Introduction-2-Business

B.Com 1

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QUESTION # 1

What are components /division/Scope/ branches of business? (2008, 11)

ANSWER

BUSINESS

Literally, the word 'business' means busyness. But in economic sense, the word 'business' means work, efforts and acts of people connected with production of wealth.

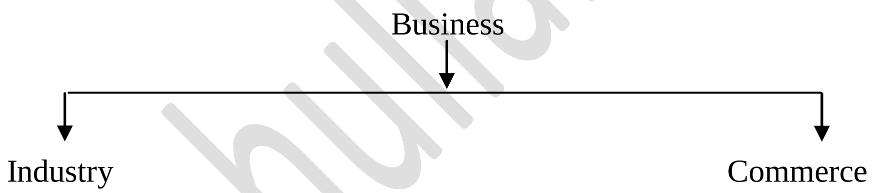
In simple words we can define business as:
Any legal activity (قانونی سر گرم) which is done for the purpose of earning profit is called business.

Main Points

1. Legal
2. Profit motive
3. Risk

BRANCHES /SCOPE /DIVISION /COMPONENTS OF BUSINESS

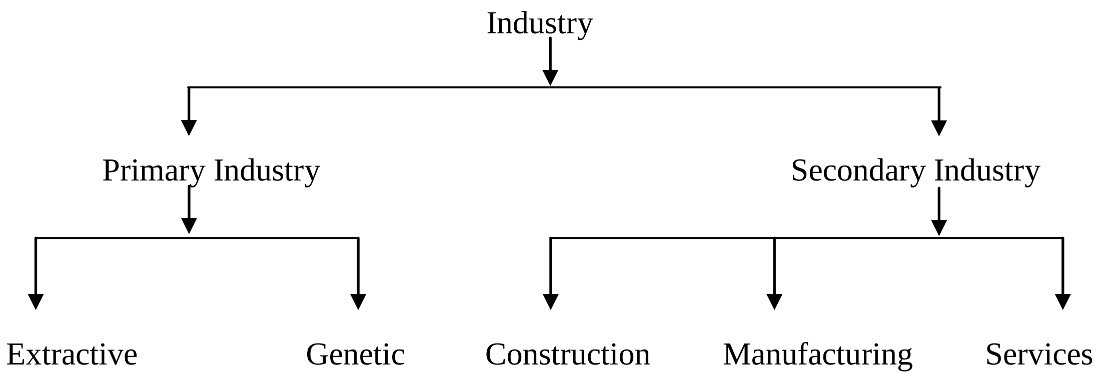
Business can be divided into two parts.



INDUSTRY (صنعت)

Industry means those activities, which are related (تعلق) with the production (پیداوار) of goods or services. It is a place where raw material is converted (تبدیل کرنا) into finished (تیار شدہ) or semi-finished (نیم تیار شدہ) goods. Finished goods are used by final consumer (استعمال کرنا) and semi-finished goods are used for further production.

Industry can be divided into following



(1) PRIMARY INDUSTRY

Primary industry is engaged in the production or extraction (ذ مین سے نکالنا) of raw materials, which are used in the secondary industry. Primary industry can be divided into two parts;

(i) Extractive Industry

Extractive industries are those industries which extract or produce raw material from the earth, mining and agriculture etc.

(ii) Genetic Industry

The genetic industries are those which are concerned with the breeding of animals and plants. These industries also provide eggs, chicken and fish in the market.

(2) SECONDARY INDUSTRY

Secondary industry received raw material from primary industry and convert them into useful goods. Secondary industry can be divided into three parts.

(i) Constructive Industry (تعمیراتی صنعت)

All kinds of constructions are included in this industry. For example, buildings, roads, bridges etc.

(ii) Manufacturing Industry

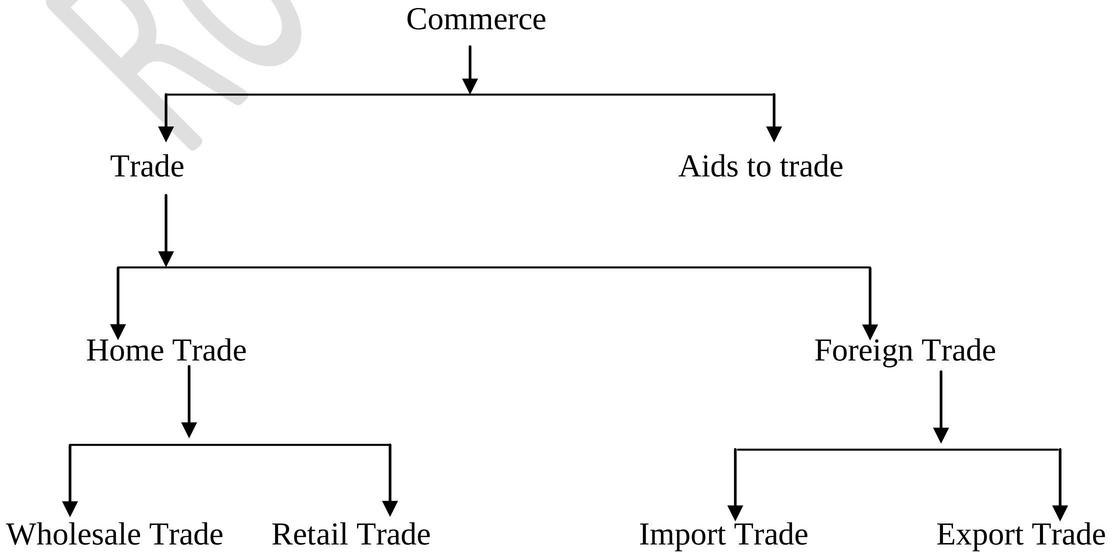
Manufacturing industries are those which convert the raw material into finish goods. For example textile mills, sugar mills etc.

(iii) Services Industries

These industries provide the services to the public and do not produce the tangible goods. The examples of service industries are doctors, lawyers, teachers etc.

COMMERCE

Commerce includes all those activities which are carried on to transfer the goods from place of production to final consumer. It can be divided into two parts



TRADE (تجارت)

Trade means buying and selling of goods. Trade helps in transfer of goods from seller to buyer. A trader purchases goods from producer and sells them to consumer. Trade can be divided into following

(1) HOME TRADE (ملکی تجارت)

Buying and selling of goods inside the country is called home trade. It can be divided into following two parts.

(i) Wholesale Trade

It means to purchase the goods in large quantities from producer and sell them to retailers. A wholesaler is like a bridge between the producers and retailers.

(ii) Retail Trade

It means to purchase the goods from wholesaler and sell them to consumers in small quantities.

2. FOREIGN TRADE (غیر ملکی تجارت)

Buying and selling of goods outside the country is called foreign trade. It is also called international trade. Foreign trade has following two types

(i) Import Trade (باہر کے ملک سے اشیاء خریدنا)

It means the purchase of goods from foreign country.

(ii) Export Trade (باہر کے مملک مین اشیاء فروخت کرنا)

It means the sale of goods to foreign country.

AIDS TO TRADE

All those activities which provide help in transferring the goods from seller to buyer are called Aids to trade. It includes

(a) Banking
(b) Transportation
(c) Insurance
(d) Agents
(e) Advertising
(f) Communication

(a) Banking

Bank assists the traders in receiving and making the payments at the national and international levels. Bank also provide short, medium and long term loan to businessman.

(b) Transportation

The goods which are manufactured in mills and factories, reach the consumers by different means of transport like air, roads, rails, seas etc.

(c) Insurance

Insurance plays very important role in the expansion of business. Insurance companies compensate the loss of goods due to accident, fire, theft etc.

(d) Agents

Agent is a middleman between buyer and seller. He makes a contract between buyer and seller for commission.

(e) Advertisement

The consumer may sometimes, not know about the availability of goods in the market. Advertisement is an easy way to inform the large number of customers about the goods. This can be done through TV, newspapers, radio etc.

(f) Communication

Post office, telephone and internet are very useful for promotion of trade and industry. New methods of communication bring the buyer and customer very close. Now we can buy anything from all over the world without traveling.

QUESTION # 2

What are the Functions of Business?

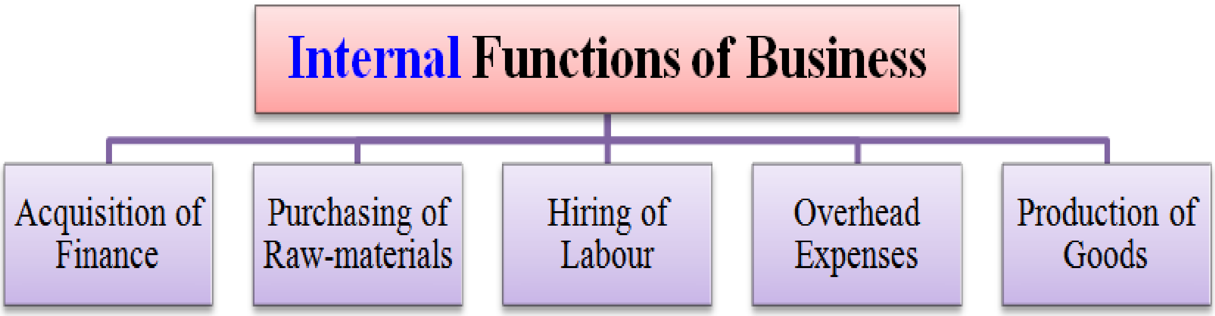
The functions of business are mainly categorized into three groups viz;

1. Internal functions
2. External functions
3. Support functions

INTERNAL FUNCTIONS OF BUSINESS

Internal functions consist of all those essential and crucial business activities which help to arrange a business foundation.

