

VIDYA BHAWAN BALIKA VIDYA PITH

शक्ति उत्थान आश्रम लखीसराय बिहार

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Teacher name – Ajay Kumar Sharma

FORMS OF BUSINESS ORGANISATION

Question 3:

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

ANSWER:

The choice of an appropriate form of business organisation is important for the following reasons.

(a) Options to choose among various business forms: As there exist numerous forms of business organisations such as sole proprietorship, partnership, cooperative society and company, the choice of an appropriate business organisation is important, because each business form has its own merits and demerits.

(b) Business factors: Every type of business form is influenced by its respective business-related factors, namely, need of funds, risk involved, amount of profits and legal obligations. Therefore, the choice of the appropriate business form is made only after the evaluation of all these business factors.

(c) Long-term growth prospects: The growth prospects of each type of business form are different. If a businessperson opts for a particular business form without correctly evaluating the growth prospects, then the business may fail or the long-term growth prospects of the business will suffer.

Factors determining Choice of a Business Form

The following are the factors that determine the choice of a business organisation.

(a) Nature of business activity: Any individual first needs to decide upon the nature or kind of business activity that he or she desires to undertake. In case the business type requires direct personal contact with customers, then the sole proprietorship form of business proves beneficial. On the other hand, if direct personal contact is not required, then a partnership or a company form of business is more suitable.

(b) Degree of control: The choice of a business form also depends on the degree of control that a businessperson wants to exercise over its management. If a businessperson aims to have direct control over all the business operations, then sole proprietorship may be considered appropriate. However, if he or she does not mind sharing the decision-making powers with others, then a partnership or company form of business would be more suitable.

(c) Degree and specialisation of managerial abilities: If the business operations are large and require specialised and skilled professionals for managing them, then a company form of business may be selected. However, if the business operations are not very complex and the scale of operations is also not very large, then sole proprietorship proves to be a better alternative.

Question 4:

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

ANSWER:

The word 'cooperative' means an organisation in which the stakeholders work with one another. Thus, a cooperative society is a voluntary association of individuals who join together to protect or promote their common interests.

Features of Cooperative Societies

(a) Separate legal entity: The registration of a cooperative society is compulsory under the Cooperative Societies Act, 1912. Once the registration is complete, the cooperative society is granted the status of a separate legal entity. This implies that the cooperative society can hold properties in its own name and enter into contracts. Moreover, it can sue others and can be sued by others.

(b) Management and control: A cooperative society is a democratic form of organisation as it is managed and controlled by a managing committee which is elected by the members of the society on the principle of 'one member, one vote'.

Merits of Cooperative Societies

(a) Ease of formation: The formation of a cooperative society is quite easy as it requires the induction of only 10 adult members. The registration procedure of a society under the Cooperative Societies Act, 1912, is quite simple.

(b) Continued existence: A cooperative society is a stable form of organisation as it enjoys the status of a separate legal entity that is considered distinct from its members.

As a result, the life of a cooperative society remains unaffected by the death, insolvency or insanity of its members.

Limitations of Cooperative Societies

(a) Excessive government control: Cooperative societies have to follow certain rules and regulations as imposed on them by the cooperative departments of the state government concerned. These rules include submission and auditing of accounts.

(b) Inefficiency in management: The management of a cooperative society generally comprises part-time or inexperienced people. They may not be well equipped with the skills required to handle the managerial functions effectively. Consequently, cooperative societies often lack efficiency.

Types of Cooperative Societies

Cooperative societies are classified into the following six types.

(a) Consumer cooperative societies: These are formed to provide consumer goods at reasonable prices to its members.

(b) Producer cooperative societies: The objective of producer cooperative societies is to procure raw materials and other inputs at low costs and supply them to small producers.

(c) Marketing cooperative societies: These societies pool the outputs of the member and perform certain marketing functions for them such as transportation, labelling, packaging and warehousing.

(d) Farmers' cooperative societies: Such societies are formed by small farmers who pool their resources to reap the benefits associated with large-scale operations. These societies ensure the availability of better and advanced inputs at low rates to farmers.

(e) Credit cooperative societies- These societies ensure the availability of funds to its members at comparatively low interest rates on reasonable terms.

(f) Cooperative housing societies: The aim of housing cooperative societies is to solve the problem of finding residential accommodation of its members by constructing houses for them. These societies provide its members with easy repayment schemes through which the cost of the houses can be repaid in form of installments

Question 5:

Distinguish between a Joint Hindu family business and partnership.

ANSWER:

Difference between Joint Hindu family business and Partnership		
Basis of difference	Joint Hindu Family Business	Partnership
Governance	Governed by the Hindu law.	Governed by Partnership Act, 1932.
Liability	The head has unlimited liability, while the liabilities of other members are limited to the extent of their share in the business.	All the partners have unlimited liability.
Decision making and control	The <i>karta</i> is responsible for the management and control of the business.	All the partners jointly manage and control the firm.
Number of members	Minimum: 2 Maximum: No limit	Minimum: 2 Maximum: 10 for the banking business and 20 for other businesses
Minor	Minors can be members.	Minors cannot be members.

Question 6:

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

ANSWER:

Despite the limitations in terms of size and resources, many people prefer sole proprietorship over any other forms of business primarily because of the numerous benefits associated with the sole proprietorship business form.

The following are a few important benefits that a businessperson enjoys by being a sole proprietor.

(a) *Ease in formation and closure:* There are hardly any legal formalities that are required to be fulfilled for setting up a sole proprietorship firm. However, if a proprietor wants to deal in drugs and liquor, then he or she must to acquire a licence. Just as setting up a sole proprietorship firm is easy, its closure is also hassle-free.

(b) *Quick decision making:* A sole proprietor enjoys complete control over the business, facilitating quick and easy decision making.

(c) *Direct incentive:* A sole proprietor is the sole bearer of all types of risks associated with the business and at the same time is the single recipient of all the profits and gains earned from the business. Thus, it is due to this direct link between the businessperson's efforts and the rewards which keeps this individual motivated to operate the business efficiency and effectively.

(d) *Flexibility in operations:* A sole proprietorship firm is highly flexible in operations. It can adapt itself to various situations, and vital changes can be incorporated, as per the dynamism of the business environment. The reason for the high degree of flexibility can be attributed to the fact that a sole proprietor is the only person who is involved in every aspect of the business.