# SAARTHI

## 11TH COMMERCE 2025

**Free Revision Series**

BUSINESS, TRADE AND COMMERCE
AND
FORMS OF BUSINESS ORGANISATION

**Business Studies**

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# Topic : Human Activities



# Human Activities

## Economic Activities

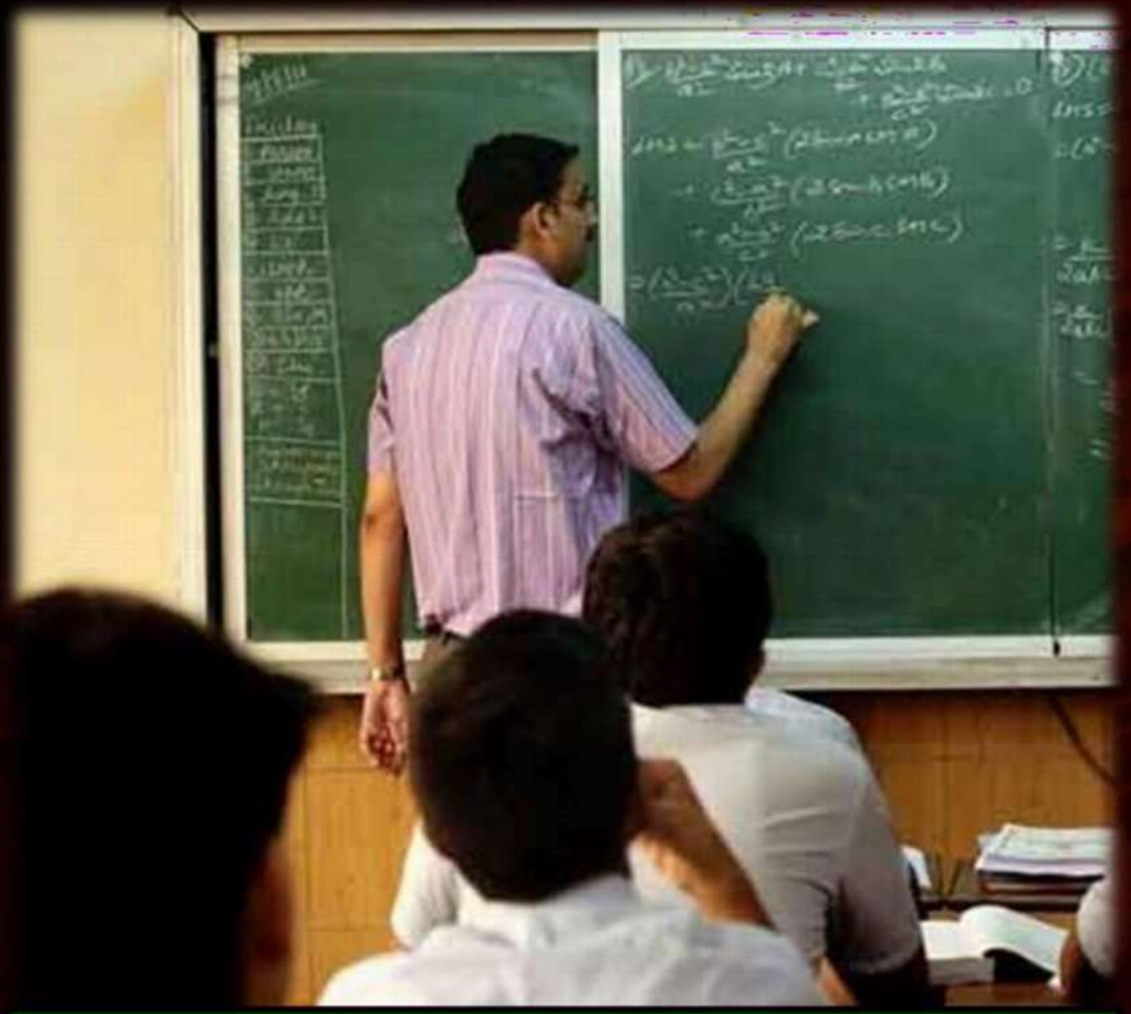
- Money
- Wealth
- Livelihood

## Non-Economic Activities

- Social
- Psychological
- Emotional

] satisfaction

Economic



A teacher teaching in a school

Non-Economic



A teacher teaching his own son

Economic



A lady cooking at a restaurant

Non-Economic.



A lady cooking for her family

Economic



A doctor treating a patient

Non-Economic



A doctor treating his own wife

## Topic : Economic Activities

"Those activities which are performed for money, wealth & livelihood".



# Topic : Non-Economic Activities

"Those activities which are performed for social, psychological and emotional satisfaction".



# Types Of Human Activities

## Economic Activities

1. Economic Motive
   - Survival
   - Profit
2. Economic Growth
3. Economic Resources → 4M
   - Men
   - Machine
   - Material
   - Money
4. Legally Valid
5. Socially Desirable

## Non-Economic Activities

1. Sentiments
2. Sympathy
3. Physical Needs
4. Religious Obligations
5. Love And Affection

1. Personal Satisfaction
2. Patriotism

# Difference

| Basis | Economic Activities | Non-economic Activities |
|---|---|---|
| Objective | The prime objective is to earn money. | The main objectives is to get some sort of satisfaction. |
| Money Measurement | They are measured in money or money's worth. | They are not measured in money |
| Duration | They are performed regularly and for the major period or one's life. In the old age, one may stop working. | They are performed during leisure of spare time, which is very limited. |
| End Result | The end result of these activities is production of goods and services. | The end result of these activities is mental satisfaction of person performing them |
| Example | Teacher teaching at school, doctor attending his patients or worker working in factory. | Teacher teaching his own son or doctor treating earthquake victims for free. |

# Economic Activities

## (I) Business

Business is that economic activity which is concerned with production or distribution of goods and services with the main motive of earning profit.

## (II) Profession

is an occupation which is backed up by specialized knowledge and skills in which the entry is restricted.

## (III) Employment

employment means working for others in return of salary or wages.

# Topic : Business

- Business refers to those economic activities which are connected with production, purchase and sale of goods and services with the main objective of earning profit.



# Topic : Profession

- Profession is an occupation which is backed up by specialized knowledge, skills and the entry in profession is restricted.



# Topic : Employment

- Employment is an occupation in which people work for others and get remuneration in return.



# Topic : Difference Between Business, Profession and Employment

| Basis | Business | Profession | Employment |
|---|---|---|---|
| Mode of Establishment | Commencement of business depends on entrepreneur's decision and other legal formalities, if necessary. | It commence on getting membership of a professional body and certificate of practice. | It commence on getting an appointment letter and entering into service agreement. |
| Qualification | It does not require any minimum qualification. | It requires expertise and training in a specific field. | It requires qualification and training as prescribed by the employer. |
| Capital Investment | It requires capital investment as per size and nature of business. | It requires limited capital for establishment. | No capital is required. |

# Topic : Difference Between Business, Profession and Employment

| Basis | Business | Profession | Employment |
|---|---|---|---|
| Risk | It involves high degree of risk as profits are uncertain and irregular. | It involves moderate risk as fees is generally regular and certain. | It does not involves risk as employee gets fixed and regular pay. |
| Objective | The basic motive of business is to earn profit. | The basic motive of profession is to render service besides earning income. | The basic motive of employment to earn livelihood in the form of salary. |
| Reward | Reward for business in profit. | Reward for profession is professional fees. | Reward for employment is salary. |

# Topic : Difference Between Business, Profession and Employment

| Basis | Business | Profession | Employment |
|---|---|---|---|
| Nature of Work | It involves providing goods and services to the public. | It involves rendering of personalized expert services. | It involves performing work as per service contract or rules of services. |
| Code of Conduct | No code of conduct is prescribed. | Professional code of conduct is to be followed. | Norms of behavior as laid down by the employer have to be followed. |
| Transfer of Interest | Transfer of interest with some formalities. | It is not possible to transfer the interest. | It is not possible transfer the interest. |

# Topic : Characteristics of Business

1. An Economic Activity

→ Money (Profit).

