

NIOS lesson adaptation project

By EMBRACE Volunteers

(A community initiative of Harchan Foundation Trust)

Chapter 3

Sole Proprietorship Partnership And Hindu Undivided Family (HUF)

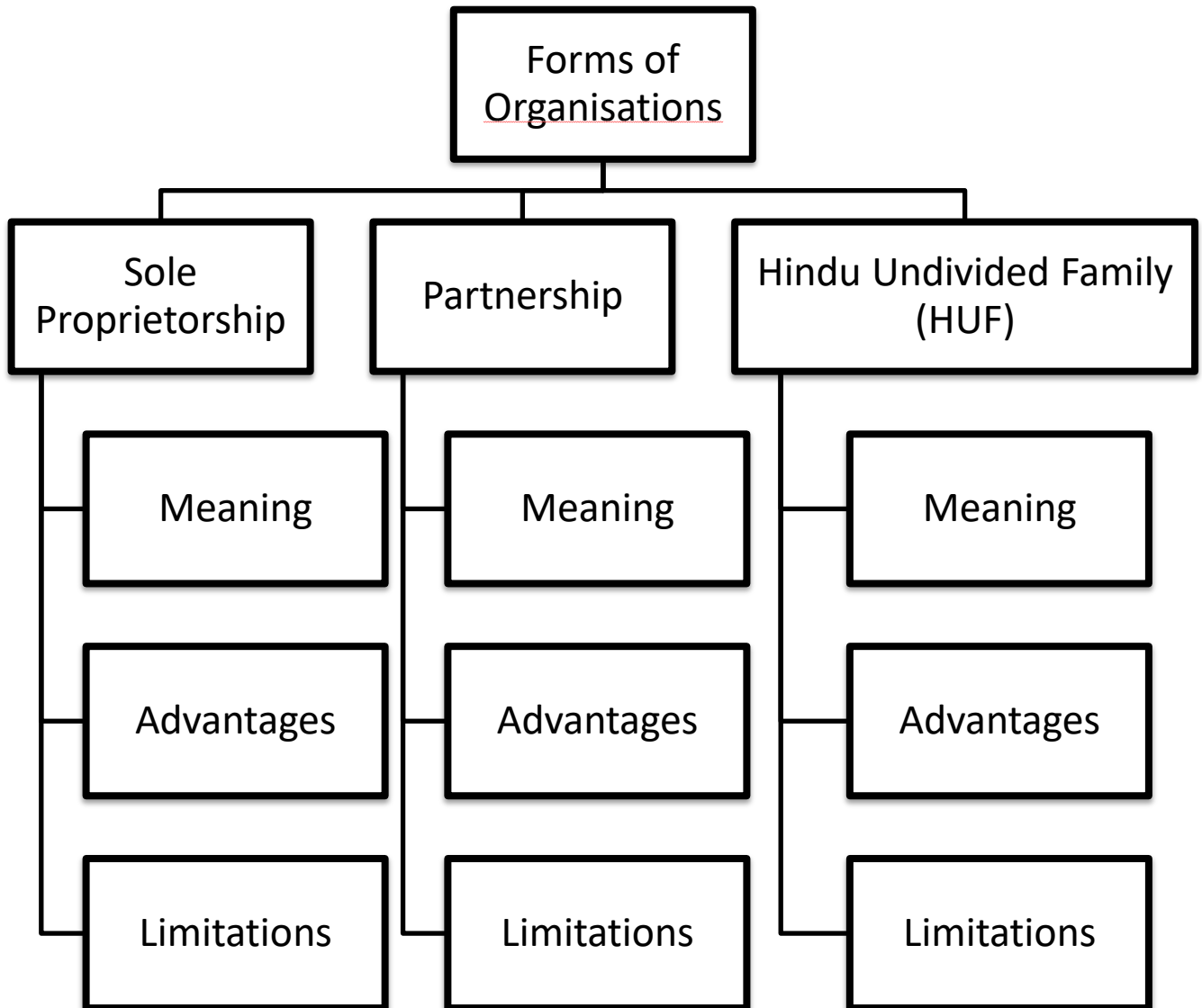
(Printable Version)

