

**Class XI BUSINESS STUDIES**  
**CHAPTER -2 FORMS OF BUSINESS ORGANISATION**  
**IMPORTANT QUESTIONS**

**MULTIPLE CHOICE QUESTIONS (1 MARKS)**

**Question 1**

**Who elects B.O.D of Joint Stock Company?**

Answer

The Board of Director of Joint Stock Company is elected by shareholders

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**Question 2**

**In which form of business profits are not shared?**

Answer

In a sole proprietorship all profits, losses, assets and liabilities are the direct and sole responsibility of the owner

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**Question 3**

**Where a business act as an artificial person what act as an official signature**

Answer

The common seal with the name of the company engraved on it, is used as a substitute of its signature

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**Question 4**

**Write the names of systems which govern membership in Joint Hindu Family business**

Answer

There are two Schools of Hindu Laws which govern the Hindu Undivided Family(HUF):

1. Mitakshara Law

The Mitakshara Law applies to the whole of India except Bengal and Assam.

2. Dayabhaga Law

Dayabhaga Law applies to the communities like Bengalis and Assamese living in the States of Bengal and Assam and other parts of the world.

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### Question 5

**Enumerate the two conditions necessary for formation of Joint Hindu Family business**

Answer

1. Atleast two member in the family
  2. Ancestral property to be inherited by them
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### Question 6

**What is the minimum no. of persons required to form a co-operative society**

Answer

The minimum number of persons required to form a Co-operative is ten (10).

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### Question 7

**Explain the meaning of unlimited liability.**

Answer

Unlimited liability refers to Indefinite extent of liability to pay a firm's debts or obligations, extending beyond the investments of the firm's owner(s), partners, or shareholder(s) to their personal assets. This extent of liability is assumed in an unlimited liability company such as a sole-proprietorship or a general partnership.

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### Question 8

**Identify a company which has no restriction of on transfer of shares**

Answer

Public company has no restriction of on transfer of shares

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### Question 9

**Name two types of business in which sole proprietorship is very suitable.**

Answer

Tutorial classes, Small Cell phone repair shop is very suitable examples of business for sole proprietorship

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### Question 10

**Write the name of form of business organisation found only in India**

Answer

Joint Hindu family form of business is the form of business which is only found in India

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### Question 11

**Name the person who manages a Joint Hindu Family business**

Answer

Karta is the person who manages a Joint Hindu family business

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### VERY SHORT AND SHORT ANSWER QUESTIONS (2 OR 3 MARKS)

#### Question 1

**Partners in a firm have different roles and liabilities, Identify and explain the type of partner in a firm from the given examples:**

- a) Rama is a partner in a business who has no actual interest in business trade or its profits but she is paid fee by the firm for lending its name to firm.**
- b) In Ram Hari & Co. Ltd, Ram & Hari declare Gopal as a partner with knowing that Gopal remains silent then Gopal will be liable to third parties for any loss.**
- c) What type of partner is Geeta if she only contributes capital, shares profit and loss if any?**
- d) What type of partner is Giri in Ram Hari & Co. Where he is an outsider but represents himself as a partner.**

Answer

- a) Rama is a partner in a business who has no actual interest in business trade or its profits but she is paid fee by the firm for lending its name to firm- Nominal Partner
  - b) In Ram Hari & Co. Ltd, Ram & Hari declare Gopal as a partner with knowing that Gopal remains silent then Gopal will be liable to third parties for any loss- Partner by holding out
  - c) What type of partner is Geeta if she only contributes capital, shares profit and loss if any- Sleeping Partner
  - d) What type of partner is Giri in Ram Hari & Co. Where he is an outsider but represents himself as a partner- Partner by Estoppel
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## Question 2

**Explain the forms: sole proprietorship, H.U.F & Joint stock company on the basis of following points:  
Liability, members & Continuity**

Answer

Basis	Sole Proprietorship	HUF	Joint Stock Company
Liability	Unlimited Liability	Karta has unlimited liability, his personal property is used to repay the debts. Liability of co-parceners is limited to their share and their risk is well defined and precise	The liability of the members is limited to the extent of the capital contributed by them in a company. The members can be asked to contribute to the loss only to the extent of the unpaid amount of share held by them
Member	Owner is the member	Atleast two member in family is required to form Joint hindu family business. Membership is attained at the time of birth	In Public company- Minimum 7 and maximum is unlimited and In Private company Minimum 2 and Maximum is 200
Continuity	Death, insanity, imprisonment, physical ailment, bankruptcy affects the business and can lead to its closure	Operation of business are not terminated and continuity of business is not at stake	It will only cease to exist when a specific procedure for its closure, called winding up, is completed. Members may come and members may go, but the company continues to exist

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## Question 3

**Explain the concept of mutual agency in partnership with suitable example**

Answer

Mutual agency is the legal relationship between partners in a partnership where each partner has authorization powers and the ability enter the partnership into business contracts. In other words, each partner in the partnership is an agent in the business and the authority to make business decisions that commit or bind the partnership, as a whole, to a business agreement with a third party or entity.



