

Lesson-5

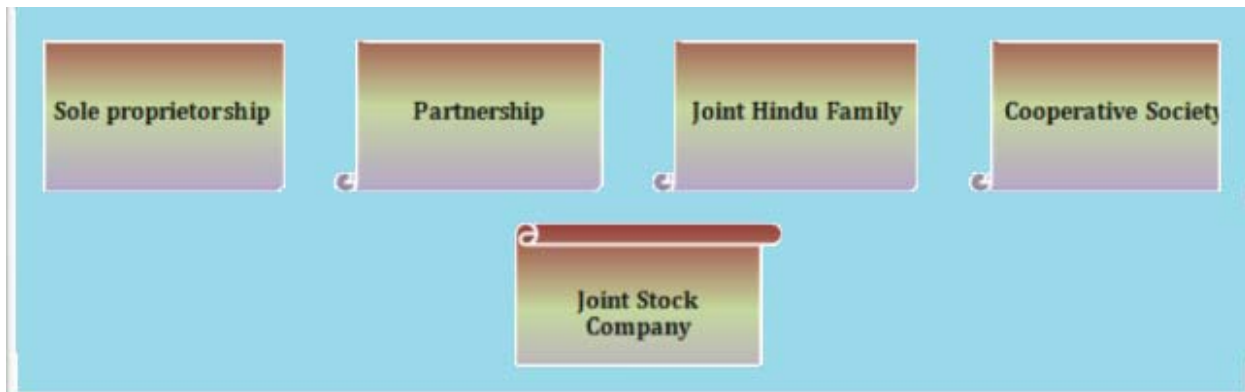
FORMS OF BUSINESS ORGANISATION

Introduction

In this lesson, you will learn about the various forms of business organization their characteristics, merits and limitations, suitability and the steps involved in their formation. In business activities, whether it is a single individual who may own the business or a number of individuals may come together to own the business jointly. So, based on ownership, we have different forms of business organization like a proprietary concern, a partnership firm or a company. You will realize that whatever business activity one may take up, he has to bring together various resources like men, money, materials, machines, technology, etc. to carry out that activity successfully. Not only that these resources are to be put into action in a systematic manner to achieve the objectives of business.

Important points from the text:

1. On the basis of ownership and management there are different forms of business organization.



2. **Sole proprietorship** – refers as sole trader
 - Ownership and, usually, operation of an organization by one person. He/she takes the profits and bears the losses. This form of business organization include, easy to form and wind up, quick decision and prompt action, direct motivation, flexibility in operation.
3. **Partnership** – Business operated by two or more persons as co –owners. It pools resources from the partners, makes their optimum utilization by taking better decisions. It

protects the interest of each and every partner and gets benefit out of the specialized knowledge and skills of individual partner.

4. Joint Hindu Family - It is governed by Hindu Law. The members of the Hindu undivided family jointly own the business and the eldest member called Karta manages the business in the best possible manner. Every member called co-parcener gets an assured share in profit irrespective of their participation.

1. **Cooperative society** is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help and mutual help.



6. Suitability: **Sole proprietorship** is suitable for simple business involving less capital and low risk. **Partnership** form of business is suitable for construction business, providing legal services, medical services etc. **Joint Hindu Family** form of business organisation is suitable where the family inherits a running business and the members want to continue the business jointly. **Cooperative Society** form of business organisation is generally started to solve the common economic problems or to meet the common requirements of the weaker sections of the community.

Learn new points:

- **Partnership Deed:** - an agreement between the partners of a firm that outlines the terms and conditions of partnership among the partners.
- **Partner by estoppels-** The phrase refers to **a person who is not technically a partner**, but can still be held liable as one for any debts or damages incurred by a business or owed to a third party.
- **Coparcener'** - a person who shares equally with others in the inheritance of an undivided estate or in the rights to it..

Evaluate yourself

1. Mr. X and Mr. Y were thinking for quite a long time to convert their partnership firm into Pvt. Ltd. Co. but they are not sure, whether it would be possible or not, and now it is going to be different from partnership. Guide them in this situation
2. Since Karta has absolute power to manage the business as per his own will, he may misuse the authority for his personal gain. What do you think?
3. If you got an opportunity to start a business in the present scenario which form of business organization will you choose & why?

Maximize your marks

- Read the chapter carefully and attempt all the above questions.
- Go through the learning key point
- Get into the little details of the above mentioned important points.