

# Support Material(Business Studies)

## Class-XI

### Chapter-1

#### Nature and Purpose of Business

All Human beings have different types of needs. So in order to fulfill those needs they have to perform some or the other activity. Human activities are classified into Economic & non economic activities.

Basic Meaning	Economics	Non-Economic
Meaning	Those activities whose Objective is to earn money and to create Wealth.	Those activities whose aim is not to earn money but to satisfy social psychological and emotional needs. For example love, sympathy patriotismand.
Objective	Main aim to generate Goods or services to earn profit.	Main objective is to achieve Mental satisfaction.
Examples	<ul style="list-style-type: none"><li>- People working in factories.</li><li>- Cooking food in a restaurant.</li><li>- A teacher teaching in a school.</li></ul>	<ul style="list-style-type: none"><li>- A house Wife cooking food for her family.</li><li>- A teacher training his daughter at home.</li></ul>

#### Concept of Business

Literal meaning of Business is "BUSY".

i

Business is defined as an economic activity.

i

Involved in the production and sales of goods and services.

i

Undertaken with a motive of earning profit.

*i*

by Satisfying human needs in Society.

### **Characteristics of business**

1. An economic activity Business is considered as an economic activity as it is undertaken with the objective of earning money.
2. Production or procurement of goods and services Business includes all the activities concerned with the production or procurement of goods & services for sales. Services include transportation, banking, Insurance etc.
3. Sale or exchange of goods & service 1 There should be sale or exchange of goods and service between the seller & the buyer. If goods are produced not for the purpose of sale but say for internal consumption it cannot be called a business activity.
4. Dealing in goods & services on a regular basis There should be regularity of dealings or exchange of goods & services. One single transaction of sale or purchase does not constitute business.
5. Profit Earning The main purpose of business is to earn profit. A business cannot survive without making profits. So businessman tries to maximize profit by increasing the volume of sales or reducing costs.
6. Uncertainty of return : Every business invests money with the objective of earning profit but the amount of profit earned may vary also there is always a possibility of losses.
7. Element of Risk All business activities carry some elements of risk because future is uncertain and business has no control over several factors like, strikes, fire, theft, change in consumer taste etc.

Q.1 Prakash, a farmer went to the market and exchanged his rice with pulses. Is it an economic activity?

Q.2 Mohan sells his old dressing table on OLX for ₹ 4000. Is it a business activity? Justify.

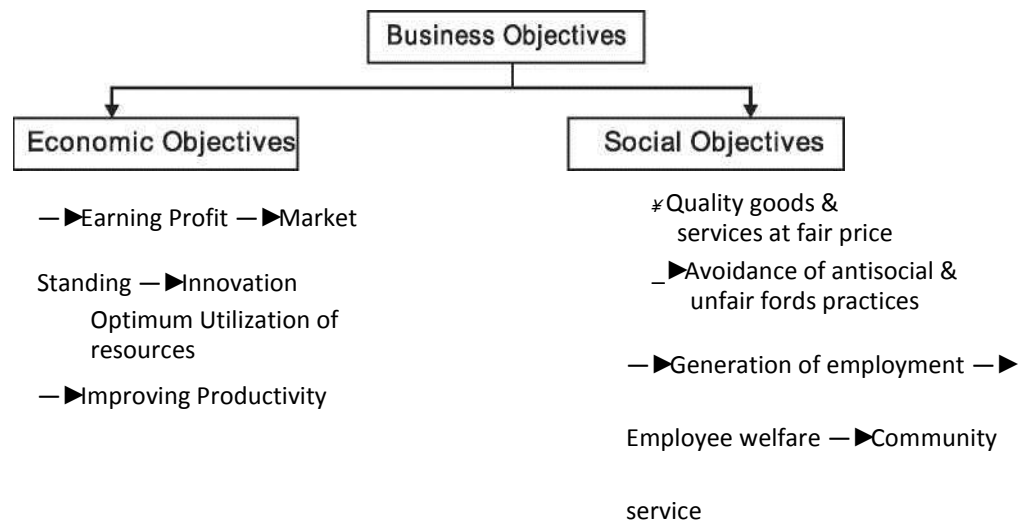
Q.3 Lalita, a housewife sells old newspaper of two months at ₹ 300, will you classify it as business activity? Why?

