



INDIAN SCHOOL AL WADI AL KABIR

Class: XI	Department: Commerce	SOLUTION
Worksheet No: 2	Topic: Forms of Business Organization PART - 1	

Objective type questions:

1. The karta in Joint Hindu family business has
(a) Limited liability (b) **Unlimited liability** (c) No liability for debts (d) Joint liability
2. Profits do not have to be shared. This statement refers to
(a) Partnership (b) Joint Hindu family business (c) **Sole proprietorship** (d) Company
3. The Head of the joint Hindu family business is called
(a) Proprietor (b) Director (c) **Karta** (d) Manager
4. 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**
5. Name any two factors that can lead to closure of business in sole proprietorship

Death, Insolvency, Imprisonment

6. For which type of business, sole proprietorship form is more suitable?

The business in which less capital, quick decision is required and involves less risk and personal touch, sole proprietorship is more suitable.

7. Name the act that governs the partnership business

The Indian Partnership Act, 1932.

8. What aspect helps in reducing burden and stress on an individual partner?

Sharing of risks

9. When can a partnership firm get itself registered?

Either at the time of formation or at any time during the existence of the firm.

10. What is limited liability partnership?

In limited partnership, the liability of at least one partner is unlimited whereas the rest may have limited liability. Such a partnership does not get terminated with the death, lunacy or insolvency of the limited partners. The limited partners do not enjoy the right of management and their acts do not bind the firm or the other partners. Registration of such partnership is compulsory.

11. Name the partner who does not have interest in the partnership business but lends his name to the firm

Nominal Partner

12. Classify partnership on the basis of duration

Partnership at will and Particular Partnership

13. 'It dissolves automatically when the purpose for which it was formed is fulfilled'. Identify the type of partnership

Particular Partnership

14. Seeing the demand for IT services you want to expand your solely owned 'IT Solution' as a partnership firm. How many members at the maximum can you have for your business?

50

15. In order to enter into partnership, a clear agreement with respect to the terms, conditions and all aspects concerning the partners is essential so that there is no misunderstanding later among the partners. Such an agreement can be oral or written. The written agreement which specifies the terms and conditions that govern the partnership is called **Partnership Deed**

True/False Questions

16. A co-parcener has unlimited liability **False**

17. It is compulsory to register a partnership firm. **False**

18. A JHUF business dissolves on the death of Karta. **False**

19. A minor can be a co-parcener. **True**

20. A Sole proprietorship business continues even after the death of the owner. **False**

21. A friend of a coparcener frequently visits the family doing a hindu family business. He can become a coparcener in future. **False**

Answer the questions:

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

Partnership

Mutual Agency: Every partner is both an agent and a principal. He is an agent of other partners as he represents them and thereby binds them through his acts. He is a principal as he too can be bound by the acts of other partners.

23. 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

(a) The sole proprietor has unlimited liability. Apart from business assets of Rs. 50,000, his personal assets worth Rs. 30,000 also should be utilized to pay off the debt.

(b) Both Anthony and Akbar will have unlimited liability. After selling business assets worth Rs. 50,000, they will still be liable to bring in Rs. 30,000 from their personal assets.

24. Suppose the total outside liabilities of XYZ drycleaner, a sole proprietorship firm, are Rs. 80,000 at the time of dissolution, but its assets are Rs. 60,000 only. In such a situation the proprietor will have to bring in Rs. 20,000 from her personal sources even if she has to sell her personal property to repay the firm's debts

Which feature of sole proprietorship is indicated above and explain

Liability : Sole proprietors have unlimited liability. This implies that the owner is personally responsible for payment of debts in case the assets of the business are not sufficient to meet all the debts.

25. "The relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all."

a) Identify the form of organization

b) Explain any two merits and demerits of this form of organization.

c) Explain the different types of the identified form of organization

a) Partnership

b) Merits of Partnership (Any two)

1. **Ease of formation and closure:** A partnership firm can be formed easily by putting an agreement between the prospective partners. There is no compulsion with respect to registration of the firm. Closure of the firm too is an easy task.

2. **Balanced decision making:** Since an individual is not forced to handle different activities, this not only reduces the burden of work but also leads to fewer errors in judgements. As a consequence, decisions are likely to be more balanced.

3. **More funds:** In a partnership, the capital is contributed by a number of partners. This makes it possible to raise larger amount of funds and undertake additional operations when needed.

4. **Sharing of risks:** The risks involved in running a partnership firm are shared by all the partners. This reduces the anxiety, burden and stress on individual partners.

5. **Secrecy:** A partnership firm is not legally required to publish its accounts and submit its reports. Hence it is able to maintain confidentiality of information relating to its operations.

Limitations of Partnership. (Any two)

1. **Unlimited liability:** Partners are liable to repay debts even from their personal resources in case the business assets are not sufficient to meet its debts.

2. **Limited resources:** There is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient to support large scale business operations. As a result, partnership firms face problems in expansion beyond a certain size.

3. **Possibility of conflicts:** Partnership is run by a group of persons wherein decision making authority is shared. Difference in opinion on some issues may lead to disputes between partners. Further, decisions of one partner are binding on other partners. Thus an unwise decision by some one may result in financial crisis for all others.

