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FORMS OF BUSINESS ORGANISATION

Question 1:

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

ANSWER:

It is under **partnership** that the trade agreement made by one owner becomes binding for others. This is because every partner acts for each other. In other words, every partner is both a principle as well as an agent. As an agent he binds others through his actions and as a principle he is bind by the action of others.

Question 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

ANSWER:

(a) In case of a sole proprietorship the creditors can claim the personal property of the proprietor. This is because the proprietor has unlimited liability.

(b) The creditors can approach either Akbar or Anthony. Both of them would have the liability to pay according to their profit sharing ratio. Moreover, in case one of them becomes insolvent the creditors can approach the other partner.

Question 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?

ANSWER:

(a) The following are two of the benefits of sole proprietorship.

- i. A sole proprietor is the single recipient of all the profits of the business.
- ii. A sole proprietor takes all business decisions independently and enjoys complete control over the business.

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

- i. In a joint stock company capital can be easily expanded by issuing fresh, new shares.
- ii. The liability of the owners is limited to the amount of capital invested by them.

(c) If she plans to go nationwide then converting to a joint stock company would be more appropriate as it will lead to large scale business operations.

(d) Some of the legal formalities to be completed for operating a joint stock company are as follows.

- i. Promotion of the company
- ii. Submitting documents such as Memorandum of Association, Articles of Association, statutory declaration and agreement
- iii. Getting the certificate of incorporation
- iv. Getting the certificate of commencement of business