## Economic Activities

Business	Profession	Employment
<p>It Refers to those economic activities which are connected with purchase, production and/or sale of goods &amp; services with the objective of earning profit.</p>	<p>It includes those activities which require special knowledge &amp; skills in the occupation.</p>	<p>It refers to the occupation in which people work for others and get remuneration in return.</p>
<p><b>Examples:-</b></p> <ul style="list-style-type: none"> <li>- Fishing</li> <li>- Manufacturing Goods</li> <li>- Mining</li> <li>- Producing or selling of electronic goods</li> <li>- Banking</li> </ul>	<p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>- Medical (Doctor)</li> <li>- Legal (Lawyer)</li> <li>- Accountancy (CA)</li> </ul>	<p><b>Examples</b></p> <ul style="list-style-type: none"> <li>- Worker</li> <li>- Employee</li> <li>- Salesman</li> </ul>

**Objectives of Business** The objectives of business means the purpose for which a business is established and carried on. Proper selection of objectives is essential for the success of a business.

The Businessman always have multiple objectives. All objective may be classified into two broad categories. These are (1) Economics objectives and (2) Social objectives.



## 1. Economic Objectives

Business is an economic activity and therefore, its purpose is to show economic results. The economic objectives of business are follows:-

- (i) **Earning profit:** Profit means excess of income over the expenditure. The foremost and prime objective of every businessman is to earn profit. A business cannot survive without earning profit. Not only for survival but it is also required for growth and expansion of business.
- (ii) **Market standing/creation of customer :** Business can survive for a longer period only if it is able to capture a big

share in the market & has market standing. It is possible only when business provides goods and services to satisfy the needs & wants of customers. Therefore, creation and satisfaction of customers (market) is an important objective of business.

- (iii) **Innovations** : Innovation means making new products or adding new features of old products for making it more useful, improving methods of production & distribution exploring new markets, etc. In these days of competition, a business can be successful only when it creates new designs, better machines, improved techniques, new varieties etc.
- (iv) **Optimum utilisation of resources** : It refers to the best use of men, material, money and machinery employed in business. The resources of business are scarce so these must be utilised in the best possible manner so that the business can get maximum benefit, from their resources.
- (v) **Improving productivity** : it is used as a measure of efficiency. Every business enterprise must aim at greater productivity - to ensure continuous survival and growth. This objective can be achieved by reducing wastage and making efficient use of machines and equipments, human resources, money etc.

## **2. Social Objectives**

Business is an integral part of society. It makes use of resources of society. It earns profit by selling its products or services to members of society. So it becomes obligatory on the part of the businessman to do something for the society. The important social objective of business are as follows:

- (i) **Quality goods and services at Fair Price** The first social objective of business is to provide better quality product at reasonable price and in proper quantity on continuous basis to consumers examples.
- (ii) **Avoidance of Anti-Social and Unfair trade practices** : Anti-Social practices include hoarding, black marketing and adulteration. Making false claims in advertisements to mislead and exploit people is an example of unfair trade practice. Business should not indulge in such practices.
- (iii) **Generation of Employment**: Now a days, employment is the biggest problem of society. Business should provide employment to more and more people living in the country. Handicapped and disabled people should be given extra care.
- (iv) **Employee Welfare**: Employees are a valuable asset and they make significant contributions towards the success of business. Another social objective of business, therefore, is to ensure welfare of employees by providing good working conditions, fair wages and facilities such as housing, medical and entertainment etc. such welfare facilities help to improve physical and mental health of employees.
- (v) **Community service** : Business should contribute something to the society where it is established and operated Library, dispensary, educational institutions etc. are certain contributions which a business can make and help in the development of community.

