CH-2: FORMS OF BUSINESS ORGANIZATION

TOPIC 1

2 Marks Questions

Q. 1. Mention any two features of Sole Trader.

Ans. (i) Single ownership: It is wholly owned by one individual.
(ii) Control: Sole proprietor has full power of decision making.

Q.2. Why there is limited scope for expansion in Sole proprietorship?

Ans. Due to limited financial and managerial resources, there is little scope for expansion and growth. In the absence of large-scale operations, it cannot take advantage of economies of scale.

Q.3. "A Sole trader has unlimited liability." Explain.

Ans. It implies that in the case of business failure, the personal property of the owner of sole trader may be used to repay the outstanding dues of the business.

3 Marks Questions

Q.1. What are the three different types of Business Organisations?

Ans. Following are the three different types of Business
Organisations:
(i) Private consists of business organisations owned and managed by private entrepreneurs. sector
(ii) Public sector consists of business organisations owned and managed by government.
(iii) Joint sector consists of business organisations owned and managed jointly by private entrepreneurs and government. It is also known as Public-Private Partnership.

Q. 2. Define PPP.

Ans. Public-Private Partnership: Public-Private Partnership refers to the involvement of private sector in the Govt. projects aimed at public benefit in the form of management expertise and monetary contribution.
Examples: transport infrastructure such as highways, airports, railroads, bridges, and tunnels; water and wastewater facilities, sanitation, etc.

Q.3. Name the form of business organisation which is owned by a single individual and explain its objectives.

Ans. Sole Proprietorship means a business owned, financed and controlled by a single person who is recipient of all profits and bearer of all risks. The main objective is to generate revenue without the need of an employer or to pursue a hobby but turn it into a business (e.g., an art lover can open an antique store or an art and craft corner).

4 Marks Questions

Q.1. Explain the four merits of Sole proprietorship.

Ans. (i) Easy to start and close: It can be easily started and closed without any legal formalities.
(ii) Quick decision-making: A sole trader is not required to consult or inform anybody about his decisions.
(iii) Secrecy: He is not expected to share his business decisions and secrets with anybody.
(iv) Minimum Government Regulation: Business is free from government regulations. No government interference in the day-to-day functioning of business.
(v) Flexibility of operations: A sole trader business is usually small in size and simple in structure. It can be adjusted easily whenever necessary. The proprietor can easily expand or reduce business operations to suit the changing conditions in the market; or change or modify line of business whenever necessary.

Q.2. Why Sole Proprietorship is not considered as the best form of business organisation?

Ans. (i) Limited financial resources: Funds are limited to the owner's personal savings and his borrowing capacity.
(ii) Limited Managerial ability: Sole trader can't be good in all aspects of business and he can't afford to employ experts also.
(iii) Uncertain life: Sole proprietorship is dependent on the life of the proprietor. Business may come to a standstill due to the illness, insolvency and death of the proprietor.

(iv) Limited scope for expansion: Due to limited financial and managerial resources, there is little scope for expansion and growth. In the absence of large-scale operations, it can take advantage of economies of scale.

5 Marks Question

1. Discuss any five demerits of being a Sole Trader.

Ans. The sole proprietorship suffers from the following limitations:
(i) Limited Financial Resources: Funds are limited to the owner's personal savings and his borrowing capacity.
(ii) Limited Managerial Ability: Sole trader can't be good in all aspects of business and he can't afford to employ experts also.
(iii) Unlimited Liability: Unlimited liability of sole trader compels him to avoid risky and bold business decisions.
(iv) Uncertain Life: Death, insolvency, lunacy or illness of a proprietor affects the business and can lead to its closure.
(v) Limited Scope for Expansion: Due to limited capital and managerial skills, it cannot expand to a large scale.

2. "Sole trader is the best form of business organisation as it involves control of a single person provided that single person is competent enough to manage everything." In the light of this statement, explain any three merits and demerits of Sole Trader.