- **Simplified Lesson**
- **Previous Year Questions with Answers**
- **Terminal Questions**

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LESSON 3

Sole Proprietorship Partnership And Hindu Undivided Family (HUF)



Sole Proprietorship

(Single Ownership)

- Sole means Single and Proprietorship means Ownership.
- Only one person or an individual is the owner of the business.
- The business organisation in which a **single person owns, manages and controls** all the activities of the business is known as sole proprietorship form of business organisation.
- The individual who owns and runs the sole proprietorship business is called a 'sole proprietor' or 'sole trader'.

- Sole objective is earning profit.

Sole Proprietorship - Characteristics

- **Ease of formation:** It has minimum legal and other formalities.
- **Single Ownership:** Only one person or an individual is the owner of the business.
- **No Sharing of Profit and Loss:** Nobody shares any loss and profit in business with Sole proprietor.
- **One man's Capital:** The capital is totally arranged by the single owner of the organisation.
- **One-man Control:** The controlling power always remains with the owner. The owner takes all decisions for the business.
- **Unlimited Liability:** The liability of the sole proprietor is unlimited.

Sole Proprietorship - Advantages

Easy to form and wind up	A sole proprietorship form of business is very easy to form and wind up because less capital and less legal formalities are required .
Direct Motivation	<p>The profits earned belong to the sole proprietor alone.</p> <p>Owner also bears the risk of losses as well.</p>
Quick Decision and Prompt Action	It is easy for the sole Proprietor to take quick and prompt action.
Better Control	The Sole Proprietor has full control over each and every activity of the business.
Maintenance of Business Secrets	The proprietor can keep his plans to himself since management and control are in his hands.
Close personal relation	The Sole Proprietor can maintain close and friendly relations with the employees and customer. Hence the business runs smoothly.
Provides Self-Employment	Sole proprietorship form of business organization provides self-employment opportunities to the people.

Sole Proprietorship - Limitations

- **Limited Capital:** The owner's own funds and borrowed funds become insufficient to meet the requirement of the business for its growth and expansion.
- **Lack of Continuity:** The sole proprietorship ends when the sole proprietor dies or decides to close the business.
- **Limited Size:** As single person cannot manage many affairs it is difficult to expand the business.
- **Lack of Managerial Expertise:** A Sole Proprietor may be an expert in administration, planning, etc., but may be poor in marketing.

Partnership Firm

- Partnership is a relation between two or more persons who have agreed to
 - Contribute a certain amount of money and other things
 - Share the profits
 - Become the owners of the organizations.
- The objective of organization is earning profit.
- A partnership firm is governed by the provisions of the Indian Partnership Act 1932.
- The persons who join hands are individually known as 'Partner' and collectively a 'Firm'.

Partnership Firm **Characteristics**

- **Two or More Members:** At least two members are required for business. But the number must not exceed 10 in case of banking business and 20 in case of other business.
- **Agreement:** For starting a Partnership business there must be an agreement between all members regarding capital, profit, and loss sharing, duties and powers etc.
- **Lawful Business:** The partners can carry on any kind of Lawful business. Indulging in smuggling, black marketing etc., cannot be called Partnership business in the eye of the law.
- **Sharing of Profit:** In partnership, the profit shared between every partner in the agreed proportion. If there is no agreement, profit is shared equally between the partners.

- **Unlimited Liability:** If the assets of the firm are insufficient to meet the liabilities, the personal properties of the partners, can also be utilized to meet the firm's liabilities.
- **Voluntary Registration:** It is not compulsory to register the partnership. In case it is not registered, and there is any dispute among partners, it is not possible to settle the settlement of claims, through a court of law.
- **Principal Agent Relationship:** All the partners of a firm have an equal right to actively participate in its management. They act as an agent of the others and at the same time the others become the principal.
- **Continuity of Business:** Partnership firm comes to an end in the event of death or bankruptcy of any partner. Partners can also take decision to discontinue their business any time.

