

UNIT 2 FORMS OF BUSINESS ORGANISATIONS

LESSON 4 SOLE PROPRIETORSHIP AND PARTNERSHIP FIRMS

LESSON 5 JOINT STOCK COMPANY (PRIVATE AND PUBLIC LTD.)

LESSON 6 Co – OPERATIVE SOCIETY

LESSON 4 SOLE PROPRIETORSHIP AND PARTNERSHIP FIRMS

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4. SOLE PROPRIETORSHIP AND PARTNERSHIP FIRMS

4.0 Objectives

At the end of this lesson, you will be able to understand and learn about:

- Formation of Sole Proprietorship & Partnership firms.
- Striking features of Sole Proprietorship & Partnership Concerns.
- Registration of Partnership firms.

4.1 Sole Proprietorship

A Sole Proprietorship concern is a business owned by a single person as a Sole Proprietor. There is no legal distinction between the proprietor and his business. The business can be carried out in any name and style. For example, M/S ABC Traders of Mr. X. One may even open a bank account in the name of a sole proprietorship concern and design and use a trade mark that is registered with the proper authorities.

4.1.1 Features of Sole Proprietorship

Certain striking features of a Sole Proprietary concern are:

- It can be set up easily and inexpensively as there is no formal requirement for incorporation.
- As a sole proprietor, one doesn't have to make any legal documents to start business except to get permissions and compliance of such laws, which are necessary for the type of business one carries on. For example: If a person is a doctor, he needs a license to practice etc.
- The proprietor realizes all the profits, bears all the losses, and incurs all the liabilities of the business.
- The personal liability of the proprietor towards the creditors and lenders is unlimited.

4.1.2 Advantages

- Maximum control and autonomy
- Freedom of operations and decision-making
- Absolute trade secret

- Localization of product content and strategies
- Low capital requirement
- Easy to change over

4.1.3 Disadvantages

- Lack of Specialization
- Lack of resources
- Vulnerable to competition
- Low Quality output
- Overburdened proprietor
- Difficult to expand and grow
- Scale disadvantages

Self-check Questions

1. Relate the advantages and disadvantages of a Sole Proprietary Concern in any local operations at your place.
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4.2 Partnership

A sole proprietorship concern may be started when the volume of business is small. The problem with this kind of business is that it cannot grow beyond a certain limit. This is because a sole proprietorship will not be readily sponsored by banks and other sources of finance. Also, the amount of money that the sole proprietor can contribute to the business by himself is not very high. Besides this, the sole proprietor has to take wise decisions in running the business. If he is unable to do so, the business will not be very successful and will not expand.

On account of the above stated reasons, Partnership form of business comes out as a preferred choice, either right from the start or one that is later changed into a partnership firm. One may start a partnership firm with the objective of roping in people so that more capital is generated or creating specifically skilled people as partners so that wise business decisions may be made.

Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. Persons who have entered into partnership with one another are called individually "partners" and

collectively a "firm" and are known under the name by which their business is carried on. The Indian Partnership Act, 1932 is the Act relating to the formulation of legal partnership in India

4.2.1 Requirements to Constitute a Partnership

- More than one person or at least two and not more than twenty (Maximum ten in case of Banking-If the number of members exceeds this maximum limit, then, legally, that business is not called as a partnership business.)
- Existence of a business.
- Existence of the idea of making profit.
- Existence of an agreement (oral or written) between all partners with the object of sharing profits.
- Business being carried out by all or by any of them acting for all. (Agent-Principal Relationship)

4.2.2 Key Features of Partnership

- It is governed by The Indian Partnership Act 1932.
- It is a mutual agreement between two or more persons to share the profits of a business carried on by all or any of them acting for all.
- It is not compulsory to register the firm with Registrar of Firms but it is practical to do so.
- The firm is not a separate legal entity. It is not distinct from its partners.
- Creditors of the firm can recover their dues from any or all the partners.
- A partner's liability is unlimited.
- A partner may retire as provided in S/32.
- A partner can be expelled as provided in S/33
- A firm may be dissolved with the consent of all the partners or in accordance with a contract between the partners as in U/S 40.
- Compulsorily dissolved -U/S 41.
- Dissolution on the happening of certain contingencies- U/S 42
- Dissolution by notice of partnership at will- U/S 43
- Dissolution by the court- U/S 44
- A partner's share in the firm is not transferable.