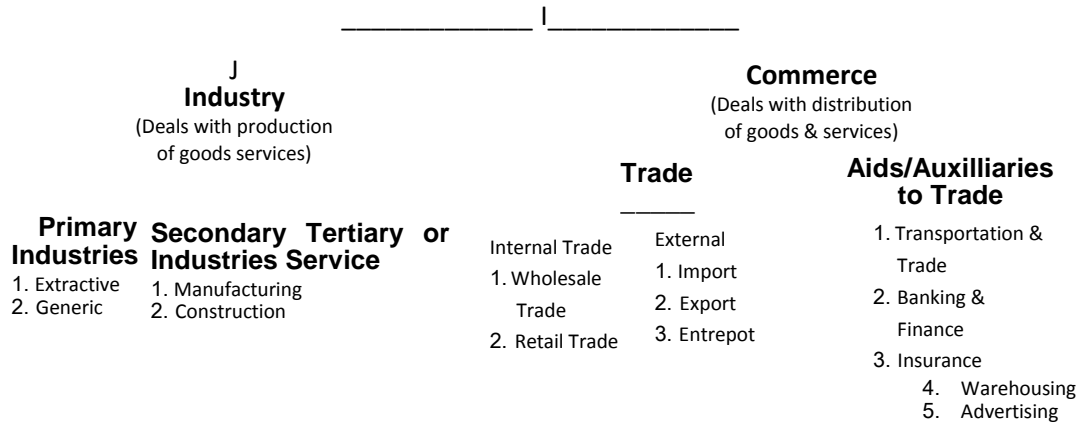
### **Role of Profit in Business**

Business is established for the purpose of earning profit. Profit plays a very important role in business. The role of profit in business can be brought out by the following facts :-

- (1) **For Long Survival** : Profit alone helps a business to continue to exist for a long period. In the absence of profit the establishment of a particular business loses its justification.
- (2) **For growth & Expansion** All businessmen want their business to expand and to grow. For development of business additional capital is needed. Retained earnings is a very good source of capital.
- (3) **For increasing efficiency** : Profit is that power which motivates both the parties - owner and workers to do their best. As they know that in case of good profits they will get good compensation for their efforts so, it finally helps in increasing the efficiency of business.

# Classification of Business Activities

Business Activities



1. **Primary Industry** - The primary industry includes those activities through which the natural resources are used to provide raw material for other industries.

2. **Secondary Industry** - Under this industry new products are manufacturing by using the previously produced things e.g. producing cotton is a primary industry and manufacturing cloth out of cotton is a secondary industry. It is of two types.

- i) **Manufacturing** - These industries convert raw materials or semi-finished products e.g. paper from bamboo, sugar from Sugar cane. It is further divided into four
- ii) **Construction Industries** - Industries that are involved in the construction of building, dams, bridge, roads as well as tunnels and canals.
- iii) **Tertiary or Service Industry** - Includes those services which help business to move smoothly e.g. transport, bank, insurance, storage and Advertising.

## Commerce

**Meaning** - Commerce refers to all those activities which are concerned with the transfer of goods and services from the producers to the consumers. It embraces all those activities which are necessary for maintaining a free flow of goods and services.

**Trade** Refers to buying and selling of goods and services with the objective of earning profit. It is classified into two categories

1. **Internal Trade**:-Takes place within a country. Internal Trade is classified into two categories
  - (i) **Wholesale Trade**Refers to buying and selling o goods in large quantities. A wholesaler buys goods in large quantities from the producers and sell them to other dealers. He serves as a connecting link between the producer and retailer.
  - (ii) **Retail Trade** Refers to buying of goods and services in relatively small quantities & selling them to the ultimate consumers.
2. **External Trade** Trade between two or more countries. External trade can he classified into three categories
  - (i) **Import trade** If goods are purchased from another country, if is called import trade.
  - (ii) **Export Trade** If goods are sold to other countries it is called export trade.
  - (iii) **Enterpot**Where goods are imported for export to other countries eg. Indian firms may import some goods from America and export the service to Nepal

## **Business Risk**

Business risk refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events. For example demand for a particular product may decline due to change in tastes preferences of consumers, or increase in competition etc. There are two types of business risks -

### **Nature of Business Risks**

1. Business risks arise due to uncertainties Lack of knowledge of what is going to happen in future create uncertainties in business. It may be due to natural calamities, change in demand and prices, strikes etc.
2. Risk is an essential part of every business : No business can avoid risk although the amount of risk may vary from business to business. Risk can be minimised but cannot be eliminated.
3. Degree of risk depends mainly upon the nature and size of business : Level of risk is lower for small scale business while it is higher for large scale organization.
4. Profit is the reward for risk taking : A business gets profit as return for undertaking risk. Greater the risk involved in a business higher is the chance of profit.