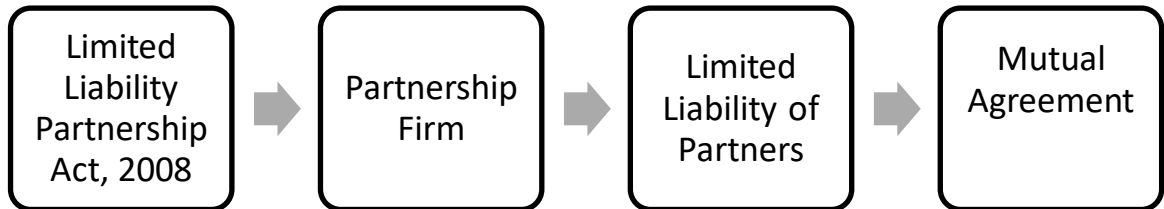
Partnership Firm – Advantages

- **Easy to form:** A simple agreement, oral or in writing, is sufficient to create a partnership firm.
- **Availability of large resources:** In partnership business it is possible to pool more resources. They can contribute more capital, more efforts and also more time for the business.
- **Balanced decisions:** Since all partners participate in decision making there is less scope for reckless and hasty decisions.
- **Sharing of losses:** In partnership firm all the partners share the business risks.

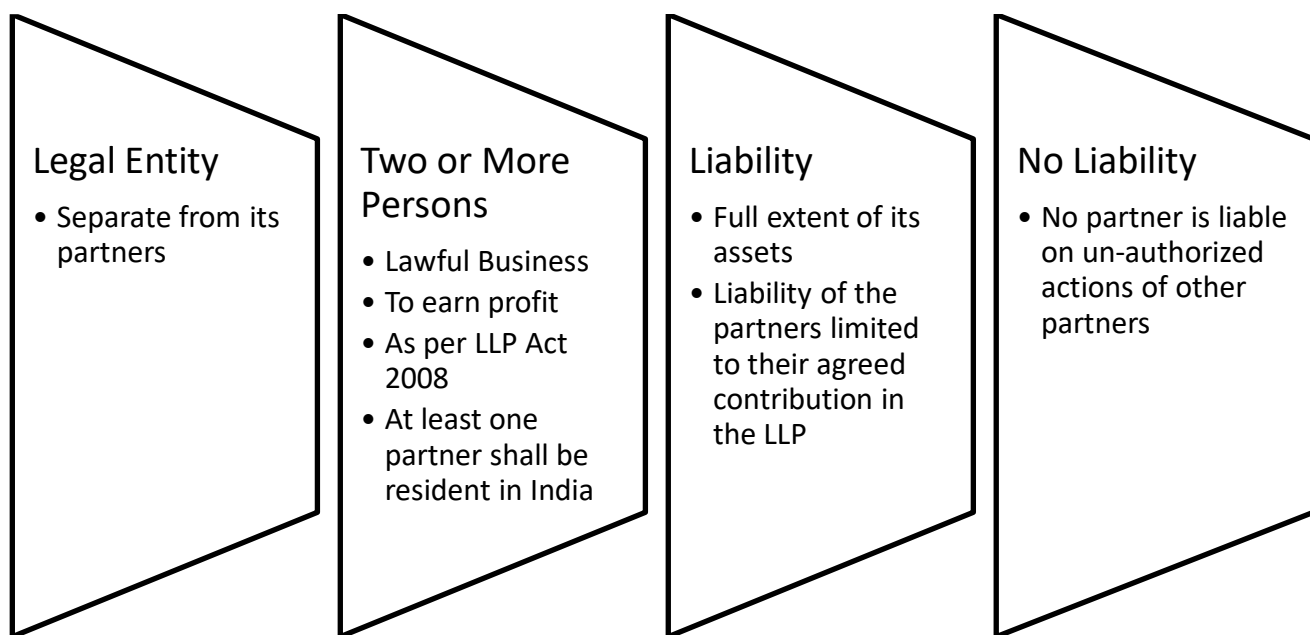
Partnership Firm - Limitations

- **Unlimited Liability:** All the partners are jointly as well as individually liable for the debts of the firm to an unlimited extent.
- **Uncertain Life:** Partnership firm comes to an end in the event of death or bankruptcy of any partner.
- **Limited Capital:** Since the total number of partners cannot exceed 20, large amount of capital cannot be raised.
- **Non transferability of share:** If you are a partner in a firm you cannot transfer your share of interest to outsiders without the consent of other partners.

LIMITED LIABILITY PARTNERSHIP – Features



Salient Features of the LLP Act 2008



Joint Hindu Family Business Hindu Undivided Family Business (HUF)

- Joint Hindu Family Business is owned by the members of a joint Hindu family.
- This form of organization exists under Hindu law and is governed by the law of succession.
- For purposes of running of joint Hindu family business, only male members are entitled who are referred to as **coparceners**.

- The eldest member is known as the **Karta**. The management vests in the **Karta**.
- In this form of business organization, the family possesses some inherited property.
- The inheritance of the property is among the male members.
- The share of ancestral property is inherited by a member from his father, grandfather and great grandfather.
- Thus, **three successive generations** can simultaneously inherit the ancestral property.

Joint Hindu Family Business
Hindu Undivided Family Business (HUF)
Features

- **Membership by birth:** Membership of a Joint Hindu family business is automatic by birth of a male child.
- **Management:** The management vests in the Karta, the eldest member of the family.
- **Liability:** The Karta has unlimited liability.
- **No Maximum limit:** there is any restriction on the number of coparceners of the HUF business. The membership is restricted to **three** successive generations.