The main internal functions of business are as follows:



1. Acquisition of finance

It is a process of acquiring funds (cash) for the establishment of business. The finance is acquired from various sources like banks, investors, and other financial institutions. Once finance is acquired, the funds are then spend for purchasing of fixed assets like land, buildings, machineries, vehicles, and so on.

2. Purchasing of raw-materials

Purchasing of raw-material is very important function of business. While purchasing raw-materials, purchase manager has to take care of three important things such as quality, price, and delivery time of raw-materials.

3. Hiring of labour

Labour is required to process the purchased raw-materials into finished goods. Once labour is employed, production manager administrates important factors like labour working hours, labour pay-rate to complete the assigned task or job.

4. Overhead expenses

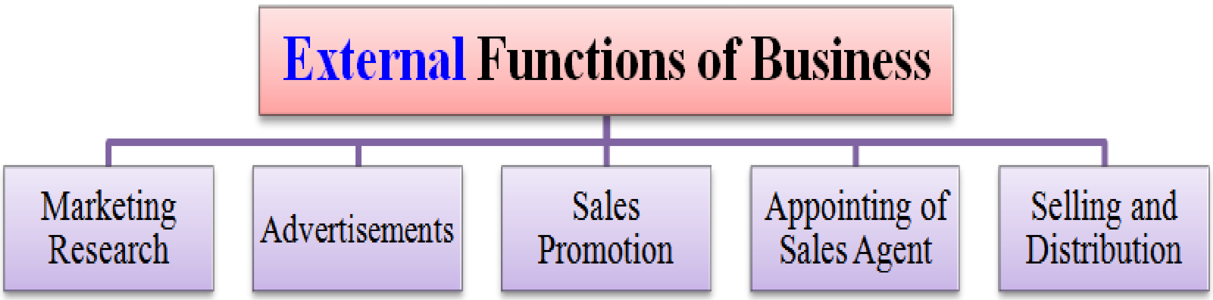
All expenses in a factory other than direct material and direct labour are called overhead expenses like electricity, fuel, water, gas, etc. These costs are incurred to run a business smoothly and on a continuous basis.

5. **Production of goods**
Production of goods involves conversion of raw-materials into finished goods, which are ready for sell. The process of production is very wide and comprehensive in nature.

EXTERNAL FUNCTIONS OF BUSINESS

External functions consist of all those activities happening outside the premises (factory) which facilitate (support) the promotion of goods produced by the business. These functions are required to carry on the business at its best in the markets.

The major external functions of business are as follow:



1. Marketing research

In Market research information about demand of goods and services is collected. This collected researched information is then studied carefully by the top-level of management to ascertain (check) the future scope of the product in the market.

2. Advertisement
Advertisement is a way to inform, educate, and make people aware about any specific goods and services. It helps to attract the consumers to purchase a product.

3. Sales promotion
Sale promotion means to promote a product in the market. It is a technique whose purpose is to increase the sales of the product. This technique covers activities like providing free samples, offering discounts, giving gifts etc.

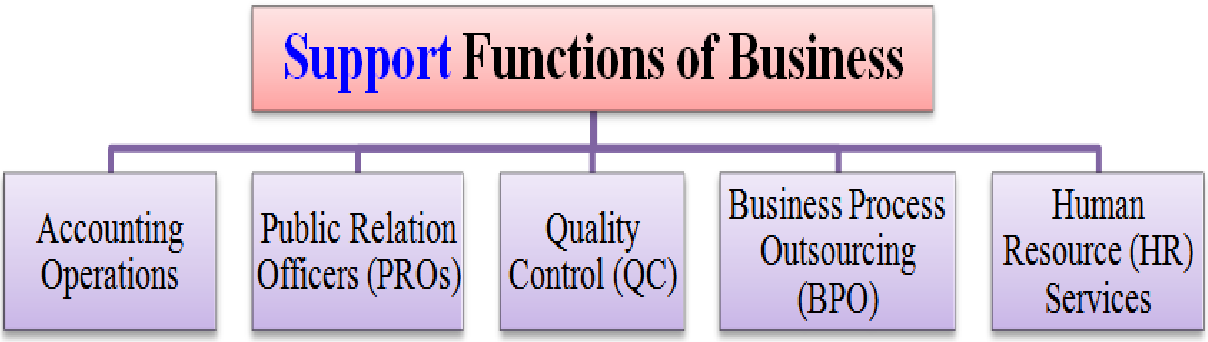
4. Appointing of sales agent
Sales agent inform and demonstrate (show) various functions of the product and convince the consumers to buy their quality product. They also collect feedbacks from the consumers and report it to their organization.

5. Selling and distribution
Selling and distribution includes of all those activities which transfer the goods from producer to the consumers. Sales manager is responsible for timely delivery of goods to the consumers. He must also ensure the goods are properly and promptly supplied to all target (advertised) areas.

SUPPORT FUNCTIONS OF BUSINESS

Support functions include all those activities, which facilitate and ensure smooth working of both internal and external functions of business.

Followings are the main support functions of business:



1. Accounting operations
Accounting are required for recording the day-to-day financial transactions of business. This includes transactions related to purchases and sales, expenses and incomes, etc. It helps the organisation to know about their sales-turnover and profitability

2. **Public relation officers**
PROs are the authorized (official) representatives of the organization. They link their organization with customers, shareholders, media, government, and others. They also support in providing the correct information with respect to activities like production of goods, selling and distribution, etc. of the organization.

3. Quality control (QC)
It is a process in which the quality of goods and services are continually checked. If there is any deficiency in the quality of goods and services it try to improve it.

4. Business process outsourcing (BPO)
It helps to outsource (subcontract) the non-productive works of the organization. Generally, this includes taking customers' complaints, preparing payroll accounts, calculating sales agents' commission, etc.

5. Human resource services
It is a department which hire (appoint) the employees for organization. Their duties also include the training of employees. Appoint of a competent employee is necessary for the success of business

QUESTION # 3

What is the importance of business in present world? (2009)

ANSWER

IMPORTANCE OF BUSINESS

The importance of a business can be judged from the following points.

1. Desired Goods and Services

Business provides every thing which we demand. Businessmen received raw material and then convert them into finished goods according to our demand. Due to business we are able to fulfill our needs and wants.

2. Goods and Services at Door

Now a day we can make purchases from all over the world even sitting in our rooms. Just on a phone call goods and services are reached at our door. It is due to business world.

3. Reasonable Prices

Business produce goods at large scale due to which cost of production reduced. Due to reduction in cost sale price is also decreased. Now are able to purchase goods and services at reasonable prices.

4. Quality Goods and Services

Due to new method of production now business can provide us high quality goods and services.

5. Preservation

In present world business develop new methods of preservation (save) which enable us to save perishable goods for a long period of time. It was not possible in past.

6. Innovation

With the passage of time taste of people changed. Business make continues research and development and provide us new and new products according to our demand.

7. Change in life style

Business has totally changed our life style. Now a days we have so many things which we have not seen before. These all things are provided us by business.

8. Employment Opportunities

Business not only provides us goods and services but it also provides employment opportunities at a large scale.

9. Self employment

If a person not wants to work under a boss, he can get self employment by starting his own business with a low capital at small scale.

10. Raising Standard of living

Due to business earning of people increased and they become able to spend more. They become able to purchase quality goods and services which raise their living standard.

11. Source of Revenue

Business provide revenue not only to public, it also provide revenue to government in shape of taxes.

12. National self-reliance:

Due to business a country become able to produce goods and services for the public. It creates a situation of self-reliance in the country.

13. Foreign Exchange

By exporting goods and services to foreign countries we can receive foreign exchange.

14. Investment Opportunities

Business provides investment opportunities to people having idle fund. They can make investment without participating and can earn profit.

15. Labour Welfare

Businesses contribute in different types of funds such as "workers welfare fund" which are used for the welfare of labour.

16. Social Welfare

Business provides support to social, cultural and religious organizations. Business enterprises build schools, colleges, libraries, hospitals for the welfare of society.

17. Development of backward areas:

Due to fast communication and transportation material and goods can be easily transferred from one place to another. Due to this reasons now day's business units are starting in backward areas due to which people in rural areas can also avail job opportunities.

18. Use of Natural resources

In current area utilization of natural resources become possible due to business. Businesses have developed new methods and machinery for utilization of natural resources.

19. Development of International Relations

Business imports necessary product and exports new or surplus products to foreign countries. In this way, a foreign relation develops.

QUESTION # 4

What are the qualities of good businessman?

ANSWER

QUALITIES OF A GOOD BUSINESSMAN

Following are the basic skills or qualities which a good businessman must posses.

1. Planner

Planning means what to do and how to do. Planning is very important for the success of business. A businessman should be a goods planner if he wants to shine his business.

2. Organizer

A businessman should be a good organizer. At this time resources are very scarce (limited). Proper arrangement and division of resources is very important for the success of business.

3. Leader

Leaders are not made, they are born; but the businessman has to get some qualities of a leader. Businessman should have the ability to motivate and satisfy his workers.

