies Act, 2013 for private limited company minimum two members and maximum two hundred members are allowed. And for public limited company minimum seven members are required and there is no limit for maximum number of members.
3. **Artificial Person :** Joint stock company is an artificial person created by law. It does not have body, mind, soul like natural person but it can conduct business activities like agreement, owes asset like natural person. The Joint stock company conducts business transactions hence it is known as artificial person.
4. **Separate Legal Status :** Joint stock company is established according to The Companies Act, 2013 so it has separate legal status (entity). Company can conduct its business activities under its own name like purchase-sale agreement, legal action, company is responsible for its liabilities.
5. **Perpetual Succession :** Company has legal status so it has perpetual succession (continuity of life). The activities of companies are not affected due to death, insolvency, retirement of any shareholder. It has feature of perpetual succession and stable life.
6. **Compulsory Registration :** Registration of Joint stock company is compulsory according to The Indian Companies Act, 2013. The Joint stock company comes into existence only after registering under The Companies Act, 2013. As it is registered organization it has legal status.
7. **Limited Liability :** The liability of member (shareholder) is limited. The liability of member is limited up to the face value of the shares purchased by the member and the private or personal property of member is not charged to compensate business losses of the company.
8. **Common Seal :** Company has its own Common Seal. As company is an artificial person the common seal acts as a signature of the company. This common seal is affixed on all important papers and documents of company.
9. **Professional Management :** The shareholders elect directors to look after management of company which is collectively known as Board of Directors who are responsible for management of the company. But company appoints professional expert managers on salary basis for efficient management of the company.
10. **Transfer of Shares :** According to the provision of companies act, the shareholder has right to transfer his share freely. He can sell his shares in the market and obtain money.



Activity :-

3. Joint stock company raises huge capital. Discuss.
4. Prepare list of various forms of business organization from your locality.

2.5 Comparative study of various Forms of Business Organization with Co-operative society

Sr. No.	Points	Sole Trading Concern	Partnership Firm	Joint Stock Company	Co-operative society
1.	Meaning	The business owned, controlled and managed by one person is known as sole trading concern.	The business owned and managed by two or more persons jointly is known as Partnership firm.	Joint stock company is an incorporated voluntary association created by law, having an independent legal status, owned by shareholders and managed by Directors.	The organization formed voluntarily by persons of weaker section of the society for their economic development on principle of equality is known as Co-operative society.
2.	Objective	The main objective of Sole trading concern is to earn profit.	The main objective of Partnership firm is to earn profit.	The main objective of Joint stock company is to earn profit.	The main objective of Co-operative society is not to earn profit but to provide services to the members.
3.	Number of Members	In Sole trading concern minimum and maximum one member.	In Partnership firm minimum two and maximum fifty partners.	In Joint stock company minimum 2 members and maximum 200 for private co and minimum 7 and maximum no limit for public Ltd co.	In Co-operative society minimum 10 member and maximum no limit.
4.	Registration Act	For Sole trading concern there is no specific act.	Partnership firms are registered under Indian Partnership Act, 1932.	Joint stock companies are registered under The Companies Act, 2013.	Co-operative societies are registered under Co-operative Societies Act, 1960.
5.	Liabilities	In Sole trading concern liability of sole trader is unlimited.	In Partnership firm liability of partners is unlimited, joint and several.	In Joint stock company liability of shareholders is limited.	In Co-operative society the liability of members is limited.