4.2.3 Advantages

- Availability of large resources
- Better decisions
- Flexibility in operations
- Sharing risks
- Protection of interest of each partner
- Benefits of specialization

4.2.4 Disadvantages

- Unlimited liability
- Uncertain life
- Lack of harmony
- Limited capital
- Non transferability of shares

4.3 Agreement of Partnership

As indicated above, the partnership agreement may be in writing or oral. For practical and other purposes, it is advisable that the agreement of Partnership is in writing. Such an agreement must fulfill the basic requirements of a valid contract, as required by the Contract Act. Therefore, a minor or a lunatic cannot enter into a partnership agreement, though by virtue of the provisions of the Partnership Act, a minor can be admitted only to the benefits of the partnership.

4.3.1 Major Features of the Partnership Agreement

- The amount of initial capital contributed by each partner
- Profit or loss sharing ratio for each partner (Suppose, there are two partners in the business and they earn a profit of Rs.20, 000. They may share the profits equally i.e., Rs.10, 000 each or in any other agreed proportion like Rs. 5,000 and Rs. 15,000)
- Salary or commission payable to the partners, if any
- Duration of business, if any
- Name and address of the partners and the firm

- Duties and powers of each partner;
- Nature and place of business; and
- Any other terms and conditions to run the business.

4.4 Registration of Partnership Firm

Voluntary Registration

It is not compulsory to register a partnership firm. It is desirable to register or they will be deprived of certain legal benefits. The effects of non-registration are:

- The firm cannot take any action in a court of law against any other party for settlement of claims.
- In case there is any dispute among partners, it is not possible to settle the disputes through a court of law.

The registration of a firm may be effected at any time by sending a statement in the prescribed form along with the prescribed fee by post or delivering to the Registrar of the area where the firm is situated or proposed to be situated.

- a) The name of the firm
- b) Place or principal place of business of the firm
- c) Names of any other places where the firm carries on business
- d) The date when each partner joined the firm
- e) Names in full and permanent addresses of the partners and
- f) Duration of the firm. (A partnership can be for a fixed period of time or it may be for duration at the will of the partners or may be limited to a particular adventure.)

(Note: The statement shall be signed by all the partners or by their agents specially authorized on their behalf)

Procedure

The Partnership Deed (stamped and signed in the presence of witnesses) is submitted to the “Registrar of Firms” along with the above registration form and other supporting documents. On approval of these documents by the “Registrar of Firms” in different states of India, the “Partnership Firm” is established as a legal entity and can start business under the chosen name.

4.5 Different Types of Partnership

Depending on the reason behind which a particular partnership is made, partners may be of different types. To understand this better, consider the following:

- a. *Active partners*: The partners who actively participate in the day-to-day operations of the business are known as active partners. They contribute capital and are also entitled to share the profits of the business. They also share the losses that occur in the business.
- b. *Dormant partners*: Those partners who do not participate in the day-to-day activities of the partnership firm are known as dormant or “sleeping partners”. They only contribute capital and share the profits or bear the losses, if any.
- c. *Nominal partners*: These partners allow the firm, only to use their “name” as a partner. They “do not” have any real interest in the business of the firm. They do not invest any capital, or share profits and also do not take part in the activities of the firm. However, they do remain liable to third parties for the acts of the firm.
- d. *Minor as a partner*: In special cases a minor can be admitted as partner with certain conditions. A minor can only share the profit of the business. In case of loss, his liability is limited to the extent of his capital contribution for the business.

