



NCERT Solutions for 11th Class Business Studies: Chapter 2- Forms of Business Organisation



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NCERT Solutions for 11th Class Business Studies: Chapter 2- Forms of Business Organisation

Class 11: Business Studies Chapter 2 solutions. Complete Class 11 Business Studies Chapter 2 Notes.

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I. Multiple Choice Questions

Tick the appropriate answer.

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Question 1. The structure in which there is separation of ownership and management is called

- (i) Sole proprietorship (ii) Partnership**
- (iii) Company (iv) All business organizations**

Question 2. The Karta in Joint Hindu family business has:

- (i) Limited liability (ii) Unlimited liability**
- (iii) No liability for debts (iv) Joint liability**

Question 3. In a cooperative society the principle followed is:

- (i) One share one vote (ii) One man one vote**
- (iii) No vote (iv) Multiple votes**

Question 4. The board of directors of a joint stock company is elected by:

- (i) General public (ii) Government bodies**
- (iii) Shareholders (iv) Employees**

Question 5. The maximum number of partners allowed in the banking business are:

- (i) Twenty (ii) Ten**
- (iii) No limit (iv) Two**

Question 6. Profits do not have to be shared. This statement refers to:

- (i) Partnership (ii) Joint Hindu family business**
- (iii) Sole proprietorship (iv) Company**

Question 7. The capital of a company is divided into number of parts each one of which are called:

- (i) Dividend (ii) Profit**
- (iii) Interest (iv) Share**

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Question 8. The Head of the Joint Hindu family Business is called (i) Proprietor (ii) Director

(iii) Karta (iv) Manager

Question 9. Provision of residential accommodation to the members at reasonable rates is the objective of

(i) Producer's cooperative (ii) Consumer's objective

(iii) Housing cooperative (iv) Credit cooperative

Question 10. A partner whose association with the firm is unknown to the general public is called

(i) Active partner (ii) Sleeping partner

(iii) Nominal partner (iv) Secret partner

Answer:

1. (iii) 2. (ii) 3. (ii) 4. (iii) 5. (ii)

6. (iii) 7. (iv) 8. (iii) 9. (iii) 10. (iv)

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II. Short Answer Type Questions

Question 1. For which of the following types of business do you think a sole proprietorship firm of organization would be more suitable, and why?

(i) Grocery store (ii) Medical store

(iii) Legal consultancy (iv) Craft centre

(v) Internet cafe (vi) Chartered accountancy firm

Answer: Sole proprietorship will be more suitable for grocery store, medical store, and internet cafe because:

- It has easy formation and closure.
- It needs limited resources.
- He will be sole risk bearer which is not so high and profit recipient.

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- He will have 100% control.

Question 2. For which of the following types of business do you think a partnership firm of organization would be more suitable, and why?

(i) Grocery store (ii) Medical store

(iii) Legal consultancy (iv) Craft centre

(v) Internet cafe (vi) Chartered accountancy firm

Answer: For legal consultancy and chartered accountancy firm, partnership firm will be more suitable because it has:

- Ease of formation and closure
- Balanced decision making
- More funds
- Sharing of risks
- Maintain secrecy

Question 3. Explain the following terms in brief:

(i) Perpetual succession (ii) Common seal

(iii) Karta (iv) Artificial person

Answer: (i) Perpetual Succession: Perpetual succession refers to continuous succession of a corporation. Perpetual succession is one of the remarkable features of a corporation. The very objective of a corporation is to have a perpetual succession, for there can not be a succession forever without incorporation. The company has perpetual succession. The death or insolvency of a shareholder does not affect its existence. A company comes into end only when it is liquidated according to provision of the Companies Act.

(ii) Common Seal: The expression 'Common Seal' is not defined in the Companies Act, 1956. General practice is to adopt the Common Seal, at the first Board Meeting of the company. It must be kept under the safe custody of authorized director/officer. The Articles of Association, may set out how and when the common seal has to be affixed.

(iii) Karta: Karta is the head of Joint Hindu family business. He has unlimited liability and final decision making power.

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(iv) Artificial Person: A person in the eyes of law is called an artificial person. An entity which has a separate legal entity in the eyes of law is called artificial person. A joint stock company and a cooperative society are artificial persons.