### **Causes of Business Risks**

1. **Natural Causes** - Human beings have little control over natural calamities like flood, earthquake, famine etc. They result in heavy losses of life, property & income in business.\*
2. **Human Causes** - Human causes include such unexpected events like dishonesty, carelessness or negligence of employees, strikes, riots, management inefficiency etc.
3. **Economic causes** - They are related to a chance of loss due to change in market condition e.g.. fluctuations in demand and prices, competition, change in technology etc
4. **Physical causes** - Mechanical defects or failures may also lead to losses e g., bursting of boiler or machine may cause death or destruction.
5. **Other causes** - These include unforeseen events like political disturbances, fluctuation in exchange rates etc.



### Starting a BusinessBasic Factors

1. **Selecting the line of business** The first thing to be decided by the entrepreneur is the line and type of business to be undertaken.
2. **Scale or size of business** After deciding the line of business the businessman must decide whether he wants to set up large scale or small scale business.
3. **Choice of form of Business organization** The next decision must be taken is to finalize the form of business i.e.. to set up sole proprietorship., partnership or joint stock company.
4. **Location of Business Enterprise** :-The entrepreneur has to decide the place where the enterprise will be located. Before taking this decision he must find out availability of raw materials, power, labour, banking, transportation etc.
5. **Financial Requirement** The businessman must analyze the amount of capital he might require to buy fixed assets and for working capital (Day to day expenses) Proper financial planning must be done to determine the amount of funds needed.
6. **Physical facilities** include machinery equipment building etc. This decision depends upon the size, scale and type of business activities he wants to carry on.
7. **Plant layout** Showing the physical arrangement of machines and equipment needed to manufacture a product.
8. **Competent and committed Workforce** The entrepreneur must find out the requirement of skilled and committed workforce.

## Ch-2:Forms of Business Organization

Meaning :-A business enterprise is an institutional arrangement to form any business activity. On the basis of ownership business enterprises can be divided into following 3 categories.

### Forms of Business Enterprise

( Private Enterprises)	( Public Enterprises)	Joint Sector Enterprises
Owned, Managed and controlled by Private person	Owned, managed and controlled by Government	Owned managed and controlled by Private & Govt. Enterprises

#### Types of Private Enterprises

1. Sole proprietorship
2. Partnership
3. Hindu (Joint)family business-
4. Co-operative society

Non-Corporate form

----- Corporate Form

#### Types of Public Enterprises

1. Departmental under taking.
2. Statutory corporation
3. Govt. Company

#### Sole Proprietorship

Meaning :

( Sole )

( Proprietor)

Only

Owner

Sole proprietor means a form organization in which there is only owner of business. He himself manages and is the only receipt of all profits and losses (risks).

#### Features of Sole-Proprietorship

- 1) **Single ownership**He is sole owner of all the assets and resources of business.
- 2) **No separate Legal Entity** The Business has no separate existence or entity that of the business. All the assets and liabilities of the business are that of the business man.
- 3) **No Legal Formalities**No Legal Formalities are required to start, manage and dissolve such business organization.

- 4) **Control and management** Sole proprietor has full power to control and manage such organizations.
- 5) **Unlimited liability** :- The liability of owner is unlimited. In case, the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts.
- 6) **Undivided Risk** Means the owner bears all the losses and enjoys all the gains.

**Suitable for some special form of business** It is suitable in areas of personalized services and small scale activities like agriculture, the job of stitching, bakery, beauty parlour etc.

- 7) **Secrecy** All the important informations concerning the business rests only with the owner so that no outside party can take any undue advantage of it.

#### **Merits**

- 1) **Easy Formation** It can be easily started and closed as there is no need to observe any legal formalities.
- 2) **Quick Decision** A Sole trader takes the decision quickly as he is not required to consult anybody about his decisions.
- 3) **Secrecy** All the secrets are confined with the owner. They are not shared with any body.
- 4) **Direct motivation** Direct relationship between efforts and reward provide incentive to the sole trader to work hard.
- 5) **Personal touch** The sole trader can maintain personal contacts with his customers and employees. In this way, good work is possible at less cost and time.

