

# FORMS OF BUSINESS ORGANIZATION

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Neha a bright final year student was waiting for her result to be declared. She decided to put her free time to use.

So, She tried her hand at decoration of clay pots. She managed to sell a few pots from which she earned a profit of Rs. 2,500.

She decided to take up this work as a career.

She continued running the business on her own as “sole proprietor” but she needs more money for doing a business on a large scale

Her father suggested to do a partnership with her cousin. Neha’s mother was of the opinion that the business might grow further and may require the formation of a company.

She is in a fix as to what form of business organization she should go in for?

# SOLE PROPRIETORSHIP

Characteristics of the sole proprietorship are as follows

- Formation and closure
- Liability
- Sole risk bearer and profit recipient.
- Control
- No separate entity
- Lack of business continuity

# MERITS

- ⦿ Quick decision making
- ⦿ Confidentiality of information
- ⦿ Direct incentives
- ⦿ Ease of formation and closure

# LIMITATIONS

- ⦿ Limited resources
- ⦿ Limited life of a business concern
- ⦿ Unlimited liability
- ⦿ Limited managerial ability

# SOLE PROPRIETORSHIP

That's what I hate about a sole proprietorship. On Boss' Day, nobody gives me a gift."

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A.BACALL



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Ram | "It's one of the advantages of having your own business."

# GENERAL PARTNERSHIP

- ⦿ Formation
- ⦿ Liability
- ⦿ Risk Bearing
- ⦿ Decision making and control
- ⦿ Continuity
- ⦿ Membership
- ⦿ Mutual agency

# MERITS

- ⦿ Ease of formation and closure
- ⦿ Balanced decision making
- ⦿ More funds
- ⦿ Sharing of risks
- ⦿ Secrecy



# LIMITATIONS

- ⦿ Unlimited Liability
- ⦿ Limited resources
- ⦿ Possibility of conflicts
- ⦿ Lack of continuity
- ⦿ Lack of public confidence

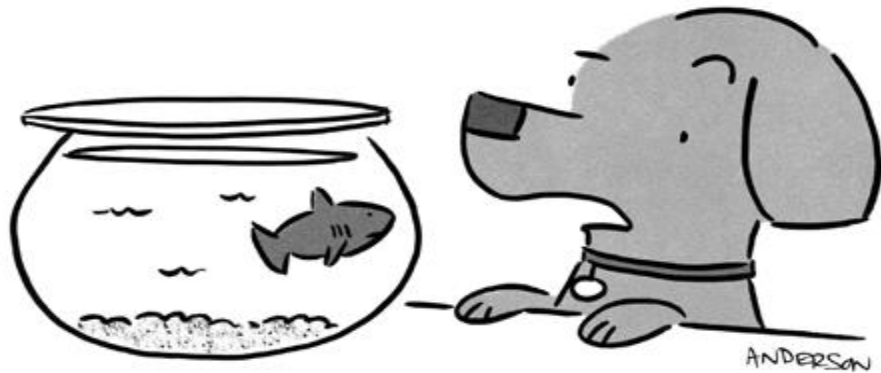
# TYPES OF PARTNERS

- ⦿ Active partner
- ⦿ Sleeping 😊 partner
- ⦿ Secret partner
- ⦿ Nominal partner

# GENERAL PARTNERSHIP

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"You make a good point; we both hate the cat. I'm just not sure what it is you'd bring to a partnership."



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"Congratulations on becoming a partner - your share of company losses are £200,000."

55 "I've come in answer to your advertisement for a sleeping partner!"