Ans. Merits of Sole Trader:
(i) Easy to start and close: It can be easily started and closed without any legal formalities.
(ii) Quick decision-making: As sole trader is not required to consult or inform anybody about his decisions.
(iii) Secrecy: He is not expected to share his business decisions and secrets with anybody.
(iv) Minimum Government Regulation: Business is free from government regulations. No government interference in the day-to-day functioning of business.
(v) Flexibility of operations: A sole trader business is usually small in size and simple in structure. It can be adjusted easily whenever necessary. The proprietor can easily expand or reduce business operations to suit the changing conditions in the market; or change or modify line of business whenever necessary.

Demerits of Sole Trader:
(i) Limited financial resources: Funds are limited to the owner's personal savings and his borrowing capacity.
(ii) Limited Managerial ability: Sole trader can't be good in all aspects of business and he can't afford to employ experts also.
(iii) Unlimited liability of sole trader compels him to avoid risky and bold business decisions.
(iv) Uncertain life: Sole proprietorship is dependent on the life of the proprietor. Business may come to a standstill due to the illness, insolvency and death of the proprietor.
(v) Limited scope for expansion: Due to limited financial and managerial resources, there is little scope for expansion and growth. In the absence of large-scale operations, it cannot take advantage of economies of scale. [Any four

3. Define PPP. What are its features?

Ans. Partnership refers to the involvement of private sector in the Govt. projects aimed at public benefit in the form of management expertise and monetary contribution. Examples: transport infrastructure such as highways, airports, railroads, bridges, and tunnels; water and wastewater facilities, sanitation, etc.
The following are the main features of PPP:
(i)PPPs are related to high priority government planned projects.
(ii) Main objective of PPPs is to combine the skills, expertise and experience of both public and private sectors to deliver high quality services.
(iii) PPPs divide the risk between public and private sector.
(iv) The government remains accountable for the quality and costs of the services.
(v) PPPs are used in the government, projects aimed at public benefit.
(vi) PPPs projects lead to faster implementation and reduced life cycle costs.

TOPIC 2

2 Marks Questions

Q.1. What is meant by Implied Authority of a partner?

Ans. Implied authority, also known as "Usual authority", is the authority of a partner acting on behalf of another partner. The person acting with implied authority does what is reasonably necessary in order to effectively perform his duties. The acts undertaken surrounding the use of implied authority depend on the circumstances and the case. that he is a partner of the firm whereas actually his parties who has entered into dealing with firm on is not. His liability is unlimited towards the third the basis of his pretention.

Q.2. Define Partner by Holding out.

Ans. Partner by Holding out is the one who is false declared partner of the firm whereas actually he is not. And even after becoming aware of it, he does not deny it. His liability is unlimited towards the

Q.3. What is the meaning of Partner by Estoppel?

Ans. Partner by Estoppel is the one who by his words the basis of this declaration. or conduct gives impression to the outside world.

3 Marks Questions

Q.1. Mention any three reasons why registration of a partnership firm is desirable.

Ans. (i) Partners of the registered firm can file suit against the firm or co-partners to enforce their rights.
(ii) The firm can file suit against any partner to enforce its rights.
(iii)The firm can file suit against third parties to enforce its rights.

Q. 2. Distinguish between Sole Proprietorship and Partnership.

Ans:

S. No	Basis	Sole Proprietorship	Partnership
1	Owner	Known as sole trader or sole Proprietor	Individually known as partners and collectively known as firm.
2	Maximum members	Only one	10-20 partner members
3	Liability	Borne by the Proprietor only.	Shared by the partners.

Q. 3. Briefly explain the meaning of partnership and Limited partnership.

Ans. (i) General Partnership: In general partnership, liability of all partners is unlimited. The have right to participate in management of the firm and their acts are binding on each other.
(ii) Limited Partnership: In limited partnership, there are two categories of partners, general partners and limited partners, also known as limited liability partners.

4 Marks Questions

1. Explain any four contents of a Partnership Deed.

Ans. Contents of the Partnership Deed:
(i) Name of the firm
ii) Location/Address of the firm
iii) Duration of business
(iv) Profit sharing ratio of the partners
Investment made by each partner
(v) Terms relating to Salaries, Drawing, Interest on Capital and Interest on Drawing of partners
(vii) Duties and obligations of partners
(viii) Terms governing admission, retirement
(ix) Preparation of accounts and their auditing

2. What are the types of partnerships on the basis of agreement among partners?

Ans. Types of partnerships on the basis of agreement among partners are:
(a) Partnership at Will: When a partnership firm is formed to carry on business without specifying any period of time, it is known as partnership at will.
(b) Partnership for a fixed period: Such a partnership firm is constituted for a specified period. With the expiry of this period, the partnership comes to an end.
(c) Particular Partnership: These types of partnership firm are constituted to undertake a specific project or venture.