4. **Lack of continuity:** Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. It may result in lack of continuity.

5. **Lack of public confidence:** A partnership firm is not legally required to publish its financial reports or make other related information public. It is, therefore, difficult for any member of the public to ascertain the true financial status of a partnership firm. As a result, the confidence of the public in partnership firms is generally low.

(c) Types of Partnership

Classification on the basis of duration

(i) **Partnership at will:** This type of partnership exists at the will of the partners. It can continue as long as the partners want and is terminated when any partner gives a notice of withdrawal from partnership to the firm.

(ii) **Particular partnership:** Partnership formed for the accomplishment of a particular project say construction of a building or an activity to be carried on for a specified time period is called particular partnership. It dissolves automatically when the purpose for which it was formed is fulfilled or when the time duration expires.

Classification on the basis of liability

(i) **General Partnership:** In general partnership, the liability of partners is unlimited and joint. Registration of the firm is optional. The existence of the firm is affected by the death, lunacy, insolvency or retirement of the partners.

(ii) **Limited Partnership:** In limited partnership, the liability of at least one partner is unlimited whereas the rest may have limited liability. Such a partnership does not get terminated with the death, lunacy or insolvency of the limited partners. The limited partners do not enjoy the right of management and their acts do not bind the firm or the other partners. Registration of such partnership is compulsory.

26. Identify the types of partners:

- a) Partners who do not take part in the day to day activities of the business however, contributes capital to the firm, shares its profits and losses, and has unlimited liability. **Sleeping /Dormant partner**
- b) Partner is one who allows the use of his/her name by a firm, but does not contribute to its capital. He/she does not take active part in managing the firm, does not share

its profit or losses but is liable, like other partners, to the third parties, for the repayments of the firm's debts. **Nominal Partner**

- c) Suppose Rekha is a friend of Sandya who is a partner in a firm ABC Solutions. On Sandya's request, Rekha accompanies her to a business meeting with XYZ company and actively participates in the negotiation process for a business deal and gives the impression that she is also a partner in ABC Solutions. If credit is extended to ABC Solutions on the basis of these negotiations, Rekha would also be liable for repayment of such debt, as if she is a partner of the firm. **Partner by Estoppel**

27. Despite limitation of size and resources, many people prefer sole proprietorship over other forms of organization. Explain.

Advantages of Partnership

1. Quick Decision Making : A sole proprietor enjoys considerable degree of freedom in making business decisions. Further the decision making is prompt because there is no need to consult others.

2. Confidentiality of information: Sole decision making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy. A sole trader is also not bound by law to publish firm's accounts.

3. Direct incentive: A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profit. The need to share profits does not arise as he/she is the single owner. This provides maximum incentive to the sole trader to work hard.

4. Sense of accomplishment: There is a personal satisfaction involved in working for oneself. The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also instils in the individual a sense of accomplishment and confidence in one's abilities.

5. Ease of formation and closure: An important merit of sole proprietorship is the possibility of entering into business with minimal legal formalities. There is no separate law that governs sole proprietorship. It is easy to start and close the business as per the wish of the owner.

28. What are the consequences of non – registration of partnership firm?

The consequences of non-registration of a firm are as follows:

- (a) A partner of an unregistered firm cannot file a suit against the firm or other partners,
- (b) The firm cannot file a suit against third parties, and
- (c) The firm cannot file a case against the partners.

29. Enumerate the contents in a partnership deed

The partnership deed generally includes the following aspects:

- Name of firm
- Nature of business and location of business
- Duration of business
- Investment made by each partner
- Distribution of profits and losses

- Duties and obligations of the partners
- Salaries and withdrawals of the partners
- Terms governing admission and retirement of a partner
- Procedure for dissolution of the firm.

30. What is the procedure for registering a partnership firm?

1. Submission of application in the prescribed form to the Registrar of firms.

The application should contain the following particulars:

- Name of the firm
- Location of the firm
- Names of other places where the firm carries on business
- The date when each partner joined the firm
- Names and addresses of the partners
- Duration of partnership

This should be signed by all the partners.

2. Deposit of required fees with the Registrar of Firms.

3. The Registrar after approval will make an entry in the register of firms and will subsequently issue a certificate of registration

31. Discuss the features of Joint Hindu Family Business

1. Formation: For a joint Hindu family business, there should be at least two members in the family and ancestral property to be inherited by them. It is governed by the Hindu Succession Act, 1956.

2. Liability: The liability of all members except the *karta* is limited to their share of co-parcenary property of the business. The *karta*, however, has unlimited liability.

3. Control: The control of the family business lies with the *karta*. He takes all the decisions and is authorised to manage the business. His decisions are binding on the other members.

4. Continuity: The business continues even after the death of the *karta* as the next eldest member takes up the position of *karta*, leaving the business stable. The business can, however, be terminated with the mutual consent of the members.

5. Minor Members: The inclusion of an individual into the business occurs due to birth in a Hindu Undivided Family. Hence, minors can also be members of the business