Chapter 2 Forms of Business Organisation

Different forms of business organization covered are as follows:

1. Sole Proprietorship: It is the simplest and most common form of business organization. In this form, a single individual owns and manages the business. The sole proprietor has unlimited liability, meaning they are personally responsible for all the debts and obligations of the business.

2. Partnership: A partnership is a form of business organization where two or more individuals come together to carry on a business with a common goal. The partners contribute capital, share profits and losses, and participate in the management of the business. Partnerships can be either general partnerships or limited partnerships.

3. Joint Hindu Family Business: This form of business organization is prevalent in India. It is based on the concept of the Hindu Undivided Family (HUF), where the business is owned and managed by the members of a joint family. The eldest male member, known as the 'Karta,' manages the business on behalf of the family.

4. Cooperative Society: A cooperative society is formed by a group of individuals who come together voluntarily to meet their common economic, social, and cultural needs through a jointly owned and democratically controlled enterprise. The members contribute to the capital, share profits and losses, and participate in the decision-making process.

5. Company: A company is a legal entity that is separate from its owners. It is created by law and can enter into contracts, own property, and sue or be sued. Companies are categorized into two types: private limited company and public limited company. In a company, the liability of the owners (shareholders) is limited to the extent of their investment.

6. Cooperative Banks: Cooperative banks are financial institutions that are owned and operated by their members, who are usually individuals with a common interest or belonging to a particular community. The primary objective of cooperative banks is to provide credit and other banking services to their members.

RBL Academy 8920884581

7. Franchise: A franchise is a legal and commercial relationship between the owner of a trademark, brand, or business model (franchisor) and an individual or entity (franchisee) that is authorized to operate a business using the franchisor's business format.

I. Sole Proprietorship

Sole proprietorship is a type of business organization which is owned, managed and controlled by a single owner. The word “sole” means “only” and “proprietor” notes to “owner”. A sole proprietor is the beneficiary of all profits. All risks are to be borne by the sole proprietor. The sole proprietor has unconditional and full control over its business. Sole proprietorship is a form of business organization where a single individual owns, manages and controls the entire business. It is the simplest and most common form of business structure.

Characteristics of Sole Proprietorship:

1. Single Ownership: The business is owned and controlled by a single individual, known as the sole proprietor.
2. Unlimited Liability: The sole proprietor is personally liable for all the debts and obligations of the business. In case of losses, the proprietor's personal assets can be used to pay off business liabilities.
3. Sole Decision-making: The proprietor has complete authority and control over all business decisions, including operations, finance, and management.
4. Minimal Legal Formalities: Setting up a sole proprietorship involves fewer legal formalities and is relatively easy and inexpensive compared to other forms of business organizations.
5. No Separate Legal Entity: The business and the proprietor are considered as one entity. Legally, there is no distinction between personal and business assets.
6. Limited Size: Sole proprietorship businesses are typically small in scale due to the limitations of resources and the proprietor's ability to manage the operations.

Merits of Sole Proprietorship:

RBL Academy 8920884581

1. Easy Formation: Starting a sole proprietorship is simple and involves minimal legal formalities. It requires only a few registrations and licenses.
2. Direct Motivation and Incentives: The sole proprietor directly enjoys the profits and incentives from the business, providing motivation for hard work and innovation.
3. Flexibility: The proprietor has the freedom to make quick decisions and changes in response to market conditions or customer demands, without consulting others.
4. Confidentiality: Sole proprietorship offers privacy and confidentiality as there is no legal requirement to disclose financial information publicly.
5. Personal Touch: The owner can build personal relationships with customers, leading to better customer service and satisfaction.

Limitations of Sole Proprietorship:

1. Unlimited Liability: The sole proprietor is personally liable for all the debts and losses of the business. This means the proprietor's personal assets are at risk in case of business failure.
2. Limited Resources: Sole proprietorship businesses may face limitations in terms of financial resources, skills, and expertise due to the single-owner structure.
3. Limited Life: The existence of the business is dependent on the proprietor's life. It may cease to exist or face difficulties in continuity in the event of the proprietor's death or retirement.
4. Limited Managerial Skills: The sole proprietor may lack expertise in certain areas of business management, such as finance or marketing, which can limit the growth potential.
5. Limited Growth: Due to limited resources and managerial capacity, sole proprietorships may find it challenging to expand and compete with larger businesses.