- **Minor members:** A male child at the time of birth becomes a coparcener. An HUF does not restrict membership to minors.
- **Unaffected by death:** The HUF business continues even after the death of a coparcener including the Karta. It may come to an end if all the members notify that they are not members of the Joint Hindu Family.

Joint Hindu Family Business
Hindu Undivided Family Business (HUF)
Advantages

- **Economic security and status to the members:** The Joint Hindu Family business provides all its members a sense of economic security and it also gives them status in society while dealing with others.
- **Continuity of business:** The business continues to exist till the time the members jointly do not decide to terminate it.
- **Family pride:** Members are likely to work with dedication, loyalty and care, because the work involves the family name.
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Joint Hindu Family Business
Hindu Undivided Family Business (HUF)
Limitations

- **Unlimited liability:** The Karta is personally liable for all business obligations.
- **Limited access to capital:** The Karta has limited scope for raising capital.
- **Karta too powerful:** incompetent Karta may ruin the business since all business decisions are taken by him.
- This form of business organization is perhaps the **natural economic extension** of the Joint Hindu Family.

PREVIOUS YEARS QUESTIONS

1. What is meant by business? State it's any two characteristics.

Ans:

The business refers to the economic activities concerned with production and exchange of goods and services, primarily pursued with the objective of earning profits.

Two characteristics are:

- ✓ Dealing in goods and services.
- ✓ Profit motive.

2. Pankaj and four of his friends decided to start a business. They formed an organization by entering into an agreement regarding profit sharing, their duties and rights, etc. Identify the form of organization and explain its any three characteristics.

Ans:

The form of organization is partnership firm

Characteristics of partnership firm are:

- **Two or More Members:** At least two members are required for business. But not exceed 10 in case of banking business and 20 in case of other business.
- **Agreement:** For starting a Partnership business there must be an agreement between all members.
- **Lawful Business:** The partners carry on any kind of Lawful business. To indulge in smuggling, black marketing etc., cannot be called Partnership business in the eye of the law.

