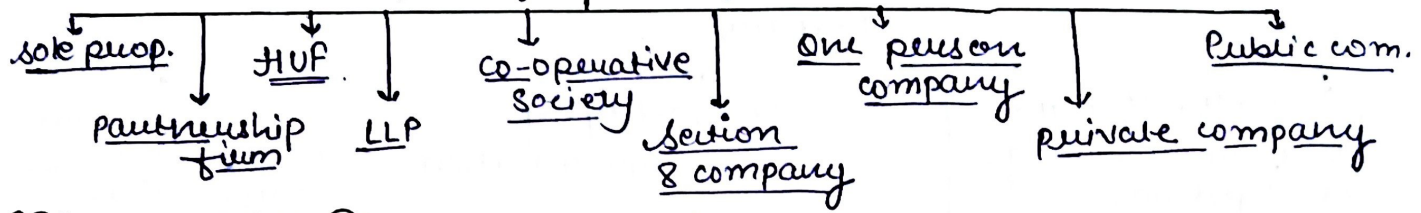


SBILL CHAPTER 1 NOTES

By CS MENTOR

Selection of Business Organisation.

Type of Business org.



Sole proprietorship → sole prop. is a form of business, where one person owns all the assets of the business. no legal formalities are required to create a sole prop.

features

Unlimited liability Easy to start.

Partnership firm

When 2 or more people come together and pool funds to start a busi. it is known as a partnership firm. The primary aim of pf is to earn profit. [maxi. partners, 100].

feature

unlimited liability easy to start Relatively inexpensive.

Hindu undivided family

A Hindu family can come together and form a HUF. HUF is taxed separately from its members. [Short → Khondani Business].

feature

atleast 2 memb. Inherit
ancestral prop. equal sharing
of property Birth of a person in
family will become
member of HUF.

Limited Liability Partnership

A form of partnership where liability of partners are limited. LLP is a separate legal entity.

feature of LLP

stable and suitable
for Non-scalable Busi. fewer
compliances. No. of partners.

Co-operative society

is association of persons, usually of limited means, who have voluntarily joined together to achieve a common eco. goals.

Section 8 company → established for promoting commerce, art, science, sport, edu, museums, social welfare, religion.
No dividend is paid to its members.

Features

The profits, if any applied in promoting is objective.
Prohibits the payment of dividend to its members.
Flexibility of administration.
There is no requirement of any mini. paid up cap.

One person company

Only 1 person as a member. Share holder can make only 1 nominee. The constitution of a one person company is a strong improvement over sole prop.

Feature

for solo entrepreneur
low compliance requirements
minimal tax advantages.

Private company

Section 2(68) Pvt. are company which is other than public company but having restriction in its AOA.

Mini: → 2 member
Mini → 2 director
Maxi: → 200.
Maxi: → 15.

Features

restriction of transfer of share.
Person are not treated as member,
① Employment of comp.
② Job employee, shareholder member, or as ~~shareholder~~ employee of it.
prohibit any invitation to the public to subscribe any securities