RBL Academy 8920884581

II. Hindu Undivided Family

Hindu Undivided Family (HUF) is a unique form of business organization in India that is recognized by Hindu Law. It is a family-based business structure that combines the features

of a joint family and a business entity. Here are the key features, merits, and limitations of a Hindu Undivided Family, as per the Class 11 NCERT CBSE syllabus:

Features of Hindu Undivided Family (HUF):

1. Formation: A HUF is formed by the union of several generations of a Hindu family. It is created automatically through birth or marriage within the family. The head of the family, known as the Karta, manages the affairs of the HUF.
2. Liability: The liability of the members in a HUF is limited. The Karta, however, has unlimited liability for the debts and obligations of the family.
3. Control: The Karta exercises complete control and management over the affairs of the HUF. The other family members, known as coparceners, have a right to be consulted but do not have the power to interfere in the day-to-day operations.
4. Continuity: HUF provides continuity of business as it is not affected by the death of any member. The HUF continues to exist even after the death of the Karta, with the eldest coparcener assuming the role of the new Karta.
5. Minor Member: A minor member, such as a child, can also be a part of the HUF and receive a share in the family property. However, the minor's share is managed by the Karta until the minor reaches adulthood.

Merits of Hindu Undivided Family:

1. Effective Control: The HUF allows for centralized control and quick decision-making, as the Karta has the authority to make decisions on behalf of the family.
2. Continued Business Existence: The HUF ensures the continuity of the family business even in the event of the death of any member, ensuring the preservation of assets and business operations.
3. Limited Liability of Members: The liability of coparceners is limited to the extent of their share in the family property, providing a level of protection to individual members.
4. Increased Loyalty and Cooperation: The HUF promotes loyalty, trust, and cooperation among family members, which can be advantageous for the smooth functioning and growth of the business.

RBL Academy 8920884581

Limitations of Hindu Undivided Family:

1. Limited Resources: The resources available to the HUF are limited to the family's wealth and assets. It may be challenging to raise additional funds for business expansion.
2. Unlimited Liability of Karta: The Karta has unlimited liability, meaning they are personally responsible for the debts and obligations of the HUF. This can put the Karta's personal assets at risk.
3. Dominance of Karta: The authority of the Karta in decision-making may lead to limited participation and decision-making power for other family members, which can create conflicts within the family.
4. Limited Managerial Skills: The HUF may suffer from limited managerial skills if the Karta or other family members lack the necessary expertise to run the business efficiently.

III. Partnership:

Partnership is a type of business organization in which two or more individuals come together to carry on a business and share its profits and losses. The Indian Partnership Act, 1932, governs the partnership firms in India. Partnership refers to an agreement between two or more individuals (known as partners) who agree to pool their resources, skills, and efforts to carry on a business with the aim of making a profit. The partnership is based on mutual trust, understanding, and cooperation among partners.

Features of Partnership:

1. Formation: A partnership is formed through an agreement between two or more persons to carry out a business venture with the intention of making a profit. The partnership agreement may be oral or written, although a written agreement is recommended to avoid misunderstandings.
2. Liability: In a partnership, the partners have unlimited liability, which means they are personally liable for the debts and obligations of the partnership. This means that if the partnership assets are not sufficient to cover its debts, the personal assets of the partners can be used to fulfill the liabilities.

RBL Academy 8920884581

3. Risk Bearing: The partners share the risks associated with the business. They contribute capital and resources, and in case of losses, these are shared among the partners according to their agreed-upon profit-sharing ratio.
4. Decision Making and Control: Partners have the right to participate in the management and decision-making process of the partnership. However, the extent of decision-making authority may vary based on the terms of the partnership agreement.
5. Continuity: Unlike a sole proprietorship, a partnership does not have perpetual existence. The partnership dissolves upon the death, retirement, or insolvency of a partner, unless otherwise stated in the partnership agreement.
6. Number of Partners: A partnership must have a minimum of two partners and can have a maximum of 20 partners in the case of a non-banking business. For banking businesses, the maximum number of partners is 10.
7. Mutual Agency: One of the key features of a partnership is the principle of mutual agency. This means that each partner is considered an agent of the partnership and can bind the partnership to legal obligations and contracts within the scope of the partnership's business.