2. Production (Collection) of Procurement of Good and Services



# Topic : Characteristics of Business

3. Sale or Exchange of Good and Services

Regularity in Dealings.

4. Dealings in Good and services on a regular basis



# Topic : Characteristics of Business

5. Profit Earning :

6. Uncertainty of Return :

7. Element of Risk :

# Topic : OBJECTIVES of BUSINESS

End Points.

Every business is directed to the achievement of certain objective. Objectives refer to the end point towards which all business activities are directed.

Business Objective may be broadly classified into three categories:

1. Economic Objectives
2. Social Objectives
3. Human or Individual Objective



# Topic : ECONOMIC OBJECTIVE

→ Economic Gain / Benefit.

Business is an economic activity and its objectives are mainly economic in nature.

The main economic objectives are:

1. Profit Earning
2. Survival
3. Growth
4. Creation of Customers
5. Innovation
6. Optimum Utilization of Resources



# Topic : SOCIAL OBJECTIVE

↳ society and its welfare.

Social objectives refer to the objectives, which are desired to be achieved for the benefit of the society. Business makes use of scarce resources of the society. So, society expects something in return for its welfare. Social objective deals with fulfilling obligations towards the society.

Some of the major social objectives are:

1. Supply of Quality products at Fair Prices
2. Avoidance of Unfair Trade Practices
3. Generation of Employment Opportunities
4. Protection of Environment
5. Community Service
6. Welfare of Employees



# Topic : HUMAN OBJECTIVE

→ Employees and their benefit.

Human or individual objectives refer to the objectives related to the individual needs of the employees of an organisation. As employees are one of the most valuable resources for an organisation, satisfaction of their objectives is very important.



Individual objectives include the following objectives:

1. To provide healthy and safe following objective.
2. To pay fair and competitive salaries and perks.
3. To provide opportunities for personal growth and development for employees.
4. To provide reasonable security of service.
5. To provide various financial and non-financial incentives in order to motivate the workers.
6. To encourage employees to take initiative and participation in management.

# Topic : ROLE of PRofIT IN BUSINESS

- Profit is the main motive of every economic activity, As business is an economic institution, it must earn sufficient profits to cover its costs and to provide for growth.



# Topic : ROLE of PRofIT IN BUSINESS

The following reasons justify the role of profit in business:

1. Survival
2. Expansion and Growth
3. Measure of Efficiency कार्यकुशलता
4. Reward of Risk Bearing
5. Better Reputation and Goodwill

Profit ↑ = Goodwill ↑

Profit ↓ = Goodwill ↓



Classification of Business

## Topic : Business Activities :

# BUSINESS ACTIVITIES

- Industry (Concerned with Production/Processing of Goods and Services)
- Commerce (Concerned with Exchange of Goods and Services) → Distribution

# Topic : Industry

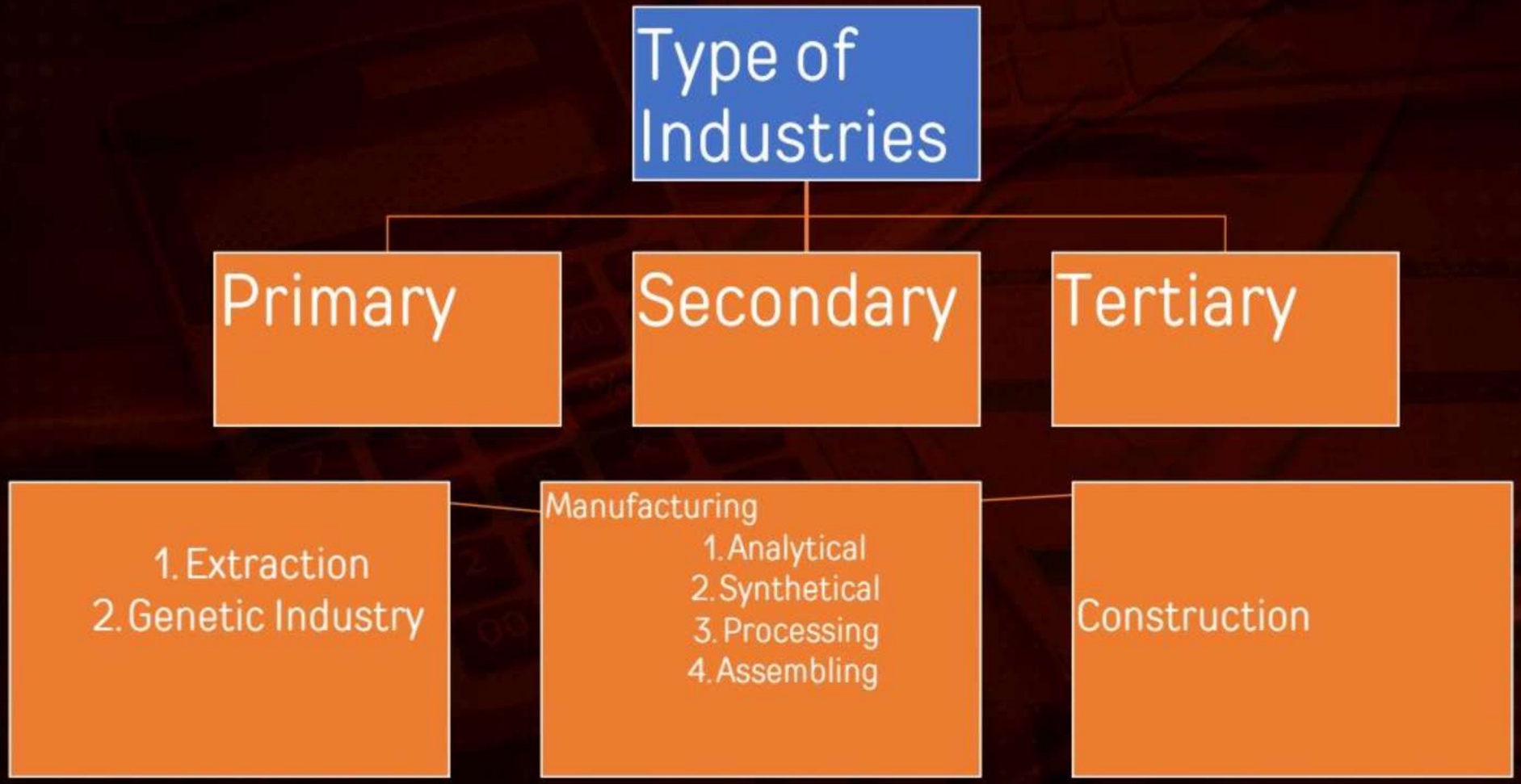


# Topic : Industry

Industrial activities lead to production of variety of goods for various purposes. These are divided into three broad categories:

1. Primary Industry
2. Secondary Industry
3. Tertiary Industry

# Topic : Types of Industries



## Topic : 1. Primary Industry

is that branch of industry which is concerned with production of Primary Resources or Raw Material.