4. Controller

Good businessman should properly supervise the working and performance of employees and other resources. If there is any deficiency he should take necessary steps to solve the problems.

5. Courageous

A good businessman should be a courageous and bold person. He should make decision with patient. Angry decisions may give him loss in future.

6. Cooperation

A good businessman should have to cooperate with his workers. With the help of cooperation with his workers he can run his business well.

7. Decision Making

A good businessman should be a good and quick decision maker. Now a day there is vast competition in the market. Delay in decision may lose a valuable customer.

8. Honesty

Honesty is the best policy. A businessman should be honest in dealing with others.

9. Hardworking

A businessman must be hard working. Without hardworking no business can be successful. If the owner is not hardworking then other workers of the business can not be hardworking.

10. Foresight

A good businessman must have the quality of foresight. He must keep in touch with the business world. He should be ready for new challenges in business.

11. Initiation

Demand in the market are changing day be day. The businessman should have the ability of producing new things according to the demand of market.

12. Self-Confidence

A good businessman should have self-confidence. Without self-confidence he can not make quick decisions and business suffer a lot.

13. Tactful

A good businessman should be a tactful (careful) person. He has to handle persons or his customers very tactfully. It helps to earn profit in future.

14. Man of Principles

A good businessman must follow the basic standards and principles of morality and ethics in business dealings. This strategy helps to expand the business.

15. Patience

Patience is an asset for businessman. He has to meet with many persons for the business matters. So, there is always a need of patience. If the trader looses his temper then he may face problems and can suffer loss.

16. Experienced

Experience in managing business affairs and dealing is necessary to run the business successfully. An experienced businessman can earn more profit as compared to an inexperienced trader.

17. Desire of Progress

A good businessman always desires to earn huge profit by expanding his business activities. This desire of trader puts the business on the path of progress and prosperity.

18. Market Knowledge

A good businessman should always have up to date market information. He should have ability to check the market trends. Moreover, the trader must have the latest information about his customer's liking and disliking.

19. Social Responsibility

A good businessman tries to provide quality products at low prices to his customers. Because he thinks that it is his social responsibility to earn profit with reasonable margin.

20. Technical Skills

A good businessman should have adequate technical skill required for his business. He should have concerned specialized knowledge so that he can run his business profitably.

QUESTION # 5

What is business? What are the objectives of business and also narrate the various kinds of business? (2010, 12)

ANSWER

BUSINESS

Literally, the word 'business' means busyness. But in economic sense, the word 'business' means work, efforts and acts of people connected with production of wealth.

In simple words we can define business as:
Any legal activity which is done for the purpose of earning profit is called business.

Main Points

1. Legal
2. Profit motive
3. Risk

OBJECTIVES OF BUSINESS

1. Earning profits

The main objective of business is earning profit. People start business with a hope to earn profit. Just as a person cannot live without food, a business firm cannot survive (live) without profit.

2. Creation of Customers

Customer is the king of market. Business performs their activities for customers. It means the existence of customer is necessary for the existence of business. Therefore, creation and satisfaction of customers is an important economic objective of business.

3. Social Services:

Business benefits the people by providing them large number of services. Business facilitates the society by providing quality and standard goods at lower prices in all areas of the country.

4. Employment Opportunity

The most important objective of a business is to provide job opportunities. In a country like Pakistan unemployment has become a serious problem. Therefore, provision of employment opportunities is a significant service to society.

5. Investment

Another important purpose of business is to use national savings in profitable and useful way. It provides more opportunities of investment to the people to earn profit by investing their surplus money.

6. National Interest

Some businesses are started with a view to secure the national interest and to strengthen the economy and defense system of the country. Such types of businesses are established under the supervision of the government such as industry of weapons for defense.

7. Economic Development

All businesses activities have their ultimate target of economic development of the country. The optimal use of local and foreign resources is possible only with the help of businesses. A successful and profitable business helps in the economic development of country.

8. Innovations

Customer's needs and wants continually changed. Objective of business is to provide goods and services according to customers demand. Innovation is necessary for the survival of business.

9. Use of Technology

The use of technology is included in the objects and functions of the business. Because a businessman can increase the production and profit margin by using latest technology according to the nature of business.

10. Benefits to Employees

It is also the object of business to provide a variety of benefits and incentives to the employees such as bonus, over time payment, housing or medical facility and schooling facility to their children etc.

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(B) SOCIAL OBJECTIVES

The social objectives of business are as under:

4. Quality Goods

It is the social objective of a business is to provide quality goods and services at reasonable prices. This objective can be achieved by using new methods of production.

5. Fair Remuneration to employees

The success of a business depends upon its employees. Employees must be given fair compensation for their work. In addition to wages and salary a reasonable part of profits should be distributed among employees.

6. Employment Opportunity

The most important objective of a business is to provide job opportunities. In a country like Pakistan unemployment has become a serious problem. Therefore, provision of employment opportunities is a significant service to society.

7. Improved Living Standard

The business provides jobs to the people to raise their income. When the people work they earn more money and spend more. Thus, the people can raise their living standard.

8. Social welfare:
Business should provide support to social, cultural and religious organizations. Business enterprises can build schools, colleges, libraries, hospitals for the welfare of society.

9. Payment to Government
Every business enterprise should make payment to government in shape of taxes honestly and at the right time. These taxes provide revenue to the Government for spending on public welfare.

(C) HUMAN OBJECTIVES
Human objectives of business are concerned with the well-being of labour. Human objectives of business are given below:

10. Labour welfare:
Labour satisfaction is necessary for better performance. Business should provide health, safety and social security services to their employee in order to achieve employees satisfaction.

11. Developing human resources:
Opportunities must be provided to employees for developing new skills. Human resources are the most valuable asset of business and their development will help in the growth of business.

12. Participative management:
Employees should be allowed to take part in decision making process of business. Such participation will also provide valuable information to management for improving the quality of decisions.

(D) NATIONAL OBJECTIVES
National objectives of business are as follows:

13. Optimum utilization of resources:
In these days there is a great shortage of natural resources so the business should minimize the wastage of scarce natural resource.

14. National self-reliance:
The objective of business is to produce such goods which reduce import and increase export. This will help a country to achieve economic independence.

15. Development of backward areas:
Businesses should be established in backward areas of the country so that all the people avail job opportunities. If all people avail job opportunities it will bring prosperity in the country.

KINDS / FORMS OF BUSINESS

There are mainly three kinds of businesses.

1. Sole Trader Ship (Proprietorship)
2. Partnership (Firm)
3. Joint Stock Company (Company)

1. Sole Trader Ship

Sole proprietorship means the business of one person. In this business only a single person invests his capital and efforts. He is solely responsible for all losses and enjoys the whole profit.

This type of business is very easy to start. There are no legal formalities to start this type of business. A person can think it in morning and start it in evening.

This type of business is suitable for small scale activities.

2. Partnership

When two or more person run a legal business for earning profit, it is called partnership.

It is owned and managed by at least two (2) and maximum twenty (20) members. All the partners can take part in the conduct of business or any one of them can run the business for all of them.

The profit or loss is shared among the member according to agreed ratio. In absence of agreement profit or loss is shared equally among all the members.

This type of business is common and suitable for small and medium scale activities.

3. Joint Stock Company

It is a type of business which is started by at least seven (7) members and there is no limit on maximum number of member.

Company has a separate legal entity. It means it can buy and sell with its own name. Owner’s personal property will not be liable to pay company debts. Owner’s liability is limited up to their investment.

There are so many legal formalities to start Joint Stock Company. Maximum capital of the company is registered. Company is managed by a board of directors elected by members. This type of business is suitable for large scale activities.

QUESTION # 6

Define sole tradership. Explain the advantages and disadvantages of sole trader ship (2008,9,12)

OR

"One man control is the best in the world if that one man is big enough to manage everything." Explain this statement.

ANSWER

SOLE PROPRIETORSHIP / ONE MAN CONTROL

Sole proprietorship means the business of one person. In this business only a single person invests his capital and efforts. He is solely responsible for all losses and enjoys the whole profit.

ACCORDING TO STAFFORD

It is the simplest form of the business, which is owned and controlled by one man.

ADVANTAGES / WHY IT IS BEST

1. Business Freedom

Sole trader enjoys the business freedom. He is not bound to take suggestions from others and no one is allowed to make interference in his business.

2. Direct Relation

As this business is on small scale, so it is possible for sole trader to make direct relations with customers and workers. In this way, he becomes able to know the taste of customers and problems of workers.

3. Easy Formation

It can be easily established. No legal formalities are required to be fulfilled for starting this type of business. A person may think to start such business in morning and he can start it in evening.

4. Easy Transfer

This business can be easily transferred to any other person without any restriction.

5. Easy Dissolution

Sole proprietorship can be easily dissolved. No formalities are required to be fulfilled for the dissolution of this business.

6. Entire Profit

The owner of this type of business enjoys all profit himself but in partnership and in Joint stock company profit is distributed among the members.

7. Entire Control

The owner has entire control on this type of business. He can do what he likes. He is not bound to take suggestions from others.

8. Flexibility

There is a great flexibility in sole proprietorship. Sole proprietor can easily change his business according to market conditions.

9. Goodwill

Sole trader can easily raise the goodwill of business by running its business according to the customer's satisfaction.

10. Honesty

Sole trader is solely responsible for all losses. So he runs his business with honesty and hardworking.