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# JOIN STOCK COMPANY

- ◉ A company is an association of persons formed for carrying out business activities and has a legal status independent of its members.
- ◉ Feature
  - Artificial person
  - Separate legal entity
  - Formation
  - Perpetual succession
  - Control
  - Liability
  - Common seal
  - Risk bearing

# MERITS

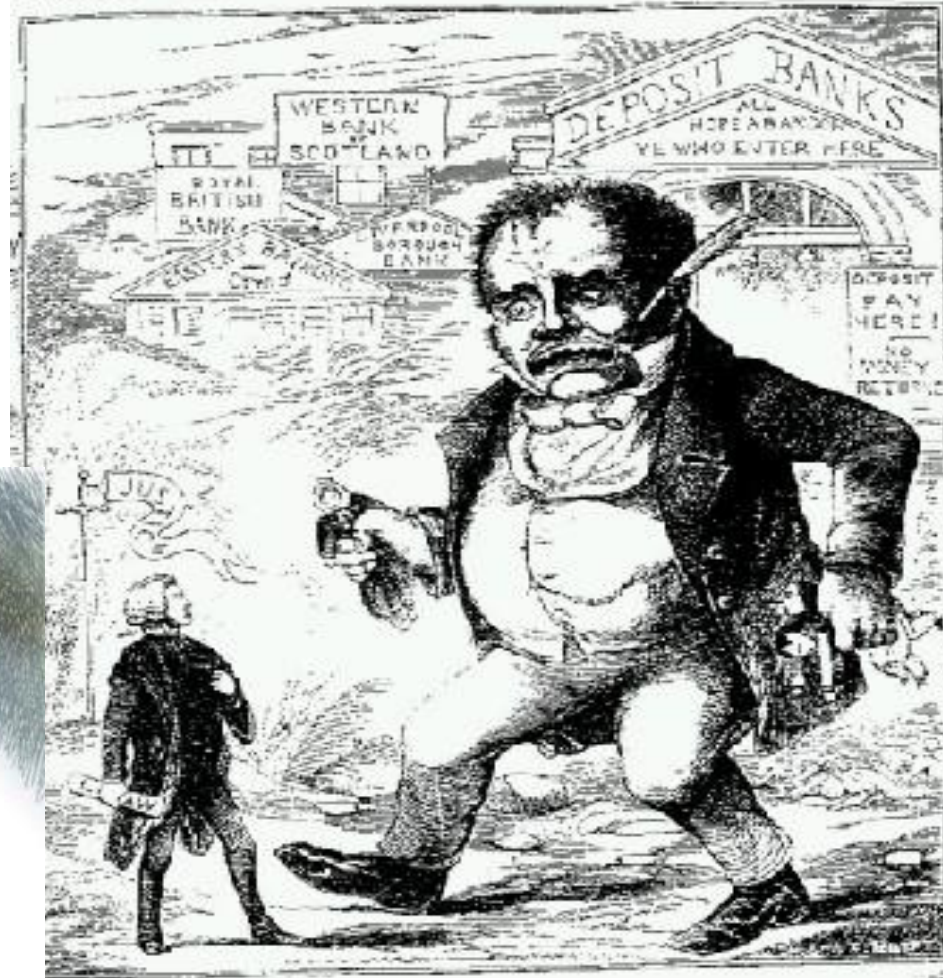
- ⦿ Limited liability
- ⦿ Transfer of interest
- ⦿ Perpetual existence
- ⦿ Scope of expansion
- ⦿ Professional management

# LIMITATIONS

- ⦿ Complexity in information
- ⦿ Lack of secrecy
- ⦿ Impersonal work environment
- ⦿ Numerous regulations
- ⦿ Delay in decision making
- ⦿ Oligarchic management
- ⦿ Conflict in interests

# JOINT STOCK COMPANY

JACK AND THE GIANT JOINT-STOCK.