Merits of Partnership:

1. Ease of Formation and Closure: Partnerships are relatively easy and inexpensive to form as they do not require complex legal formalities. Similarly, the closure of a partnership can be done without much hassle.
2. Balanced Decision Making: Partnerships allow for shared decision making among the partners, pooling their knowledge, skills, and expertise to make well-informed business decisions.
3. More Funds: Partnerships can benefit from the combined financial resources of multiple partners. Each partner can contribute capital, assets, or other resources to finance the business.
4. Sharing of Risks: Risks associated with the business are shared among the partners, reducing the burden on individual partners. Losses are also shared based on the agreed profit-sharing ratio.

RBL Academy 8920884581

5. Secrecy: Unlike companies, partnerships are not legally required to publish their financial statements or disclose business information to the public. This offers a certain level of secrecy and confidentiality to the partners.

Limitations of Partnership:

1. Unlimited Liability: Partners have unlimited liability, which means their personal assets are at risk in case the partnership is unable to meet its financial obligations.
2. Limited Resources: The financial resources of a partnership are limited to the contributions made by the partners. This may limit the growth potential of the business compared to corporations that can raise funds from the public.
3. Possibility of Conflicts: Differences in opinion, decision-making, and profit sharing may lead to conflicts among partners, potentially affecting the smooth functioning of the business.
4. Lack of Continuity: The partnership dissolves upon the death, retirement, or insolvency of a partner, which can disrupt the continuity of the business.
5. Lack of Public Confidence: Partnerships may face challenges in gaining public confidence and attracting external investors, as they do not have the same level of regulatory oversight and reporting requirements as companies.

Partnership Deed:

A partnership deed is a written agreement or document that outlines the terms and conditions agreed upon by partners in a partnership firm. It serves as a legally binding contract that governs the rights, duties, and obligations of the partners. The partnership deed typically includes the following details:

a. Name and address of the firm

b. Name and address of the partners

c. Nature of the business

d. Capital contribution by each partner

e. Profit and loss sharing ratio among partners

f. Rights, duties, and responsibilities of partners

RBL Academy 8920884581

g. Rules regarding admission, retirement, and expulsion of partners

h. Method of settling disputes among partners

i. Duration of the partnership, if any

j. Other terms and conditions agreed upon by the partners

The partnership deed helps to avoid misunderstandings and conflicts among partners by clearly defining the terms of their partnership.

Types of Partners:

Partners in a partnership firm can be classified into the following types:

1. Active Partner: An active partner, also known as a working or managing partner, is actively involved in the day-to-day operations and management of the partnership. They contribute capital, share profits and losses, and participate in decision-making.
2. Sleeping or Dormant Partner: A sleeping or dormant partner is one who invests capital in the partnership but does not actively participate in its management or operations. They have limited involvement and may not be liable for the debts of the partnership beyond their investment.
3. Secret Partner: A secret partner, also known as a silent partner, is someone who actively participates in the partnership's management and shares in the profits and losses, but their association with the partnership is not publicly disclosed. Their identity and involvement are kept confidential.
4. Nominal Partner: A nominal partner, also called a partner by name, is someone who lends their name to a partnership without making any significant contribution of capital or involvement in the business. Their inclusion may be for legal or reputational purposes.
5. Partner by Estoppel: A partner by estoppel is someone who, although not an actual partner, may be held liable as a partner by law due to their actions or representations. If they present themselves as a partner or allow others to believe they are a partner, they can be held responsible for the partnership's obligations.
6. Minor Partner: A minor partner is someone who is below the age of majority (usually 18 years) but is admitted to the benefits of partnership with the consent of all other

RBL Academy 8920884581

partners. A minor partner does not have the right to participate in the management of the firm.

7. Partner in Profit Only: A partner in profit only is someone who is entitled to a share of the profits of the partnership but does not bear any losses. They contribute capital but are not liable for the firm's obligations beyond the amount they invested.