11. Low Taxes

As the business is on small scale, so sole trader has to pay low taxes to government, but Joint Stock Company is taxed twice.

12. Less chances of fraud

There are less chances of fraud in sole trader ship because no other person is involved in business matter except sole trader.

13. Personal interest

In this type of business, the proprietor takes keen interest and tries to know the taste, fashion and habits of customers because he knows that if there will be any loss, he will be responsible himself.

14. Secrecy

Secrecy is the base of success of business. As there is only one owner in this business, so there is no chance of leakage of secrecy.

15. Social benefits

Sole trader ship is very beneficial for the society because it provides daily necessities of life at homes.

DISADVANTAGES /WHY IT IS NOT BEST

1. Continuity

The continuity of sole proprietorship depends upon the health and life of the owner. In case of death of the owner the business no longer continues.

2. Unlimited Liability

The liability of owner is unlimited. Therefore, in case of insolvency of firm, the private property of owner may be sold.

3. Difficulties in Credit

Bank and other financial institutions hesitate to advance the loan to sole trader because his financial position is not strong.

4. Less Growth

It is not possible for one man to increase his business volume due to unlimited liability and lack of capital.

5. Lack of Skilled Persons
Sole trader can not hire the services of skilled workers due to limited capital. But the Joint Stock Companies enjoy the services of skilled persons.

6. Lack of Advertisement
Sole trader can not bear the high expenses of advertisement while advertisement plays very important role for increasing the sale of product.

7. Lack of Public Confidence
The public shows less confidence in this type of business because there is no legal registration to control and wind up the business.

8. Lack of Technology
New methods of production and technology are very important for the success of business but it is difficult for sole trader to install new machinery and adopt new methods due to lack of capital.

9. Management Problem
One man cannot perform all types of management and business activities effectively. He may be expert in purchasing but not in accounting.

10. Loss in Absence
In this type of business there is a need of permanent existence of a businessman. In case of absence from business for few days may become the cause of loss.

11. Difficulties to Face Crises
The sole trader has a limited capacity to face heavy losses or economic crisis. In the time of heavy losses, business may come to an end.

12. Less Jobs
There are fewer opportunities of jobs for employees in sole proprietorship due to small level of business.

13. Wrong Decision
Sole trader take all decisions individually, as a result he may take wrong decisions which may damage the business. It is said that two heads are always better than one.

14. Lack of inspection
In sole trader ship normally proper books of accounts are not maintained. Due to absence of proper record inspection is not possible.

15. Entire Loss
In sole trader ship there is only one owner. If there is any loss he will bear it individually. Sometime loss may be very high due to which business can be closed.

CONCLUSION
We concluded that this form of business organization is most suitable because it is easily started with less capital. These businesses also provide useful services to people and have important part in contribution to economic development.

QUESTION # 7

Define Partnership. Explain the merits and demerits of partnership.

ANSWER

PARTNERSHIP

Partnership is the second stage of business organization. When two or more person run a legal business for earning profit, it is called partnership.

ACCORDING TO PARTNERSHIP ACT 1932

"The relationship between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all."

ADVANTAGES

1. Easy Formation

There are no complicated (difficult) formalities to start this type of business. Two or more persons may start this type of business at any time.

2. Easy Dissolution

The dissolution of partnership is very easy. Partners may dissolve their business very easily at any time. But this facility is not available in Joint Stock Company.

3. Expansion

As there are more persons and more capital in this business, so partners can expand their business due to large capital.

4. Joint Efforts

Partnership business is carried on by the joint efforts of the partner and the joint efforts are the base of success of a business. It is said that two hands are better than one.

5. Easy Exit or Easy Entry

It is easy for any partner to leave the partnership and is also to join the partnership business with the consent of all partners.

6. Direct Relation
Partners have direct relations with the workers because the workers are limited. So they may solve the problems of workers and business easily.

7. Flexibility
This organization is flexible as compared to Joint Stock Company. Partners can change their business policy according to market demand.

8. Careful Decision
In partnership business there are at least two persons. All the decisions are made with discussion and consultation which may lead to success.

9. Reduce Losses
In case, the firm suffers loss, it is shared among the partners. The risk is, therefore reduce.

10. Less Legal Formalities
Registration of partnership business is optional. Moreover the audit of the firm is also depend on the choice of partners. It is not necessary for partnership business to publish its accounts.

11. Minority Protection
There is minority protection in partnership because all matters are decided with the consent of each partner.

12. Skilled Workers
Capital is large as compared to sole trader ship so partnership business can hire the services of qualified and competent persons.

13. Tax Facility
Partnership business has not to pay double tax. But the Joint Stock Company pays double taxes i.e. collectively and individually.

14. Satisfaction of Partners
In this type of business each partner is satisfied with the business because he can take part in the management of the business.

15. Distribution of Work
There is distribution of work among the partners according to their ability and experience. Division of work among members will increase the efficiency of firm.

DISADVANTAGES

1. Unlimited Liability
It is the main disadvantage of partnership. It means in case of loss, personal property of the partners can be sold to pay off the debts of firm.

2. Limited Life
Life of partnership is limited as compared to Company. Due to death or insolvency of a partner the partnership may come to an end.

3. Limited Number of partners
In partnership, the number of partners is limited, so the resources are also limited. Due to limited resources business can not be expand on large scale.

4. Delay in Decision
In partnership, often decisions are delayed because sometimes partners do not agree with each other's proposal.

5. Hesitation
The rich and wealthy persons feel hesitation to invest in partnership due to unlimited liability. In case of insolvency there personal property will be liable to pay debt.

6. Lack of Secrecy (Privacy)
In partnership all partners know the internal affairs of partnership so there are great chances of leakage at the time of disagreement or retirement of partner.

7. Transfer of Share
In partnership no partner can transfer his share without the consent of other partners. Consent of all partners is necessary for transfer of share otherwise partnership will dissolve.

8. Lack of Interest
Partners do not take keen interest in business activities of firm because the share of profit or loss of each partners is limited.

9. Authority of partners
A partner is the agent of firm and co-partners. He can bind the firm and the co-partners by his agreements with outsiders. Thus, a dishonest and incompetent partner may create problems for his co-partners.

10. Lack of Public Confidence
As there is no need to publish accounts in partnership, so people lose confidence and avoid dealing and entering into contract with such firm.

11. Disputes between Partners
There are more chances of misunderstanding due to which disputes may be arised among the partners which hamper (obstruct) in progress of firm.

12. Frozen Investment
It is easy to invest fund in partnership but very difficult to withdraw it.

13. Missing of Opportunities
In partnership decisions are made with the consent of all partners. A best opportunity may be lost due to disagreement among the partners.

14. Risk of Loss
If less experienced and unskilled partners manage the business there are more chances of wrong decisions which may lead the business to heavy losses.

15. Risk of Fraud

A dishonest partner may commit a fraud with other partners. He can make personal contact with customers and can provide them goods from personal resources to gain maximum profit.

CONCLUSION

We concluded that partnership business is good when the size of the firm is not large, partners are cooperative with each other and no partner wants to deceives other partners.

QUESTION # 8

What is partnership deed / agreement?. Describe its provisions/contents/essentials. (2011)

ANSWER

PARTNERSHIP DEED/AGREEMENT

Partnership deed means partnership agreement. It is the most important document in which all conditions are clearly written. Such contract is also called the articles of co-ownership or article of partnership.

It must be signed by all the partners. It is advisable that each partner should have a copy of the deed.

ESSENTIAL ELEMENTS

Following are the essentials of partnership deed.

1. Name of Firm

Name of the firm should be decided with mutual consent of the partners. Name of the firm should be according to nature of business. It should be written in the partnership deed.

2. Date

Date of starting the business should be mentioned in partnership deed.

3. Nature of Business

Nature of the business to be conducted b the firm should also be written in this document. The nature of business may be manufacturing, trading or services.

4. Name and Address of Partners

Name of partners, their designations and addresses should be written in partnership deed.

5. Rights and Duties of Partners

Rights and duties of the partners should be defined and written in agreement.

6. Profit and Loss sharing ratio

Profit and loss sharing ratio should be decided and mentioned in the deed. If no ratio is decided then the profit or loss will be divided equally among all the partners.

7. Procedure of Admission

During the course of business a new partner may be enter into business. The procedure for the admission of new partner should be mentioned in partnership deed.

8. Procedure of Retirement

During the course of business an existing partner may retire from the business. A detail procedure of returning his investment should be written to avoid dispute.

9. Amount of Capital
The amount to be contributed by each partner should be written in partnership deed. The amount provided by each partner might not be equal.

10. Amount of Drawing
The amount which a partner can withdraw per month or per year from firm must be written if allowed.

11. Amount of Salary
Active partner has a right to receive salary for rendering his services. The amount of salary must be decided and written in partnership deed.

12. Accounting Period
Accounting period mean the period of 12 months for which profit or loss is calculated. The starting and ending date of the accounting period must be decided and written.

13. Changes
The procedure must be stated for bringing changes in the existing terms and conditions or adding more items in the deed.

14. Duration
The duration means that for how much period the partnership business is to be conducted. Partnership may be formed for a fixed time period or for indefinite period.

15. Dealing Bank
Name of Bank in which the account is to be opened should be written in this document. Name of partners who will operate the account should also be mentioned.

16. Location
Location means the name of town and city in which the office of the business will be situated. Location of firm must be mentioned in deed.