3. What are the limitations of a partnership firm?

Ans. (i) Limited resources: There is a restriction on the number of partners and hence capital contributed by them is also limited.
(ii) Unlimited liability: The liability of partners is unlimited and they are liable individually as well as jointly.
(iii) Lack of continuity: Partnership comes to an end with the death, retirement, insolvency or lunacy of any of its partner.

(iv) No transferability of share: In a partnership firm the partner cannot transfer his share of interest to others without the consent of the other partners.
(v) Lack of secrecy: It may not be possible to maintain secrecy in partnership because of the number of partners.

5 Marks Questions

1. Briefly explain the five features of partnership.

Ans. (i) Two or more persons: There must be at least two persons to form a partnership. The maximum number of persons is 10 in banking business and 20 in non-banking business.
(ii) Agreement: It is an outcome of an agreement among partners which may be oral or in writing.
(iii) Decision-making and control: Every partner has a right to participate in management and decision-making of the organization.
(iv) Unlimited liability: Partners have unlimited liability.
(v) Profit sharing: There should be an agreement among the partners to share the profits of the business.
(vi) Non-transferability of shares: A partner cannot transfer his share of interest to others without the consent of the other partners.

2. Briefly explain the different types of partners in a partnership firm.

Ans. (i) General/Active Partner: Such a partner takes active part in the management of the firm.
(ii) Sleeping or Dormant Partner: He does not take active part in the management of the firm. Though he invests money, shares profit and loss, has unlimited liability.
(iii) Secret Partner: He participates in business secretly without disclosing his association with the firm to general public. His liability is also unlimited.
(iv) Nominal Partner: Such a partner only gives his name and goodwill to the firm. He neither invests money nor takes profit but his liability is unlimited.
(v) Partner by Estoppel: He is the one who by his words or conduct gives impression to the outside world that he is a partner of the firm whereas actually he is not. His liability is unlimited towards the third party who has entered into dealing with firm on the basis of his pretention.
(vi) Partner by holding out: He is the one who is falsely declared partner of the firm whereas actually he is not. And even after becoming aware of it, he does not deny it. His liability is unlimited towards the party who has entered into dealing with firm on the basis of this declaration.

3. Why do people prefer to choose the partnership form of business?

Ans. People prefer to choose the partnership form of business because of the following reasons:
(i) Ease of formation and closure: It can be easily formed. Only an agreement among the partners is required.
(ii) Larger financial resources: There are more funds as capital is contributed by number of partners.
(iii) Sharing of Risks: In it, risk gets distributed among partners which reduces anxiety, burden and stress on individual partner.
(iv) Skill and talent: Talented persons may be taken as partners. More skill and talent will be available.
(v) Division of labour: Division of labour can be introduced which increases the efficiency in the management. One partner may take care of purchases, another sale, a third accounts and SO on.
(vi) Maintenance of secrets: Business secrets can be maintained easily if the number of partners in a firm are limited.
(vii) Incidence of tax: Compared with company form of organization the tax payable on the incomes of the partners will be less.

TOPIC 3

2 Marks Questions

1. Define Joint Stock Company.

Ans. Joint stock company is a voluntary association of persons having a separate legal existence, perpetual Succession and common seal.

2. What do you mean by Private companies?

Ans. The private sector is the part of the economy that is run by individuals and companies for profit and is not state controlled. Therefore, it encompasses all for-profit businesses that are not owned or operated by the government.

3. What is meant by Articles of Association?

Ans. The Articles of Association are the rules for th management of the internal affairs of a company. The articles define the duties, rights and powers of the officer and director of the company.

Q.4. What is "Association clause"?