Comparison Basis	**Active Partner**	**Sleeping or Dormant Partner**	**Secret Partner**	**Nominal Partner**	**Partner by Estoppel**
Capital Contribution	Contributes	Contributes	Contributes	Contributes	Not specified
Management	Shares	Does not participate	Does not participate	Does not participate	Not specified
Share in Profits/Losses	Shares	Shares	Shares	Not specified	Not specified
Liability	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Other Bases of Comparison	Actively participates in day-to-day operations	Inactive partner but retains ownership	Not publicly known as a partner	Merely lends name and reputation	Misrepresentation leads to assumption of partnership

RBL Academy 8920884581

Types of Partnership

On the basis of duration:

a. Partnership at Will: This type of partnership exists when there is no specific agreement regarding the duration of the partnership. It can be dissolved at any time by any partner without prior notice.

b. Partnership for a Fixed Term: In this case, the partnership is formed for a specific period mentioned in the partnership agreement. It automatically comes to an end upon the expiry of the agreed term unless the partners decide to renew it.

c. Partnership Until the Completion of a Venture: Sometimes, a partnership is formed to accomplish a particular project or venture. Once the project is completed, the partnership dissolves automatically.

On the basis of liability:

a. General Partnership: In a general partnership, all partners have unlimited liability, which means they are personally responsible for the debts and obligations of the partnership. Each partner's personal assets can be used to settle the partnership's liabilities.

b. Limited Partnership: A limited partnership consists of two types of partners: general partners and limited partners. General partners have unlimited liability, similar to a general partnership. However, limited partners have limited liability, and their liability is limited to the extent of their capital contribution to the partnership. Limited partners do not participate in the management of the partnership.

c. Limited Liability Partnership (LLP): LLP is a relatively newer form of partnership. In an LLP, all partners have limited liability, which means they are not personally liable for the acts or debts of other partners. Each partner's liability is limited to their own actions or misconduct.

Registration of Partnership

1. Partnership Deed: A partnership is formed by an agreement between two or more individuals or entities who agree to carry on a business and share its profits and losses. The partnership agreement is known as the partnership deed. It is a written document that outlines the terms and conditions of the partnership, including the rights, duties, and responsibilities of each partner.
2. Contents of Partnership Deed: The partnership deed generally includes the following information:
    - Name and address of the firm
    - Names and addresses of the partners
    - Nature of the business
    - Capital contributed by each partner
    - Profit and loss sharing ratio among partners

RBL Academy 8920884591

- Salaries, commissions, and other allowances (if any) payable to partners
- Rules for admission, retirement, and expulsion of partners
- Duration of the partnership (if fixed)
- Rights and duties of partners
- Rules for the preparation of accounts and settlement of disputes

3. Registration of Partnership: Partnership registration is not mandatory but it is advisable to register the partnership firm. The registration process involves submitting the partnership deed along with the required documents to the Registrar of Firms in the respective jurisdiction. The following steps are generally involved:
    - Prepare the partnership deed
    - Obtain the necessary signatures of all partners
    - Get the partnership deed notarized
    - Submit the application for registration along with the partnership deed and prescribed fees to the Registrar of Firms
    - The Registrar verifies the documents and, if satisfied, records the partnership in the Register of Firms and issues a Certificate of Registration
4. Importance of Registration:
    - Legal Recognition: Registration provides legal recognition to the partnership firm.
    - Dispute Resolution: Registered firms can approach the court to settle disputes among partners or with third parties.
    - Rights and Remedies: Registered firms can enforce their rights and claim remedies in a court of law.
    - Public Notice: Registration makes the partnership firm's details available for public inspection, ensuring transparency.

IV. Cooperative Society:

RBL Academy 8920884581

A cooperative society refers to an autonomous association of individuals voluntarily coming together for their common economic, social, and cultural interests. It is formed to promote the welfare of its members by providing them with goods, services, or facilities. Let's discuss the features, merits, and limitations of a cooperative society as per the Class 11 Business Studies CBSE NCERT syllabus.

Features:

1. Voluntary membership: Membership in a cooperative society is open to all individuals who share a common interest and are willing to actively participate in its activities.
2. Legal status: A cooperative society has a separate legal entity from its members. It can sue or be sued in its own name, and its members enjoy limited liability.
3. Limited liability: Members are liable only to the extent of their share capital contribution in case of any debts or liabilities incurred by the cooperative society.
4. Control: The affairs of a cooperative society are democratically controlled by its members who have equal voting rights, following the principle of "one member, one vote."
5. Service motive: The primary objective of a cooperative society is to provide services and benefits to its members rather than earning profits for external stakeholders.