4.6 Other Terms

- **Partnership at Will**: In such a partnership, a partner can retire from the firm or dissolve it whenever he thinks proper by merely giving a notice stating his intention in writing to the other partners.
- **Liability of Partners and Firm**: Every partner is jointly and severally liable for all actions of the firm and his liability is unlimited.
- **Unlimited liability**: As in a sole proprietorship, the liability of partners in a partnership is also unlimited. This means, if the assets of the firm are insufficient to meet the liabilities, the personal properties of the partners, if any, can be utilized to meet the business liabilities. Suppose, the firm has to make a payment of Rs.25,000/- to the suppliers for some goods and if the partners are able to arrange for only Rs.19,000/- from the business, the balance amount, of Rs.6,000/- will have to be arranged from the personal properties and assets of the partners.

4.7 Assignments

4.7.1 Class Assignments

- i) What are the advantages of a registered partnership firm?
- ii) Discuss the significance of written Partnership Agreement between partners.

4.7.2 Home Assignment

- i) Discuss the role of active partners in the management of a firm. How far are their contributions required to attain success in business?

4.8 Terminal Questions

1. Differentiate between Sole Proprietor & Partnership form of business. Discuss their suitability, advantages and limitations.
2. What is partnership deed? What are its various contents? Explain the significance of Partnership deed in the light of organization and management of a partnership firm.

4.9 Possible Answer to Self-check Questions

1. Carry out a local survey and find some local businesses at your convenience.

4.10 References and Suggested Further Reading

1. Bhushan, Y.K. 2000. Business Organization. Sultan Chand & Sons, New Delhi.
2. Basu C.R. 2000. Fundamentals of Higher Secondary Business Organization. Macmillan Publishers India, New Delhi.
3. Entrepreneurship Development- New Venture Creation David Holt
4. Student's Guide to Business Organisation, Dr. Neeru Vashistha, Taxman
5. www.indiaitlaw.com

LESSON 5 JOINT STOCK COMPANIES (PRIVATE AND PUBLIC LTD.)

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5. JOINT STOCK COMPANIES (PRIVATE AND PUBLIC LTD.)

5.0 Objectives

At the end of this lesson, you will be able to understand and learn about:

- Special characteristics of Private & Public Ltd. Companies.
- Key features of Joint Companies
- Formation of Joint Stock Companies.
- Documents of Incorporation.

5.1 Introduction

In a partnership, there can be a maximum of 20 people. It is because of this limit, the amount of capital that can be generated is limited. Also, because of the unlimited liability of partnerships, the partners may be discouraged from taking huge risks and further expanding their business. To overcome these problems a public or a private company may be formed.

Private and public companies are much better investments because of "Limited liability". This means that if an investor has invested Rs.1000/- in a particular company, and the company goes bankrupt, the investor only loses the money he has invested. To pay off the debt, the investor's property, bank accounts etc. are "not" used. Due to this limited liability, many investors are interested in investing in these private or public companies. Hence, a large capital can be generated and a huge business can be run.

A Joint Stock Company type of business organization is found to be suitable where the volume of business is large and huge financial resources are needed. Since members of a joint stock company have limited liability it is possible to raise capital from the public without much difficulty. This form of organization is also suitable for businesses, which involve heavy risks. Again, for business activities, which require public support and confidence, joint stock form is preferred as it has a separate legal status. Certain types of businesses, like production of pharmaceuticals, machine manufacturing, information technology, iron and steel, aluminium, fertilizers, cement, etc., are generally organized in the form of Joint Stock Company.

5.2 Private and Public Limited Companies

These companies are also known as “joint stock companies”. The Indian Companies Act, 1956, governs the companies in India. The Act defines a company as an artificial person created by law, having a separate legal entity, with perpetual succession and a common seal. Which means that, the company “is different” from the investors. The investors put in money and capital is raised. But the company is treated as a virtual person. The company is treated as a person who is different from its investors. The company has an identity of its own. If some one sues the company, he does not sue the investors; he sues the virtual person i.e., the company.

