

FORMS OF BUSINESS ORGANIZATION

CONTENTS

- Sole Proprietorship
- Partnership (general & limited)
- Joint Stock Company
- Co-operative Society

SOLE PROPRIETORSHIP

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A sole proprietorship is a business owned and operated by one individual.

The shops or stores which you see in your locality — the grocery store, the vegetable store, the sweets shop, the chemist shop, the paanwala, the stationery store, the STD/ISD telephone booths etc. come under sole proprietorship.

Advantages

- Easy to start
- No registration
- No profit sharing
- Easy decision-making
- Easy to windup
- Secrets (information about business techniques)
- No corporate taxes

Disadvantages

- Unlimited liability
- Employee benefits i-e Medical insurance premiums not deductible(taxes)
- Raising funds
- Limited Life
- Loss in absence

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Suitability of SP

For business where capital required is small and risk involvement is not heavy, this type of firm is suitable.

It is also considered suitable for the production of goods which involve manual skill e.g. handicrafts, filigree works, jewellery, tailoring, haircutting, etc

Partnership

A Partnership is a legal relationship formed by the agreement between two or more individuals to carry on a business as co-owners.

Each member of such a group is individually known as 'partner' and collectively the members are known as a 'partnership firm'.

These firms are governed by the **Indian Partnership Act, 1932**.

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Characteristics of PF

1. Number of Partners: Maximum limit is 10 in case of banking business and 20 in case of all other types of business.
2. Contractual Relationship: The agreement in writing is known as a 'Partnership Deed'.
3. Competence of Partners: Minors and insolvent persons are not eligible.

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...Characteristics of PF

4. Sharing of Profit and Loss: In absence of an agreement, they share it equally.
5. Transfer of Interest: No partner can sell or transfer his interest in the firm to anyone without the consent of other partners.
6. Voluntary Registration: Registration partnership is not compulsory. But since registration entitles the firm to several benefits, it is considered desirable.

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Advantages

- Relatively easy to start
- The ability to raise funds
- More skilled persons
- Loss sharing
- No Loss in absence

Disadvantages

- Unlimited liability
- Profit sharing
- Conflicts
- Limited life
- Transferability is difficult

Suitability of PF

Such firms are most suitable for comparatively small business such as

retail and wholesale trade,
professional services,
medium sized mercantile houses and
small manufacturing units.