Ans. The association clause explains that any individual signing the bottom of the MOA wants to be part of the association that's being formed by the memorandum. The MOA has to be signed by at least seven people or more if it́s a public company. It has to be signed by at least two or more people if I's a private company. The signatures also have to be affirmed by witnesses.

3 Marks Questions

1. What are the three clauses of Memorandum of Association?

Ans. (i) Name clause: This clause contains name of the company. It should not be similar to the name of another company.
(ii) Situation clause: In this clause the name of the state in which the registered office of the company is to be situated is given.
(ii) Object clause: This clause defines the object for which company is formed.

2. What are the contents of Articles of Association?

Ans. Contents of the Articles of Association are:
(i)The amount of share capital and different types of shares
(ii) Rights of each class of shareholders
(iii) Procedure for making allotment of shares
(iv) Procedure for issuing share certificates
(v) Procedure for forfeiture and reissue of shares
(vi) Procedure for conducting, voting and proxy
(vii) Procedure for appointment of director

3. What are the characteristics of Private companies?

Ans. (i) Private Ownership and Control: A private sector undertaking is fully owned and managed by private entrepreneurs or businessmen. It may have just one owner or more than one owner.
(ii) Profit motive: The main purpose of Private sector enterprises is to earn profits.
(iii) No Government Participation: There is no government participation in such a form of business organization.
(iv) Transferability of shares restricted: Private Companies cannot freely transfer their shares to the public like public companies.

4 Marks Question

Q.1. Give any four differences between memorandum of association and articles of association.

Ans.

S No.	Basis	Memorandum of association	Articles of association
1	Status	It is subordinate to the companies act.	It is subordinate to the memorandum.
2	Major contents	A memorandum must contain the clauses.	The articles can be drafted as per the choice of the company.
3	Compulsory filing	Required.	No required at all.
4	Validity	The memorandum is the dominant instrument and controls articles.	Any provision, as opposed to a memorandum of association, is invalid.
5	Objectives	The memorandum contains the objectives and powers of the company	The articles provide the regulations by which those objectives and powers are to be conveyed into impact

2. Define Prospectus. What is its content?

Ans. Prospectus means any document which invites the public to purchase shares and debentures of the company. It contains past history, present status and future prospectus of the company. Contents of the Prospectus: Bank.
(i) Name, address and registered office of the
(ii) The main objective of the company
(iii) Authorized capital and types of shares
(iv) The name and address of the directors
(v) Names of the Bank, brokers and underwriter
(vi) Merchant bankers to the issue

Q .3. What is Certificate of Commencement of Business?

Ans. To commence business a public company has to obtain a Certificate of Commencement of Business. For this the following documents have to be filled with the registrar of companies:
(i) A declaration that 90% of the issued amount has been subscribed.
(ii) A declaration that all directors have p cash in respect of allotment of shares made to them.
(iii) A statutory declaration that the above requirements have been completed and must be signed by the director of company.
(iv) Proof of the payment of requisite fees.

Q.4. Discuss the role played by Promoters in the Promotion of a company.

Ans. A promoter is a firm or person who does the preliminary work incidental to the formation of a company, including its promotion, incorporation, and flotation, and solicits people to invest money in the company, usually when it is being formed. An investment banker, an underwriter, or a stock promoter may, wholly or in part, perform the role of a promoter. Promoters generally owe a duty of utmost good faith, so as to not mislead any potential investors, and disclose all material facts about the company's business.

5 Marks Questions

Q.1. Discuss any five objectives of a Joint Stock Company.

Ans. Objectives of Joint Stock Company are:
(ii) Consistent expansion of customer base with aim on attracting micro-businesses.
(ii) Starting and active development of co-operation with financial organizations and mortgage systems.
(iii) Increase in capitalization of bank.
(iv) Introduction of international standards of banking processes.
(v) Improving quality and diversity of range of services for individuals, small-sized businesses by increasing volume of transactions and pursuit of cost reduction of controlling business and increasing its level of technology.

Q.2. State and explain the steps involved in the incorporation of a Company.