5.3 Key Features of Joint Stock Companies

- i) **Legal Existence:** A joint stock company can come into existence only when it has been registered after completion of all the legal formalities required by the Indian Companies Act, 1956.
- ii) **Artificial person:** Just like an individual takes birth, grows, enters into relationships and dies, a joint stock company takes birth, grows, enters into relationships and dies. However, it is called an artificial person as its birth, existence and death are regulated by law.
- iii) **Separate legal entity:** Being an artificial person, a joint stock company has its own separate existence, independent of its investors. This means that a joint stock company can own property, enter into contracts and conduct any lawful business in its “own” name. It can sue and can be sued by others in the court of law. The shareholders are “not” the owners of the property owned by the company. Also, the shareholders cannot be held responsible for any action of the company.
- iv) **Common seal:** A joint stock company has a “seal”, which is used while dealing with others or entering into contracts with outsiders. It is called a common seal as it can be used by any officer at any level of the organization working on behalf of the company. Any document, on which the company's seal, duly signed by any official of the company is affixed, it becomes the responsibility of the company.

For example, a purchase manager may enter into a contract for buying raw materials from a supplier. Once the contract is sealed and signed by the purchase manager, it becomes valid. The purchase manager may leave the company or may be removed from his job or may have taken a wrong decision, yet, the contract is valid till a new contract is made or the existing contract expires.

- v) **Perpetual existence:** A joint stock company continues to exist as long as it fulfills the requirements of law. It is not affected by the death, lunacy, insolvency or retirement of any of its investors. For example, in case of a private limited company having four members and all of them die in an accident, the company will “not” be closed. It will continue to exist. The shares of the company will be transferred to the legal heirs of the members.

- vi) **Limited liability:** In a joint stock company, the liability of a member is limited to the amount he has invested. While repaying debts, for example, if a person has invested only Rs.10,000 then only this amount that he has invested can be used for the payment of debts. That is, even if there is liquidation of the company, the personal property of the investor cannot be used to pay the debts and he will lose his investment worth Rs.10, 000.

5.4 Special Characteristics of a Private Limited Company

- These companies can be formed by at least two individuals having minimum paid-up capital of not less than Rupees 1 lakh.
- As per the Companies Act, 1956 the total membership of these companies cannot exceed 50.
- The shares allotted to its members are also not freely transferable between them.
- These companies are not allowed to raise money from the public through open invitation.
- They are required to use “Private Limited” after their names.
- The examples of such companies are Combined Marketing Services Private Limited, Indian Publishers and Distributors Private Limited, etc.

5.5 Special Characteristics of a Public Limited Company

- A minimum of seven members are required to form a public limited company.
- It must have a minimum paid-up capital of Rs. 5 lakhs.
- There is no restriction on maximum number of members.
- The shares allotted to the members are freely transferable.
- These companies can raise funds from general public through open invitations by selling its shares or accepting fixed deposits.
- These companies are required to write either ‘public limited’ or ‘limited’ after their names.
- Examples of such companies are Hyundai Motors India Limited, Jhandu Pharmaceuticals Limited etc.

5.5.1 Advantages

- Large financial resources
- Limited liability
- Professional management
- Large-scale production
- Research and development

5.5.2 Disadvantages

- Difficult to form
- Excessive government control
- Delay in policy decision

5.6 Formation of a Joint Stock Company

It can be divided into four phases:

1. Promotion
2. Incorporation
3. Capital Subscription
4. Commencement of Business

5.6.1 Promotion Stage

It is the first stage in the formation of a joint stock company. Promoters perform the following functions in this stage.

- a) *Idea Generation:* The promoters discover the idea and hope that there are possibilities of business. The idea may relate to new or an existing business. The idea is based on experience of the promoters or experts in the field.
- b) *Review and Analysis:* This is a time consuming stage, because success of the business depends upon careful analysis. Promoters think about the cost of land, machinery, labour, experts and financial needs.
- c) *Capitalization:* Next, the promoters estimate the total amount of capital needed and then find out the types and sources of raising the capital. Arrangement of business resources: If the promoters are satisfied with their analysis, then they divert their efforts to the collection of business resources like land, labor and equipments, etc.

- d) *Preparation of necessary documents:* The promoters prepare all necessary documents required for the registration of the company like Memorandum of association, Articles of Association, and Prospectus etc.

5.6.2 Incorporation Stage

For a company to be incorporated, it must be registered with the “Registrar Of Companies” (ROC). After the company is registered, it receives a “Certificate Of Incorporation” after which the company becomes a legal entity.