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Question 4. Compare the status of a minor in a Joint Hindu Family Business with that in a partnership firm.

Answer: A minor becomes a member of Joint Hindu Family Business by virtue of his birth. On the other hand, in partnership, minor can be a partner only in profits.

Question 5. If registration is optional, why do partnership firms willingly go through this legal formality and get themselves registered? Explain.

Answer: However registration is optional, partnership firms willingly go through this legal formality and get themselves registered because it has some merits:

1. **Settlement of Claims:** Registered firms can file suit against the third parties. So the rights of registered firms are safeguarded by law. But an un-registered firm or its partner cannot enforce its claim against the third parties or its co-partner.
2. **Protection of Rights:** The rights and privileges of new partner are also protected in registered firm. But if incoming partner fails to register himself, he will incur great risk, because he will not be in a position to file suit for his dues against his firm or his co-partners.
3. **Protection of Property:** The property of the retired or deceased partner continues to be liable for the acts firm does after his death or retirement until public notice is served for the change to registrar, So there is strong inducement for partners of registered firms to have the changes noted in the register. But if there is unregistered firm, the private property of the out-going partner will be considered liable to charge the debts in spite of retirement.
4. **Protection to Creditors:** Registered firm has to maintain correct, complete and up-to-date record of its partners who will be liable for the obligations of the firm. The statement recorded in the register regarding constitution of firm would afford a strong safeguard against untrue refusal of partnership and the evasion of liability to persons who want to deal with the firm.

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Question 6. State the important privileges available to a private company.

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Answer: A company can be registered as a private company or a public company. When a company is incorporated as a private company, it enjoys certain privileges and exemptions when compared to a public company.

Some of the privileges enjoyed by a Private Company are:

- The minimum number of members required to form a Private Company is only 2, whereas it is 7 in case of a Public Company.
- A Private company can start its business immediately after its incorporation. It need not obtain the Certificate of Commencement of Business.
'Certificate of Commencement of Business, is issued by the Registrar of Companies to Public Companies. Once a Company has been registered or formed, it shall apply for the Certificate of Commencement of Business in the prescribed form to the ROC (Registrar of Companies). Only after this certificate has been obtained it can commence its business. This certificate has to be obtained within 6 months from the date of incorporation of a Company.'
- No qualification shares and consent of the Director to act as a Director is required to be filed with the ROC at any time during the tenure of the company, as in case of a Public company.
- A Private Company is not required to issue or file a prospectus or statement in lieu of prospectus with the Registrar of Companies.
'Prospectus, is an important document for a public company. It is nothing but an invitation to the public to subscribe for the shares of the Company. In case a public company does not intend to invite the public to subscribe to the shares, it has to file a statement in lieu of prospectus.'
- It is not required to have an index of members, as in case of a public company. The reason being the Companies Act limits the maximum number of members required for a Private Company to 50.
- It is not required to hold a statutory meeting or file a statutory report.
'Statutory meeting is a general meeting of the shareholders of the Company which has to be held within a period of not less than one month and not more than 6 months from the date, on which it is entitled to commence its business.'
- It is not required to offer new shares to existing shareholders in proportion to their shareholdings.
In case of a Public Company further issue of capital shall be made to the persons who at the date of the issue are holders of the equity shares of the Company in proportion to their holding.
- A Private Company need to have a minimum of two directors only whereas a Public Company needs to have a minimum of three directors.
- All the Directors may be appointed by a single resolution in case of a Private Company.

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- The Directors of a Private Company need not to retire by rotation i.e., they can be Permanent Directors.

Question 7. How does a cooperative society exemplify democracy and secularism? Explain.

Answer: Cooperative is a form of organization wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of an economic interest for themselves. In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. The right to vote gives the members a chance to choose the members who will constitute the managing committee and this lends the cooperative society a democratic character. Also, the principle of 'one man, one vote' governs the cooperative society, irrespective of the amount of capital contribution by a member, each member is entitled to equal voting rights. The membership of a cooperative society is voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire. Membership is open to all, irrespective of their religion, caste and gender. Thus, by keeping all these points in mind, a cooperative society exemplifies democracy and secularism.