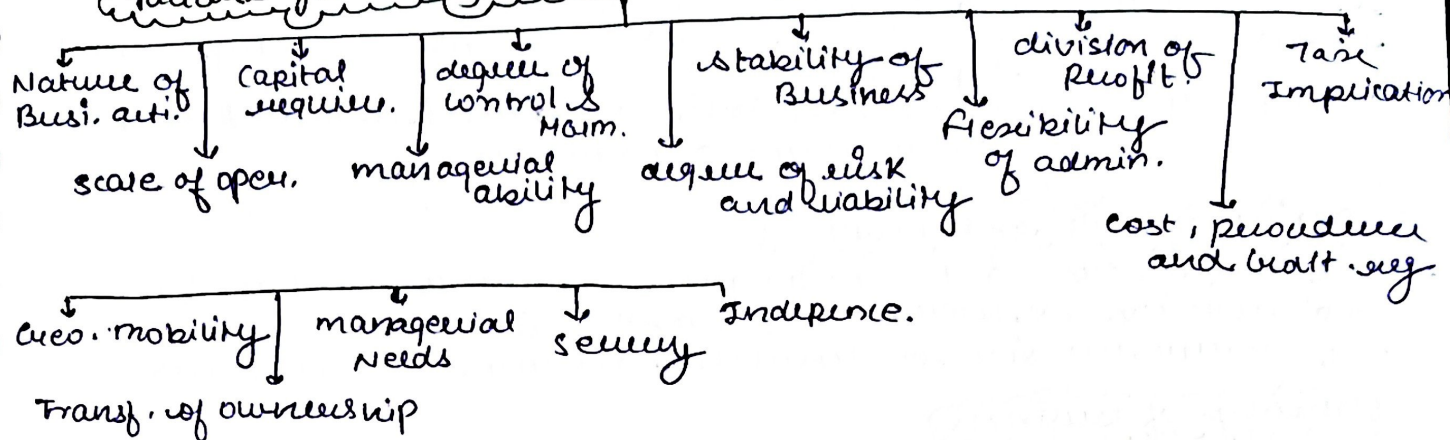
Public company

Section 2(21) Public company means a company which

- ① is not a private company
- ② has a minimum paid up share capital

mini. member: → 7 maximum → infinite.

Factors governing the decision for suitable form of org.



Nature of Business activity? ①

- It is important factor for deciding form of org.
- In small trading business profers. rendering of personal service sole prop. is predominant.
- Partnership is advantages in case of manufacturing activities on a modest scale.
- where two or more person are involved starting busi. organisation l. liab. then LLP is predominant.

② Scale of operations

- for small scale operations → sole prop. or OPC
- for medium scale operation → Partnership / LLP.
- for large scale operation → company.

Basis	Investment [maxi.]	Turnover [maxi.]
micro enterprise	2.5 crore	10 crore
small enterprise	25 crore	100 crore
medium enterprise	125 crore	500 crore.

③ Capital requirements

- capital is the one of the most crucial factor affecting choice of form of org.
- enterprises requiring small investment can be best organised as sole proprietorship.
- company are usually best for attract capital.

④ Managerial ability

- It is difficult for sole prop. to have expertise in all functional area of Busi.
- In partnership and company there is division of work among partner it helps to get better outputs & decision making.
- The nature of company is complex and it require professional management at various levels.

⑤ Degree of Control & Management

- sole prop. / OPC → complete control over his business.
- Partnership → management & control of Busi. is jointly shared by the partners.
- company → management of Busi. is entrusted to Board and shareholders are owners.

⑥ Degree of risk and liability

- The size of risk is the willingness of owners to bear it is an imp. consider. in selection of form of Busi. org.
- The smaller the size of Business, smaller the amt of risk.

⑦ Stability of Business

A stable business is preferred by owners is so far, as it helps in attracting supplies of cap.

- sole prop. are not stable although no time limit is placed on them by law.
- The life of company & LLP is not dependent upon the life of its member / partners.

⑧ Flexibility of administration

- The flexibility of administration is closely related to the internal org. of Business.
- The internal org. of sole prop. is very simple, therefore any change in its admin. can be effected with least inconvenience & loss.
- In case of company admin. is not flexible because its activities are conducted on a large scale & they are quite rigid.

⑨ Division of profit

- Sole prop. → all profits are claim by prop.
- company → Board divides profits are distributed among shareholders in proportion to their shareholding
company also send shareholder, by issue of Bonus shares.

⑩ Managerial Need

When the Busi. is small & it serve to local needs only then one person is enough to manage. The Busi. sole prop. will be best form of org. for such Business.

⑪ Tax Implication

Sole proprietor / Partnership → tax liability are depend on the extent of profits
However the liabilities of owner is unlimited.

In case of companies and LLPs:- Liab. are limited to the value of share. they have partners.

tax liability could be higher and charged at a flat rate.

(12) Secrecy → Secrecy is of supreme importance, particularly in small business concerns.
Sole prop → full secrecy because of owner.
Partnership → carefully weigh whether other partners will be able to maintain the secrecy.
Company:- Secrecy may be restricted to ~~main~~ manufacturing

(13) Independence [Govt. Interference].

The company is subject to strict govt. reg. so if the entrepreneur wants to have a freedom in business with little govt. interference, he has to go for either sole prop. or partnership.

(14) Transferability of Ownership

Sole proprietorship:- Entity does not lend itself to transfer of ownership.

Partnership:- one where 2 or more partners share the profits in agreed proportion.

Company:- transfer of ownership is possible by transfer of shareholding by any person.

(15) Geographical mobility

The extent to which the product or service is proposed to be manufactured or made available also plays a vital role in choosing the type of business organis. If a concern deals with local market, a seasonal product or perishable goods, or is meant to cater to a specific city or locality.

(16) Costs, procedure, and govt. regulation