- 1) *Registration:* The following documents must be filed for the registration of the company:
 - a) The Memorandum of Association
 - b) The Articles Of Association
 - c) An agreement, if any, which the company proposes to enter into with any individual for appointment as its Managing Director or whole-time Director or Manager.
- 2) A statutory declaration in Form 1 indicating that the requirements of the Companies Act have been complied with in respect of the registration of the company and matters precedent and incidental thereto, by the following personnel: an advocate, attorney or pleader entitled to appear before the High Court, a company secretary, a practicing Chartered Accountant in India who is engaged in the formation of the company or by a person who is named as a Director, Manager or Secretary of the company.
- 3) In addition to the above, in case of a public company, the following documents must also be filed:
 - a) Written consent of Directors in Form 29 to agree to act as Directors.
 - b) The complete address of the registered office of the company in Form 18.
 - c) Details of the Directors, Managing Director and Manager of the company in Form 32.

Documents for Incorporation:

Memorandum of Association (MOA) - The Memorandum of the company is a compulsory document to be filed by any type of a company. The importance of the memorandum is as follows:

- It specifies the basic constitution of the company. It defines the scope and limitations of the company.
- Memorandum is considered as an unalterable charter of the company. It is very difficult to alter the memorandum of the company, because it defines certain powers of the company and the company cannot function beyond those powers.

- Memorandum becomes a public document as soon as the company gets registered. This is because, it enables shareholders, creditors and those who deal with the company to know what kind of enterprise they are dealing with.
- Memorandum forms the outer framework within which the company operates.

The MOA consists of the following clauses:

- Name Clause
- Objective Clause
- Capital Clause
- Subscription Clause
- Association Clause

Articles of Association - The Articles of Association contain the rules and regulations for the internal administration of the company. It includes byelaws relating to the management of the company like constitution of Board of Directors, BOD meetings, share issue, subscription, allotment, transfer, surrender, lien on shares, transactions etc.

All the above stated documents have to be sent to the Registrar along with the registration fee, filing fee, stamp duty, as specified. The Registrar, on receipt of the documents, undertakes a scrutiny and if nothing objectionable is found, issues under his seal and signature, the "Certificate of Incorporation"

This certificate needs to be collected from the Registrar's office. After obtaining the Certificate of Incorporation the secretary of the company must send a notice of the registered address of the company, within 30 days of registration.

(On obtaining the incorporation certificate, a "Private Company" is eligible to transact business. The private company is now incorporated.)

A "Public Company", however cannot transact business unless it obtains a 'trading certificate'. Public companies, generally wish to transact business by raising capital from the general public. The process of raising capital from the public is carried out in this stage.

Self-check Question

1. Find out various documents required for the registration of a Joint Stock Company and explain their usefulness.
-

5.6.3 Capital Subscription Stage

For the purpose of raising capital from the public, the company needs to prepare and issue a document known as 'prospectus'. Public companies that are confident of raising capital on their own need to prepare a document known as 'statement in lieu of prospectus'.

In this stage, a draft of the prospectus is finalized. Copies of the prospectus are printed. A copy of the prospectus is filed with the ROC, duly signed by at least two Directors and countersigned by the Secretary.

Thereafter, the Prospectus is issued to the public. Advertisement of issue of the prospectus is usually published in newspapers. The public need to pay a nominal application fee and subscribe to the capital of the company within a specified period.

There are other steps that also need to be carried out during this phase:

- 1) *Application to Stock exchange*: An application must be sent to the regional stock exchange for getting the name of the company listed.
- 2) *Opening of bank account*: The company must open its bank account for receiving the application fee.
- 3) *Appointment of experts*: The company must appoint its brokers, solicitors and auditors of the company.
- 4) *Expert opinion*: An expert's opinion regarding the bright prospects of the company is usually written in the prospectus. Experts are usually, accountants, valuers, solicitors etc.

