

CUET · BUSINESS STUDIES · CLASS XI · CODE 305

Forms of Business Organisation

CUET unit: Forms of Business Organisation

By UniDrill · NCERT-grounded study material

WWW.UNIDRILL.IN

UniDrill

Snapshot

- Surveys the five major forms of business organisation in India — sole proprietorship, Joint Hindu Family business, partnership, cooperative society and joint stock company (private/public) — comparing them on formation, liability, control, continuity and capital.
- Anchors the legal framework: Indian Partnership Act 1932 for partnerships, Hindu Law / Hindu Succession Act 1956 (and 2005 Amendment) for HUF, state and Multi-State Cooperative Societies Acts for cooperatives, and Companies Act 2013 for companies.
- Loads up on the discriminator vocabulary CUET likes: karta vs. coparcener, active vs. sleeping vs. secret vs. nominal partner vs. partner by estoppel vs. partner by holding out, partnership at will vs. particular partnership, general vs. limited partnership, private vs. public company.
- Builds the **six types of cooperative societies** (consumer's, producer's, marketing, farmer's, credit, housing) and the **two-tier company classification** (private — 2 to 200 members; public — 7 to unlimited).
- Closes with the seven decision factors (cost, liability, continuity, management ability, capital, control, nature of business) and Table 2.5 — the most testable summary.
- Reinforces the worked numerical example on shareholder liability (2,000 shares of Rs.10 each, Rs.7 paid → maximum liability Rs.6,000) which has appeared verbatim in CUET papers.

Detailed Notes

2.1 Core concepts

The **five forms of business organisation** (NCERT §2.1, p. 27) are: (a) sole proprietorship, (b) Joint Hindu Family business, (c) partnership, (d) cooperative societies, and (e) joint stock company. They run from the simplest, owner-bound form to the most complex, law-bound corporate form, and Table 2.5 follows the same sequence. Every form is examined against the same six axes: formation, liability, control, continuity, capital and members.

Sole proprietorship (NCERT §2.2, pp. 27-30) is business owned, managed and controlled by an individual who is the recipient of all profits and the bearer of all risks. It

is the natural fit for personalised services — beauty parlours, hair saloons, small retail shops. Its six features are: no separate law (formation/closure is easy), **unlimited liability**, sole risk-bearer and profit-recipient, absolute control with the proprietor, no separate entity from owner, and lack of business continuity (death/insanity/imprisonment/physical ailment/bankruptcy ends the firm). Merits include quick decision-making, confidentiality (no obligation to publish accounts), direct incentive, sense of personal accomplishment and ease of formation/closure. Limitations — limited resources, limited life, unlimited liability, limited managerial ability — explain why sole proprietorship rarely scales beyond medium business.

Joint Hindu Family business (NCERT §2.3, pp. 31-32) is found only in India. It is owned and carried on by members of a Hindu Undivided Family (HUF), governed by Hindu Law, and membership comes by birth into the family — up to three successive generations can be members. The eldest member is the **karta** and controls the business; members with equal ownership rights over ancestral property are **coparceners**. Features: formation requires at least two members and ancestral property; liability is limited for all members **except the karta**, who has unlimited liability; control lies with the karta whose decisions bind other members; continuity is unaffected by death of the karta (next eldest takes over) — termination only by mutual consent; minors can be members by birth. The **Hindu Succession (Amendment) Act, 2005** is critical: a daughter becomes a coparcener by birth, the eldest member (male or female) becomes karta, and married daughters retain equal rights in property. Merits — effective control, continued existence, limited liability of members (except karta), loyalty and cooperation. Limitations — limited resources, unlimited liability of karta, dominance of karta, limited managerial skills; NCERT notes the form is on the decline.