6.	Management	The Sole trading concern is managed by sole trader alone.	The Partnership business is jointly managed by partners.	Joint stock company is managed by Board of Directors.	Co-operative society is managed by Managing Committee.
7.	Capital	Sole trader alone contributes capital in Sole trading concern therefore capital is limited. It is easy to form Sole trading concern	In Partnership firm, capital is contributed by partners hence capital is more. Partnership firm is formed by an agreement between two or more persons	In Joint stock company as there are large number of members (shareholders) hence huge capital is raised. Formation of Joint stock company is difficult, costly and time consuming.	The Co-operative society is formed by weaker section of society, so capital is less than joint stock company. Formation of Co-operative society is easy.
8.	Formation				
9.	Business Secrecy	As Sole trader knows the secrets of business so maximum business secrecy is maintained.	In Partnership firm secrecy is shared among all the partners so less secrecy is maintained.	In Joint stock company as accounts have to be published business secrecy cannot be maintained.	In Co-operative society it is not possible to maintain secrecy as annual accounts are to be published.
10.	Profit & Loss	The sole trader alone enjoys all the profits and suffer the losses of the business.	Partners share the profits and losses of business as per the terms mentioned in the agreement.	Profits are distributed among shareholders in form of dividend which is declared in annual general meeting.	Profits are distributed in the form of divided among the members after making provision for general reserve.
11.	Dissolution	When sole trader dies, becomes unsound or insolvent the Sole trading business is dissolved.	Partnership firm is dissolved due to retirement, death of partner or agreement between partners.	Company is dissolved as per companies act or court order.	Co-operative society is dissolved by order of Registrar and Commissioner of co-operatives.

2.6 Summary

- There are various business organization to fulfil human needs. An activity with a motive to earn profit is known as Business.
- The group of persons coming together for achieving common objective and purpose is known as Organization or Association.

- **Types of Business Organization:**

1. Sole Trading Concern
2. Partnership Firm
3. Joint Stock Company
4. Co-operative Society

- **Sole Trading Concern :** A business finance controlled and managed by one person is known as Sole trading concern.

- **Features of Sole trading concern :**

1. Easy Formation
2. Ownership of Business
3. Own Capital
4. Management
5. Unlimited Liability
6. Business Secrecy
7. No Sharing of Profit and Loss
8. Cordial Relations with Customers
9. Prompt Decision
10. Self-employment Source

- **Partnership Firm :** Business which is started by two or more persons jointly agreeing to share profit and loss is known as Partnership firm.

- **Features of Partnership firm :**

1. Agreement
2. Legal Registration
3. Number of Partners
4. Lawful Business
5. Management
6. Relations between Partners
7. Unlimited Liabilities
8. Joint Ownership
9. Sharing of Profit and Loss
10. Dissolution

- **Joint Stock Company :** The incorporated association having legal entity, common seal, perpetual succession, artificial person created by law registered under The Indian Companies Act 2013 is known as Joint stock company.

❑ **Features of Joint stock company:**

1. Voluntary Association
2. Number of Members
3. Artificial Person
4. Separate Legal Status
5. Perpetual Succession
6. Compulsory Registration
7. Limited Liability
8. Common Seal
9. Professional Management
10. Transfer of Shares

2.7 Key Terms

1. **Business :** An economic activity of production of goods and services with a motive to earn profit is known as Business.
2. **Business Organization :** The association of persons coming together for achieving business objective and conduct business activities with profit motive is known as Business Organization.
3. **Partnership Deed :** The agreement between the partners mentioning terms and conditions of partnership business is known as Partnership Deed
4. **Limited Liability :** Liability of the members is limited up to the face value of the shares. In case of loss, personal or private property of the members cannot be charged to compensate the business losses.
5. **Unlimited Liability :** There is no limit for the liability of the members. In case of loss, personal or private property of the members can be charged to compensate the business losses.

2.8 Exercise

Q.1 A) Select the proper option from the options given below and rewrite the sentences :

1. In Sole trading concern, the sole trader is _____ of the business.
(a) Moneylender (b) Owner (c) Agent
2. In the Sole trading concern, _____ secrecy is maintained.
(a) Minimum (b) Maximum (c) Less or more
3. The liability of the sole trader is _____.
(a) Limited (b) Collective (c) Unlimited
4. The maximum number of partners in partnership business are _____.
(a) Twenty (b) Ten (c) Fifty
5. Registration of Partnership firm in Maharashtra is _____.
(a) Optional (b) Compulsory (c) Not compulsory
6. Indian Partnership Act was passed in the year _____.
(a) 1932 (b) 2013 (c) 1960
7. The elected representatives of shareholders are called _____.
(a) Directors (b) Member (c) Owner
8. The Indian Companies Act was passed in the year _____.
(a) 1932 (b) 2013 (c) 1960
9. Registration of Joint Stock Company is _____.
(a) Compulsory (b) Optional (c) Not compulsory
10. Minimum _____ members are required for establishment of a co-operative society.
(a) Two (b) Ten (c) Seven