Ans. Incorporation: Incorporation means registration of the company as body corporate under the Companies Act, 2013 and receiving Certificate of Incorporation.
• **Steps for Incorporation:**
(i) Application for incorporation
(ii) Filing of necessary documents:
(a) Memorandum of Association
(b) Articles of Association
(c) Statement of Authorised Capital
(d) Consent of proposed director
(e) Agreement with proposed managing director
(ii) Statutory declaration
(iii) Payment fees
(iv) Registration
(v) Certificate of Incorporation
• **Certificate of Incorporation**: After entering the name of the company in the register, the Registrar issues a Certificate of Incorporation'. This is called the birth certificate of the Commencement of Business: To commence business a public company has to obtain a Certificate of Commencement of Business. For this the following documents have to be filled with the registrar of companies:
(i) A declaration that 90% of the issued amount has been subscribed
(ii) A declaration that all directors have paid

in cash in respect of allotment of shares made to them
(iii) A statutory declaration that the above requirements have been completed and must be signed by the director of company
(iv) Proof of payment of requisite fees

Q.3. "A Joint Stock Company is an artificial person; created by law having a perpetual succession and common seal." Explain the statement.

Ans. **Meaning:** Joint stock company is a voluntary association of persons having a separate legal existence, perpetual succession and common seal. Its capital is divided into transferable shares.

Features:

(i) Separate Legal Existence: It is created by law and it is a distinct legal entity independent of its members. It can own property, enter into contracts, file suits in its own name.
(ii) Perpetual Existence: Death, insolvency and insanity or change of members has no effect on the life of a company. It can come to an end only through the prescribed legal procedure.
(iii) Limited Liability: The liability of every member is limited to the nominal value of the shares bought by him or to the amount guaranteed by him.
(iv) Common Seal: It is the official signature of the company and it is affixed on all important documents of company.
(v) Artificial Legal Person: A company is a legal entity that has been created by the statutes of law. Like a natural person, it can do certain things, like it can own property in its name, enter into a contract, borrow and lend money, Sue or be sued, etc.
(vi) Incorporation: For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.
(vii) Transferability of Shares: In a joint stock company, the ownership is divided into transferable units known as shares. In a public company the shares can be transferred freely; there are almost no restrictions.

Q.4. "A private company enjoys several exemptions and privileges under the Companies Act." Explain.

Ans. A private company enjoys several exemptions and privileges under the Companies Act. Some of these privileges are given below:
(i) A private company can be started by two persons only, whereas seven persons are required to start a public company.
(ii) A private company can commence business immediately after its incorporation. It is not required to obtain the certificate of commencement of business.
(iii) A private company is not required to issue or file a prospectus or statement in lieu of prospectus with the Registrar of Companies.
(iv) A private company is not required to hold a statutory meeting or to file statutory report with the Registrar.
(v) A private company can have only two directors. It is exempted from restrictions relating to the appointment, reappointment, retirement, a remuneration etc., of managerial personnel.

Q.5. What is Memorandum of Association? Explain any three clauses of Memorandum of Association.

Ans. Memorandum of Association is the important document of a company. No company can be registered without a Memorandum of Association. It is called Life-giving Document. Clauses of Memorandum of Association:
(1) Name Clause: This clause contains name of the company. It should not be similar to the name of another company.
(2) Situation Clause: In this clause the name of the state in which the registered office of the company is to be situated is given.
(3) Object Clause: This clause defines the object for which company is formed.

TOPIC 4
2 Marks Questions

Q.1. What is meant by Public Sector Undertaking?

Ans. Public sector undertaking is one which is owned and managed by the Government at national, state or local level. business without any

2. Define a government company.

Ans. A government company is a company in which not less than 51% of the paid up share capital is held by the central government or state government or jointly by both.

3 Marks Questions

Q.1. What are the objectives of PSUs?

Ans. Objectives of PSUs:
(I) Promoting rapid economic development with emphasis on creating and expanding infrastructure.
(ii) PSUs also aim at generating financial resources for the development of the economy.
(iii) Moreover, creating employment opportunities is one of the primary goals of PSUs.
(iv) Promoting balanced regional growth.

Q.2. Give three demerits of Government Company.