#### **Limitations**

- 1) **Limited financial resources** Funds are limited to the owner's personal savings (i.e. his capital) and his borrowing capacity.
- 2) **Limited managerial ability** Sole trader can't be good in all aspects of business and he can't afford to employ experts also.
- 3) **Unlimited liability** As the sole trader has to face the entire risk of business, so he compels him to avoid risky and bold decisions.
- 4) **Uncertainty** Death, insolvency, lunacy or illness of a proprietor may lead to its closure.
- 5) **Limited scope for expansion** :- Due to limited capital and managerial skills, it can't expand to a large scale.

### **JOINT HINDU FAMILY BUSINESS – RUN, CONTROL AND OWN BY FAMILY MEMBERS**

#### **FEATURES:-**

- 1) **Membership** Membership automatically starts by birth in the family.
- 2) **Control** In this, Business is managed wholly by Karta only. The other members can suggest him only.
- 3) **Liability** Liability of Karta is unlimited but of all other members is limited to the extent of their share in property.
- 4) **Permanent Existence** The existence is permanent like the existence of the company. There is no effect of the death, insolvency or lunacy of the members on the business.
- 5) **Minor Members** :- A minor can also become full-fledged member of the family business.
- 6) **Registration** There is no need of any registration.

#### Merits

- 1) **Effective Control** The Karta can promptly take decisions as he has the absolute decision making power.
- 2) **Continued business Existence** The death, Lunacy of Karta will not affect the business as next eldest member will then take up the position.
- 3) **Limited Liability** The liability of all members except Karta is limited. It gives them a relief.
- 4) **Secrecy** Complete secrecy regarding business decisions can be maintained by Karta.
- 5) **Loyalty and Co-operation** It helps in securing better co-operation and greater loyalty from all the members who run the business.

#### LIMITATION

- 1) **Limited capital** There is shortage of capital as it is limited to the ancestral property.
- 2) **Limited Managerial Skill** In this, all the decisions have to be taken by the Karta but he is not intelligent in all fields of business. Therefore, sometimes the decisions taken are not favourable to the business.
- 3) **Unlimited Liabilities** In this, the responsibility of the Karta is unlimited so, he hesitates in taking new and risky decisions.
- 4) **Unbalanced decision** As Karta is overburdened, with work, he may take hasty and unbalanced decisions.

**Note** The joint Hindu Family business is in decline because of the diminishing number of joint Hindu families in the country.

## PARTNERSHIP

**Definition** According to Indian Partnership Act 1932. "Partnership is the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all."

### Characteristic of Partnership

- i) **More than one person** Partnership needs a minimum number of two persons and maximum 20.
- ii) **Agreement** It is an outcome of an oral or written agreement.
- iii) **Profit motive and sharing of profit**:- Main characteristic of partnership is to earn profit in business and divide it among the partners.
- iv) **Decision making and control** Every partner has a right to participate in management and decision making.
- v) **Unlimited Liability** Partners have unlimited liability.
- vi) **Loss of continuity** Firm's existence comes to end by the death, Lunacy and insolvency of any of its partner.
- vii) **Principal Agent Relationship** Every partner plays a double role of an owner and an agent.

### Merits of Partnership

- i) **Ease of Formation and closure** It can be easily formed and closed without any legal formalities.
- ii) **Large financial Resources** There are more funds as capital is contributed by number of partners.
- iii) **Balanced Decisions** As all important decisions are taken jointly by partners, they are good and balanced.

- iv) **Sharing of Risks** Risks get distributed among partners. Which reduces burden and stress on individual partner.
- v) **Secrecy** The accounts of partnership firms are not presented before public and are not required to publish. So, business affairs are kept secret.

#### **Limitations**

- i) **Limited Resources** As there is a restriction on the number of partners so capital contributed by them is also limited.
- ii) **Unlimited liability** :-The liability of all partners is unlimited.
- iii) **Lock of continuity** Partnership comes to an end with the death, retirement, insolvency or lunacy on any of its partner.
- iv) **Lack of public confidence** Partnership firms are not required to publish their reports and accounts. Thus, they lack public confidence.
- v) **Lack of Harmony** Because of more people, there can be difference of opinions which leads to discord and lack of co-ordination.

**Note:** When the business happens to be of medium size and the partners have mutual understanding and goodwill, then partnership form of business organisation is the best eg. C.A. firms, hotels and factories of middle level etc.