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Question 8. What is meant by 'partner by estoppel'? Explain.

Answer: When a person, by words spoken or written or by conduct, represents himself or herself, or consents to another representing him or her to anyone, as a partner in an existing partnership or with one or more persons not actual partners, he or she is liable to any such person to whom such representation has been made, who has, on the faith of such representation, given credit to the actual or apparent partnership and, if he or she has made such representation or consented to its being made in a public manner, he or she is liable to such person, whether the representation has or has not been made or communicated to such person so giving credit by or with the knowledge of the apparent partner making the representation or consenting to its being made, as follows:

1. If a partnership liability results, he or she is liable as though he or she were an actual member of the partnership.
2. If no partnership liability results, he or she is liable jointly with the other persons, if any, so consenting to the contract or representation as to incur liability, otherwise separately.
3. When a person has been thus represented to be a partner in an existing partnership, or with one or more persons not actual partners, that person is an agent of the persons consenting to such representation to bind them to the same extent and in the same manner as though that person were a partner in fact, with respect to persons who rely upon the representation where all the members of the existing partnership consent to the

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representation, a partnership act or obligation results; but in all other cases it is the joint act or obligation of the person acting and the persons consenting to the representation.

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III. Long Answer Type Questions

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

Answer: If entrepreneur starts sole proprietor form of business, then he has the following advantages.

Advantages of Sole Proprietor Form of Business:

- 1. Easy formation:** The formation of sole proprietorship business is very easy and simple. No legal formalities are involved for setting up the business except a license or permission in certain cases. The entrepreneur with initiative and certain amount of capital can set up such form of business.
- 2. Direct motivation:** The entrepreneur owns all and risks all. The entire profit goes to his pocket. This motivates the proprietor to put his heart and soul in the business to earn more profit. Thus, the direct relationship between effort and reward motivates the entrepreneur to manage the business more efficiently and effectively.
- 3. Better control:** The entrepreneur takes all decisions affecting the business. He chalks out the plan and executes the same. His eyes are on everything and everyone. There is no scope for laxity. This results in better control of the business and ultimately leads to efficiency.
- 4. Promptness in decision-making:** When the decision is to be taken by one person, it is sure to be quick. Thus, the entrepreneur as sole proprietor can arrive at quick decisions concerning the business by which he can take the advantage of any better opportunities.
- 5. Secrecy:** Each and every aspect of the business is looked after by the proprietor and the business secrets are known to him only. He has no legal obligation to publish his accounts. Thus, the maintenance of adequate secrecy leaves no scope to his competitors to be aware of the business secrets.
- 6. Flexibility in operations:** The sole proprietorship business is undertaken on a small scale. If any change is required in business operations, it is easy and quick to bring the changes.
- 7. Scope for personal touch:** There is scope for personal relationship with the entrepreneur and customers in sole proprietorship business. Since the scale of operations is small and the

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employees work under his direct supervision, the proprietor maintains a harmonious relationship with the employees. Similarly, the proprietor can know the tastes, likes and dislikes of the customers because of his personal rapport with the customers.

8. Free from Government control: Sole proprietorship is the least regulated form of business. Regulated laws are almost negligible in its formation, day-to-day operation and dissolution.

Disadvantages of Sole Proprietor Form of Business:

The sole proprietorship business is not free from criticism. It suffers from certain limitations and drawbacks, because of its very nature and scope of operations. These points may be duly taken care of while entrepreneur adopting this mode of business.

1. Limited resources: The financial resources of any small business as an individual is limited. He mainly finances from his own savings or borrows from financial institutions, friends and relatives as per his capacity. Thus, limited resource is the major drawback of this form of business.

2. Limited managerial capability: Modern business requires updated managerial skills in each and every sphere of activity. We cannot hope a single individual to possess all the managerial, talents necessary to carry on a business efficiently. The limited financial resources of the sole proprietorship is a hindrance to hire the services of managers with expertise in different areas, thereby the growth of the business.

3. Unlimited liability: Since the liability of the sole proprietor is unlimited, the private properties of the proprietor is also at risk. When the business fails, the private properties of the owner are utilized to pay off the business debts. Thus, the proprietor must have to look this aspect carefully.