Ans. (i) It suffers from interference from Govt. officials, ministers and politicians.
(ii) It evades constitutional responsibility, which a company financed by the government should have, as it is not directly answerable to parliament.
(iii) Lack of professional management as directors are appointed by the government.
(iv) The directors and executives do not take initiative or risk, expand products or markets and innovate as they fear criticism.

3. What are the characteristics of Government Company?

Ans. (i) It is registered or incorporated under Companies Act.
(ii) It has a separate legal entity.
iii) Management is regulated by the provisions of Companies Act.
(iv) Government company enjoys autonomy and flexibility in internal operations. It has its own rules and regulations. It must follow the provisions of the Companies Act.
(v) Government company hires its own employees. Their salaries and facilities are as per Company Rules.
(vi) It is accountable to public through audited books presented in the parliament.

4 Marks Questions

Q.1. Define a Government Company. Discuss three merits of Government Company.

Ans. A government company is an organisation in which not less than 51% of the paid up share capital is held by the central government; or state government or jointly by both.

Merits of Government Companies:
(i) It can be easily formed as per the provision of Companies Act. Only an executive decision of Govt. is required.
(ii) It enjoys autonomy in management decisions and flexibility in day-to-day working.
(iii) It can appoint professional managers on high salaries.

Q. 2. What is Government Company? Explain any three features of a Government Company.

Ans. Government Company: A Government Company is a company in which not less than 51% of the paid-up share capital is held by the central government
or state government or jointly by both.

Features:
(i) It is registered or incorporated under
Companies Act.
(ii) It has a separate legal entity.
(iii) Management is regulated by the provision of Companies Act.
(iv) Government Company enjoys autonomy and flexibility in internal operations. It has its own rules and regulations. It must follow the provisions of the Companies Act.
(v) Government company hires its Own employees. Their salaries and facilities are as Company rules.
(vi) It is accountable to public through audited books presented in the parliament.

5 Marks Questions

Q.1. What do you mean by a public sector undertaking? Explain its role in Indian economy.

Ans. Public sector undertaking is one which is owned and managed by the Government at national, state or local level.

Role of Public Sector Undertakings:

(i) Development of Infrastructure consists of services like transportation, communication, irrigation etc. The infrastructure is considered as no the backbone of economic growth. So, government sets up various public sector enterprises to undertake the task of developing infrastructure of our country.

(ii) Regional Balance: The government tries to locate new public sector enterprises in the backward areas so that the people of that area get opportunity to work and these can also be developed ensuring balanced regional development.

(iii) Economies of Scale: Public sector industries require large base to function economically which was only possible with government resources and large-scale production.

(iv) Check over Concentration of Economic Power: The public sector can invest heavily to set large industries and thus income does not go in a few hands of private sector but it gets shared by a large number of employees and workers. This prevents concentration of wealth in private sector.

(v) Import Substitute: These enterprises are making us self-reliant and saving huge amount of foreign exchange.

Q. 2. What are the criticisms of Public Sector Undertakings?

Ans. (i) Delay in Completion: Public enterprises take long periods for completion. The delay may be due to non-release of funds in time, too much time taken in completing, etc.

(ii) Faulty Evaluation: Public enterprises are sometimes set up on political considerations. There are no clear-cut objectives and everything is done in a hurry. The projects are not properly evaluated on sound industrial principles.

(iii) Heavy Overhead Costs: Public enterprises Spend heavy amounts on unproductive expenses. Large amounts are first spent providing housing facilities and other amenities to employees even before the unit starts production. This takes away a large chunk of investments and the project suffers from financial difficulties.

(ii) Faulty Evaluation: Public enterprises are sometimes set up on political considerations. There are no clear-cut objectives and everything is done in a hurry. The projects are not properly evaluated on sound industrial principles.

(iii) Heavy Overhead Costs: Public enterprises spend heavy amounts on unproductive expenses. Large amounts are first spent providing housing facilities and other amenities to employees even before the unit starts production. This takes away a large chunk of investments and the project suffers from financial difficulties.

(v) Political Interference: There is frequent expenses. Large amounts are first spent interference in working of such units from Politicians. The members of party in power try to influence the policies of public enterprises. The units are not Allowed to be run on sound business policies.

Topic 5

2 Marks Questions

Q.1. Define a Co-operative organisation.