There are certain guidelines given by SEBI (Security Exchange Board of India) regarding listing of the company on Stock Exchange and issue of capital. These need to be followed, in order to let SEBI permit the company to be listed. In response to the invitation given in the form of prospectus, investors decide about taking shares of the company. They fill in the application form attached to the prospectus and send the application as directed with the application fee. The Board of Directors shall consider the applications received up to the prescribed date. A resolution of allotment of shares needs to be passed. Letters of allotment are sent to the allottees and after payment of the allotment money, the company proceeds with the formalities relating to obtaining the 'Trading Certificate' or the 'Commencement of Business Certificate'.

5.6.4 Commencement of Business Stage

The formalities at this stage are listed below:

- *Declaration of minimum subscription*: A declaration stating the minimum shares that have been subscribed needs to be sent to the Registrar.
- *Declaration of Directors application money*: A declaration stating that the Directors have sent their application and allotment money as required by the qualification shares.

- Statutory declaration: A statutory declaration by one of the Directors or Company Secretary, declaring that the above requirements have been complied with.

If a company does not obtain permission to be listed on the Stock exchange, then the company is liable to pay back to its investors the allotment money and the application fee collected from them. After refunding the money, the company needs to file a declaration that all investors have been refunded their money. The Registrar will examine these documents and if satisfied, will issue under his seal and signature, the 'Trading Certificate', which is also known as 'Certificate of Commencement of Business'. Now the process of incorporation is complete.

If the company fails to commence business within a year of its incorporation, the courts may order for the termination.

5.7 Assignments

5.7.1 Class Assignments

- i) Discuss the significance and relevance of MOA & AOA in formation and transaction in a JSC.
- ii) Explain the procedure of share subscription and allotment of a public ltd. joint stock company.
- iii) Discuss the critical features of JSC in the light of their relevance in business activities

5.7.2 Home Assignments

- i) Identify certain Public Ltd. or Private Ltd. and Joint Stock Companies in India and discuss their business operations.
- ii) Select any national / international joint stock company of a Manufacturing or service sector and analyze its business performance.

5.8 Terminal Questions

1. Discuss the formation of a joint stock company by explaining its various stages and their significance.
2. What is the role of MOA & AOA in the organization of a joint stock company, discuss.
3. Differentiate between Private Ltd. And Public Ltd. companies and discuss their features.

5.9 Possible Answer to Self Check Questions

1. Documents are listed in the section. Explore more of their contents through library references.

5.10 References and Suggested Further Reading

1. Bhushan, Y.K. 2000. Business Organization. Sultan Chand & Sons, New Delhi.
2. Basu C.R. 2000. Fundamentals of Higher Secondary Business Organization. Macmillan Publishers India, New Delhi.
3. Entrepreneurship Development- New Venture Creation David Holt
4. Student's Guide to Business Organisation, Dr. Neeru Vashistha, Taxman
5. www.indiaitlaw.com

LESSON 6 Co – OPERATIVE SOCIETY

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6. Co – OPERATIVE SOCIETY

6.0 Objectives

At the end of this lesson, you will be able to understand and learn about:

- Purposes & Types of Co-operative Societies.
- Features of a Registered Society.
- Power and functions of a General Body.

6.1 Introduction

A 'cooperative society' is defined as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Cooperative Societies Act is a Central Act. However, 'Cooperative Societies' is a State Subject (Entry 32 of List II of Seventh Schedule to Constitution, i.e. State List). Though the Act is still in force, it has been specifically repealed in almost all the States and those States have their own Cooperative Societies Act. Thus, practically, the Central Act is mainly of academic interest. As per preamble to the Act, the Act is to facilitate formation of cooperative societies for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means.

6.2 Purpose and Types of Co – operative Societies

Cooperative Society can be established for purpose of credit, production or distribution. Main categories or types are:

- Producers cooperatives
- Consumer cooperatives
- Trade cooperatives
- Banking cooperatives
- Agriculture/ Farmers cooperatives
- Housing cooperatives
- Dairy cooperatives

6.3 Registration of Society

The State Government appoints the Registrar of Cooperative Societies for registration purpose. The State Government can appoint persons to assist the Registrar and confer on such persons all or any of the powers of the Registrar. The function of the Registrar starts with registration of a society. He has powers of general supervision over society. The returns of the Society are to be filed with the Registrar.

