



ST. LAWRENCE HIGH SCHOOL
A Jesuit Christian Minority Institution
STUDY MATERIALS
CLASS –XI



SUBJECT –BSTD

CHAPTER 2 –Forms of Business Organisation – Part 1

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Definition of Sole Proprietorship:

- It is that type of business organization which is owned, managed and controlled by a single owner.
- The word “sole” means “only” and “proprietor” notes to “owner”.
- A sole proprietor is the beneficiary of all profits.
- All risks are to be borne by the sole proprietor.
- The sole proprietor has unconditional and full control over its business.
- **Example:** *Beauty parlour, barbershop, general store and sweet shop run by a single owner.*

Features of Sole Proprietorship:

(1) Formation and Closure

This type of business organization is formed by the owner himself.

No legal conventions are obliged to start the sole proprietorship form of organization.

In some instances, the legal formalities are required or the owner should have a particular license or a certificate to run the business.

The owner can close the business at his own discretion.

Example: Goldsmith or a person running a medical shop should have a license to run this type of business.

(2) Liability

In the sole proprietorship business, the sole owner has unlimited liability.

In this case, the owner is himself liable to pay all the liabilities. If he takes a loan for its business then he will be liable for all the debts.

Hence, he is personally liable for all the debt which can be recovered by his personal estate when funds are insufficient.

Example: A loan taken by the owner of the sweet shop is solely responsible for the repayment of the loan to the bank.

(3) Sole Risk Bearer and Profit Recipient

A sole proprietor is only the one who bears all risks which are related to its business.

All the profits or losses which are earned from the business are to be enjoyed by the sole owner.

(4) Control

As all the rights and responsibilities lie with the sole proprietor that is why he controls all the business activities.

No one can interfere in the business activities of a sole proprietor.

Hence, only the sole proprietor can modify his plans accordingly.

(5) No Separate Entity

According to the accounting system, the owner and the business are considered as two separate entities.

But the law does not make any distinction between the sole trader and its business.

Hence, without the sole trader, the business has no identity because he is the only person who performs all the business activities.

(6) Lack of Business Continuity

Death, imprisonment, physical ailment, insanity or bankruptcy of the sole proprietor will directly affect the business or it may cause shutting down of the business.

In the case of the beneficiary, successor or legal heir of sole proprietor, he can run the business on behalf of the proprietor.

Advantages of Sole Proprietorship:

Some of the popular advantages of a sole proprietorship are.

- **Quick decision making**– A sole proprietor has the freedom to make any decision. Therefore, the decision would be prompt as they don't have to take the permission of others.
- **Confidentiality of information**- Being only the owner of the business, it allows him/her to keep all the business information to be private and confidential.
- **Direct incentive**- A sole proprietor directly has the right to have all the profit or benefits of a company.

- **Sense of accomplishment-** He/she can have the personal satisfaction associated with working without any guidance or alone.
- **Ease of formation and closure-** A single proprietor can enter the business with minimum legal formalities.

Limitations of a Sole Proprietorship:

Some of the primary limitations of a sole proprietorship are as follows:

(1) Limited Resources

- Resources of a sole proprietor are limited to his savings and borrowings from the relatives.
- Banks also hesitate or deny giving the long term loans or extend the limit of long term loans due to the weak financial position of the business.
- Lack of all these resources results in hindrance in the growth of the sole proprietorship business
- Above mentioned are the reason why the business generally remains small.

(2) Life of a Business Concern

- The owner and its business is the same entity and due to lack of successor or heir, the life of the business is limited.
- Due to death, insolvency, illness of a proprietor gives a detrimental impact on the business which results in closure of the business.

(3) Unlimited Liability

- The major demerit of a sole proprietorship is that the owner has unlimited liability.
- If the sole owner becomes fails to pay the debts, due to the failure of a business, the creditors would not only claim from business assets but also from his personal estate.
- Taking a large amount of loan is too risky and also put the burden on the sole owner of the business.
- Hence, this is the reason why sole traders do not intend to take the risk for the survival and growth of the business.

(4) Limited Managerial Ability

- The sole proprietor has to accept all the responsibilities to carry out its business.
- Sometimes the proprietor has to perform all the managerial functions like sales, purchase, marketing, selling, dealings with clients, etc.
- He may not be able to employ and retain aspiring employees

Meaning of Joint Hindu Family Business

- It refers to a form of business organization which is owned and carried on jointly by the members of the Hindu Undivided Family (HUF).
- It is also known as Hindu Undivided Family Business.

Characteristics of Joint Hindu Family Business:

Formation

- There should be at least two male members in the family to form a HUF.
- Ancestral property should have been inherited by members of HUF.
- All of the members enjoy this property and have an equal share in that Property.

- Thus, any child taking birth in that family becomes a member of the HUF.
- There is no requirement for an agreement to become a member.

Liability

- There is limited liability of all the members or co-parceners in the Hindu Undivided Family business.
- All the co-parceners have equal rights and shares in the property of Hindu Undivided Family business
- The Karta has unlimited liability.