Merits:

1. Equality in voting status: Cooperative societies promote democratic decision-making, where each member has an equal say in the affairs of the society.
2. Limited liability: Members are not personally liable for the debts and liabilities of the society beyond their capital contribution, which provides financial security.
3. Stable existence: Cooperative societies can achieve continuity as they are not affected by the death, insolvency, or withdrawal of any member.
4. Economy in operations: By eliminating middlemen and adopting bulk purchasing, cooperative societies can secure goods and services at lower costs, benefiting members.
5. Support from the government: Governments often provide financial assistance, subsidies, and other forms of support to cooperative societies, helping them in their operations.

RBL Academy 8920884581

6. Ease of formation: Cooperative societies are relatively easy to form as they require a minimum number of members and simpler legal formalities compared to other forms of organizations.

Limitations:

1. Differences of opinion: Disagreements and conflicts among members may arise, leading to decision-making challenges and hindering the smooth functioning of the society.
2. Government control: Cooperative societies are subject to government regulations and control, which can sometimes limit their autonomy and flexibility.
3. Lack of secrecy: Cooperative societies are required to maintain transparency and share information with members, reducing the level of confidentiality.
4. Inefficiency in management: Due to the involvement of a large number of members in decision-making, cooperative societies may face difficulties in efficient management and timely decision-making.
5. Limited resources: Cooperative societies often face financial constraints and may struggle to raise sufficient capital or attract external funding due to limited resources.

Types of cooperative societies:

1. Consumer's Cooperative Societies: These societies are formed by consumers to procure goods and services at reasonable prices. The main objective is to eliminate the middlemen and directly benefit the members by providing quality products at lower prices.
2. Producer's Cooperative Societies: These societies are formed by small producers or artisans who come together to collectively carry out production activities. By pooling their resources, they can improve their bargaining power in the market, access better technology, and overcome limitations faced individually.
3. Marketing Cooperative Societies: These societies are formed by producers to collectively market and sell their products. By pooling their produce, members can achieve economies of scale, negotiate better prices, and reduce dependence on intermediaries.

RBL Academy 8920884581

4. Farmer's Cooperative Societies: These societies are specifically formed by farmers to address the challenges faced in agricultural activities. They aim to provide facilities like irrigation, fertilizers, seeds, machinery, and storage to their members. By working together, farmers can enhance productivity, reduce costs, and improve their bargaining power.

5. Credit Cooperative Societies: These societies provide financial assistance to their members in the form of credit facilities. They aim to meet the credit needs of their members, especially those engaged in agriculture, small-scale industries, and self-employment. The primary objective is to provide affordable credit and promote savings among members.

6. Cooperative Housing Societies: These societies are formed by individuals to collectively address their housing needs. Members pool their resources to acquire land and construct houses at affordable rates. Cooperative housing societies aim to provide decent and affordable housing to their members.

V. Joint Stock Company

Joint Stock Company: A joint stock company is a form of business organization that is established by a group of individuals who contribute capital in the form of shares. The company's capital is divided into shares, and the shareholders enjoy limited liability for the company's debts and losses.

Features:

1. Artificial Person: A joint stock company is considered a legal entity or an artificial person in the eyes of the law. It can own property, enter into contracts, and sue or be sued in its own name.

2. Separate Legal Entity: A joint stock company has a distinct legal identity separate from its shareholders. The company's rights, obligations, and liabilities are separate from those of its members.

3. Formation: A joint stock company is formed by fulfilling certain legal requirements, such as registration, drafting the memorandum and articles of association, and obtaining the necessary licenses and permits.

RBL Academy 8920884581

4. Perpetual Succession: The company's existence is not affected by the death, bankruptcy, or withdrawal of any of its members. It continues to exist indefinitely, providing continuity and stability to its operations.
5. Control: The management and control of a joint stock company are typically vested in a board of directors who are elected by the shareholders. Shareholders exercise control through voting rights.
6. Liability: The liability of shareholders is limited to the extent of their share capital. In case of company debts or obligations, shareholders are not personally liable beyond the unpaid amount on their shares.
7. Common Seal: A joint stock company has a common seal, which serves as its official signature. It is affixed on important documents to authenticate them.
8. Risk Bearing: The risk associated with the company's business activities is borne by the shareholders. They invest capital in the company with the expectation of earning profits.