Partnership (NCERT §2.4, pp. 32-39) is defined by the **Indian Partnership Act, 1932** as "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". Features: governed by the 1932 Act through a legal agreement; **unlimited, joint-and-several liability**; risk-sharing in agreed ratio; joint decision-making; continuity affected by death/retirement/insolvency/insanity of any partner; minimum 2 partners and — per Section 464 of the Companies Act 2013 read with Rule 10 of the Companies (Miscellaneous) Rules 2014 — currently a maximum of **50**; and **mutual agency** (every partner is both agent and principal). Merits: ease of formation/closure, balanced decision-making through specialisation, more funds, sharing of risks, secrecy. Limitations: unlimited liability, limited resources (still capped capital-wise relative to a company), possibility of conflicts, lack of continuity and lack of public confidence (unregistered firms cannot sue).

NCERT §2.4.1 (pp. 35-37, with Table 2.1 on p. 36) sets out the **six types of partners**: **active** (capital + management + profit/loss share + unlimited liability); **sleeping/dormant** (capital + no management + profit/loss share + unlimited liability); **secret** (capital + secret management + profit/loss share + unlimited liability); **nominal** (no capital, no management, generally no profit share, unlimited liability); **partner by estoppel** (no capital, no management, no profit share, unlimited liability — through own

conduct creates the impression of being a partner); and **partner by holding out** (no capital, no management, no profit share, unlimited liability — knowingly allows himself to be represented as partner). A **minor** cannot be a partner (incompetent to contract) but may be admitted to the benefits of partnership with mutual consent; liability is limited to capital contributed; on attaining majority the minor must give public notice within six months whether he chooses to continue.

NCERT §2.4.2 (pp. 37-38) classifies **types of partnerships** on two axes. On duration: **partnership at will** (continues at the will of partners, terminated by notice of withdrawal) and **particular partnership** (formed for a particular project/specified time, dissolves automatically). On liability: **general partnership** (unlimited joint liability, registration optional, existence affected by death/lunacy/insolvency/retirement) and **limited partnership** (at least one partner with unlimited liability, others limited; limited partners do not enjoy right of management; **registration compulsory**; permitted in India after the New Small Enterprise Policy 1991). §2.4.3 (pp. 38-39) describes the **partnership deed** and §2.4.4 (p. 39) makes clear that **registration of a partnership is optional**, but non-registration has three sharp consequences — (a) a partner cannot sue the firm or other partners, (b) the firm cannot sue third parties, and (c) the firm cannot sue partners.

Cooperative society (NCERT §2.5, pp. 40-44) is a voluntary association of persons for the welfare of members, driven by the need to protect economic interests democratically; registration is **compulsory** under the state Cooperative Societies Act (single-state) or the Multi-State Cooperative Societies Act 2002 (multi-state). Features: voluntary membership open to all irrespective of religion, caste and gender; compulsory registration giving separate legal identity; limited liability up to capital contributed; democratic control through an elected managing committee with the **one-man-one-vote** principle (regardless of capital contribution); and a service motive with surplus distributed as dividend per bye-laws. Merits — equality in voting, limited liability, stable existence, economy in operations (honorary services, elimination of middlemen), government support (low taxes, subsidies, low-interest loans), ease of formation. Limitations — limited resources, inefficiency in management (cannot pay experts), lack of secrecy, government control, differences of opinion. The **six types** are consumer's, producer's, marketing, farmer's, credit and housing cooperatives (NCERT §2.5.1, pp. 42-44), each tied to a specific economic problem.

Joint stock company (NCERT §2.6, pp. 44-49) is the most complex form. Section 2(20) of the Companies Act, 2013 defines a company as one incorporated under that Act or any previous company law. A company is an **artificial person** with separate legal entity, perpetual succession and a common seal; shareholders are owners; the Board of Directors is the chief managing body elected by shareholders; capital is divided into shares freely transferable (except in a private company). Seven features structure the discussion: artificial person, separate legal entity, formation (time-consuming, expensive, complicated, compulsory incorporation under the Companies Act 2013), **perpetual succession**, control by Board of Directors, **limited liability** (the

worked example — 2,000 shares of Rs.10 each with Rs.7 paid → liability Rs.6,000), and risk-bearing spread over shareholders. Merits — limited liability, transferable shares, perpetual existence, scope for expansion, professional management. Limitations — complexity, lack of secrecy, impersonal environment, numerous regulations, delay, oligarchic management and conflict of interests.