Control

- Karta is the person who has full control over the Hindu Undivided Family business.
- Karta can take advice from all the members but he is not bound to accept their decisions.

Continuity

- After the “Karta” is deceased, the very next eldest member takes up the position of Karta in Hindu Undivided Family business.
- The business can be divided and ended up by the mutual consent of the members.

Minor Members

- The person who has taken birth in Hindu Undivided Family can be a member of the family business.
- Therefore, a minor can also be a member of the family

Important terms which are used in a Joint Hindu Family Business:

(1) Hindu Undivided Family

- The family who runs or carry on the business organization.
- Hindu Undivided Family includes an eldest male member ‘Karta’ and the other male members called co-parceners.

(2) Karta

- He is the person who is the head and eldest member of the family.
- Karta is the person who has full control over business activities.

(3) Ancestral Property

- It is the property of forefather or an ancestor and over which the members have equal right.

(4) Co-parceners

- The male members related to three successive generations.
- They have equal ownership right over the property of an ancestor.

Systems which are used in a Joint Hindu Family Business

There are two systems which are used in joint Hindu family business :

(1) Dayabhaga System

- It prevails in West Bengal, Assam and some parts of Odisha and allows both the male and female members of the family to be co-parceners.

(2) Mitakashara System

- It prevails all over India except West Bengal, Assam and some parts of Odisha.
- It allows only the male members to be co-parceners in the business.
- **Co-operative Society**
- A co-operative society is a voluntary association of persons of moderate means who unite together to protect & promote their common economic interests.

- **FEATURES**

- **1. Voluntary association:** Every one having a common interest is free to join a co-operative society and can also leave the society after giving proper notice.
- **2. Legal status:** Its registration is compulsory and it gives it a separate legal identity.
- **3. Limited liability:** The liability of the member is limited to the extent of their capital contribution in the society.
- **4. Democratic control:** Management & Control lies with the managing committee elected by the members by giving vote. Every member has one vote irrespective of the number of shares held by him.
- **5. Service motive:** The main aim is to serve its members and not to maximize the profit.
- **6. Bound by govt.'s rules:** They have to be tide by the rules and regulations framed by govt. for them.
- **7. Distribution of surplus:** The profit is distributed on the basis of volume of business transacted by a member and not on the basis of capital contribution of members.

- **MERITS**

- **1. Excise of formation:** It can be started with minimum of 10 members. Registration is also easy as it requires very few legal formations.
- **2. Limited Liability:** The liability of members is limited to the extent of their capital contribution.
- **3. Stable existence:** Due to registration it is a separate legal entity and is not affected by the death, luxury or insolvency of any of its member.
- **4. Economy in operations:** Due to elimination of middlemen and voluntary services provided by its members.
- **5. Government Support:** Govt. provides support by giving loans at lower interest rates, subsidies & by charging less taxes.
- **6. Social utility:** It promotes personal liberty, social justice and mutual cooperation. They help to prevent concentration of economic power in few hands.

- **LIMITATIONS**

- **1. Shortage of capital** – It suffers from shortage of capital as it is usually formed by people with limited means.
- **2. Inefficient management** – Co-operative society is managed by elected members who may not be competent and experienced. Moreover, it can't afford to employ expert and experienced people at high salaries.
- **3. Lack of motivation** – Members are not inclined to put their best efforts as there is no direct link between efforts and reward.
- **4. Lack of Secrecy** – Its affairs are openly discussed in its meeting which makes it difficult to maintain secrecy.
- **5. Excessive govt. control** – it suffers from excessive rules and regulations of the govt. It has to get its accounts audited by the auditor and has to submit a copy of its accounts to registrar.
- **6. Conflict among members** – The members are from different sections of society with different viewpoints. Sometimes when some members become rigid, the result is conflict.

- **TYPES OF CO-OPERATIVE SOCIETIES**

- **1. Consumers co-operative Society** – It formed to protect the interest of consumers. It seeks to eliminate middleman by establishing a direct link with the producers. It purchases goods of daily consumption directly from manufacturer or wholesalers and sells them to the members at reasonable prices.
- **2. Producer's Co-operative Society** – The main aim is to help small producers who cannot easily collect various items of production and face some problem in marketing. These societies purchase raw materials, tools, equipments and other items in large quantity and provide these things to their members at reasonable price.
- **3. Marketing Co-operative Society** – It performs various marketing function such as transportation, warehousing, packing, grading, marketing research etc. for the benefit of its members. The production of different members is pooled together and sold by society at good price.
- **4. Farmer's Co-operative Society** – In such societies, small farmers join together and pool their resources for cultivating their land collectively. Such societies provide better quality seeds, fertilizers, machinery and other modern techniques for use in the cultivation of crops. It provides them opportunity of cultivation on large scale.
- **5. Credit co-operative Society** – Such societies protect the members from exploitation by money lenders. They provide loans to their members at easy terms and reasonably low rate of interest.
- **6. Co-operative Housing Society** – The main aim is to provide houses to people with limited means/income at reasonable price.

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