**Partnership Deed** The Written agreement on a stamped paper which specifies the terms and conditions of partnership is called the Partnership Deed. It generally includes the following aspects

- 1) Name and address of the firm.
- 2) Names and Address of Partners.
- 3) Duration of Partnership.
- 4) Scope of Business.
- 5) Contribution of Capital by Partners.
- 6) Profit and loss Ratio.
- 7) Terms relating to salaries, drawing interest on capital and interest on drawing of partners.
- 8) Duties & obligations of partners.
- 9) Terms governing admission, retirement & expulsion of a partner.
- 10) Method for solving disputes.
- 11) Valuation of goodwill.

**Registration of Partnership** Registration is not compulsory but it is always beneficial to get the firm registered. The consequences of non-registration of a firm are as follows :-

- i) A partner of an unregistered firm can't file suit against the firm or the partner.
- ii) The firm can't file a suit against third party.
- iii) The firm can't file a case against its partner.

## **Co-operative Society**

**Co-operative**



together



Operate for the motive  
of welfare.

'Co-operative' means working together and with others for a common purpose. A Co-operative society means a voluntary organization which is established by some persons on the basis of co-operative and equality to safeguard their common economic interests.

## Features

- 1) **Voluntary Membership** Every one having a common interest is free to join a co-operative society.
- 2) **Legal Status** Its registration is compulsory and it gives it a separate legal identity.
- 3) **Limited Liability** The liability of the members is limited to the extent of their capital contribution in the society.
- 4) **Control** Management and control lies with the managing committee elected by the members by giving vote.
- 5) **Service motive** The main aim is to serve its members and not to maximize the profit.
- 6) **Cash trading** :- They give preference to cash trading.
- 7) **Government control** :- They have to send their annual report and accounts to the register so that the government exercise its control from time to time by checking their accounts.
- 8) **Arrangement of Finance** They arrange finance from sale of shares to members, loans obtained from the government etc.

## Merits of Co-operative Societies

- 1) **Ease of Formation** Any ten adults having common objective can establish co-operative society by getting registered with register.
- 2) **Stable existence** Due to registration it is a separate legal entity and is not affected by the death, lunacy or insolvency of any of its member.
- 3) **Limited liability** The liability of members is limited to the extent of their capital contribution.
- 4) **Supply of Goods at Cheaper Rate** These societies benefit their members by supplying them goods at cheaper rates than the market.
- 5) **Government Support** Govt, provides support by giving loans at lower interest rates, subsidies and by charging less taxes.

### Demerits:

- 1) **Shortage of Capital** : It suffers from shortage of capital as it is usually formed by people with limited means.
- 2) **Inefficient Management** These are managed by elected members who may not be competent and experienced. Due to lack of managerial knowledge. They can't run the society effectively.
- 3) **Lack of Secrecy** These have to send their annual reports and accounts to the registrar of co-operative societies. In this way, the secrets of business become public.
- 4) **Excessive Govt. Control** It suffers from excessive rules and regulations of Govt.
- 5) **Conflict among members** :- The members are from different sections of society with different view point. Sometime as when some members become rigid the result is conflict.
- 6) **Lack of motivation** Members are not inclined to put their best efforts as there is no direct link between efforts and rewards.



## TYPES OF CO-OPERATIVE SOCIETIES

1. **Consumers co-operative Society** :- It seeks to eliminate middleman by establishing a direct link with the producers. It purchases goods of daily consumption directly from manufacturer or wholesalers and sells them to the members at reasonable prices.
2. **Producer s Co-operative Society** :- The main aim is to help small producers who cannot easily collect various items of production and face some problem in marketing. These societies purchase raw materials, tools, equipments and other items in large quantity and provide these things to their members at reasonable price.
3. **Marketing Co-operative Society** :- It performs various marketing function such as transportation, warehousing, packing, grading, marketing research etc. for the benefit of its members. The production of different members is pooled together and sold by society at good price.
4. **Farmer's Co-operative Society** :- In such societies, small farmers join together and pool their resources for cultivating their land collectively. Such societies provide better quality seeds, fertilizers, machinery and other modern techniques for use in the cultivation of crops. It provides them opportunity of cultivation on largescale.
5. **Credit co-opearative Society** Such societies protect the members from exploitation by money lenders. They provide loans to their members at easy terms and reasonably low rate of interest.
6. **Co-operative Housing Society** :-The main aim is to provide houses to people with limited means/income at reasonable price.