4. Uncertainty of continuity: The continuity of the business is uncertain because the business may come to an end due to the incapacity or death of the proprietor. Even if at all the business passes on to the successor of the proprietor, it is unlikely that they may pose the business acumen like that of the proprietor. The discontinuance of the business is a social loss.

5. Not suitable for large-scale business: The limited financial resources, limited managerial capability of the proprietor, risk to the private property etc. makes the proprietorship business unsuitable for large-scale business. This system of business cannot afford for large-scale operation.

6. Difficult to maintain personal contact: Even though there is scope for personal touch in sole proprietorship business, it is unlikely to happen when the business is undertaken in

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different areas. It is not so easy on the part of the proprietor to have personal contact with customers and suppliers at the same time.

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

Answer: Partnership is considered by some to be relatively unpopular form of business ownership because:

1. **Uncertainty of duration:** A partnership suffers from a possible limited span of life. Legally, a partnership firm must be dissolved on the retirement, death, bankruptcy, or lunacy of any partner or demanded by any partner. The probability of any one of these events occurring when the number of partners is much greater than in the case of a sole proprietor.
2. **Risks of additional liability:** It is true that like the sole proprietor, each partner has unlimited liability. But his liability may arise not only from his own acts but also from the acts and mistakes of co-partners over whom he has no control.
3. **Lack of harmony:** The old saying that “too many cooks spoil the broth” can be apt for a business partnership. Harmony may be difficult to achieve, especially when there are many partners. Lack of centralized authority and conflicts in policy can disrupt the organization.
4. **Difficulty in withdrawing investment:** Investment in a partnership can be simple, but its withdrawal may be difficult or costly when this aspect is considered from the point of view of individual partners. This is so because no partner can withdraw his interest from the firm without the consent of all partners.
5. **Lack of public confidence:** A partnership may suffer from lack of public confidence
6. **Lack of public confidence:** A partnership may suffer from lack of public confidence because, like that of a company there is no legal mechanism to enforce the registration of a partnership firm and the disclosure of its affairs.
7. **Limited resources:** A partnership is good as it can be started with limited capital. However, it becomes a handicap in the growth and expansion phases of the business. There is a limit beyond which it is almost impossible for partners to collect capital. This limit is generally up to the personal properties of the partners.
8. **Unlimited liability:** Unlimited liability discourages partners to undertake risky ventures, and therefore, their risk-taking initiative is very risky.

Merits of Partnership

- It is easy to set up.
- It has more capital, which can be brought into the business.

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- Partners bring new skills and ideas to a business.
- Decision-making can be much easier with more brains to think about a problem.
- Partners share responsibilities and duties of the business.
- Division of labour is possible as partners may have different skills.

Limitations of Partnership

- There is an unlimited liability: All the partners are responsible for the debts of the firm and if the business goes bankrupt, all the partners will have to clear the debts even if they have to sell off their personal belongings.
- Disagreement among the partners can lead to problems for the business.
- There is a limit to the capital invested. Because of the fact that maximum 20 members are allowed, the business may find it difficult to expand after a certain limit.
- There is no continuity of existence. Partnership is dissolved if one of the partners die or resigns or becomes bankrupt.

Question 3. Discuss the characteristics, merits and limitations of the cooperative form of organization. Also describe briefly different types of cooperative societies.

Answer: It is important to choose an appropriate form of organization as it will determine:

1. Extent of control;
2. Extent of liability;
3. Availability of resources;
4. Legal formalities.

All these in turn will determine profits of the business.

Different types of cooperative societies are explained below:

1. **Producer's cooperative societies:** The producer's cooperatives are established by the small producers. The members of the society produce goods in their houses or at common place. The raw materials, tools, money, etc. are provided to them by the society. The output is collected by the society and sold in the market at the wholesale rate. The profit is distributed among the members in proportion to the goods supplied by each member.
2. **Consumer's cooperative societies:** Consumer's cooperative societies are established to remove middlemen from the field of trade. These societies purchase goods at the wholesale prices and sell these goods to the members at cheaper rates than the market prices. However, the goods are sold to the non-members at the market rates. The profit,

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if any, is distributed among the members in the shape of bonus according to their purchase ratio.