# ESSENTIAL FEATURES OF THE THREE TYPES OF TRADITIONAL BUSINESS ENTITIES

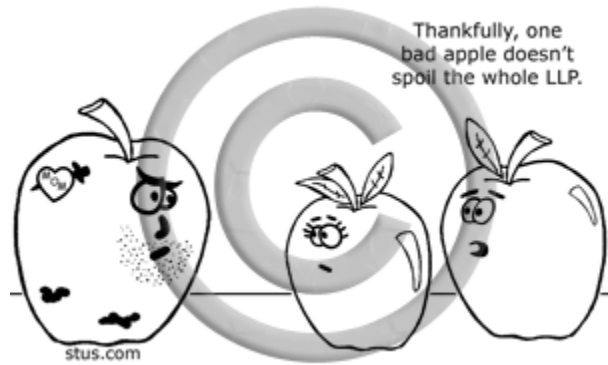
	Sole Proprietorship	General Partnership	Joint Stock Company
<b>Owner</b>	<b>Sole Proprietor</b>	<b>Partners</b>	<b>Shareholders</b>
<b>Number of Owners/ Shareholders</b>	<b>One Person</b>	<b>Min: 2 Max: 100</b>	<b>Private: 2 to 200 Public: 7 to No Upper Limit</b>
<b>Legality</b>	<b>Not a separate legal entity</b>	<b>Not a separate legal entity</b>	<b>It is a separate legal entity</b>
<b>Governed By</b>	<b>Not Applicable</b>	<b>Indian Partnership Act 1932</b>	<b>Companies Act 2013</b>
<b>Management Control</b>	<b>Proprietor</b>	<b>Partners</b>	<b>Board of Directors</b>
<b>Liability</b>	<b>Unlimited</b>	<b>Unlimited</b>	<b>Limited</b>
<b>Legal Registration</b>	<b>No Provision</b>	<b>Voluntary</b>	<b>Compulsory</b>
<b>Flexibility</b>	<b>Maximum</b>	<b>Depends on Partners</b>	<b>Comparatively Less</b>
<b>Source of Equity Funds</b>	<b>Proprietor brings in the funds</b>	<b>Partners bring in the funds</b>	<b>Shareholders bring in the funds</b>
<b>Examples</b>	<b>M/s S&amp;S Traders; Anil Pan Shop;</b>	<b>M/s Batliboi &amp; Purohit; M/s Paradise Foam Indus;</b>	<b>Medinfi Healt. Pvt. Ltd.; Reliance Ind. Ltd.;</b>



# LIMITED PARTNERSHIP

- ⦿ Liability of at least one partner is unlimited whereas the rest may have limited liability
- ⦿ Partner does not get terminated with death, Lunacy or insolvency.
- ⦿ Do not enjoy the right of management and their act.
- ⦿ Registration of such partnership is compulsory.

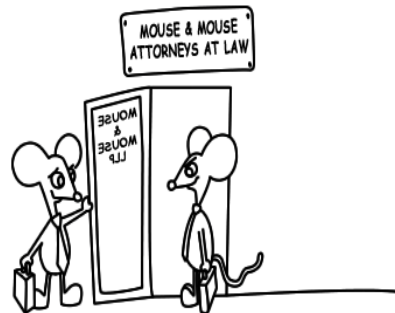
# LIMITED LIABILITY PARTNERSHIP



## Partnerships v. limited partnerships



*Joint and several liability  
(held responsible for the acts of other partners)*