## JOINT STOCK COMPANY

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

1. **Incorporated association** The company must be incorporated or registered tender the companies Act 1956. without registration no companies Act. 1956. Without registration no company can come into existence.
2. **Seperate 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, can file suits in its own name.
3. **Perpetual Existence** Death, insolvency and insanity or change of members as no effect on the life of a company It can come to an end only through the prescribed legal procedure.
4. **Limited Liability** :-The liability of every member is limited to the nominal value of the shares bought by him or to the amt. guaranteed by him.
5. **Transferability of shares** Shares of public Co. are easily transferable. But there are certain restrictions on transfer of share of private Co.
6. **Common Seal** It is the official signature of the company and it is affixed on all important documents of company.
7. **Separation of ownership and control** Management of company is in the hands of elected representatives of shareholders known individually as rector and collectively as board of directors.

## MERITS

1. **Limited Liability** Limited liability of shareholder reduces the degree of risk borne by him.
2. **Transfer of Interest** Easy transferability of shares increases the attractiveness of shares for investment.
3. **Perpetual Existence** Existence of a company is not affected by the death, insanity. Insolvency of member or change of membership. Company can be liquidated only as per the provisions of companies Act.
4. **Scope for expansion** :-Acompany can collect huge amount of capital from unlimited no. of members who are ready to invest because of limited liability, easy transferability and chances of high return.
5. **Professional management** A company can afford to employ highly qualified experts in different areas of business management.

## LIMITATIONS

1. **Legal formalities** :-The procedure of formation of Co. is very long, time consuming, expensive and requires lot of legal formalities to be fulfilled.
2. **Lack of secrecy** It is very difficult to maintain secrecy in case of public company, as company is required to publish and file its annual accounts and reports.
3. **Lack of Motivation** Divorce between ownership and control and absence of a direct link between efforts and reward lead to lack of personal interest and incentive.
4. **Delay in decision making**Red papism and bureaucracy do not permit quick decisions and prompt actions. There is littlescopefor personal initiative.
5. **Oligarchic management**Co. is said to be democratically managed but actually managed by few people i.e. board of directors. Sometimes they take decisions keeping in mind their personal interests and benefit, ignoring the interests of shareholders and Co.

## **Types of Companies**

On the basis of ownership, companies can be divided into two categories

- i) Private Company
- ii) Public Company

### **Private Company:**

Acc to Sec 2(68) of Companies Act, 2013, a Private Company means a company which :

1. Restricts the right of members to transfer shares.
2. Restricts the no. of its members between 2 to 200 excluding present and previous employees of Co. who are members also.
3. Puts a ban on inviting the public to subscribe to its shares.
4. Puts a ban on inviting the public to subscribe to its public deposits.
5. Must have a min. paid up share capital of 1 lakh rupees.

### **Public Company:**

Acc to Sec 2 (71) of Companies Act, 2013 a Public Company means a company which is not a private company. A public Company is one which :

1. has no restriction on the transfer of its shares.
2. has no max limits of its members
3. has no restriction on inviting the public to subscribe to its shares and debentures
4. has no restriction on inviting public to subscribe to its public deposits.
5. has a min. paid up capital of 5 lakh rupees.

## Formation of A Company

Formation of a company means bringing a company into existence and starting its business. The steps involved in the formation of a company are

- (i) Promotion
- (ii) Incorporation
- (iii) Capital subscription

Basis	Private Company	Public Company
1. Name	It has to write private Ltd. after its name	It has to write only Ltd. after its name.
2. No. of Members	Minimum -2 Maximum-50	Minimum-7 Maximum-No Limit
3. No. of Directors	Minimum -2 Directors	Minimum - 3 Directors
4. Minimum paid-up share capital	1 Lakh	5 Lakh
5. Invitation to public	Pvt. Co. can't invite public for issuing shares and debentures.	Public Company can invite public for issuing its shares & debentures.
6. Transfer of shares	No freedom to transfer shares.	No restriction on transfer of shares.
7. Commencement of business	After getting certificate of Incorporation.	After obtaining certificate of commencement of business

### Commencement of business Important documents used in the formation of company:-

**Memorandum of Association** - It is the principal document of a company. No company can be registered without a memorandum of association and that is why it is sometimes called a life giving document.