3. State any three limitations of Joint Hindu Family Business.

Ans:

- **Unlimited liability:** The Karta is personally liable for all business obligations.
- **Limited access to capital:** The Karta has limited scope for raising capital.
- **Karta too powerful:** incompetent Karta may ruin the business since all business decisions are taken by him.

4. The male members of a Joint Hindu Family business are called 1

- | | |
|------------------------|--------------|
| (A) <u>Coparceners</u> | (B) Members |
| (C) Agents | (D) Partners |

5. One man's capital is a feature of:

- | | |
|--------------------------------|------------------------|
| (A) Company | (B) Joint Hindu Family |
| (C) <u>Sole Proprietorship</u> | (D) Partnership |

6. This form of business organization exists under Hindu law and is governed by the law of succession. Identify it and state its features. (any four)

Ans:

It is joint Hindu Family Business.

Its features are:

- **Membership by birth:** Membership of a Joint Hindu family business is automatic by birth of a male child.
- **Management:** The management vests in the Karta, the eldest member of the family.
- **Liability:** The Karta has unlimited liability.

No Maximum limit: there is any restriction on the number of coparceners of the HUF business. The membership is restricted to **three** successive generations.

7. Describe briefly any four characteristics of sole proprietorship business.

Ans:

- **Ease of formation:** It has minimum legal and other formalities.
- **Single Ownership:** Only one person or an individual is the owner of the business.
- **No Sharing of Profit and Loss:** No body shares any loss and profit in business with Sole proprietor.

- **One man's Capital:** The capital is totally arranged by the single owner of the organization.

8. What is meant by Partnership? Explain briefly any three advantages of Partnership form of business organization.

Ans:

Partnership is a relation between two or more persons who have agreed to

- Contribute a certain amount of money and other things
- Share the profits
- Become the owners of the organizations.
- The objective of organization is earning profit.

9). State any three limitations of partnership.

Ans:

- ✓ **Unlimited liability.**
- ✓ **Uncertain life.**
- ✓ **Limited capital.**

10).What is meant by a partnership form of organizationon '! Also, state any four features of this form.

Ans:

- Partnership is a relation between two or more persons who have agreed to Contribute a certain amount of money and other things
- Share the profits
- Become the owners of the organizations.
- The objective of organization is earning profit.
- A partnership firm is governed by the provisions of the Indian Partnership Act1932.
- The persons who join hands are individually known as 'Partner' and collectively a 'Firm'.

Features of this form:

- **Agreement:** For starting a Partnership business there must be an agreement between all members.
- **Lawful Business:** The partners carry on any kind of Lawful business. To indulge in smuggling, black marketing etc., cannot be called Partnership business in the eye of the law.

- **Sharing of Profit:** In partnership, the profit share between every partner in the agreed proportion. If there is no agreement, profit is shared equally between the partners.
- **Unlimited Liability:** If the assets of the firm are insufficient to meet the liabilities, the personal properties of the partners, can also be utilized to meet the firm's liabilities.

11). Pranaya, after passing her XII class examination decided to open a small eating joint of her own along with two of her friends in the name of 'Hamara Bhoj'. Each one of them contributed ` 50,000 towards initial capital. They also decided to share profits equally and that each of them will be liable for the acts performed by the other two Identify the form of business-organization which was set-up by Panay and her friends and explain its any four characteristics.

Ans: Form of business organization is partnership firm.

Characteristics of this are as follows:

- **Two or More Members:** At least two members are required for business. But not exceed 10 in case of banking business and 20 in case of other business.
- **Agreement:** For starting a Partnership business there must be an agreement between all members.
- **Lawful Business:** The partners carry on any kind of Lawful business. To indulge in smuggling, black marketing etc., cannot be called Partnership business in the eye of the law.
- **Sharing of Profit:** In partnership, the profit share between every partner in the agreed proportion. If there is no agreement, profit is shared equally between the partners.
- **Unlimited Liability:** If the assets of the firm are insufficient to meet the liabilities, the personal properties of the partners, can also be utilized to meet the firm's liabilities.
- **Voluntary Registration:** It is not compulsory to register the partnership Generation. In case it is not registered, and there is any dispute among partners, it is not possible to settle the settlement of claims, through a court of law.