*Limited liability (general partner held liable)*

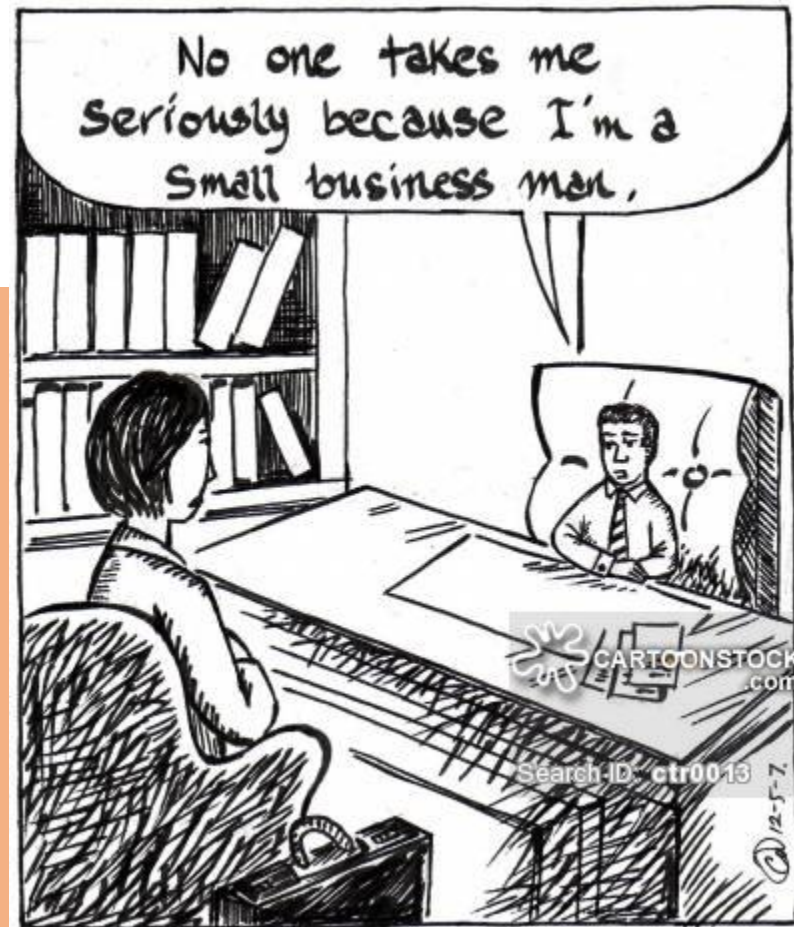


"SURE IT'S A PARTNERSHIP, ELWOOD, BUT IT'S A LIMITED PARTNERSHIP, AND YOU'RE THE ONE WHO'S LIMITED."

# ESSENTIAL FEATURES OF THE TWO TYPES OF HYBRID BUSINESS ENTITIES

	Limited Liability Partnership	One Person Company
<b>Owner</b>	<b>Partners</b>	<b>Sole Proprietor</b>
<b>Number of Owners/ Shareholders</b>	<b>Minimum:2 Maximum: No Limit</b>	<b>One Person</b>
<b>Legality</b>	<b>It is a separate legal entity</b>	<b>It is a separate legal entity</b>
<b>Governed By</b>	<b>LLP Act 2008</b>	<b>Companies Act 2013</b>
<b>Management Control</b>	<b>Designated Partners</b>	<b>Board of Director</b>
<b>Liability</b>	<b>Limited</b>	<b>Limited</b>
<b>Legal Registration</b>	<b>Compulsory</b>	<b>Compulsory</b>
<b>Flexibility</b>	<b>Depends on Partners</b>	<b>Comparatively Less</b>
<b>Source of Equity Funds</b>	<b>Partners bring in the funds</b>	<b>Sole Shareholder (Proprietor) brings in the funds</b>
<b>Examples</b>	<b>S.R. Batliboi &amp; Associates LLP; Singhania &amp; Co. LLP</b>	<b>Bronco Technologies Private Limited (OPC); Amseem Business Solution (OPC) Private Limited;</b>

# ONE PERSON COMPANY



# REFERENCES

- ⦿ Business Studies Text Book of Class XI by NCERT,  
URL to download:  
<https://www.dropbox.com/s/m9efw2a1b692gek/NCERT-Class-11-Business-Studies.pdf?dl=0>
- ⦿ Ramachandran, N and Ram Kumar Kakani. *Financial Accounting for Management*. 4<sup>th</sup> Edition, McGraw Hill Series, Tata McGraw Hill Education, 2016 [ISBN: 978-93-85965-66-1 ].

# TEST YOUR KNOWLEDGE

- The structure in which there is separation of ownership and management is called
  - a) Sole proprietorship
  - b) Partnership
  - c) Company
  - d) All business organization

- The board of directors of a Joint stock company is elected by
  - a) General Public
  - b) Government bodies
  - c) Shareholders
  - d) Employees

- The maximum number of partners are allowed in the banking sector
  - a) 20
  - b) 10
  - c) No limit
  - d) 2



- Profits do not have to be shared. This statement refer to
  - a) Partnership
  - b) Joint Hindu family business
  - c) Sole proprietorship
  - d) Company

- The capital of a company is divided into number of parts each one of which are called
  - a) Dividend
  - b) Profit
  - c) Interest
  - d) Share

- ⦿ A partner whose association with the firm is unknown to the general public is called
  - a) Active partner
  - b) Sleeping partner
  - c) Nominal partner
  - d) Secret partner

THANK YOU