#### Contents of Memorandum of Association

1. **Name clause** - This clause contains the name of the company. The proposed name should not be identical similar to the name of another existing company.
2. **Situation clause** - This clause contains the name of the state in which the registered office of the company is to be situated.
3. **Object clause** - This clause defines the objective with which the company is formed. A company is not legally entitled to do any business other than that specified in the object clause
4. **Liability Clauses** - This clause limits the liability of the members to the amount unpaid on the shares held by them.
5. **Capital clause** - This clause specifies the maximum capital which the company will be authorized to raise through the issue of shares called authorized capital.

#### 2. Articles of Association

The articles of Association are the rules for the internal management of the affairs of a company. The articles define the duties, rights and powers of the officers and the board of directors.

#### Contents of the Article:-

1. The amount of share capital and different classes of shares.

2. Rights of each class of shareholders.
3. Procedure for making allotment of shares.
4. Procedure for issuing share certificates.
5. Procedure for forfeiture and reissue of forfeited shares.
6. Rules regarding casting of votes and proxy voting
7. Procedure for selection and removal of directors
8. Dividend declaration and payment related rules
9. Procedure for capital readjustment
10. Procedure regarding winding up of the company.

Prospectus means any document which invites deposits from the public to purchase share or debentures of a company.

#### **Main contents of the Prospectus:-**

1. Company's name and the address of its registered office.
2. The main object of the company
3. The number and classes of shares.
4. Qualification shares of the directors
5. The name and addresses of the directors, managing director or manager.
6. The minimum subscription which is 90% of the size of the issue.
7. The time of opening and closing of the subscription list.
8. The amt. payable on the application and allotment of each class of share.
9. Underwriters to the issue.
10. Merchant bankers to the issue.

#### **Statement in Lieu of Prospectus:**

A public company having a share capital may sometimes decide not to raise funds from the public because it may be confident of obtaining the required capital privately. In such case it will have to submit a statement in lieu of prospectus with the Registrar of companies.

It contains information much similar to that of a prospectus.

<b>Basis</b>	<b>Memorandum of Association (M.O.A)</b>	<b>Articles of Association (A.O.A.)</b>
1. Objectives	It defines the objectives of the company.	It defines the rules for attaining the objectives mentioned in memorandum of association.
2. Position	Very Important document.	Subsidiary document.
3. Validity	The activities beyond the power of M.O.A. are not considered to be performed by the company and even all the members can't rectify them.	Activities beyond the powers of A.O.A. are also void. But their rectification is possible by the members.
4. Relationship	Defines the relationship between the company & the outsiders.	Defines the relationship between members and the company.

5. Necessity	It's preparation is necessary to get the company registered.	Necessary for private company but not necessary to prepare for Public company.
6. Alteration	It can't be easily altered many matters require approval of court.	It can be easily, altered by a special resolution.

**Choice of Forms of Business Organization** The following factors are important for taking decision about form of organization.

- i) **Cost and ease in setting up the Organization** Sole proprietorship is least expensive and can be formed without any legal formalities to be fulfilled. Formation of a company is expensive with lot of legal formalities. So, sole proprietorship is better.
- ii) **Liability** The liability of the owners in sole proprietor business and partnership business is unlimited but the responsibility of the share holders in a company is limited. So, Company organization should be selected.
- iii) **Continuity** In sole proprietorship and partnership firms death, lunacy or insolvency of any of its member, business ends but in Joint Hindu Family Business & Co-operative Societies company business is not affected by there above picture. So, company co-operative society are much better to be chosen.
- iv) **Managerial Needs** In sole proprietorship & Joint Hindu Family Business, experts opinion is not affordable but companies can afford experts for management, so keeping in view, the nature of work and managerial needs company is liked.
- v) **Capital Considerations** Business activities requiring huge financial resources prefer company form while for small & medium size business, partnership or sole proprietorship is better.
- vi) **Control** For direct control & direct decision. Sole proprietor is liked while where the control has to be shared, they prefer company.
- vii) **Nature of Business** If the work requires personal attention, it is generally set up as a sole proprietorship Units engaged in large scale manufacturing are more likely to be organized in company form or partnership form.







