

NORTH-EX PUBLIC SCHOOL
(Senior Secondary, Affiliated To CBSE)
School Block, Jain Nagar, Sector-38, Rohini, Delhi – 81
SUBJECT – BUSINESS STUDIES
CLASS -11TH
WEEK NO. 5

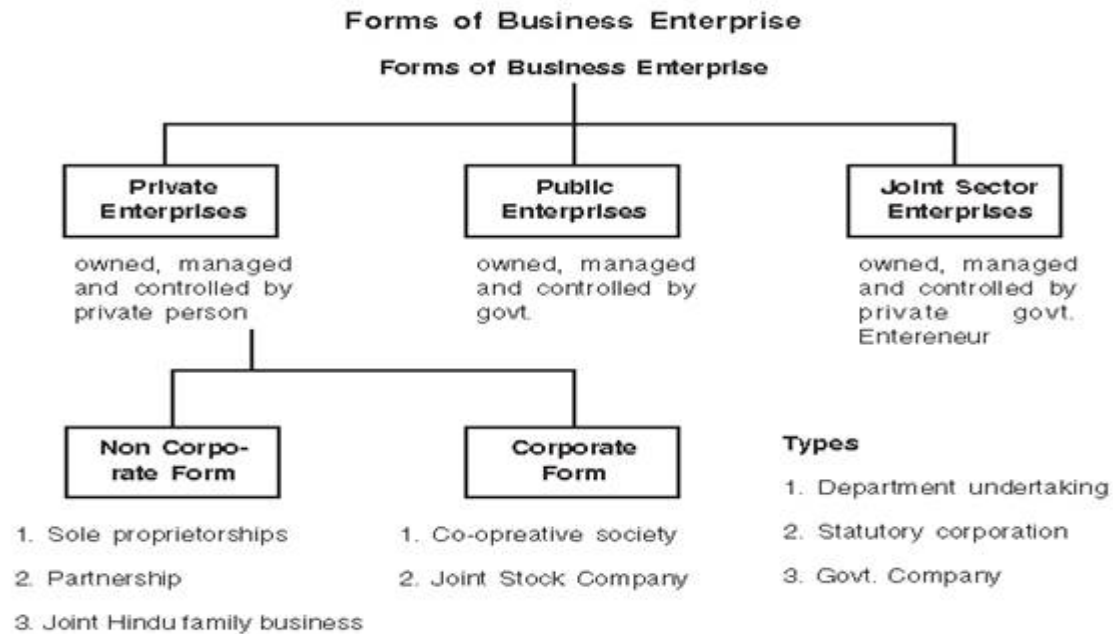
CHAPTER -2
FORMS OF BUSINESS ORGANISATION

Meaning

A business enterprise is an institutional arrangement to form any business activity.

Classification

On the basis of ownership business enterprises can broadly be classified into the following categories:



In case of CORPORATE FORM of private enterprises the identity of the enterprise is separate from that of the owner and in case of NON CORPORATE FORM, the identity of the enterprise is not different from that of its owners.

Sole Proprietorship

Sole proprietorship means a business owned, financed and controlled by a single person who is recipient of all profit and bearer of all risks.

It is SUITABLE IN AREAS OF PERSONALISED SERVICE like beauty parlour, hair cutting saloons & small scale activities like retail shops.

Features

1. **Single ownership:** It is wholly owned by one individual.
2. **Control:** Sole proprietor has full power of decision making.
3. **No separate legal entity:** Legally there is no difference between business & businessmen.
4. **Unlimited liability:** The liability of owner is unlimited. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts.
5. **No legal formalities:** Not required to start, manage and dissolve such business organization.
6. **Sole risk bearer and profit recipient:** He bears the complete risk and there is no body to share profit/loss with him.

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. **Sense of accomplishment:** There is a sense of personal satisfaction.
4. **Unlimited liability:** The liability of owner is unlimited. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts.
5. **No legal formalities:** are required to start, manage and dissolve such business organization.
6. **Sole risk bearer and profit recipient:** He bears the complete risk and there is no body to share profit/loss with him.

LIMITATIONS

1. **Limited financial resources:** Funds are limited to the owner's personal savings and his borrowing capacity.
2. **Limited Managerial ability:** Sole trader can't be good in all aspects of business and he can't afford to employ experts also.
3. **Unlimited liability:** Ofcourse, sole trader compels him to avoid risky and bold business decisions.
4. **Uncertain life:** Death, insolvency, lunacy or illness of a proprietor affects the business and can lead to its closure.
5. **Limited scope for expansion:-** Due to limited capital and managerial skills, it cannot expand to a large scale.

SUITABILITY:

Sole tradership is suitable-

- Where the personal attention to customer is required as in tailoring, beauty parlour.
- Where goods are unstandardized like artistic jewellery.
- Where modest capital and limited managerial skills are required as in case of retail store
- Business where risk is not extensive i.e. lesser fluctuation in price and demand i.e. stationery shop.

JOINT HINDU FAMILY BUSINESS

It is owned by the members of undivided joint Hindu family and managed by the eldest member of the family known as KARTA. It is governed by the provisions of Hindu law. The basis of membership is birth in a particular family.

FEATURES

1. Formation – For a joint Hindu family business there should be at least two members in the family and some ancestral property to be inherited by them.

2. Membership by birth –

There are two systems which govern membership

Dayabhaga System- It prevails in west Bengal and allows both male and female member to co-parceners.

Mitakshara System- It prevails all over India except West Bengal and allows only male members to be coparceners.

3. Liability – Liability of Karta is unlimited but of all other members is limited to the extent of their share in property

4. Continuity – The business is not affected by death or incapacity of Karta in such cases the next senior male member becomes the Karta.

5. Minor members – A minor can also become full fledged member of Family business.

MERITS

1. Effective control- The Karta can promptly take decisions as he has the absolute decision making power.

2. Continued business existence- The death, Lunacy of Karta will not affect the business as next eldest member will then take up the position.

3. Limited liability – The liability of all members except Karta is limited. It gives them a relief.

4. Secrecy – Complete secrecy regarding business decisions can be maintained by Karta.

5. Loyalty and Co-operation: It helps in securing better co-operation and greater loyalty from all the members who run the business.

LIMITATION

1. Limited capital: There is shortage of capital as it is limited to the ancestral property.

2. Unlimited liability of karta – It makes him less enterprising.

3. Dominance of karta – Karta manages the business and sometimes he ignores the valuable advice of other members. This may cause conflict among the members and may lead to break down of the family limit.

4. Hasty decisions: As karta is overburdened with work, he may take hasty and unbalanced decisions.

5. Limited managerial skills of karta also pose a serious problem. The Joint Hindu family business is on decline because of the diminishing no. of joint Hindu families in the country.

VIDEO FOR THE ABOVE TOPIC

<https://www.youtube.com/watch?v=ps8EbM6aU00&list=PLGRG6Dk7lyZ65xlwLBplpTfqAh6dCbco-&index=2>

<https://www.youtube.com/watch?v=RXGZAgkbVuM&list=PLGRG6Dk7lyZ65xlwLBplpTfqAh6dCbco-&index=3>

WORKSHEET FOR THE ABOVE TOPIC

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

(a) Sole proprietorship

(b) Partnership(c) Company

(d) A business organisations

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

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

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

5. Why is it important to choose an appropriate form of organisation? Discuss the factors that determine the choice of form of organisation.