NCERT §2.6.1 (pp. 47-49) distinguishes the **private company** (restricts transfer of shares; 2-200 members excluding present/past employees; cannot invite public to subscribe; must use "Private Limited") from the **public company** (not a private company; minimum 7 members; no maximum; no restriction on transfer; can invite public to subscribe). Privileges of a private company include forming with only 2 members and 2 directors, no prospectus needed, no minimum subscription, ability to start business on receiving the certificate of incorporation, and no index of members.

Finally, NCERT §2.7 (pp. 49-52, Tables 2.4 and 2.5) lists the **seven choice factors** when selecting a form of organisation: (i) cost and ease in setting up, (ii) liability, (iii) continuity, (iv) management ability, (v) capital considerations, (vi) degree of control and (vii) nature of business. Direct customer contact (grocery store) favours sole proprietorship; large manufacturing favours a company; professional services favour partnership.

2.2 Definitions to memorise

Term	Definition	Page
Sole proprietorship	Form of business organisation owned, managed and controlled by an individual who is recipient of all profits and bearer of all risks.	27-28
Joint Hindu Family business	Business owned and carried on by members of a Hindu Undivided Family, governed by Hindu Law; membership by birth.	31
Karta	Eldest member of the Hindu Undivided Family who controls the family business.	31
Co-parceners	Members of HUF with equal ownership rights over ancestral property.	31
Hindu Succession (Amendment) Act 2005	Statute that makes the daughter a coparcener by birth and provides that the eldest member (male or female) becomes karta.	31
Partnership (s.4, Indian Partnership Act 1932)	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.	32
Mutual agency	Doctrine that every partner is both agent (binding others) and principal (bound by others' acts).	34
Active partner		35

Term	Definition	Page
	Partner who contributes capital, takes active part in management and shares profits/losses with unlimited liability.	
Sleeping/dormant partner	Partner who contributes capital and shares profits/losses but does not take part in management; unlimited liability.	35
Secret partner	Partner who contributes capital and takes part in management but whose association is not known to the public.	35
Nominal partner	Partner who lends only his name to the firm; contributes no capital, takes no active part, generally shares no profit, but has unlimited liability.	35
Partner by estoppel	Person who through his own conduct gives others the impression that he is a partner; held liable to such third parties.	35-36
Partner by holding out	Person who is not a partner but knowingly allows himself to be represented as a partner; liable to outside creditors who relied on such representation.	36
Partnership deed	Written agreement specifying terms and conditions that govern the partnership.	38-39
Partnership at will	Partnership that continues at the will of partners and is terminated by any partner giving notice of withdrawal.	37
Particular partnership	Partnership formed for a particular project or specified time; dissolves automatically on completion.	37
General partnership	Partnership with unlimited joint liability and optional registration.	38
Limited partnership	Partnership where at least one partner has unlimited liability and other partners have limited liability; registration compulsory.	38
Cooperative society	Voluntary association of persons formed for welfare of members, governed by Cooperative Societies Act; registration compulsory.	40
Consumer's cooperative society	Cooperative formed to protect interests of consumers by eliminating middlemen.	42
Marketing cooperative society	Cooperative that helps small producers sell their products by pooling output.	43
Joint stock company	Association of persons formed for carrying out business activities, having a legal status independent of its members — an artificial person with separate legal entity, perpetual succession and a common seal.	44
Perpetual succession		45

Term	Definition	Page
	A company can only be brought to an end by law through winding up; members may come and go but the company continues.	
Private company	Company that restricts share transfer, has 2-200 members, does not invite public to subscribe; must use "Private Limited".	47-48
Public company	Company that is not a private company — minimum 7 members, no maximum, no restriction on transfer, can invite public to subscribe.	48-49

2.3 Diagrams / processes to remember

The high-yield visuals cluster in three families. The **Forms of Business Organisation chart** (§2.1, p. 27) is a single root branching into five leaves (sole proprietorship, HUF, partnership, cooperative, company); every comparison hangs from it.