6.3.1 Rights of the Registrar

He can order an inquiry or inspection against the society. He can order the dissolution of the society.

6.3.2 Societies which may be registered

A society which has as its object the promotion of economic interests of its members in accordance with cooperative principles can be registered as a Society. Similarly, a society established with the object of facilitating operation of such a society can also be registered under the Act. The society can be registered with limited or unlimited liability. However, unless State Government otherwise directs-

- a) Liability of a society of which a member is a registered society shall be limited.
- b) Liability of a society of which the object is the creation of funds to be lent to members, shall be unlimited, where majority of members are agriculturists and of which no member is a registered society. Thus, a registered society can be a member of another society, but liability of such other society must be limited, unless the State Government otherwise directs.

6.4 Features of a Registered Society

Registered Society is body corporate. A registered cooperative society is a body corporate with perpetual succession and a common seal just like a company. It can hold property, enter into contracts, institute and defend suit and other legal proceedings and perform all things necessary for the purposes of its constitution.

6.5 Procedure for Registration of Co – operative Societies

1. The first step is to get 10 Individuals together who are desirous of forming a Society.
2. A Provisional Committee should be formed and a chief Promoter should be elected from amongst them.
3. A Name for the Society has to be selected.
4. An Application has to be made to the Registration Authority for reservation of Name and a letter to that effect has to be obtained confirming the reservation of Name. The name once reserved is valid for 3 months.
5. The entrance fees and share capital has to be collected from the prospective members.

6. A bank account has to be opened in the name of the proposed society as per the directions of the registration Authority. The entrance fees and share money has to be deposited in the bank account and the certificate from the bank has to be obtained in that respect.
7. The registration fee has to be deposited with the Reserve Bank of India and receipted. One challan thereof is to be obtained.
8. The application for registration of the society should be submitted to the Registrar of Societies of the concerned municipal ward.

The documents to be submitted for registration are as follows:

- Form No. A in quadruplicate signed by 90% of the promoter members
- List of promoter members
- Bank Certificate
- Detailed explanation of working of the society.
- 4 copies of proposed byelaws of the society.
- Proof of payment of registration charges.
- Other documents like affidavits, indemnity bonds, any documents specified by the Registrar also have to be submitted.

The Registrar will enter the particulars in the register of applications maintained in Form “B” and give serial numbers and issue receipts in acknowledgement of the same. On registration, the Registrar will notify the registration of the Society in the Official Gazette and issue Registration Certificate.

Self-check Questions

1. What are the purposes of establishing different types of Cooperative societies in India?
-

6.6 Management of Society

A Committee will manage each society. A Committee means the governing body of a registered society to whom the management of its affairs is entrusted. The Officer of a society includes a Chairman, Secretary, Treasurer, and member of Committee or other person empowered under rules or byelaws to give directions in regard to the business of the society.

6.7 Dissolution of Society

The Registrar, after inspection or inquiry, or on application received from 75% of members of society, may cancel the registration of society, if in his opinion, the Society should be dissolved. Any member can appeal against the order of Registrar within two months to State Government or other Revenue Authority authorized by the State Government. If no appeal is filed within two months, the order of dissolution shall become effective. If an appeal is filed, the order will become effective only after the appellate authority confirms it.

6.8 Rights and Duties of Members

The rights and duties of members in a Cooperative society are enumerated as under: -

6.8.1 Rights of Members

- Every member has one vote in the affairs of the Society irrespective of the number of shares held.
- All the members have the right to contest the election for the post of Director.
- The members have the right to get dividend on their shares if there is a surplus.
- Members have the right to propose any resolution and to participate in the affairs of the society.
- A member in combination with other members has the right to request for calling the special general body meeting of the society if the situation so demands.
- The member has the right to approach the Registrar to know about his rights and also bring to the knowledge of Registrar any irregularities noticed by him.