B) Match the following :

Group 'A'	Group 'B'
a. Sole Trading Concern	1. 1960
b. Minimum members for Partnership Firm	2. Minimum business secrecy
c. The Indian Companies Act	3. 1951
d. Maharashtra Co-operative Societies Act	4. England
e. Industrial Revolution	5. 1925
	6. 2013
	7. India
	8. Two
	9. Maximum business secrecy
	10. Ten

C) Write a word or a phrase or a term which can substitute each one of the following statements :

1. The business which is known as One man show.
2. Artificial person created by law under The Indian Companies Act, 2013.
3. The form of business popular for self-employment.
4. The organization started for providing services to the members.
5. The agreement between the partners for conducting partnership business.

D) State whether the following statements are True or False :

1. Registration of sole trading concern is compulsory.
2. Quick decision are taken in sole trading concern.
3. The agreement of partnership can be oral or written.
4. The main objective of co-operative society is to earn maximum profit.
5. The capital raising power of Joint stock company is limited.
6. Joint stock company came into existence after industrial revolution.
7. Joint stock company has short term life.

E) Complete the following sentences :

1. The liability of Sole Trader is _____.
2. The elected representative of shareholder are known as _____.
3. Minimum _____ members are required for formation of co-operative society.
4. Partnership Act was passed in _____ year.
5. The registration of joint stock company is _____.

F) Select the correct option :

1. Sole Trading Concern	
2.	1932 Act
3. Industrial Revolution	
4.	Common Seal
5. Minimum ten members	

Co-operative society, Joint Stock Company, 1956, India, One member, Partnership firm, England.

G) Answer in one sentence :

1. What is sole trading concern?
2. Joint stock company is registered under which act?
3. In Partnership firm which partner's liability is limited?
4. What is Partnership Deed?
5. Which business organization is popular for self-employment?
6. What is limited liability?

H) Correct the underlined word and rewrite the following sentences :

1. Minimum secrecy is maintained in Sole trading form of organization.
2. Registration of partnership firm is done under Indian Partnership Act 1956.
3. According to The Companies Act 2013 there is limit on maximum number of members.
4. Co-operative societies registration is done according to 1932 Act.

I) Find the odd one :

- | | |
|----------------------------|------------------------|
| 1. a) Sole trading concern | b) Partnership Firm |
| c) Co-operative society | d) Joint stock company |
| 2. a) 1932 Act | b) 1960 Act |
| c) 2013 Act | d) 1950 Act |

J) Arrange in proper order :

1. a) The Companies Act
- b) Maharashtra Co-operative Societies Act
- c) Partnership Act

Q.2. Explain the following terms :

1. Business.
2. Sole Trading Concern.
3. Partnership Firm.
4. Partnership Deed.
5. Joint Stock Company.

Q.3. Application based/ Self-opinion question:

1. Which form of business organization you will select for business? Give your opinion.
2. Partnership deed is base for Partnership business. Express your opinion.
3. For Self-employment Sole trading concern is best option. Write your opinion.

Q.4. Difference Between :

1. Sole trading concern and Co-operative society.
2. Partnership firm and Co-operative society.
3. Joint stock company and Co-operative society.

Q.5. Write short notes :

1. Forms of business organization.
2. Features of Sole trading concern.
3. Features of Partnership firm.
4. Features of Joint stock company.

Q.6. Give Reasons :

1. Quick decision are taken in Sole trading concern.
2. Joint stock company has capacity to raise huge capital.
3. Partnership agreement must be in written.
4. Shares can be easily transferred in Joint stock company.
5. Sole trading concern is popular form of business organization.

Q.7. Answer in short :

1. Features of Sole trading concern.
2. Features of Partnership firm.
3. Features of Joint stock company.
4. Explain various Forms of business organization.

Q.8. Long answers :

1. Define Sole trading concern and explain its features.
2. Define Partnership firm and explain its features.
3. Define Joint stock company and explain its features.