# Topic : 1. Primary Industry

A] Extractive industry

B] Genetic Industry

# Topic : 1. (i) Extractive Industry

- It includes all those industries, which are engaged in rising products from natural sources (like soil, air, water or from beneath the surface of the earth). For example, extracting minerals from earth, fish from river, etc.

- They supply some basic raw materials that are usually transformed into many other useful goods by manufacturing industries. Important extractive industries include farming, mining, lumbering, hunting and fishing operations.

# Topic : 1. (ii) Genetic Industry

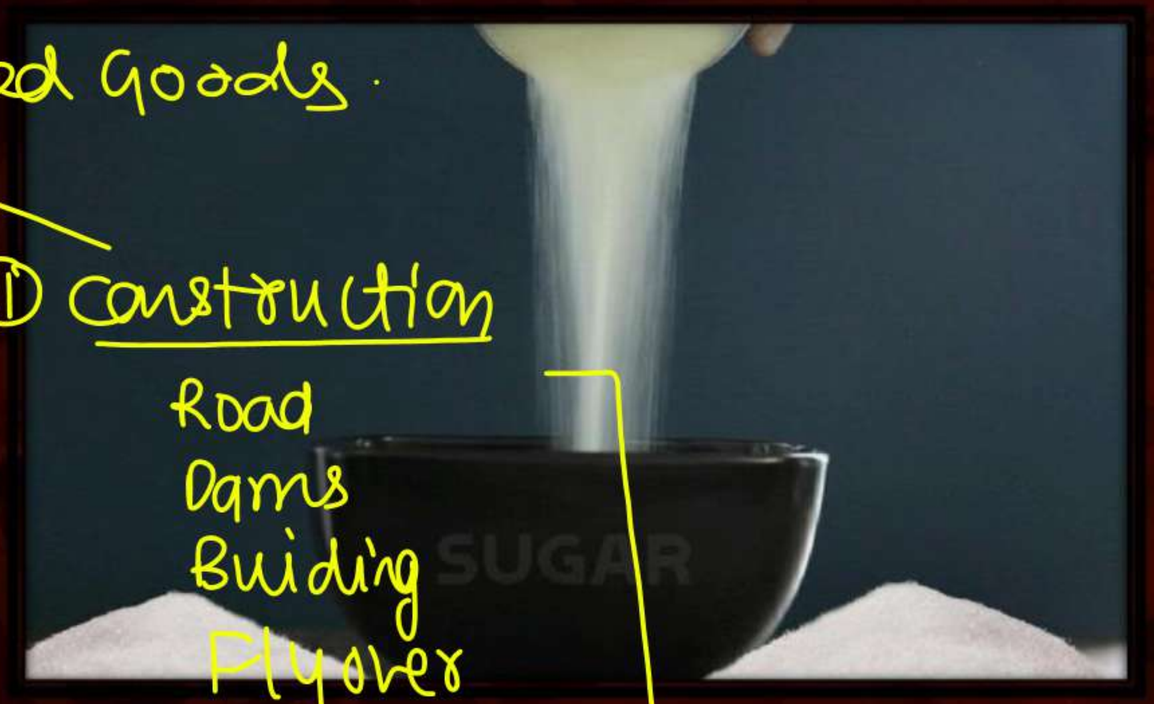


# Topic : 1. (ii) Genetic Industry

- It includes all those industries, which are engaged in breeding plants and animals for their use in further reproduction. For example, rearing of cattle for milk. Important genetic industries include poultry farming, cattle breeding, fish hatchery, etc.

Plantation.

## Topic : 2. Secondary Industry is that branch of industry which is concerned with converting the primary Resources into the finished goods.




① Manufacturing → Final Goods.

② Construction
- Road
- Dams
- Buiding
- Flyover
- Underpass etc

# Topic : 2. Secondary Industry

- Secondary industry includes all those activities, which are connected with using the materials, which have already been extracted at the primary stage. These industries process such materials to produce goods for final consumption or for further processing by other industrial units.

- For example, Sugarcane is produced in primary industry, but sugar is produced (by sugarcane as raw material) in the secondary industry.

# Topic : 2. (i) Manufacturing Industry

- Analytical
- Sythetical
- Processing
- Assembling.



# Topic : 2. (i) Manufacturing Industry

- It includes all those industries, which are engaged in processing raw materials to produce finished goods. For example, cotton textile industry makes use of cotton that is produced by the extractive industry.

- Manufacturing industries may be further divided into four categories.

# Topic : 2. (i) Manufacturing Industry

A] Analytical industry → Oil Refinery

B] Synthetic Industry → Cement, Paint

C] Processing Industry → Sugar, Paper.

D] Assembling Industry → Car, TV, Radio.

# Topic : 2. (i) Manufacturing Industry



# Topic : 2. (ii) Construction Industry

- It includes all those industries, which are engaged in the construction activities. For example, industries involved in construction of buildings, dams, bridges, roads, etc.

## Topic : 3. Tertiary Industry is that branch of industry which is concerned with providing support services to primary and secondary industry.

- → Transportation
- → Banking
- → Insurance
- → Storage
- → Communication.



# Topic : Commerce



# Topic : Classification of Commerce

Commerce includes two types of activities :-

1. Trade: It implies buying and selling of goods.

2. Aids or Auxiliaries to Trade: It implies activities required to facilitate the purchase and sale of goods.

# Topic : Trade

- Trade refers to buying and selling of goods and services with the aim of earning profits. It is an essential part of commerce. It helps in making the goods produced available to ultimate consumers or users.



# Topic : Types of Trade

→ National Trade
→ Domestic "
→ Internal "
→ Inland "

→ International Trade
→ External Trade
→



# Topic : 1. Internal Trade (or Home Trade):



# Topic : 2. External Trade:



# Topic : Aids / Auxiliaries to Trade

1. Transport and Communication
2. Banking and Finance
3. Insurance
4. Warehousing
5. Advertising

# Topic : Role of Functions of Commerce

- Commerce plays a vital role by removing the following hindrances in the exchange of goods and services

# Topic : Role of Functions of Commerce

1. Hindrances of Person
2. Hindrances of Place
3. Hindrance of Time
4. Hindrances of Risk
5. Hindrances of Finance
6. Hindrance of Information

(A) Advertising
(B) Banking
(C) storage
(D) Trade



# Topic : BUSINESS RISK

Inadequate Profit
No Profet
Losses

The term 'business risk' refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

- A businessman tries to control or minimise the risk, but they cannot altogether be avoided. In the words of Wheeler, "Risk implies uncertainty about the future course of events".

# Topic : TYPES of BUSINESS RISK

## TYPES of BUSINESS RISK

**Speculative Risk**

→ Profit

→ Loss.