17. Settlement of Dispute
During the conduct of business a dispute may be arised among the partners. The method of settlement of dispute should also be clearly written in the document.

18. Method of Revaluation
Method of revaluation of assets and liabilities on admission, retirement, or death of partners should be written in this document.

19. Valuation of Goodwill
Method of valuation of goodwill on admission, retirement or death of a partner should be clear. It should be written in partnership deed.

20. Witness
It is necessary that all the partners must make sign on the partnership deed. In absence of signature a partner may refuse any of the clauses of the agreement.

QUESTION # 9

Explain the procedure of registration of partnership firm. What are its advantages? Also explain the effects of non registration? (2012)

ANSWER

REGISTRATION OF FIRM

Registration means to record the name of firm with registrar of partnership firms. The registration is the evidence of the existence of firm.

Registration of partnership firm is not compulsory by law. Registration is very helpful in the progress of business. A registered firm is preferred and government provides many facilities to the registered firms.

PROCEDURE OF REGISTRATION

1. Application for Registration

Application for registration of the firm is submitted to the registrar of partnership firm on the prescribed form. Following documents are submitted to registrar with application form.

- (i) Partnership deed
- (ii) Registration form
- (iii) Challan form

(i) Partnership Deed

Partnership deed mean partnership agreement and the copy of this agreement must be submitted to the registrar.

(ii) Registration Form

Application for registration is given after filling the registration form. Following information are given in registration.

- (a) Name of firm
- (b) Place of firm
- (c) Nature of business
- (d) Name and addresses of partners
- (e) Duration of business
- (f) Name of head office of firm
- (g) Name of sub office of firm
- (h) Date on which partners join the firm
- (i) Signature of each partner

(iii) Challan Form

Required registration fee is deposited with the help of Challan form. After depositing the fee, one copy of Challan form must be submitted to the registrar.

2. Registration Certificated

After receiving all above documents, registrar examines the information provided on the application form. If he is satisfied then issues the registration certificate.

3. Change of Particulars
If a firm wants to change any of the particulars given above, the registrar must be informed. If he is satisfied he will include the necessary changes in the register of firms.

ADVANTAGES OF REGISTRATION

LEGAL ADVANTAGES
The following are the legal advantages of registration of firm.

1. Protection of Retired Partner
When a partner is retired in registered firm then he sends a notice of retirement to registrar and after the notice he is free from liability. In unregistered firm he is liable for business debts.

2. Protection to Deceased Partner
In register firm, the successors of deceased partner are not liable to pay business debts incurred after death. But in case of unregistered firm the heirs of the deceased partner are liable to pay business debts.

3. Protection to Creditors
Registered firm maintains the complete and up-to-date records of amount payable to creditors. So there are no chances of misunderstanding about amount due to creditors. In registered firm no partner can deceive the creditors and the amount of creditors is fully safeguarded.

4. Right of Suit against third party
Registered firm has a right to file suit against third party for recovery of its dues. But this facility is not available to an unregistered firm.

5. Tax Facility
Tax is charged on profit of partners of firm individually. But in unregistered firm the tax is charged on the whole of its income. So the registered firm has to pay low taxes.

GENERAL ADVANTAGES
The following are the general advantages of registration firm.

6. Loan Facilities
Registered firm can easily, obtain loan from financial institutions, because financial institute easily trust on registered firms.

7. Public Confidence
A registered firm enjoys more public confidence than unregistered firm because they think that the registered firms are working under the supervision of court and there are no chances of fraud.

8. Business Reputation
Registered firms enjoy good business reputation as compared to unregistered firm. No any other business can copy its products, which make it more profitable.

9. Settlement of Dispute

If any dispute arises among the partners, registration is basic document for the settlement. In unregistered firm if any dispute arises among the partners then firm may come to an end.

EFFECTS OF NON REGISTRATION

1. Suit by Partner

In unregistered firm if any dispute arises among the partners of firm no one can make a suit against other in the court. However, one partner against the other can bring criminal proceedings.

2. Suit by Firm

An unregistered firm cannot file a suit against any person for the enforcement of any right arising from a contract e.g. for the recovery of the price of goods supplied.

3. Suit by externals

Any external party can file a suit against the firm or its partners to enforce his rights.

CONCLUSION

We conclude that we should register the firm because a registered firm can get many benefits. Registered firm has long life due to less chance of dispute and misunderstanding among the partners. Registered firm also earns high profit duet lo low income tax and no other firm can copy its products.

QUESTION # 10

What are the kinds of partners in partnership business?

ANSWER

KINDS OF PARTNERS

(A) ACCORDING TO AGE

1. Minor Partner
Minor partner means a partner whose age is less than 18 years. A minor partner enjoys the profit of firm but does not bear the losses. He cannot be a full-fledged member. On attaining the age of majority, he has to choose in 6 months whether he has to continue as a partner or not.

2. Major Partner
Major partner means a partner whose age is 18 years or more. A major partner enjoys the profit and bears the losses.

(B) ACCORDING TO EXPERIENCE

3. Senior Partner
Senior partner means a partner who invest a large capital and who has much experience. His share in profit or loss of business is more than other partners.

4. Junior Partner
Junior partner means a partner who invests small capital and who has less experience. His share in profit or loss is less than other partners.

(C) ACCORDING TO RESPONSIBILITY

5. Limited Partner
Limited partner means a partner whose liability is limited up to his invested capital. He cannot take part in the management.

6. Unlimited Partner
Unlimited partner means a partner whose liability is unlimited. He can take part in the management of business.

(D) ACCORDNG TO MANAGEMENT

7. Nominal Partner
Nominal partner means a partner who does not invest his capital and does not take part in the affairs of business. Just his name is used as a partner. He is liable for all the debts of firm.

8. Sleeping Partner
A sleeping partner means a partner who does not take part in the management of firm but he invests his capital and shares in profits & losses.

9. Active Partner
Active partner means a partner who takes active part in the management of firm. He contributes his capital and has share in profit.

10. Secret Partner
Secret partner means a partner who takes active part in the management of business but not known to the public as partner. He invests his capital and also has share in profit or loss.

(E) OTHER PARTNERS

11. Quasi Partner
Quasi partner means a partner who has retired from business but has not withdrawn his capital. His capital is considered as loan and he receives interest on it.

12. Salaries Partner
A partner who does not invest in business but he has right to receive salary or profit or both is known as salaried partner. He is liable for all acts of firm like other partners.

13. Insolvent Partner
A partner who is unable to pay the debts and his share of debts is paid by other partners is known as insolvent partner.

14. Partner in Profit Only
A partner who has share in profit but has not concern with the losses or liabilities is called a partner in profit only. He cannot take part in the management.

15. Deceased Partner
A partner who has died but his share of capital and profit is paid to his heirs is known as deceased partner.

16. Retired Partner
A partner who has retired from business is known as retired partner. He is not liable for those acts which are incurred after the date of his retirement.

17. New Partner
A new partner means a partner who is admitted in running business with the consent of other partners. A new partner is not liable for any debts or acts which are incurred before the date of his admission.

18. Sub Partner
Sub partner means a partner who receives the share of profit from a regular partner of firm. He is not responsible for any debts of firm.

QUESTION # 11

Explain various rights, duties and liabilities of partners under Partnership Act 1932?

ANSWER

RIGHTS, DUTIES AND LIABILITIES

The rights duties and liabilities of partners are determined by agreement between the partners. Where the agreement is silent the Partnership Act determines the rights, duties and liabilities of the partners.

RIGHTS OF PARTNER

1. Right of participation

Every partner has a right to take part in the conduct of the business. However it is not essential that each partner should participate in the conduct of business.

2. Expression of opinion

Ordinary matters of the business may be decided by a majority of the partners. But no change can be made in the nature of business without the consent of all partners.

3. Inspection of books

Every partner has a right to inspect (check) the books of accounts and records. He is not bound to take permission of any one.

4. Right to share profit

Profit or loss will be divided among the partners according to agreed ration. If no ratio is decided then it will be divided among all partners equally.

5. Interest on loan

If a partner has given loan to business he has a right to obtain 6% interest on loan.

6. Right to be indemnified

If a partner makes payment from his own resources on behalf of business then he can recover the amount from business.

7. Emergency Action

A partner is allowed to take any emergency action to protect the business from loss.

8. Old liabilities

An incoming partner has a right not to make the payment of those debts and liabilities of business, which are incurred before his admission.

9. Right of retirement

Every partner has a right to retire from firm as per agreement or by giving the notice to all other partners.

10. Not be expelled

A partner cannot be expelled from a firm. Where the decision is made in good faith and there is provision (condition) in the contract he can be expelled from business.

11. Right of Salary
A partner has a right to receive the salary for performing his duties in the management of business if it is written in agreement.

12. Run a similar business
Every outgoing partner has a right to carry on similar business after retirement subject to certain conditions.

DUTIES OF PARTNERS

1. Common Advantage
Every partner is bound to carry on business of the firm to the common advantage. He must use his knowledge and skill for the benefit of the firm and not for his personal gain.

2. Parallel Business
No partner is allowed to start separate business of that type in which he is a partner. The act does not given permission to start parallel (same) business.

3. Payment of Profit
It is the duty of every partner that if he earns any profit from any source of firm then he should pay it to firm.

4. Secrecy
Secrecy (privacy) is the base of success of business and it is the duty of every partner to maintain the secrecy of business.