Ans. A Co-operative is 'an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise'.

Q.2. How surplus funds are distributed in a Co-operative organisation?

Ans. The surplus (i.e., profit after limited interest has been paid on capital) of a co-operative society is not distributed to the members in the ratio of their capital contribution or in an agreed ratio.

Q.3. Who can be a member of a Co-operative society?

Ans. As a rule, individuals aged 18 or more and other registered societies.

3 Marks Questions

Q.1. What is the liability of members of a Co-operative society?

Ans. The Co-operative societies work with democratic principle of 'one man one vote'. All the members get only one voting right irrespective of capital contributed by them. Taking an example if a person is having 100 shares, does not mean that he

Ans. (i) The liability of the members of a co-operative society is limited up to the extent of capital contributed by the members. A member's contribution explains the amount of maximum risk he has to bear.

4 Marks Questions

Q.1. Distinguish between Joint Stock Company and Co-operative Organisation.

Ans. Difference between Joint Stock Company and Co-operative Organization:

S. No	Basis	Joint Stock Company	Co-operative Organization
1.	Formation	It is formed by a group of persons belonging to the same class. It deals with members only.	It is formed by people of various classes and deals with public
2.	Objective	It is capitalistic in nature and encourages Competition.	Its object is to eliminate middlemen in the chain of distribution.
3.	Profit motive	Its main aim is profit making.	It works without profit motive.
4.	No of members	The minimum number of members is 7 and there is no maximum limit in a public limited company.	The minimum number of members is 10 and there is no maximum limit.
5.	Customers	The sellers and buyers are not same	Generally, the sellers and buyers are same.
6.	Use of profits	Profits are meant only for the shareholders.	Profits are used for the common benefits of the society.

Q. 2. Give four characteristics of Co-operative organisation.

Ans. Features of Co-operative Organisation:
(i) Voluntary membership by interested, like- minded persons.
(ii) The membership of co-operative organisation is open to all irrespective of race, colour, creed, caste, or sex. Members can be expelled for not adhering to rules or misbehaviour.
(iii) The finances of a co-operative society are contributed by members through the purchase of shares.
(iv) Like company organisation, a co-operative society may be organized on the basis of either limited or unlimited liability.

5 Marks Questions

0.1. Give five advantages of a Co-operative organisation.

Ans. (i) Easy formation: To form a cooperative what is required is to find 10 like-minded adults, few documents, small formalities and nominal expenses on formation.
(ii) Democratic and economical management: The principle of 'one man one vote' makes the functioning of a co-operative society really democratic.
(iii) Limited liability: The liability of the members of a co-operative society is generally limited to the proportion of their capital contributions mentioned in the by-laws.
(iv) Uninterrupted life: A co-operative society enjoys perpetual existence. The death, retirement, insolvency, or lunacy of a member does not bring the society to a close.
(v) Equity: The surplus generated by the co-operative societies is distributed in an equitable manner among members. Therefore, all the members of the cooperative society are benefited.
(vi) More profits: Co-operative societies can deal directly with the producers and with the ultimate consumers. They are not dependent on middlemen and can save the profits enjoyed by the middlemen.

Q.2. What are the demerits of Co-operative society?

Ans. The following are some of the demerits of
Co-operative societies:

(i) Limited Funds: Co-operative societies have limited membership and are promoted by the weaker sections. The membership fees collected is low. Therefore, the funds available with the co-operatives are limited.

(ii) Over reliance on Government Funds: Co- operative societies are not able to raise their own resources. Their sources of financing are limited and they depend on government funds.

(iii) Limited Scale: A co-operative society cannot start its business on large scale as it produces the goods on small scale and its costs of production remain high.

(iv) Lack of Experience: The society cannot hire the services of the experts due to its limited resources.

(v) Absence of Discipline: Every member of the society considers him the owner of the business so inefficiency takes place and business suffers a loss.

(vi) Lack of mutual interest: The success of a cooperative society depends upon its members' utmost trust to each other. However, all members are not found imbued with a spirit of co-operation. Absence of such spirit breeds mutual rivalries among the members. Influential members tend to dominate in the society's affairs.

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