Table 2.1 — Types of Partners (p. 36) is a six-row by four-column grid. Rows: active, sleeping/dormant, secret, nominal, partner by estoppel, partner by holding out. Columns: capital contribution, participation in management, share in profits/losses, liability. The key patterns: **all six types carry unlimited liability**, but only active/sleeping/secret contribute capital and share in profits.

Table 2.3 — Public vs Private Company (p. 48) compares the two on seven lines: minimum members (7 vs 2), maximum members (unlimited vs 200), minimum directors (3 vs 2), maximum directors (15 vs 15), index of members (compulsory vs not), restriction on transfer (no vs yes), invitation to public (yes vs no). The "minimum two directors" and "maximum 200 members" lines are the trap-tested cells.

Table 2.4 — Factors influencing choice of form (p. 49) is the decision matrix: for each factor (capital availability, cost of formation, ease of formation, transfer of ownership, managerial skills, regulations, flexibility, continuity, liability), it lists the most-advantageous and least-advantageous form. Cooperative society scores highest on equality and government support; sole proprietorship on speed and confidentiality; company on capital and continuity.

Table 2.5 — Comparative evaluation of all five forms (p. 51) compares formation, members, capital contribution, liability, control and management, and continuity across all five forms. Almost every CUET match-the-pair question on this topic is built off a single cell in this table.

The **Process of company formation** (referenced through §2.6, p. 44-45) is also examined: promotion → incorporation → certificate of incorporation → certificate of commencement of business (the last step now collapsed into incorporation for most companies after the 2013 Act amendments).

2.4 Common confusions / NTA trap points

1. **Karta vs. co-parcener liability** — karta has **unlimited** liability; all other co-parceners have **limited** liability to their share in coparcenary property (NCERT §2.3, p. 31). NTA loves flipping this.
2. **Partner by estoppel vs. partner by holding out** — estoppel = the person **himself** by his own conduct creates the impression; holding out = the person **knowingly allows others** to represent him as partner. Both carry unlimited liability, no capital, no management, no profit share.
3. **Nominal vs. sleeping partner** — sleeping contributes capital and shares profits/losses but does not manage; nominal contributes no capital, takes no active part, generally does not share profits — but is still liable to third parties.
4. **Maximum partners** — Section 464 of the Companies Act 2013 says 100; but Rule 10 of the Companies (Miscellaneous) Rules 2014 **currently** caps it at **50**. Both numbers appear in NCERT (p. 33-34); for "at present" the correct answer is 50.
5. **Registration of partnership is optional**, but registration of a **cooperative society** and **incorporation of a company** are compulsory. **Limited partnership** registration is also compulsory (NCERT §2.4.2, p. 38).
6. **One-man-one-vote (cooperative) vs one-share-one-vote (company)** — cooperative voting is per member, irrespective of capital; company voting is proportional to shares held. CUET often flips this.
7. **Liability worked example (company)** — shareholder holding 2,000 shares of Rs.10 with Rs.7 paid → unpaid Rs.3/share × 2,000 = Rs.6,000 maximum liability. Wrong options usually offer Rs.20,000 (face value) or Rs.14,000 (paid-up).
8. **Private company word usage** — must use "Private Limited" after its name; minimum members 2, maximum 200 (excluding present and past employees), minimum directors 2.
9. **Functions vs principles** distinction creeps in here too — sole proprietorship's "six features" should not be confused with the "merits" or "limitations" lists; each is a separate NCERT list.
10. **HUF minor membership** — a minor can be a member of HUF **by birth** (no consent needed) but in a partnership a minor **cannot become a partner** (incompetent to contract) and can only be admitted to benefits with mutual consent (NCERT §2.3 and §2.4.1 box, p. 31, 37).
11. **Particular partnership vs partnership at will** — particular partnership has a defined project/time; partnership at will has no fixed term and terminates by notice. CUET pairs these in match-the-pair items.
12. **Public company in disguise** — a private company that is a subsidiary of a public company is treated as a public company (NCERT §2.6.1, p. 49). This is a frequently-tested edge case.