Merits:

1. Limited Liability: Shareholders have limited liability, meaning their personal assets are not at risk beyond the unpaid amount on their shares. This encourages investment and attracts more capital.
2. Transfer of Interest: Shares of a joint stock company are freely transferable, allowing shareholders to sell or transfer their ownership interest without affecting the company's operations.
3. Perpetual Existence: The company continues to exist regardless of changes in ownership or membership. The death, retirement, or bankruptcy of shareholders does not affect its existence.
4. Scope for Expansion: Joint stock companies can raise large amounts of capital by issuing shares. This enables them to undertake large-scale projects, expand their operations, and tap into new markets.
5. Professional Management: Joint stock companies provide the opportunity for professional managers to run the operations. This can lead to efficient decision-making and expertise in various areas of business.

RBL Academy 8920884581

Limitations:

1. Complexity in Formation: The process of forming a joint stock company involves legal formalities, documentation, and compliance with regulations. This can be time-consuming and complicated.
2. Lack of Secrecy: A joint stock company is required to disclose certain information to the public, such as financial statements and annual reports. This may result in a loss of business secrecy.
3. Impersonal Work Environment: Due to the large size of joint stock companies, employees may experience a lack of personal touch and connection. Decision-making can be centralized and impersonal.
4. Numerous Regulations: Joint stock companies are subject to various regulations and legal requirements imposed by the government. Compliance with these regulations can be burdensome and costly.
5. Delay in Decision Making: The decision-making process in joint stock companies can be slow due to the involvement of multiple layers of management, board approvals, and shareholders' voting rights.
6. Oligarchic Management: Shareholders with a significant number of shares may exert influence and control over the company, leading to an oligarchic management structure that may not always align with the interests of minority shareholders.
7. Conflict in Interests: The diverse interests of shareholders may lead to conflicts within the company. Shareholders may prioritize their individual interests over the collective welfare of the company.

RBL Academy 8920884581

Types of Companies

1. **Private Company:**

A private company is an entity that is owned and operated by a group of individuals known as shareholders. The ownership is private, which means the shares are not available for the general public to purchase. Private companies typically have a smaller number of shareholders, and the shares are often held by family members, friends, or a closely-knit group of individuals. The liability of shareholders in a private company is

limited to the extent of their shareholding. Examples of private companies include Tata Sons Private Limited and Reliance Industries Limited.

2. **Public Company:**

A public company is a business organization whose shares are publicly traded on a stock exchange. The ownership of a public company is dispersed among a large number of shareholders who can freely buy and sell the company's shares in the open market. Public companies are required to comply with various legal and regulatory requirements, such as publishing financial statements and holding annual general meetings. The liability of shareholders in a public company is also limited to the extent of their shareholding. Examples of public companies include Tata Motors Limited and Infosys Limited.

Difference between a Public Company and Private Company

Criteria	**Public Company**	**Private Company**
Members	Minimum 7 (No maximum limit)	Minimum 2 (Maximum 200, excluding employees)
Minimum number of directors	At least 3	At least 2
Index of members	Required	Not required
Transfer of shares	Freely transferable, subject to certain conditions	Restricted transfer, often with pre-emption rights
Invitation to public to subscribe to shares	Allowed through a prospectus	Not allowed

RBL Academy 8920884581

Privileges of a Private Limited Company as against a Public Limited Company:

1. Ease of Formation: A private limited company can be formed with a minimum of two members, whereas a public limited company requires a minimum of seven members.
2. Minimum Number of Directors: A private limited company can have a minimum of two directors, while a public limited company must have at least three directors.

3. Index of Members: A public limited company is required to maintain an index of its members, while a private limited company does not have this obligation.
4. Transfer of Shares: In a public limited company, shares are freely transferable, subject to certain conditions. On the other hand, in a private limited company, the transfer of shares is restricted and often requires the approval of existing shareholders.
5. Invitation to Public to Subscribe to Shares: A public limited company can invite the public to subscribe to its shares through the issuance of a prospectus. However, a private limited company is not permitted to make such public invitations.