5. Share in loss
It is the duty of partners to bear the loss according to agreed ratio. In the absence of agreement it will be divided equally.

6. Use of Firm's Property
It is the duty of each partner not to use the property of firm for his personal purpose without the permission of other partners.

7. Use of firm Name
A partner must not use the firm's name for his personal benefit. If he make a fraud by using the name of firm then he will be liable personally for any fraud.

8. Indemnify for willful Neglect
Every partner shall indemnify the firm for any loss caused to it by his willful neglect in the conduct of the business of firm.

9. Provide Correct Information
If any of the partners require information relating to business, it is the duty of partners to provide him true and correct information.

10. Sincere and Careful

If any work is assigned to the partners it is his duty to perform it sincerely and carefully in the interest of firm. He must not deceive other partners.

11. Duty not to transfer his Right

It is the duty of each partner not to transfer his right in the firm to any other person without the consent of other partners.

12. Abide by Agreement

All the partners are agent of each other. If a partner makes any agreement with outsider in the interest of business then all the partners must fulfill the contract.

LIABILITIES

1. Liability of a partner for acts of the firm

Every partner is jointly and severally liable for all acts of the firm done while he is a partner.

2. Liability of an incoming partner

An incoming partner is liable for the debts and acts of the firm from the date of his admission into the firm. However, the incoming partner may agree to be liable for debts prior to his admission.

3. Liability of a retiring partner

A retiring partner is liable for the acts of the firm done before his retirement. But a retiring partner may not be liable for the debts incurred before his retirement if an agreement is made between the third parties and the remaining partners of the firm.

4. Liability of Deceased Partner

The property of deceased partner cannot be held liable for any obligation incurred by firm after his death.

5. Liability of Insolvent Partner

The estate of insolvent partner is not liable for any obligation of the firm after the date on which order of insolvency is issued.

QUESTION # 12

What is difference between dissolution of partnership and dissolution of firm and what are the ways of dissolution of firm?

ANSWER

DISSOLUTION OF PARTNERSHIP

When one or more partners dies, retires or become insolvent but the remaining partners continue the business, it is called dissolution of the partnership.

DISSOLUTION OF FIRM

When the relationship between all the partners come to an end and the business is closed, it is called dissolution of firm.

It means that dissolution of the firm includes the dissolution of partnership, but the dissolution of the partnership may not include the dissolution of firm.

GROUNDS / REASONS / WAYS / METHODS OF DISSOLUTION OF FIRM

A firm may be dissolved on any one of the following grounds

1. Compulsory Dissolution
2. Dissolution by notice
3. Dissolution by agreement
4. Contingent Dissolution
5. Dissolution by Court

1. Compulsory Dissolution

A compulsory dissolution may take place under following circumstances

When all partners become insolvent

A firm shall be dissolved when all the partners are declared insolvent.

When all except one become insolvent

When all except one partners are declared insolvent the firm should also be dissolved.

Business becoming illegal

A firm shall be dissolved when the business of the firm is declared illegal due to happening of any event.

For example a firm is doing business of wheat but later on government restrict the buying and selling of wheat privately then it will become unlawful.

2. Dissolution by notice

When the partnership is at will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm. A notice of dissolution once given cannot be withdrawn without the consent of other partners. The firm is dissolved from the date mentioned in the notice. If no date is mentioned, it dissolves from the date of the communication of the notice.

3. Dissolution by agreement
A firm may be dissolved with the consent of all partners. The consent of majority is not enough to dissolve a partnership firm.

4. Contingent Dissolution
A firm may dissolve on the happening of the following events.

(a) Completion of Project
If a partnership is made for a specific project then on the completion of that project partnership will automatically dissolved.

For example some people make a partnership for the construction of a specific building then on the completion of building the partnership will be dissolved.

(b) Expiry of period
If partnership is formed for a fixed period, the firm may be dissolved by the expiry of that time in the absence of new contract.

(c) Insolvency of partner
If partners have already made an agreement that on the insolvency of any partner the firm will be dissolved then firm will be dissolved on insolvency of a partner.

(d) Insolvency of partnership firm
If partnership itself is declared insolvent then it will be dissolved.

(e) Death of partner
The firm may be dissolved by the death of partner.

(f) Retirement of partner
The partnership may come to an end on the retirement of any partner if remaining partners do not join in the new contract.

5. Dissolution by Court
The following are the grounds in which a firm may be dissolved by the order of court:

(a) Transfer of interest
If any partner transfers his share or interest to other parson with out the consent of exiting partners.

(b) Breach of Contract
If any partner commits breach of the partnership contract for example use the firm's money for his private debts etc.

(c) Unsound mind
If any partner becomes of unsound mind the court may declare the order of dissolution of firm.

(d) In-capacity of partner
The firm may be dissolved when a partner shows his incapacity to perform his duties due to any physical or mental decease.

(f) Continuous Losses

When the business of a firm cannot be carried on except at a loss, the court may order for dissolution of the firm.

(g) Other grounds

The Court may dissolve the firm on any other grounds which are just and equitable.

QUESTION # 13

Differentiate between co-ownership and partnership? Briefly explain the methods of dissolution of partnership. (2010)

ANSWER

PARTNERSHIP

When two or more persons perform any legal activity for earning profit, it is called partnership.

CO-OWNERSHIP

When two or more persons are joint owners of a property with no intention to carry on a business is called co-ownership.

DIFFERENCE BETWEEN PARTNERSHIP AND CO-OWNERSHIP

(a) Partnership
(b) Co-ownership

1. Agreement

(a) A partnership is a result of agreement
(b) A co-ownership is not necessarily the result of agreement. It may arise by operation of law

2. Agency relationship

(a) One partner is agent of other. He can bind other partners for his act
(b) A co-owner is not an agent of other co-owner. He can not bind other co-owner for his act

3. Lien

(a) A partner has a right of lien on the property of partnership for expenses incurred by him
(b) A co-owner has no right of lien on the property of co-ownership for expenses spent by him

4. Transfer of right

(a) A partner cannot transfer his share without the consent of all the other partners
(b) A co-owner can transfer his interest without the consent of co-owners

5. Number of members

(a) Maximum number of partners in a partnership is 20
(b) In co-ownership there is no maximum limit of co-owners

6. Business

(a) A partnership is always formed to carry on business
(b) A co-ownership is not formed to carry on a business

7. Refund

(a) If a partner spends some personal amount for the firm, he has a right to get it

(b) If a partner spends some personal amount for co-ownership, he has no right to get it

8. Minor

(a) In a partnership a minor cannot enter into a contract with major person

(b) A minor can be the co-owner of a property

9. Dissolution

(a) Partnership can be dissolved on the insolvency or death of a partner

(b) A co-ownership can not be dissolved on any such grounds

10. Partition

(a) A partner cannot sue for a division of the property

(b) A co-owner can sue for division of property

METHODS OF DISSOLUTION OF FIRM

Answer of Question # 10 write here.

QUESTION # 14

Define Joint Stock Company. What are the prose and cons of Joint Stock Company?

Joint Stock Company

Joint Stock Company is a third major form of business organization. Joint Stock Company is formed and controlled under the Companies Ordinance 1984. It is managed by group of persons known as Board of Directors.

DEFINITION

A Company is an artificial person created by law, with a common seal and having perpetual (continuous) life. It can sue and be sued in its own name.

MAIN POINTS OF DEFINITION

Artificial person
Created by law
Common seal
Perpetual life

ADVANTAGE

1. Long Life

Joint Stock Company has long life, because if any member dies, or become bankrupt or falls sick the company is not affected.

2. Limited Liability

In Company liability of each shareholder is limited up to unpaid balance of shares. In case of insolvency private property of shareholders is not liable to pay debt.

3. Attraction of Capital

Authorized capital of the company is divided into small value shares like Rs. 10. In this way it becomes easy for people to purchase share and contribute large amount of capital.

4. Transfer of Shares

A person who purchases the shares of company is called shareholder. Shareholders can easily transfer (sold) shares to any other person without the consent of other members.

5. Large Scale Business

In Joint Stock Company there is huge amount of capital. Due to huge amount of capital joint stock company can easily start business at large scale.

6. Expansion of Business

Company can easily expand its business because it can obtain more capital by issuing new shares. Company can also obtain loan from banks and other financial institution easily.

7. Higher Profit

Company produces the goods at large scale. So average cost of production is decreased and company earns higher profit.

8. Strong Management
A joint stock company is managed by experienced and qualified directors. So due to this efficiency of the company is improved.

9. Public Confidence
Public make investment more confidently as compared to partnership because it is created by law and is supervised by legal authority.

10. Services of Skilled Employees
An organization can compete with other organizations on the basis of skilled and trained employees. Due to large amount of Capital Company can hire the services of skilled employees.

11. Employment Opportunities
Joint Stock Company performs business at large scale. Large numbers of employees are required in Joint Stock Company. So it increases the employment in the country.

12. Source of Government income
A company is a source of government income. It pays income tax and sales tax to the government. The collection of taxes is a main source of income to the government.

13. Long Period Projects
Large projects require huge amount and long time. Due to long life and large amount of capital, Joint Stock Company can start long period projects.

14. Less Chances of Corruption
The government audits the various statements regarding the incomes and expenses of a company from time to time, so the managing authorities get less chances of corruption.