For example, a partner of a grocery store who purchases a delivery truck creates a binding contract in the name of the partnership even if the partnership agreement denies this authority. On the other hand, if a partner in a law firm purchased a snowmobile for the partnership, such an act would not be binding on the partnership. The purchase is clearly outside the scope of partnership business.

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#### **Question 4**

**What is meant by partner by estoppel**

**OR**

**Mr. Singh is in 'lighting' business for the past 15 years. To help his friend, Mr. Yadav, a beginner he projected himself as a partner before Mohd. Abdul, a whole sale dealer of fancy lights. Mohd. Abdul gave Mr. Yadav the stock without asking for payment and gave him credit limit of one month.**

**Will Mr. Singh be liable to Md. Abdul if Mr. Yadav does not pay him on time ?**

**Classify Mr. Singh's role here along with an explanation**

Answer

Partner by Estoppel refers to Legally binding partnership that may arise where, in fact, no formal partnership agreement is in effect. A person who by conduct or words represents, or allows him/herself to be represented, as a partner in a firm is liable for the credit or loans obtained by firm on the basis of such representation. Also called presumption of partnership.

The partner does not contribute to capital nor does he participate in management but his liability is unlimited

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#### **Question 5**

**What is secret partner**

Answer

Secret Partner is A person or partner who is not disclosed in a venture or enterprise. He contributes to the capital. He participates in the management but secretly. He also shares the profits and losses of business. His liability is unlimited as others.

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#### **Question 6**

**Write a short note on producer co-operative society**

Answer

Producer's Cooperative Societies is set up to protect the interest of small producer. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of



consumers. Profits are distributed on the basis of their contributions to the total pool of goods produced or sold by the society.

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### Question 7

**Explain a co-operative organisation in democratic setup.**

Answer

The cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. The principle of 'one man one vote' governs the cooperative society. Each member is entitled to equal voting rights. Thus, cooperative society is run on democratic principles.

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### Question 8

**Shiv, Anandi & John were partners John died in a car accident Both Shiv & Anandi decided to admit his son Ryan who was 16 years old as partner. Can they do so? Justify.**

Answer

Yes they can admit Ryan as partner to benefits of partnership firm with mutual consent of partners.

A minor is a person who has not attained the age of 18 years. Since a minor is not capable of enlarging into a valid agreement. He cannot become partner of a firm. However a minor can be admitted to the benefits of an existing partnership firm with the mutual consent of all other partners. He cannot be asked to bear the losses. His liability will be limited to the extent of the capital contributed by him. He will not be eligible to take an active part in the management of the firm.

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### Question 9

**Differentiate between private co. and public company**

Answer

Basis for Comparison	Public Company	Private Company
Meaning	A company which is owned and traded publicly	A company which is owned and traded privately
Minimum member	7	2
Maximum Member	Unlimited	200
Minimum Director	3	2
Suffix	Limited	Private Limited
Start of Business	After receiving certificate of incorporation and certificate of commencement of business	After receiving certificate of incorporation
Statutory Meeting	Compulsory	Optional



<b>Issue of Prospectus/ Statement in lieu of Prospectus</b>	Obligatory	Not required
<b>Public Subscription</b>	Allowed	Not allowed
<b>Quorum at AGM</b>	5 members must present in person	2 members must present in person
<b>Transfer of shares</b>	Free	Restricted

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### Question 10

**Akriti, Sonam & Supreeti were friends who started a partnership business. They did not get their firm registered as it was optional. Soon, Sonam & Supreeti started having conflicts. Sonam wanted to approach a lawyer. If you were a lawyer than how would you guide her ?**

**OR**

**Mangal, Sazia & Suqhbear Singh wish to start a business in partnership. They want to make a partnership deed, Suggest what aspects of the deed should be included in it ?**

**Answer**

Partnership refers to the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all. Although registration of firm is optional, in order to avoid conflicts between partners partnership deed can be prepared.