Factors	**Sole Proprietorship**	**HUF**	**Partnership**	**Cooperative Society**	**Joint Stock Company**
Availability of Capital	Limited	Limited	Moderate	Limited	High
Cost of Formation	Low	Low	Moderate	Moderate	High
Ease of Formation	Easy	Easy	Easy	Moderate	Complex
Transfer of Ownership	Not easy	Not easy	Not easy	Not easy	Easy
Managerial Skills	Sole proprietor's	Joint management	Shared	Shared	Professional
Regulations	Fewer regulations	Fewer regulations	Moderate	Governed by laws	Stringent regulations
Flexibility	High	Limited	Moderate	Moderate	Limited
Continuity	Dependent on owner	Dependent on head	Dependent on	Perpetual	Perpetual
Liability	Unlimited	Limited	Unlimited	Limited	Limited

RBL Academy 8920884581

Factors that influence the choice of form of business organization:

1. Availability of Capital: The amount of capital required to start and run the business is an essential factor. Some forms of business organizations, like joint stock companies, offer the advantage of raising capital through the sale of shares to the public.
2. Cost of Formation: The cost involved in setting up the business organization is another factor. Different forms of organizations have varying costs associated with their formation. For example, the cost of forming a sole proprietorship or partnership is relatively low compared to a joint stock company.
3. Ease of Formation: The ease and simplicity of forming a particular type of business organization are important considerations. Sole proprietorships and partnerships are generally easier to form compared to companies, which involve compliance with legal formalities and regulations.
4. Transfer of Ownership: The ease with which ownership can be transferred is an important factor. In sole proprietorships and partnerships, transferring ownership may be more complex, whereas in joint stock companies, ownership can be easily transferred through the buying and selling of shares.
5. Managerial Skills: The availability and expertise of managerial skills play a role in determining the form of business organization. In sole proprietorships and partnerships, the business is often managed by the owner(s), while in companies, professional managers can be hired.
6. Regulations: The level of government regulations and legal formalities associated with a specific form of business organization is a significant factor. Companies, for example, have more stringent regulatory requirements compared to sole proprietorships or partnerships.
7. Flexibility: The flexibility to make decisions and adapt to changing circumstances is an important consideration. Sole proprietorships and partnerships generally offer greater flexibility in decision-making compared to companies, which have a more structured decision-making process.
8. Continuity: The continuity or perpetuity of the business is a factor to consider. Companies, being separate legal entities, have perpetual existence regardless of the

RBL Academy 8920884581

changes in ownership or management. Sole proprietorships and partnerships may face discontinuity in case of the death, retirement, or insolvency of the owner(s).

9. Liability: The extent of liability faced by the owners is a critical consideration. Sole proprietors and partners have unlimited liability, meaning their personal assets can be used to satisfy business obligations. In companies, the liability of shareholders is limited to their investment in the company.

Comparison of various forms of organization

Factors	**Sole Proprietorship**	**HUF**	**Partnership**	**Cooperative Society**	**Joint Stock Company**
Formation	Formed by a single individual.	Formed by the head of the family.	Formed by an agreement between two or more individuals.	Formed by the registration under the Cooperative Societies Act.	Formed by the registration under the Companies Act.
Members	Only one person who owns and manages the business.	Members consist of the head of the family and his/her relatives.	Two or more individuals who come together to carry on a business.	Members are the individuals who join the cooperative society.	Shareholders who own shares in the company.
Capital Contribution	Capital is contributed solely by the proprietor.	Capital is contributed by the members of the HUF.	Capital is contributed by the partners based on the partnership agreement.	Capital is contributed by the members of the cooperative society.	Capital is contributed by shareholders through the purchase of shares.
Liability	Unlimited liability of the proprietor.	Unlimited liability of the members.	Unlimited liability of the partners.	Limited liability of the members.	Limited liability of the shareholders.

RBL Academy 8920845821

Control and Management	Controlled and managed by the proprietor.	Controlled and managed by the head of the family.	Controlled and managed by the partners based on the partnership agreement.	Controlled and managed by the elected members or board of directors.	Controlled and managed by the board of directors elected by the shareholders.
Continuity	Limited continuity as the business is dependent on the proprietor.	Limited continuity as it depends on the existence of the joint family.	Limited continuity as it is affected by the death, retirement, or insolvency of a partner.	Perpetual existence as it is not affected by the death or retirement of members.	Perpetual existence as it is a separate legal entity from its shareholders.

RBL Academy 8920884581