15. Risky Business
In Joint Stock Company, the liability of shareholders is limited so the company can undertake risky projects to capture the market.

DISADVANTAGES

1. Complicated process
The formation of joint stock company is a very difficult process. There are many legal requirements for the formation of company. A lot of time and money is wasted.

2. Difference of opinion
Sometimes difference of opinion takes place on some important issue among the directors and officers of the company. It becomes the cause of loss.

3. Lack of responsibility
There is lack of personal interest and responsibility in the business of a company. In case of any mistake every body tries to transfer its responsibility to other person. It makes the business inefficient.

4. Nepotism (Favoritism)
General Director of company employ their incapable relatives and friends on key jobs. Due to this cost of production increases and company suffer a loss.

5. Centralization of powers
All the powers of the joint stock company are in few hands. So directors take undue benefits from the company.

6. Growth of monopoly
Due to large size and resources, a joint stock company is in a position to create monopoly which is against the public interest.

7. Lack of secrecy
A company cannot maintain secrecy. It is necessary for company to submit various reports to registrar. It is also necessary to publish required accounts and statements.

8. Corruption
Sometimes director of the company do not show the true picture of the company to the public. Dishonest managers show that firm is in loss when there are chances of more profit so that people sell their shares at low prices.

9. Employer and workers relationship
A joint stock company expands the business on large scale. There is large number of workers, so there is no direct link between the workers and employer. It becomes the cause of strike.

10. Lack of team spirit
In the company business every one keeps in view his own interest. When there is a risk of loss shareholders begin to sell their shares.

11. Lack of freedom
This type of business organization cannot performs its function freely. Because it has to submit various reports to Govt. So there is much interference of the Govt.

12. Double taxes
A joint stock company has to pay double taxes. First on whole profit and secondly every shareholder will pay tax on his individual income.

13. Exploitation of Minority right
Because of their personal contacts, sometimes the majority of shareholders create a group to exploit the rights of minority.

14. Late Decision
In a company, the decision taking process is time consuming because a meeting is necessary to solve the business problems and matters. Sometime delay in decisions may cause loss to business.

15. Increase in speculation
Due to free transfer of shares and limited liability, speculation in the stock market takes place, which may adversely affect the economy of the country.

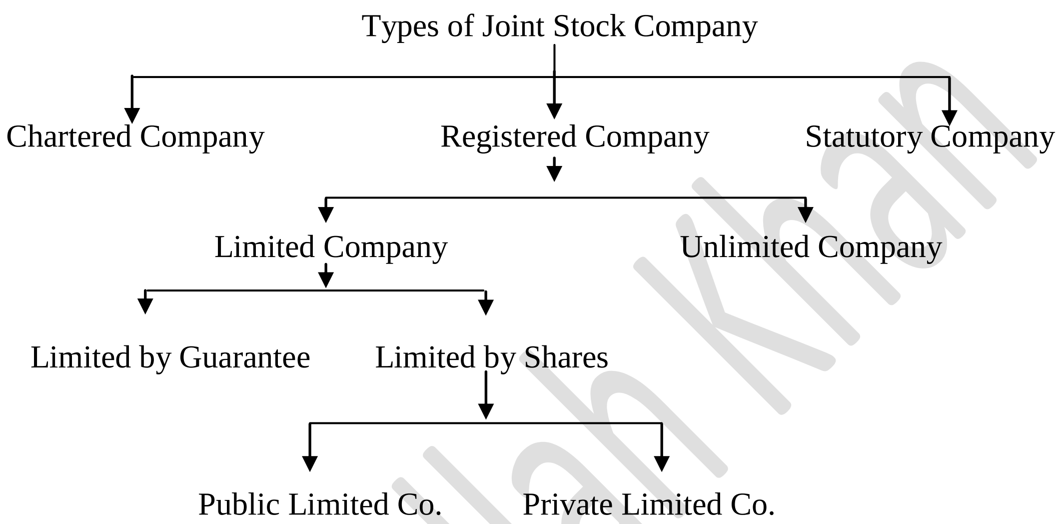
QUESTION # 15

What are the various kinds of companies? State the difference between private limited company and a public limited company. (2008, 9)

ANSWER

KINDS OF JOINT STOCK COMPANY

Following are the important kinds of Joint Stock Company:



(A) CHARTERED COMPANY

A company which is created by the order of King or Queen is called chartered company. The powers and nature of business of chartered company is determined by charter.

Examples

East India Company
Chartered Bank of England

(B) STATUTORY COMPANY

A Company which is formed by the order of President or Prime Minister or by the Special act of parliament is called statutory company. These companies are formed for the purpose of providing services to the public and not for earning profit.

Examples

State Bank of Pakistan
National Bank of Pakistan

(C) REGISTERED COMPANY

A Company which is formed under the Companies ordinance 1984 is called registered company. Powers and functions of these companies are determined by Ordinance and MOA. Registered company has following kinds:

(1) Unlimited Company
(2) Limited Company

(1) UNLIMITED COMPANY

A Company in which the liability of members is unlimited is called unlimited company. It means the personal property of members can be used to clear debts of the company.

(2) LIMITED COMPANY

A Company in which the liability of members is limited is called limited company. Personal property of members can not be used to clear debts. It can be divided into following

(i) Limited By Guarantee
(ii) Limited by Shares

(i) COMPANY LIMITED BY GUARANTEE

It is a company in which the liability of the members is limited up to a fixed amount. At time of winding up they are liable to pay only guaranteed amount.

(ii) LIMITED BY SHARES

It is a company in which the liability of the members is limited up to the par value of shares purchased by them. It is necessary for these companies to use the word "LIMITED" with its name.

(a) Private limited company
(b) Public limited company

(a) PRIVATE LIMITED COMPANY

It is a company which is formed by at least two (2) and maximum fifty (50) members. It can not sell shares to general public.

(b) PUBLIC LIMITED COMPANY

It is a company which is formed by at least seven (7) and there is no limit on maximum number of members. It can sell shares to general public.

DIFFERENCE BETWEEN PRIVATE AND PUBLIC COMPANY

(a) Private Company
(b) Purclic Company

(1) Number of members

(a) In a private company there is at least 2 and maximum 50 members.
(b) In a public company there is at least 7 and no limit for maximum number of members.

(2) Sale of shares

(a) Private company can not invite general public for purchase of shares
(b) Public company can invite general public for purchase of shares

(3) Commencement of Business
(a) Private company can start its business after getting certificate of incorporation
(b) Public company will start its business after getting certificate of commencement of business.

(4) Statutory meeting
(a) A private company is not required to hold statutory meeting.
(b) Public company is required to conduct statutory meeting.

(5) Statutory report
(a) Private company is not required to submit statutory report
(b) Public company is required to submit statutory report

(6) Issue of prospectus
(a) It can not issue prospectus or statement in lieu of prospectus
(b) It must issue prospectus or statement in lieu of prospectus

(7) Framing of articles
(a) A private company has to frame its own articles of association
(b) It may frame its own articles or adopt Table A.

(8) Transfer of Shares
(a) There is restriction on the transfer of shares in private company
(b) There is no restriction on transfer of shares in public company

(9) Borrowing
(a) Private company can borrow money after getting certificate of incorporation
(b) Public company can borrow money after getting certificate of commencement of business

(10) Sending of accounts
(a) Private company is not required to send copies of profit and loss account and balance sheet to Commission, Stock exchange and Registrar.
(b) Public company is required to send copies of these statements to Commission, Stock exchange and Registrar.

(11) Use of word "Limited"
(a) Private company must use the words (private) limited at the end of its name.
(b) Public company must use the words "limited" at the end of its name

(12) Signatories to memorandum
(a) To form a private company at least two persons are required to make sign on memorandum
(b) To form a public company at least seven persons are required to make sign on Memorandum

(13) Loans to directors
(a) Private company can give loans to directors
(b) Public company can not give loans to directors

(14) Number of directs
(a) Private company must have at least 2 directors
(b) Public company must have at least 7 directors

(15) Qualification of Auditor
(a) No qualification is prescribed when capital is less than 3 million
(b) Qualified auditor is required to conduct audit

QUESTION # 16

What are the important legal documents of Joint Stock Company?

OR

(a) What is Memorandum of Association of a Company? Discuss
(b) What is Articles of Association of a Company? Discuss with example

ANSWER

IMPORTANT DOCUMENTS OF JOINT STOCK COMPANY
Following are three important documents of a Joint Stock Company.

1. Memorandum of Association
2. Articles of Association
3. Prospectus

1. MEMORANDUM OF ASSOCIATION
Memorandum of Association is the most important document of any company. The first step in the formation of a company is to prepare and file a memorandum of association with the registrar.

It is the charter of the company, which defines the rights, powers and objectives of the company. Company is bound to perform only those activities which are mentioned in memorandum of association.

Clauses / Contents of Memorandum of Association

1. Name Clause
Name of company is written in this document. The name of the company should be different from the name of existing companies. The word “Limited” is written at the end of name if liability is limited.

2. Office Clause
This clause states the name of the province or the area where the registered office of the company will be situated. Full address of the registered office must be communicated to registrar within 28 days after incorporation.

3. Objective Clause
In this clause the objectives of the company are expressed in details. The area of activities of the company is also explained. The promoters should include all possible types of business which the company may start in future.

4. Capital Clause
This clause states the amount of authorized capital with which the company is registered. It also states the kinds, number and value of shares into which the total capital shall be divided.