**Pure Risk**

→ Loss

→ No Loss

# Topic : NATURE of BUSINESS RISK

Business risk arises due to uncertainties

Risk is an essential part of every business

Profit is the reward for risk taking

Degree of risk depends on nature & size of business

large Business = Risk ↑
small " = Risk ↓

manufacturing = Risk ↑
Trading = Risk ↓

# Topic : Causes of Business Risk

Business risk arises due to following causes:

1. Natural Causes : Natural calamities.
2. Human Causes : Theft, Dishonesty, Mismanagement.
3. Economic Causes :
4. Other Causes :

# Topic : Indigenous Banking System

According to Indian central banking enquiry committee :-
"An indigenous bankers or bank is defined as an individual or private firm which receives deposits , deals in hundis or engages itself in lending money"

# Topic : Indigenous Banking System

This system may have existed even before the vedic period (2000 to 1400 BC) with "Rna" (or debt) being mentioned repeatedly in 'RIGVEDAS'

# Topic : Indigenous Banking System

As economic life progressed METALLIC MONEY had been introduced, which boasted the banking system.

# Topic : Indigenous Banking System

The indigenous bankers can be divided into three categories :-

1. Those who deal only in banking business. Example - Multani Bankers
2. Those who deal mainly in trade on have limited banking business. Example – Sahukar
3. Those who combine banking business with trade. Example - Marwaris and bangalis

# Topic : Indigenous Banking System

- Indigenous bankers offered loan after writing out a hundi or promissory note promissory to pay on - demand the principal and interest.

- "Hundis refers to financial instruments (Bills of exchange/promissory note) evolved on the indian subcontinent and used for trade and credit transactions"

# Topic : Indigenous Banking System

**Hundis were used as :-**

1. As remittance instrument ( to transfer funds from one place to another)
2. As credit instrument (to borrow money)
3. As trade transactions (as bills of exchange)

# Types of Hundis

**Darshani Hundi**

- Payable at sight
- Like A Demand Bill

**Muddati/Miadi Hundi**

- Payable after a specific period

**Shah Jog Hundi**

- Payable only to SHAH (a respectful person)
- Like ‘Crossed Cheque’

# Types of Hundis

## Namjog Hundi

- Payable to the person named on the Hundi

## Dhanjog Hundi

- Payable to holder or bearer
- Like Self Cheque

## Jokhmi Hundi

Usually drawn against goods shipped on a vessel and implies a certain risk involved in the shipment of

## Jawabee Hundi

-A hundi, which is in the form of letter or recommendation to a banker for making payment to a specified person.

# Topic : Rise of Intermediaries

"Intermediaries are the middleman/ commission agents/brokers and distributors that brings buyers and sellers together for a fee without taking part in actual sales transactions.

- They provide considerable financial security to the manufacturers by assuming responsibility of risk.
- Intermediaries had great influence during Mughal period and the days of the East India Company.

# Topic : Transportation

Place of Consideration Place of Production

"Transport or Transportation refers to the physical movement of goods from the place of production to the place of consumption."



# Topic : Trading Communities

- Different parts of the country had different communities dominated trade
- Punjabi and Multani merchants handled business in the Northern Region, while the Bhats managed the trade in the state of Gujarat and Rajasthan.
- In western India, these groups were called Mahajan and Chatt were important traders from the South.

# Topic : Merchant Corporations

"Merchant corporations are the merchant communities that were formed to protect the interest of traders."

- These corporations framed their own rules of membership and professional code of conduct, which were supposed to be accepted and respected even by the king.
- Trade and Industrial Taxes were major source of revenue.
- The chief directly deal with king, tax collectors and settle market toll on behalf if its fellow merchants at fixed sum of money .

Topic : Merchant Corporations

# Topic : Major Trade Centers

1. Patliputra: export of stones
2. Peshawar: export of wool and import of horses
3. Taxilla: centre for learning (Taxilla University)
4. Indrapratha: Commercial Route on Royal Road
5. Mathura: Emporium of Trade
6. Varanasi: Center for Textile Industry
7. Ujjain: Trade in different types of clothes

# Topic : Major Trade Centers

1. Mithila: Established trading colonies in south china, especially in Yunnan
2. Surat: Textile trading mainly for their Gold Border (Zari)
3. Kanchi: Trade for Pearls, Glass and Rare Stones
4. Madura: Pearl Fisheries
5. Bharuch: Linked with all important marts
6. Kaveripatta: Trade of Perfumes, Cosmetics and Scent etc
7. Tamralipti: Greatest ports Connected by Both Sea and land

# Topic : Major Exports and Imports

## EXPORTS

Wheat, Sugar, Spices, Indigo, Opium, Sesame Oil, Cotton, Animal product like hides, furs, pearls etc.

## IMPORTS

Horses, Animal products, Chinese Silk, Flax and Liner, Gold, Silver, Tin, etc.

# Forms of Business Organisation

# Topic : Forms of Business Organisation

(I) Sole Proprietorship

(II) Partnership

(III) Joint Hindu Family Business

(IV) Cooperative societies.

(V) Joint stock company.



# Topic : Forms of Business Organisation

- While starting a business or expanding an existing one, an important decision relates to the choice of the form of organization. The most appropriate form is determined by weighing the merits and limitations of each type of organisation against one's own requirements.

# Topic : Forms of Business Organisation

**The various forms of Business Organisations are:**

(a) Sole Proprietorship
(b) Hindu Undivided Family Business
(c) Partnership
(d) Cooperative Society
(e) Joint Stock Company

# Topic : Sole Proprietorship





## Topic : Sole Proprietorship

# Sole Proprietorship

**Sole - Only**

**Proprietor - Owner**

66 Sole Proprietorship is that form of doing business which is owned, managed and controlled by an individual, who is the recipient of all profit and bearer of all losses".



# Topic : Meaning

- A sole proprietor is the one who is the only owner of a business. Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks.

# Topic : Formation and Closure

- No seperate law
- No legal Formalities
- No Damentation.

Easy

- Sole proprietorship is very easy to start as no legal formalities are required to start it (though in some cases, one may require a license).
- There is no separate law that governs sole proprietorship



## Topic : Liability

unlimited

- The liability of the owner (i.e. sole proprietor) is unlimited. It means that the owner is personally liable for payment of debts if assets of the business are not sufficient to meet all the debts. In other words, his personal property may be sold to pay business debts is case the debts exceed the assets of the firm.



# Topic : Sole Risk Bearer and Profit Recipient

**Sole proprietor is the sole owner who is responsible for all the business affairs.**

- Any risk of failure of business is borne all alone by him



# Topic : Control ( Decision-making ).

- Sole proprietorship is a one man show, i.e. right to run the business and to make all the decisions, lies absolutely with the proprietor. He can carry out his plans without any interference from others.



# Topic : No Separate Entity

- A sole proprietorship has no legal existence, i.e. in the eyes of the law, no distinction is made between the firm and the proprietor. As a result, owner is held responsible for all the activities of the business.





# Topic : Quick Decision Makings

**Sole proprietor enjoys complete freedom in taking the decisions.**

- It facilitates quick decision-making as there is no need to consult others. He takes all major or minor decisions.



# Topic : Confidentiality of Information

secrecy

- The maintenance of full secrecy is very important for the success of a business. As proprietor has the sole decision making authority, it enables him to retain all information related to business operations confidential.