The written agreement which specifies the terms and conditions that govern the partnership is called the partnership deed.

The partnership deed generally includes the following aspect:

- Name of firm
- Nature of business and location of business
- Duration of business
- Investment made by each partner
- Distribution of profits and losses
- Duties and obligations of the partners
- Salaries and withdrawals of the partners
- Terms governing admission, retirement and expulsion of a partner
- Interest on capital and interest on drawings
- Procedure for dissolution of the firm
- Preparation of accounts and their auditing
- Method of solving disputes

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### Question 11

**Explain limitations of Joint Stock Company**

Answer

Limitations are as follows

- The formation of a company requires greater time, effort and extensive knowledge of legal requirements and the procedures involved
- Separation of ownership and management leads to lack of effort as well as personal involvement on the part of the officers of a company
- Information of company is provided to Registrar of companies time to time and hence information is available to general public
- The functioning of a company is subject to many legal provisions and compulsions. This reduces the freedom of operations of a company and takes away a lot of time, effort and money
- Communication as well as approval of various proposals to Top, middle and lower level management may cause delays not only in taking decisions but also in acting upon them.
- Board of Directors are representatives of the shareholders who are the owners. The owners have minimal influence in terms of controlling or running the business
- Various demands pose problems in managing the company as it often becomes difficult to satisfy such diverse interest

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### Question 12

**Which form of business is suitable for following types of business and why ?**

**(a) Beauty Parlour**

**(b) Coaching Centre for science students**

**(c) Hotel**

**(d) Shopping mall**

**(e) Restaurant**

**(f) Small repair business**

Answer

**(a) Beauty Parlour- Sole Proprietorship.**

Simple and inexpensive to create and operate. Owner reports profit or loss on his or her personal tax return

**(b) Coaching Centre for science students- Partnership.**

Simple and inexpensive to create and operate Partners report their share of profit or loss on their personal tax returns



(c) Hotel-Joint Stock Companies.

The main feature of LLCs and corporations that attracts small businesses is the limit they provide on their owners' personal liability for business debts and court judgments against the business. Another factor might be income taxes: You can set up an LLC or a corporation in a way that lets you enjoy more favorable tax rates. In addition, an LLC or corporation may be able to provide a range of fringe benefits to employees (including the owners) and deduct the cost as a business expense.

(d) Shopping mall-Joint Stock Companies.

Owners have limited personal liability for business debts

(e) Restaurant-Sole Proprietorship.

Simple and inexpensive to create and operate. Owner reports profit or loss on his or her personal tax return

(f) Small repair business- Sole Proprietorship.

Simple and inexpensive to create and operate. Owner reports profit or loss on his or her personal tax return

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## LONG ANSWER QUESTIONS (5 OR 6 MARKS)

### Question 1

**In what type of business, individuals associate voluntarily for profit, having capital divided into transferable shares, the ownership of which is the condition of membership? Explain with features**

Answer

A Joint stock company is a Voluntarily association of persons formed for carrying out business activities for profit and has a legal status independent of its members, having capital divided into transferable shares. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal

The shareholders are the owners of the company while the Board of Directors is the chief managing body elected by the shareholders

The capital of the company is divided into smaller parts called 'shares' which can be transferred freely from one shareholder to another person (except in a private company).

Features of Joint Stock Company are as follows:

- A company is an artificial person. It is creation of law and exists independent of its members
- A company acquires a separate legal identity. The law does not recognise the business and owners to be one and the same.



- The formation of a company is a time consuming, expensive and complicated process. Incorporation of companies is compulsory
- It will only cease to exist when a specific procedure for its closure, called winding up, is completed. Members may come and members may go, but the company continues to exist.
- The management and control of the affairs of the company is undertaken by the Board of Directors, which appoints the top management for running of business
- A company may or may not have a common seal.
- The risk of losses in a company is borne by all the share holders.

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## Question 2

**If registration is optional, why do partnership firms willingly go through this legal formality? Explain the reason with procedure to get them registered.**

Answer

It is optional for partnership firm to get registered. But to avoid conflicts between partners it is preferred to have a written agreement.

The consequences of non-registration of a firm are as follows:

- (a) A partner of an unregistered firm cannot file a suit against the firm or other partners,
- (b) The firm cannot file a suit against third parties, and
- (c) The firm cannot file a case against the partners.

The written agreement which specifies the terms and conditions that govern the partnership is called the partnership deed.