3. **Marketing cooperative societies:** The marketing cooperative societies are formed by the small producers for the promotion of trade. The two main objectives of these societies are, to sell the good at reasonable prices by eliminating middlemen and to make there ready for the product of the member. These types of societies are formed by the small agriculturalist and artisans. These societies collect the products of its members and make its grading and keep them in warehouses and sell them in the market at whole sale rate when the market is ready for these products. The profit is distributed among the members according to the ratio of goods supplied by them.
4. **Credit cooperative societies:** These cooperative societies are formed for the financial help of the members. These societies provide loans to the members at low rate of interest. In rural areas these provide loans to the farmers for the purchase of seeds, fertilizers and cattle. In urban areas these societies provide loan to its members for the purchase of raw materials and tools.
5. **Farming cooperative societies:** These societies are formed by the small agriculturalist to get the benefits of large scale farming. These societies provide help to the farmer for the improve method of cultivations by providing large scale farming tools such as tractors, threshers and harvesters, etc.
6. **Housing cooperative societies:** These societies are formed for the procurement of land for the construction of houses on a homogeneous basis. These societies are formed by those members who are intended to construct their own home. These societies provide loan to the members for the construction of houses. These also purchase construction materials in bulk and provide this material to its member at cheaper rates.

Question.4. Distinguish between a Joint Hindu family business and partnership.

Answer: Differences between Joint Hindu family systems and sole proprietorship are given below:

1. **Regulating law:** A partnership is governed by the provisions of the Indian Partnership Act, 1932. A Joint Hindu family business is governed by the principles of Hindu law.
2. **Mode of creation:** A partnership arises out of a contract, whereas a Joint Hindu family business arises by the operation of law and is not the result of a contract.
3. **Admission of new members:** In a partnership no new partner is admitted without the consent of all the partners, while in the case of a Joint Hindu family firm, a new member is admitted just by birth.
4. **The position of families:** In a partnership women can be full-fledged partners, while in a Joint Hindu family business membership is restricted to male members only. After the

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passage of the Hindu Succession Act, 1956, families get only co-sharer's interest at the death of a coparcener and they do not become coparceners themselves.

5. **Number of members:** In partnership the maximum limit of partners is 10 for banking business and 20 for any other business, but there is no such maximum limit of members in the case of Joint Hindu Family business.
6. **Liability of members:** In partnership, the liability of the partners is joint and several as well as unlimited. In other words, each partner is personally and jointly liable to an unlimited extent and if partnership liabilities cannot be fully discharged out of the partnership property each partner's separate personal property is liable for the debts of the firm.

In a Joint Hindu family business, only the 'Karta' is personally liable to an unlimited extent, i.e., his self-acquired or other separate property besides his share in the joint family property is liable, for debts contracted on behalf of the family business.

Question 5. Despite limitations of size and resources, many people continue to prefer sole proprietorship over other forms of organization. Why?

Answer: Despite limitations of size and resources, many people continue to prefer sole proprietorship over other forms of organization because of following merits:

1. **Easy to start and close:** It can be easily started and closed without any legal formalities.
2. **Quick decision making:** As sole trader is not required to consult or inform anybody about his decisions.
3. **Secrecy:** He is not expected to share his business decisions and secrets with anybody.
4. **Direct incentive:** Direct relationship between efforts and reward provide incentive to the sole trader to work hard.
5. **Personal touch:** The sole trader can maintain personal contacts with his customers and employees.
6. **Social utility:** It provides employment to persons with limited money who are not interested to work under others. It prevents concentration of wealth in a few hands.

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Organise pre-service and in-service training of teachers; develop and disseminate innovative educational techniques and practices; collaborate and network with state educational departments, universities, NGOs and other educational institutions; act as a clearing house for ideas and information in matters related to school education; and act as a nodal agency for achieving the goals of Universalisation of Elementary Education. In addition to research, development, training, extension, publication and dissemination activities, NCERT is an implementation agency for bilateral cultural exchange programmes with other countries in the field of school education. Its headquarters are located at Sri Aurobindo Marg in New Delhi. [Visit the Official NCERT website](#) to learn more.

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