# Topic : Direct Incentive

- The proprietor enjoys all the profits of the business as there is no one else to share earnings of the business. Direct relationship between efforts and reward encourages him to work hard and earn more.

Work ↑ = Profit ↑

Work ↓ = Profit ↓

Work X = Profit X



# Topic : Sense of Accomplishment

→ Achievement.

- Sole proprietorship provides personal satisfaction to people who want to be self-employed. As the proprietor is himself responsible for the success of business, it not only provides him satisfaction but also creates a sense of accomplishment and confidence.



# Topic : Ease of Formation and Closure

- Sole proprietorship can be easily started or dissolved at any time with minimum legal formalities. No separate law governs sole proprietorship. So, it can be started or closed down easily at the will of the proprietor.



## Topic : Limited Resources

(4M ← men, machine, money, material.)

**The resources of the proprietor are limited to his personal savings and borrowings.**

- Due to lack of resources, sole proprietorship is generally of small size with low growth rate.



# Topic : Limited Life of a Business Concern / Lack of continuity :

**In the eyes of the law, owner and the business are considered one and the same. So, sole proprietorship does not enjoy continuity of life illness, death or insolvency of the proprietor affects the business and can lead to its closure.**

• Death • Retirement • Imprisonment • Insolvency • Lunacy.

- If business fails or debts exceed the business assets, then creditors can recover their due not only from the business assets, but also from the personal assets of the proprietor.



# Topic : Limited Liability

**The proprietor has unlimited liability, i.e. he is liable for all the debts of business.**

- If business fails or debts exceed the business assets, then creditors can recover their due not only from the business assets, but also from the personal assets of the proprietor.



# Topic : Limited Management Ability

**The proprietor has to assume responsibility of all affairs of business.**

- However, managerial ability of the single owner as limited as he cannot posses all the qualities and not likely to be an expert in all matters of the business.



# Topic : Joint Hindu Family Business

OR

Hindu Undivided Family Business





# Topic : Joint Hindu Family Business

↳ (The Hindu Succession Act, 1956).

- The Hindu Undivided Family Business Or Joint Hindu Family Business Is A Unique Form of Business Organisation, Which Is Found Only In India. It Is Governed By The Provisions of The Hindu Law (The Hindu Succession Act, 1956). It Is One of The Oldest Forms of Business Organisation In The Country

# Topic : Joint Hindu Family Business

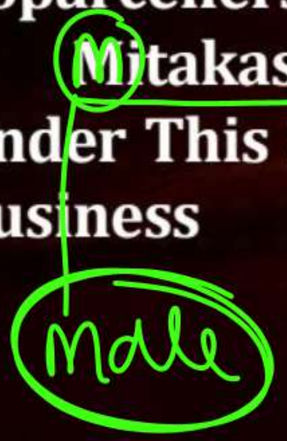
**It Refers To A Form of Organisation Wherein The Business Is Owned And Carried On By The Members of The Hindu Undivided Family (HUF).**

- The Basis of Membership In The Business Is Birth In A Particular Family And Three Successive Generations Can Be Members In The Business.
- The Business Is Managed And Controlled By The Eldest Male Member of The Family Known As 'Karta' Or 'Manager'. The Decisions of The Karta Are Binding On All The Members.
- All Members Have Equal Ownership Right Over The Property of An Ancestor And They Are Known As Co-parceners.

# Topic : Joint Hindu Family Business

**There Are Two Systems of Inheritance Under The Hindu Law :-**

1. **Dayabhaga System: This System Prevails In West Bengal Only. Under This System, Both Male And Female Members of The Family Are Allowed To Be Coparceners.**
2. **Mitakashara System: This System Prevails All Over India Except West Bengal. Under This System, Only The Male Members Are Allowed To Be Coparceners In The Business**



## Topic : Features

1. Formation

- For formation of Hindu undivided family business, there should be at least two members in the family and ancestral property must be inherited by them.



## Topic : Liability

karta = Unlimited

Co-parceners = Limited.

- The liability of all members (except karta) is limited to the extent of their shares in the co-parcenery property of the business. However, the karta has unlimited liability.



## Topic : Control → (Decision-Making)

- The control of the family business lies with the karta. He is authorised to man the business. He takes all the decisions and his decisions are binding on the other member.



# Topic : Continuity

- This form of business is not affected by the death of the members. In the continuity of death of karta, the next eldest male person in the family becomes the karta, leaving business stable.



# Topic : Minor Members

- Minors can also be members of the business as inclusion of an individual into the business occurs due to birth in the Family. For, “karta is the most active member in case of Joint Hindu family business”.



# Topic : Advantages



# Topic : Effective Control :

- Centralised management in the hand of karta helps in discipline management. This avoids conflicts among members as no one can interfere with his rising to decide. It also leads to prompt and flexible decision making.



# Topic : Continued Business Existence

- The business enjoys relative stability in existence. Decision of the karta will not affect the business as the next eldest member will then take up position. Hence, operations are not terminated and continuity of business is not threatened.



# Topic : Limited Liability of Members

- The liability of all co-parceners, except the karta limited to their share in the family property. Hence, interests of all members are protects Unlimited liability of the karta raises the credit worthiness of the firm.



# Topic : Increased loyalty and Co-operation

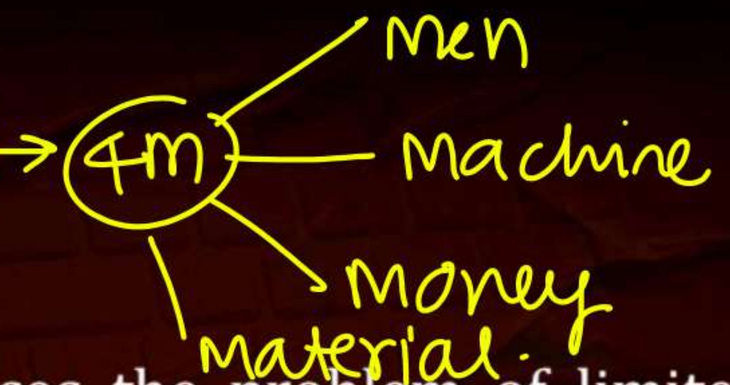
- As the business is run by the members of a family there is a greater sense of loyalty towards one other. There is a direct relation between efforts and reward.



# Topic : Disadvantages



## Topic : Limited Resources




- The Hindu Undivided family business faces the problem of limited capital as it depends mainly on ancestral property. This limits the scope for expansion business.
- The business faces shortage of funds as ancestral property gets divided with the birth of every male member and members do not contribute additional funds



# Topic : Unlimited Liability of Karta

- The karta is not only solely responsibility for decision making and management of business, but also suffers due to his unlimited liability for the business debts. His personal property can be used to repay business debts.



# Topic : Dominance of Karta

- The sole control and management of the business is in the hands of the karta. At times, such a monopoly control is not acceptable to other members. It may cause conflict amongst them and may even lead to break down of the family unit.



# Topic : Limited Managerial Skills

- As karta has to perform all the functions of business, he may not be an expert in all activities of business. His skill is limited and this may adversely affects the functioning of the business and may result into poor profits of even losses.



# Topic : Partnership



# Topic : Meaning

- According to Indian Partnership Act, 1932, Partnership is 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.