The partnership deed generally includes the following aspect:

- Name of firm
- Nature of business and location of business
- Duration of business
- Investment made by each partner
- Distribution of profits and losses
- Duties and obligations of the partners
- Salaries and withdrawals of the partners
- Terms governing admission, retirement and expulsion of a partner
- Interest on capital and interest on drawings
- Procedure for dissolution of the firm
- Preparation of accounts and their auditing
- Method of solving disputes



Procedure for firm registration:

1. Submission of application in the prescribed form to the Registrar of firms. The application should contain the following particulars:

- Name of the firm
- Location of the firm
- Names of other places where the firm carries on business
- The date when each partner joined the firm
- Names and addresses of the partners
- Duration of partnership

This application should be signed by all the partners.

2. Deposit of required fees with the Registrar of Firms.

3. The Registrar after approval will make an entry in the register of firms and will subsequently issue a certificate of registration.

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### Question 3

**Who have equal ownership right over the property of an ancestor? Highlight with its essential characteristics**

Answer

Joint Hindu Family is a form of organisation wherein the business is owned and carried by the members of the Hindu Undivided Family (HUF). The basis of membership in the business is birth in a particular family and three successive generations can be members. The business is controlled by the head of the family who is the eldest member and is called karta.

Members of Joint Hindu Family Business have equal ownership right over the property of an ancestor and they are known as co-parceners.

Characteristics of Joint Hindu Family Business are as follows:

- Business does not require any agreement as membership is by birth.
- There should be at least two members in the family and ancestral property to be inherited by them
- The liability of all members except the karta is limited to their share of co-parcenary property of the business. The karta has unlimited liability.
- Karta controls the family business and his decision are binding to all
- Business continues even after the death of karta, next eldest becomes karta
- Minors are also member of the business



#### Question 4

#### Why cooperative forms of organisation are formed? Explain various types of cooperative societies

Answer

The cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. They are driven by the need to protect their economic interests in the face of possible exploitation at the hands of middlemen obsessed with the desire to earn greater profits. The process of setting up a cooperative society is simple enough and at the most what is required is the consent of at least ten adult persons to form a society. The capital of a society is raised from its members through issue of shares. The society acquires a distinct legal identity after its registration

#### Types of Cooperative Societies

- **Consumer's Cooperative Societies**
  - It is formed to protect the interests of consumers
  - Society aims at eliminating middlemen to achieve economy in operations
  - It purchases goods in bulk directly from the wholesalers and sells goods to the members
  - Profits are distributed on the basis of either their capital contributions to the society or purchases made by individual members.
- **Producer's Cooperative Societies**
  - It is set up to protect the interest of small producer
  - The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers
  - Profits are distributed on the basis of their contributions to the total pool of goods produced or sold by the society.
- **Marketing Cooperative Societies**
  - It is established to help small producers in selling their products.
  - The members consist of producers who wish to obtain reasonable prices for their output
  - It pools the output of individual members and performs marketing functions like transportation, warehousing, packaging, etc., to sell the output at the best possible price.
  - Profits are distributed according to each member's contribution
- **Farmer's Cooperative Societies**
  - It is formed to protect the interests of farmers by providing better inputs at a reasonable cost
  - The members comprise farmers who wish to jointly take up farming activities
  - The aim is to gain the benefits of large scale farming and increase the productivity.
  - Improves the yield and returns to the farmers, but also solves the problems associated with the farming on fragmented land holdings



- **Credit Cooperative Societies**
  - It is established for providing easy credit on reasonable terms to the members.
  - The members comprise of persons who seek financial help in the form of loans.
  - The aim of such societies is to protect the members from the exploitation of lenders who charge high rates of interest on loans.
- **Cooperative Housing Societies**
  - It is established to help people with limited income to construct houses at reasonable costs.
  - The members of these societies consist of people who are desirous of procuring residential accommodation at lower costs.
  - The aim is to solve the housing problems of the members by constructing houses and giving the option of paying in instalments

### Question 5

**Dhirubhai Chaurasiya operates a textile business. His family is joint and has a lot of ancestral property. All the 15 family members are a part of this business. He is the eldest male member in the family so he heads the business. He is liable to all the creditors of the business as he is the decision maker. Dhirubhai's grandson has just born a few days ago and he is also the member of the business.**

- (a) Which form of business is being undertaken by Dhirubhai Chaurasiya ?**
- (b) Identify the features of this form of business based on the information given.**
- (c) Textile business is part of which type of industry according to you ?**