2.5 Case examples

- **Neha's hand-pottery business (NCERT § 2.7 illustrative case, p. 50)** — the choice-of-form logic in stages: she starts as a sole proprietor (small scale, direct contact with customers), shifts to a partnership with her cousin when more funds are needed, and for a nationwide expansion would need a company form to raise the necessary capital and offer limited liability. This is the canonical "stages of business growth" case.
- **Akshay's shareholding in XYZ Ltd. (NCERT § 2.6 worked example, p. 45)** — Akshay holds 2,000 shares of Rs.10 each with Rs.7 paid up. When XYZ Ltd. fails, his maximum liability is Rs.6,000 (the unpaid Rs.3 × 2,000 shares) — the "limited liability" feature of a company. The figure Rs.6,000 is one of the most quoted numbers in CUET Business Studies.
- **Amul (Gujarat Cooperative Milk Marketing Federation)** — referenced in NCERT discussions of cooperative societies as a flagship example of a **marketing cooperative** that pools the milk output of small dairy farmers, performs transport/warehousing/packaging and sells the brand collectively. Amul illustrates how cooperatives can scale to billion-rupee turnovers while preserving the one-man-one-vote democratic structure.
- **Reliance Industries Ltd. (public company)** — invoked in NCERT contexts as the prototypical **public joint stock company**: thousands of shareholders, freely transferable shares, professional management by a Board of Directors, perpetual succession independent of any individual member. It is the structural opposite of the sole proprietorship at the other end.
- **Tata Sons (private then public)** — Tata Sons functioned for decades as a private holding company with restricted share transfer (matching the NCERT definition of a private company) before parts of the group went public. The Tata case illustrates how the **private/public** distinction is not static — a private company can be converted into a public company as capital needs grow.

Practice MCQs

Q1. Under the Hindu Succession (Amendment) Act, 2005, who can become the karta of a Joint Hindu Family business?

- A.** Only the eldest male member of the family
- B.** The eldest member of the family, whether male or female
- C.** Any coparcener nominated by the family
- D.** Only a married son of the family

Q2. According to Rule 10 of the Companies (Miscellaneous) Rules, 2014, the maximum number of partners a partnership firm can have at present is:

- A. 20
- B. 50
- C. 100
- D. Unlimited

Q3. Match List-I (Type of partner) with List-II (Feature) and select the correct answer: List-I 1. Sleeping partner 2. Nominal partner 3. Partner by estoppel 4. Secret partner List-II (i) Contributes no capital and takes no active part, but lends his name to the firm (ii) Contributes capital and shares profits but does not participate in management (iii) Through his own conduct gives the impression of being a partner to third parties (iv) Contributes capital and participates in management, but his association is unknown to the public

- A. 1-(ii), 2-(i), 3-(iii), 4-(iv)
- B. 1-(i), 2-(ii), 3-(iv), 4-(iii)
- C. 1-(ii), 2-(iii), 3-(i), 4-(iv)
- D. 1-(iv), 2-(i), 3-(ii), 4-(iii)

 **8 more MCQs + answer key**

Get UniDrill Pro · ₹199/year · unidrill.in/pricing

PYQ Alignment

This chapter is among the highest-yield in CUET Business Studies, regularly producing 8-12 MCQs spread across direct-recall questions on definitions (karta, coparcener, mutual agency, perpetual succession), feature-identification on partner types and cooperative society types, comparison questions drawn straight off Tables 2.3 and 2.5, and case/application questions on choice of organisation. Statement-correctness and matching items on "types of partners" and "types of cooperative societies" are particularly common patterns. See the cross-subject PYQ pool at </pyq/business-studies> .