# Topic : Formation

Two members
Agreement

- Partnership is governed by the Indian Partnership Act, 1932. It comes into existence through a legal agreement among the partners, in which terms and conditions governing the relationship, sharing of profits and losses and the manner of conducting the business are specified. It must be noted that the business must be lawful and should be run with the motive of profit. It two people work together for charitable purpose, then it will not constitute a partnership.

(A) Contract
(B) Partnership Deed
(C) Relationship
(D) Assignment



## Topic : Liability → Unlimited

- The partners of a firm have unlimited liability, i.e. their personal assets may be used to pay off debts of the business in case of insufficiency of business assts. Further, the partners are 'jointly' and 'individually' liable for payment of debts.
- Jointly, all the partners are responsible for the debts and they contribute in proportion to their share in business and as such are liable to that extent.
- Individually, each partner can be held responsible to repay the debts of the business.
- However, such a partner has the right to recover the proportionate contribution from other partners



## Topic : Risk Bearings → Divided among the partners.

- The partners bear the risk involved in running a business as a team. The reward for risk bearing comes in the form of profits, which are shared by the partners in and agreed ratio. However, in the event of losses, they also share the losses in the same ratio.



# Topic : Decision Making and Control → All Partners.

- In a partnership firm, partners share amongst themselves the responsibility of decision-making and control of day-to-day activities. Decisions are generally taken with mutual consent. Thus, the activities are managed through the joint efforts of all the partners.



# Topic : Continuity

- Partnership gets automatically dissolved on the death, retirement, insanity or insolvency of any of its partners. However, if the remaining partners desire to continue, then they may do so on the basis of a new agreement.



## Topic : Membership

min = 2

max = 50.

- There should be minimum of 2 persons to form a partnership firm. Section 464 of the Companies Act, 2003 provides that number of persons in any partnership shall not exceed 100 subject to the limit prescribed in Rules. Rule 10 of the Companies (Miscellaneous) Rule, 2014 provides that no partnership shall be formed, consisting of more than 50 person. So, limit as of low is 50 partners.



# Topic : Mutual Agency

- According to India Partnership Act, 1932, partnership business is carried on by all or any one of the partners acting for all. It means, every partner acts in the capacity of an 'agent' as well as a 'principal'
  - As an agent, he represents other partners and thereby binds them through his acts.
  - As a principal, he is bound by the acts of other partners.



# Topic : Ease of Formation and closure

↳ Registration is compulsory.

- A partnership firm can be easily formed and dissolved. It comes into existence through an agreement between partners and they can start a lawful business even without registration.



# Topic : Balanced Decision Making

- Two heads are always better than one. The specialized knowledge, skills and experience of different partners are available to the firm. The partners can oversee different functions according to their areas of expertise. It not only reduces the burden of work but also leads to more balanced decisions.



# Topic : More Funds

- In partnership firm, capital is contributed by a number of partners. As a result, the business has got large resources as compared to sole proprietorship and firm can undertake additional operations when needed.



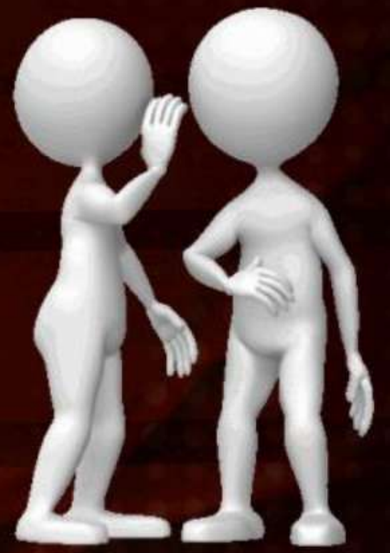
# Topic : Sharing of Risk

- Business risks are share by all the partners under the principle of unlimited liability. This reduce the anxiety, burden and stress on individual partners.



# Topic : Secrecy

- A partnership firm can easily keep its secrets as it is not required to publish its accounts. Partners are not likely to leak out the secrets as their own future is linked with the success of the firm.



# Topic : Unlimited Liability

- The liability of the partners is unlimited, jointly as well as individually.
  - Partners are liable to pay off business debts from their personal property if the business assets are not sufficient to meet its debts.



# Topic : Limited Resources

- A partnership firm cannot raise huge financial resources to support large scale business operations due to legal ceiling on number of partners. As a result, partnership firms face problems in expansion and growth beyond a certain size.



# Topic : Possibility of Conflicts

- In a partnership firm, every partner enjoys the right to participate in the affairs of the firm.
- Any difference in opinion on some issues may lead to disputes between the partners. Decisions of one partner are binding on others.



# Topic : Lack of Continuity → Partnership.

- The life of a partnership firm is highly uncertain and unstable. It can come to an end by agreement, insolvency, death or insanity of any of the partners. However, the remaining partners can enter into a fresh agreement and continue to run the business.



# Topic : Lack of Public Confidence

- As the partnership firm is not legally required to publish its accounts, public is not aware of its true financial status. As a result, the partnership firm enjoys less confidence of the public.



# Topic : Type of Partners

- The Indian Partnership Act, 1932 makes no distinction among the partners. However, as partnership firm can have different types of partners with different capabilities, nature of work and liability. The main types of partners are described as follows:



# Topic : Active or Working Partner

- An active partner is one who contributes capital, participates in the management of the firm, shares its profits and losses and bears an unlimited liability for the debts of the firm. Such partners take active part in carrying out business or the firm.





# Topic : Sleeping or Dormant Partner

- A sleeping partner is one who does not take part in day-to-day activities of the business. Such partner, of course contributes capital, bears unlimited liability both jointly as well as individually, but does not participate in the management affairs.



# Topic : Secret Partner

- A secret partner is one whose association with the firm is unknown to the general public. Except this distinct feature, he is like the rest of the partners. He contributes capital take part in the management, shares its profits and losses and has unlimited liability towards the creditors.



# Topic : Nominal Partner

- A nominal partner is one who allows the use of his name and goodwill for benefit of the firm and can be represented as a partner. He does not invest capital, does not share profits and does not take part in the management of business. However, he bears unlimited liability for the debts of the firm.