12).What is meant by Joint Hindu Family Business? State any three limitations of 'Joint Hindu family business?'

Ans:

- Joint Hindu Family Business is owned by the members of a joint Hindu family.

- This form of organization exists under Hindu law and is governed by the law of succession.
- For purposes of running of joint Hindu family business, only male members are entitled who are referred to as **coparceners**?
- The eldest member is known as the **Karta**. The management vests in the **Karta**.
- In this form of business organization, the family possesses some inherited property.

Limitations of this are:

- **Unlimited liability:** The Karta is personally liable for all business obligations.
- **Limited access to capital:** The Karta has limited scope for raising capital.
- **Karta too powerful:** incompetent Karta may ruin the business since all business decisions are taken by him.
- This form of business organization is perhaps the **natural economic extension** of the Joint Hindu Family.

13).Members of Joint Hindu Family are known as:

- | | |
|--------------|-------------------------------|
| (A) Owners | <u>(B) Coparceners</u> |
| (C) Partners | (D) Shareholders |

14). State the effect of non-registration of a partnership firm.

Ans:

- ✓ Your firm cannot take any action in a court of law against any other party for settlement of claims.
- ✓ In case if there is any dispute among partners it is not possible to settle the settlement claims through a court of law.
- ✓ Your firm cannot claim adjustments for amount payable to or receivable from any other party through a court of law.

15). Explain briefly any five characteristics of sole proprietorship business.

Ans:

- **Ease of formation:** It has minimum legal and other formalities.
- **Single Ownership:** Only one person or an individual is the owner of the business.
- **No Sharing of Profit and Loss:** No body shares any loss and profit in business with Sole proprietor

TERMINAL QUESTIONS

1. Define Sole Proprietorship.

Ans: Sole proprietorship may be defined as business unit which is completely owned managed and controlled by one person.

2. What is meant by sole proprietorship form of business organization?

Ans: Sole means single and proprietorship means ownership. It means only single person or individual is the owner of the business, thus the business organization in which a single person owns, manages, and control all the activities of the business is known as sole proprietorship form of business organization.

3. Can a sole proprietorship business exist forever? Justify your answer.

Ans: No, a sole proprietorship cannot exist forever. The existence is linked to the life of the proprietorship illness, death or insolvency of the owner brings and end to the business.

4. Describe the sole proprietorship facilities employment generation?

Ans: There are number of employees in different shops assisting the owner in selling the goods to the customers. This facilitates employment generation.

5. State the maximum number of partners in case of banking and other business.

Ans: The maximum number of partners in case of banking is 10 and in other business is 20.

6. Define partnership.

Ans: Partnership is an association of 2 or more persons who agrees to carry on a business together and share the profits as well as bear risks collectively.

7. State any four features of a partnership form of business organization.

Ans: Two or more persons.

- ✓ Agreement.
- ✓ Business
- ✓ Mutual agency.
- ✓ Sharing of profit.
- ✓ Unlimited liability.
- ✓ Voluntary registration.

8. Define joint Hindu family.

Ans: Joint Hindu family business refers to a business which is owned by the members of a joint Hindu family and is governed by the Hindu law.

9. State characteristics of joint Hindu Family.

Ans:

- ✓ Membership by birth: Membership is automatic by birth of a male child.
- ✓ Management: The management vests in the karta, the eldest member of the family.
- ✓ Liability: The karta has unlimited liability.
- ✓ No maximum limit.
- ✓ Minor members.
- ✓ Unaffected by death.

10. Write down the salient features of LLP.

Ans:

- Body Corporate: The LLP shall be a body corporate and a legal entity separate from its partners.
- Agreement: The mutual rights and duties shall be governed by an agreement between LLP and the partners.
- Liabilities
- Partners: Every LLP shall have at least two partners and shall also have at least two individuals as designated partners.