Answer

a) Joint Hindu Family form of Business is undertaken by Dhirubhai Chaurasiya

b) Characteristics of Joint Hindu Family Business based on above information are as follows:

- Business does not require any agreement as membership is by birth as Dhirubhai's grandson who is just born is member by birth
- There should be at least two members in the family and ancestral property to be inherited by them as 15 family members are part of business and have lot of ancestral property
- The liability of all members except the karta is limited to their share of co-parcenary property of the business. The karta has unlimited liability as he is the decision maker he is liable to all creditors of business
- Karta controls the family business and his decisions are binding to all as he is the eldest male member and he heads the business
- Minors are also members of the business as his grandson who is just born is member of business.



### Question 6

'Reva Chemicals' is a partnership firm. Sona and Mona one two partners in this firm. It is recorded in the Partnership Deed that Sona's liability is unlimited, whereas Mona's is limited. Sona wants to set up the Anti-Pollution plant in his factory, but Mona does not let him do so. Almost all the transactions of this firm are done through the internet. The firm Sells its goods to other Business units only. The firm gets its Research and Development work done by another firm, who is a specialist of such work.

- i. Describe the type of partnership.
- ii. Identify the two values being overlooked.
- iii. Name the type-business being done by the firm

Answer

i. It is a limited partnership where the liability of at least one partner is unlimited whereas the rest may have limited liability. The limited partners do not enjoy the right of management and their acts do not bind the firm or the other partners. Registration of such partnership is compulsory.

ii. The two values which are overlooked are:

- Violation of government rules
- Social responsibility clause is not fulfilled

iii. It is a Business to Business Commerce. B2B e-commerce (also written as e-Commerce, eCommerce or similar variants), short for business-to-business, electronic commerce, is selling products or services between businesses through the internet via an online sales portal. In general, it is used to improve efficiency for companies. Instead of processing orders manually – by telephone or e-mail – with e-commerce orders can be processed digitally.

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### Question 7

Ravi, Pradeep, Satyender and Dharmender are partners in a partnership firm. Ravi and Satyender take active part in the operation of business whereas Pradeep has contributed in Capital but do not take part in day to day activities of the business. Dharmender is a nominal partner. All four make partnership for a specified time period and also make written agreement to govern the partnership but they does not get the firm registered.

- a. What is meant by nominal partner?
- b. Which type of partnership is there between the partners in above?
- c. What is written agreement between the partners called?
- d. What type of partners Pradeep and Ravi are?
- e. Give two merits of getting firm registered.

Answer

a) Nominal Partner is a Partner who allows the use of his/her name by a firm. He does not contribute to capital nor he participate in the management. He generally does not share profit/losses and have unlimited liability



b) General Partnership is there between the partners. In general partnership the liability of partners is unlimited and joint. The partners enjoy the right to participate in the management of the firm and their acts are binding on each other as well as on the firm

c) Written agreement between the partners is called partnership deed. The written agreement which specifies the terms and conditions that govern the partnership is called the partnership deed.

d) Ravi is active partner. Active partner are those Partners who take actual part in carrying out business of the firm on behalf of other partners. They contribute capital and takes part in the management. He shares the profit and loss of the partnership. His liability is unlimited.

Pradeep is sleeping partner. Sleeping partner are those Partners who do not take part in day to day activities of business. They contribute capital and does not takes part in the management. He shares the profit and loss of the partnership. His liability is unlimited.

e) Two merits of getting firm registered are as follows:

- A partner of an unregistered firm cannot file a suit against the firm or other partners
- The firm cannot file a suit against third parties

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### Question 8

**Explain different types of Partnership on the basis of duration and liability?**

Answer

Types of Partnership are as follows:



#### On the basis of duration



- ☐ Partnership at will
  - It can continue as long as the partners want and is terminated when any partner gives a notice of withdrawal from partnership to the firm
- ☐ Particular Partnership
  - Partnership formed for the accomplishment of a particular project say construction of a building or an activity to be carried on for a specified time period

#### On the basis of Liability



- ☐ General Partnership
  - The liability of partners is unlimited and joint.
  - The partners enjoy the right to participate in the management of the firm and their acts are binding on each other as well as on the firm
- ☐ Limited Partnership
  - the liability of at least one partner is unlimited whereas the rest may have limited liability
  - The limited partners do not enjoy the right of management and their acts do not bind the firm or the other partners.
  - Registration of such partnership is compulsory.