# Topic : Partner by Estoppel

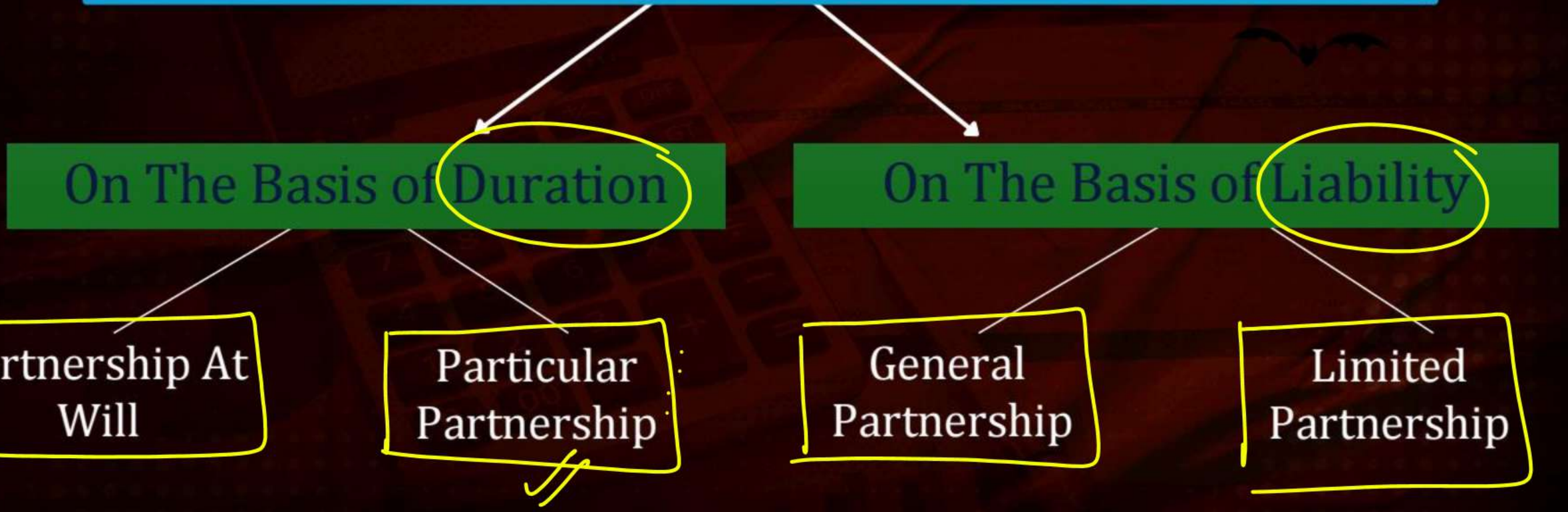
- A partner by estoppel is one who by his words or conduct gives an impression to others that he is a partner of the firm. Such partners are held liable for the debts of the firm as they are considered partners in the eyes of the third party, even though they do not contribute capital or take part in its management.



# Topic : Partner by Holding Out

- A partner by holding out is one who is represented as a partner and he does not deny such impression, despite becoming aware of that fact. Such a person becomes liable for the debts of the firm to out sides who have sold goods on credit or lent money to the firm on the basis of such representation.

# Types of Partnership





# Topic : On The Basis of Duration

## Partnership At Will

- The life of this type of partnership depends upon the will of partners. The partnership can be dissolved at the desire of any partner on giving a notice. This type of partnership is not for a fixed period or for during a particular fixed venture.

# Topic : On The Basis of Duration

## Particular Partnership

- Particular partnership is one which is formed to accomplish a particular project or to carry out an activity for a specified period of time. It dissolves automatically at the expiry of fixed period or completion or project. For example, partnership done for construction of a dam or a road.



# Topic : On The Basis of Duration

## General Partnership

- General partnership is one in which liability of every partner is unlimited and every partner is entitled to take active part in management of the business. Acts of each partner are binding on each other as well as on the firm. Registration of the firm is optional and existence of the firm is affected by death, insanity, insolvency or retirement of the partners.

# Topic : On The Basis of Duration

## Limited Partnership

- Limited partnership is one in which liability of at least one partner is unlimited, whereas, rest of the partners may have limited liability.

- Such a partnership does not get terminated with the death, lunacy or insolvency of partners with limited liability.
- Limited partnership was not permitted in India earlier. However, after introduction of New Small Enterprise Policy in 1991, such partnership firms have been permitted in order to enable the firms to attract equity capital from friends and relatives of small-scale entrepreneurs.



# Topic : Partnership Deed

written Agreement

- Partnership comes into existence through an agreement which is entered into the partners. This agreement may be verbal or in writing. Even though it is not essential to have a written agreement, it is advisable to have a written agreement as it constitutes as evidence of the conditions agreed upon. Partnership deed is the written agreement, which specifies the terms and conditions that govern the partnership.

# 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, retirement and expulsion of a partner
- Interest on capital and interest on drawings
- Procedure for dissolution of the firm
- Preparation of accounts and their auditing
- Method of solving disputes

# Topic : Registration of Partnership Firm

- Registration of a partnership firm means the entering of the firm's name, along with the relevant prescribed particulars, in the Register of firms kept with the Registrar of Firms

# Topic : Need for Registration

- Registration provides conclusive proof of the existence of a partnership firm. It is at the option for a partnership firm to get registered. However, non-registration deprives the firm from a number of benefits.

# Cooperative societies

- The term 'cooperative' means working together and with others for a common purpose. Cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members.

- It aims to protect and promote economic and social interests. It is an association of persons, not on capital.
- The cooperative society is compulsorily required to be registered under the Cooperative Societies Act, 1912.
- A minimum of 10 adult persons are required to from a cooperative society. Capital is raised from its members through issue of shares. The society acquires a distinct legal
- identity after its registration.
- Cooperative Societies are based on principles like 'Each for all and all for each' and Self-help through mutual help'.

# Topic : Voluntary Membership

- Membership of a cooperative society is voluntary. Any person of 18 years and having a common interest can become its member.

## Topic : Legal Status : Registration is compulsory.

- Registration of a cooperative society is compulsory. After registration, a cooperative society becomes a legal entity distinct from its members.
- It can own property and make contracts on its own name. It can also sue and be sued in its own name.



# Topic : Limited Liability

- The liability of the members of a cooperative society is limited to the extent of amount contributed by them as capital. So, the maximum risk of a member is the subscribed share capital



## Topic : Control

- Such societies are run on a democratic pattern as equality is the essence of a cooperative society. All members elect a managing committee through 'one-man-one-vote' system.



# Topic : Service Motive

- The cooperative society is formed with a service motive rather than maximisation of profits. If any surplus is generated as a result of its operations, it is distributed amongst the members in the form of dividend.



# Topic : Equality In Voting Status

- The principle of 'one-man-one-vote' governs the cooperative society. Each member is entitled to equal voting rights irrespective of amount of capital contribution by a member.



# Topic : Limited Liability

- The liability of every member is limited to the extent of capital contributed by him. Therefore, the risk of financial loss is limited and known. Persons assets of members are safe and cannot be used to repay business debts.



# Topic : Stable Existence

- Cooperative society is a corporate body and its existence is not affected by the death, insolvency or insanity of its members. Thus, it enjoys continuity of life over a long period of time.



# Topic : Economy In Operations

- Cooperative society is generally managed by the member themselves on an honorary basis. As the society aims to eliminate middlemen, it helps in reducing costs.



# Topic : Support From Govt.

- As cooperative society is based on democratic pattern, in enjoys special exemptions, privileges and concessions from the government in the form of low taxes, subsidies and low interest rates on loans.



# Topic : Ease of Formation

- The cooperative society can be easily started with any ten adult members. The legal formalities involved in registration are few. Its formation is governed by the provision of Cooperative Societies Act, 1912.



# Topic : Limited Resources

- A cooperative society faces shortage of resources as it is run by members, who have limited means. The low rate of dividend on investment also acts as an obstacle in attracting membership or more capital from the members.



# Topic : Inefficiency In Management

- The societies are unable to employ experts because of their inability to pay them high salaries. The managing committee elected by the members, are generally not professionally equipped to handle the management functions effectively.



# Topic : Lack of Secrecy

- Cooperative society suffers from the lack of secrecy as its affairs are discussed openly in the meetings {due to disclosure obligations as per the Societies Act (7)}. They are known to all the members.