6.8.2 Duties of Members

- A member should remain loyal to the society.
- He should adhere to the constitution of the society and faithfully assist the management in carrying out their duties.
- He should follow a code of conduct in his behaviour and with the other members of the society.
- He should also repay loan/dues from him in time to the society.
- He should not shy away from actively participating in the General Body Meeting.
- He should carefully go through the Audit Report and Annual Report submitted before the General Body and offer his suggestions and point out remedial measures to rectify the irregularities.

6.9 Powers and Functions of General Body

The powers and functions of a General Body of a Cooperative Society in brief are:-

- To approve the programme of the activations of the society prepared by the Managing Committee for the ensuing year.
- To conduct election if any, of the members of the committee other than nominated members.
- To approve the Audit Report and the Annual Report.
- To decide the manner of disposal of the net profit.
- To deliberate and approve the Annual Budget.
- To decide about the expulsion of members if found indulged in anti-society activities as per provision of byelaws.
- To write off bad debts subject to approval of the Registrar of Cooperative Societies.
- Amendment in Bye-Laws subject to the approval of the Registrar of Coop. Societies.

The General meeting of the society should be held once annually. A clear notice, specifying the date, place, time and agenda for the meeting of General Body shall be given to all members of the society, 15 days in advance. The quorum at a General meeting or a special general meeting shall be one fourth of the total number of members or 50 whichever is less. However, the upper limit has been prescribed in the Byelaws of certain Cooperative Societies with a view of participation of more members in a meeting. In case there is no quorum it shall be adjourned and a fresh General Meeting shall be reconvened. If there is no quorum in the reconvened Meeting within an hour, then, at the end of 1 hour members present shall form the quorum.

6.10 Assignments

6.10.1 Class Assignment

- i) Discuss the role and contribution of cooperative societies in the socio-economic development of a country.

6.10.2 Home Assignment

- i) Identify some local cooperative associations/ or consumer cooperatives and discuss their main businesses and characteristics.

6.11 Terminal Questions

1. Discuss the procedure of setting up Cooperative society. What are the documents required for the purpose.
2. What are the duties and rights of members of a society? Explain
3. Discuss the functioning and management of a cooperative society by elaborating its constitution.

6.12 Possible Answer to Self-check Questions

1. Search for the types of cooperatives and collect more details from the books/ reading materials.

6.13 Summary - Comparative Analysis of Forms of Business

Parameters	Sole Prop.	Partnership	Joint Stock Company		Cooperative- societies
			Pvt.Ltd.	Public Ltd.	
Formation	No legal formality Very Easy	Easy, Partnership -Deed Registration	Somewhat Difficult,	Very Difficult	Difficult, Legal Formalities
Registration	Not necessary Indirect: For Tax, Import-export, Contracts, clearances	Optional Partnership Act, 1932	Compulsory Companies Act, 1956	Compulsory Companies Act, 1956	Compulsory -Societies Act -Registrar of cooperatives
Membership	Single	Min-2, Max-20 (Banking – Maximum 10)	Min-2, Max-200 (Companies Act 2013)	Min-7, Max-Ltd. by no. Of shares	Min-10, Max-Ltd. by no. Of shares
Legal Existence	No separate existence	No separate existence	Separate existence	Separate existence	Separate existence
Liability	Unlimited, High risk	Joint & several	Limited	Limited	Limited
Financial Requirement	Small Capital	Medium size	Large	Very large	Small- Medium
Sharing of Profit	All to Owner	As per Agreement	Share-based	Share-based	Contributions based
Management & Specialization	Quick Decisions, General Skills	Unanimous, Limited Specialization	Board-decision, Specialization	Board-decision, Specialization	Committee decision, limited specialization
Business content	Local	Local-regional	Regional- National	National- International	Local-Regional
Origin/ Entrepreneurship	By individual	Agreement	Agreement/ shareholding	Agreement/ Shareholding	Cooperative
Business Secrecy	Perfect secrecy	Limited sharing	Limited Sharing	Public Sharing	Limited
Transferability	At will	Mutual consent	Completely Restricted	No restriction	Restricted
Stability/ Succession	Unstable	Dissolvable	Perpetual	Perpetual	Perpetual
Winding Up	At will	At will, By court	Under Act	Under Act	Under Act