# Topic : Government Control

- In return of the privileges offered by the government, cooperative society is bound by rules and regulations related to auditing of accounts, submission of accounts, etc



# Topic : Differences of Opinions

- There are often internal quarrels due to differences of opinion and lack of cooperation among the members. It leads to difficulty in decision-making. Some members attempt to give preference to personal interest at the cost of welfare motive.



# Topic : Consumers' Co-operative Society

- Consumers' Cooperative Society is formed by consumers for obtaining good quality products at reasonable prices.
- The society aims to eliminate the middlemen by purchasing goods in bulk directly from the manufacturers or wholesalers and selling them to members.

# Topic : Producers’ Co-operative Society

- Producers' Cooperative Society is formed by small producers, who desire to procure inputs for production of goods in order to meet the demands of consumers. They are formed to face the competition from large-scale production of goods in order to meet the demands of consumers. They are also known as Industrial Cooperative Societies.
- The Society aims to fight against the big capitalists and want to enhance the bargaining of small producers.

# Topic : Marketing Co-operative Society

- Marketing Cooperative Society is a voluntary association of small independent producers who desire to sell their output through one centralised agency. The members consist of producers who wish to obtain reasonable prices for their output.
- The production of different members is pooled and the society undertakes to sell these products by eliminating middlemen.

- These societies also perform marketing functions like transportation, warehousing, packaging, etc., to sell the output at the best possible price.

# Topic : Farmers’ Co-operative Society

- Farmers' Cooperative Society is formed by farmers to jointly take up farming activities to gain the benefits of large-scale farming and higher productivity. These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. They are also known as Agricultural Cooperative Society.

- The Society provides better quality seeds, fertilisers, machinery and other modern techniques for use in the cultivation of crops. The aim is to improve the yield and returns to the farmers.

# Topic : Credit Co-operative Society

- A Credit Cooperative Society is formed to provide short-term financial assistance to the members in the form of loans.
- The society aims to protect the members form the exploitation of lenders who charge high rates of interest on loans.
- The society provides loans to members out of the amounts collected as capital and deposits and charge low rates of interest.

# Topic : Co-operative Housing Society

- A Cooperative Housing Society is formed by those people who are desirous of procuring residential accommodation at lower costs. Such societies help people with limited income to construct houses at reasonable costs.

- The society aims to solve the housing problems of the members of the members and giving the option of paying in installments.

- The society either constructs the flats or provides plots to members on which the members construct the houses on their own.

- In this modern competitive world, the technological improvements and economic factors have created the need for large scale organisations. Joint Stock Company is considered to be most suitable form of organisation for operating business activities on a large scale. A company is as association of persons formed for carrying out business activities and has a legal status independent of its members.
- It is set up by registration under the Companies Act, 2013 or any previous Company Law.
- A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal.
- The shareholders are the owners of the company and they exercise an indirect control over the business.

# Topic : Artificial Person → Legal Process.

- Since a company is created by law, it is an artificial person, having no body, no soul and no conscience, i.e. it cannot breathe, eat, run or talk. But, like a natural person, a company can own property, incur debts, borrow money, enter into contracts, sue and be sued.

# Topic : Separate Legal Entity

- On incorporation, a company acquires a separate legal existence in the eyes of law. The assets and liabilities of the company are separate from those of its owners.



# Topic : Formation

(I) Promotion
(II) Incorporation
(III) Capital subscription
(IV) Commencement of Business

- The formation of a company is a time consuming, expensive and complicated process. It involves preparation of several documents and compliance with several legal requirements before it can start functioning.

# Topic : Perpetual Succession

- Company has a permanent or perpetual existence, i.e. its existence is not affected by death, insolvency, coming or going of the members. As company is a creation of the law, it can be brought to an end only by law.



# Topic : Control

ownership → shareholders.

management → Board of Directors.

- The ownership and the management (control) are in two different hands.
- Shareholders are the owners, but the company is managed by its
- Board of Directors.
- Directors are the legal representatives and are directly accountable to the shareholders for the working of the company.



## Topic : Liability → Limited.

- The liability of the members is limited to the extent of the capital contributed by them in a company.
- In case the company incurs huge liabilities, then the shareholders can be asked to contribute the unpaid balance of their shares.

# Topic : Common Seal → official signature.

- A company may or may not have a common seal.
- If a company has a common seal, it must be affixed to the documents such as agreements of a company.



# Topic : Risk bearing

- In a company, the risk of losses is borne by all the shareholders. In the every of financial crisis, all the shareholders have to contribute to the debts to the extent of their capital contribution. Hence, risk of loss gets spread over a large number of shareholders.

# Topic : Transfer of Shares

- The shareholders enjoy a right to transfer their shares to other person in the open market or at the stock exchange, at the price prevailing in the market at that time.



# Topic : Limited Liability

- The liability of the shareholders of a company is limited to the external of amount unpaid on the shares held by them.
- The personal assets of a member are safe and free from any charge as debts of the company can be settled only from the assets of the company.

# Topic : Transfer of Interest

- The share of a public company are freely transferable. A shareholder can dispose off his shares at any time when the market conditions are favourable or he is in need of money.

# Topic : Perpetual Existence

- A joint stock company enjoys perpetual existence. Change in its ownership and management does not affect its continuity, i.e. its existence is not affected by death, retirement, insolvency or insanity of its members.

# Topic : Scope for Expansion

- As compared to other forms of organisation, a company has large financial resources.
- Moreover, capital can be attracted from the public as well as through loans from banks and financial institutions.

# Topic : Professional Management

- A company can employ specialists and professionals in different areas of business.
- The large-scale of operations facilitate division of work. As a result, each department deals with a particular activity and is headed by an expert.

# Topic : Complexity in Formations

- As compared to other form of organisations, formation of a company is more complex as it requires greater time effort, procedures and extensive knowledge of legal requirements.

# Topic : Lack of Secrecy

- According to Companies Act, each public company has to provide information from time-to-time to the office of the registrar of companies. Such information is available to the general public also.

# Topic : Impersonal Work Environment

- Separation of ownership and management leads to a situation in which there is no direct relationship between efforts and rewards.
- There is lack of effort as well as personal involvement on the part of the officers of a company.



# Topic : Numerous Regulations

- The functioning of a company is subject to large number of legal formalities.
- The company is burdened with numerous restrictions with respect to audit, voting, filing of reports, preparation of documents and obtaining certificates from various agencies.

# Topic : Delay in Decision-Making

- In company form of organisation, decision-taking is a time consuming process. All important decisions are taken either by the Board of Directors or are referred to general meeting.

# Topic : Oligarchic Management

- In theory, management of a company appears to be democratic as directors are the elected representatives of shareholders.
- However, in reality, management of the company is the worst example of oligarchy, i.e. rule by a few.

# Topic : Conflict in Interests

- There may be conflict of interest amongst various stakeholders of a company. For example employees may be interested in higher salaries, consumer may desire better quality products at lower prices and shareholders may ask for higher dividends. These demands pose problems as it is very difficult to satisfy such diverse interests.



# 2 mins Summary

**Topic** BUSINESS - TRADE AND COMMERCE

**Topic** FORMS OF BUSINESS ORGANISATION

# Homework

Make a mind map.


THANK
YOU BACHCHO