5. Liability Clause
This clause states the nature of liability of members. In a company limited by shares, the liability of member is limited up to value of the shares held by them. In a company limited by guarantee there liability will be limited to guaranteed amount.

6. Consent Clause
Here the directors declare in a written statement that they are agreeing to be the director of the company by buying certain amount of a share. Generally, the promoters become the directors. This statement should include the directors' signature with their name, address and occupation.

ALTERATION IN MEMORANDUM OF ASSOCIATION
Company has a right to make changes in MOA. But it can be amended by passing special resolution and with the sanction (approval) of court.

2. ARTICLES OF ASSOCIATION
For the formation of Joint Stock Company, the second important document to be filed with the Registrar is article of association. The articles of association contain the rules and regulations for the internal management of the company.

It defines the powers and rights of the directors, officers and shareholders. It is subsidiary of Memorandum of Association. No any rule can be framed which against the Memorandum of Association.

In simple words Memorandum of Association determined what to do and Articles of Association determined how to do.

Contents of the Article of Association:
Following matters are discussed in the Article of association.

1. Amount of capital and its division into various shares.
2. Rights of shareholders.
3. Rules regarding transfer of shares.
4. Price of shares
5. No of directors
6. Appointment of directors, powers and duties.
7. Alteration of capital.
8. The functions and powers of managing agent.
9. Qualification and powers of directors.
10. Appointment of auditor
11. Rights and liabilities of auditors
12. Voting rights of shareholders.
13. Procedure of the winding up of the company

14. Declaration of dividend
15. Methods of calling the meeting of shareholders

ALTERATION IN MEMORANDUM OF ASSOCIATION

Article of association can be altered by the company as company wants. According company ordinance, a company may alter its articles by special resolution. But an alteration may not conflict with the memorandum.

3. PROSPECTUS

After obtaining the certificate of incorporation, the promoters need the capital for the company. A public company may issue prospectus for this purpose.

Prospectus is a document which is issued by a company to invite general public to purchase shares or debentures of the company. Prospectus contains all the terms and conditions for the purchase of shares and debentures. Each prospectus has a form. This form is used by investor for the purchase of shares. An attested copy of prospectus is filed with the registrar.

Contents of the Prospectus

The following important matters are included in the prospectus:

1. The main object of the company.
2. All the points of memorandum.
3. The name and address of the company.
4. Nature of business of company.
5. The name and address of the directors and managing director.
6. Name and address of the auditor.
7. Number of shares and debentures already issued.
8. Voting rights of shareholders.
9. Details about all contracts with outside parties, their names and addresses.
10. Facilities available to the non-resident Pakistanis for the purchase of shares.
11. If a company has purchased any property its detail.
12. Detail of preliminary expenses.
13. The amount of underwriting commission paid within two previous years.
14. Amount of premium paid within two preceding years.
15. Name of bank in which the application will be submitted.
16. Duration for which the business is to be conducted.
17. Any restriction imposed on the transfer of shares.
18. Amount which is being paid to the promoters within two years.
19. Last three years reports summary of earnings of the company.
20. Statement that a copy of prospectus has been submitted in the registrar office.

A Statement in Lieu of Prospectus :-

If a company has not issued the prospectus on its formation then it must file a statement in lieu of prospectus with the registrar of the companies. It provides the information like prospectus. It is also signed by all the directors. A company can not allot the shares or debentures without filing it. According to companies ordinance it is necessary that if a company fails to issue prospectus then it must file the statement in lieu of prospectus.

QUESTION # 17

Describe the procedure of formation of a company.

ANSWER

FORMATION OF A COMPANY

The formation of a company can be divided into following four stages

1. Promotion
2. Incorporation
3. Collection of capital
4. Commencement

(A) PROMOTION

Promotion of a company means developing an idea and arrangement of necessary resources to achieve the idea.

The people who make plane for the formation of Joint Stock Company are called 'Promoters'. There must be seven promoters in case of public company and two promoters in case of private company.

Following important steps are involved in this stage.

1. Discovery of Idea

First of all promoters discover the idea about the new business and hope that business will be run in profit.

2. Investigation

Promoters investigate about new business project. They investigate for demand of product, availability of labour, material and capital.

3. Assembling Factors

If promoters are satisfied with their investigation then they start assembling (collect) various business factors. Promoters make some contract with suppliers of raw material and machinery.

4. Financial Resources

Promoters estimate the total amount of capital needed and then they contract with banks and underwriters for collecting capital.

(B) INCORPORATION

Incorporation of a company is the second stage in the formation of the company. The promoters must fulfill the following formalities for registration.

1. Approval of name

In incorporation stage the first step is to select the name of company and get approval of name from the Registrar. The name of the company should be different from name of other existing company.

2. Filling of Documents

The promoter makes an application to the Registrar of Companies. The application for registration must be accompanied by the following documents.

1. Memorandum of Association
2. Articles of Association
3. List of persons and their addresses who have agreed to become Directors.
4. Written consent of the proposed Directors duly signed by each Director.
5. The notice about the address of the Registered Office of the company. It may be filed within 30 days of incorporation.
6. A copy of the name approval letter received from the Registrar of Companies.
7. A declaration that all the legal requirements in respect of registration have been completed.

3. Payment of Fees

Fees is also paid for the registration of company which is divided into three parts

- Fees of submitting the application and documents
- Registration fees
- Fees for stamping the articles of association and memorandum of association

4. Certificate of Incorporation

If registrar is satisfied with these documents then he issues a certificate of incorporation.

A private company can start its business after obtaining the certificate of incorporation but public company is required to fulfill the more requirements.

(C) COLLECTION OF CAPITAL

After incorporation, the next step is the collection of capital. Company raised its capital by issuing shares and debentures. Following different steps are involved in this stage.

1. Prospectus

Promoters issue prospectus to invite the general public to purchase the shares. Prospectus contains a form which is used by general public for giving application for purchase of shares.

2. Underwriters

Promoters also contact with underwriters to sell shares and debentures. The underwriters give guarantee that their shares will be sold within time period.

3. Subscription

Promoters also contact with bankers for collection of shares application.

4. Allotment of Shares

When applications are received, the directors will allot the shares to the applicants.

(D) CERTIFICATE OF COMMENCEMENT OF BUSINESS

For obtaining this certificate following formalities are to be fulfilled.

1. Minimum Subscription

It is minimum amount which the company must receive from the applicants before allotment of shares. Company is required to give a proof that the minimum subscription has been received in cash.

2. Qualification Shares

It is necessary for directors to purchase a specific number of shares to become directors. So the company is required to give a proof that directors have paid full amount on the shares purchased by them.

3. Prospectus

Company is also required to submit a copy of its prospectus. If a company has not issued a prospectus, then it has to file a statement in lieu of prospectus.

4. Declaration

A statutory declaration is made by chief executive of one of the directors that all conditions regarding the commencement of business have been fulfilled.

ISSUANCE OF CERTIFICATE

The registrar will check all the documents. If he is satisfied he will issue a certificate of commencement of business. It is a proof that public limited company can start its business.

QUESTION # 18

What is share capital? What are the different kinds or classes of shares? (2010, 11)

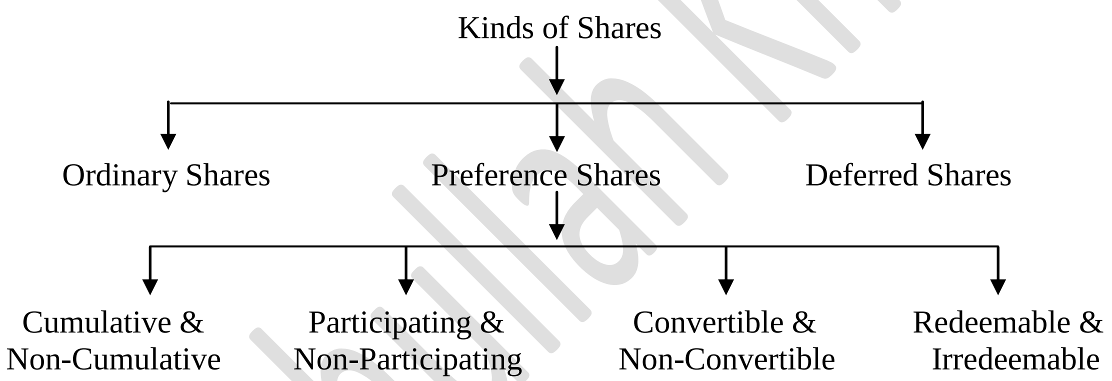
OR

(a) What is share capital of a Joint Stock Company?
(b) Discuss kinds of shares of JSC.
(c) Briefly explain authorized, issued and paid up capital

ANSWER

SHARE CAPITAL
Total amount received against the issue of shares is called share capital.

KINDS OF SHARES
The capital of a company is divided into small unit and each unit is called a share. Following are different kinds of a share.



1- PREFERENCE SHARES
Following are the characteristics of preference shares.

- Rate of dividend is fixed
- First of all dividend is paid to preference shareholders
- At the time of winding up of company capital is returned to preference shareholders before other shareholders

Preference shares can be divided into following types.

(a) Cumulative and Non-Cumulative shares

Cumulative
In case of cumulative if dividend is not paid in any year then it will be accumulate and will must be paid in next years.

Non-Cumulative
In case of non-cumulative if dividend is not paid in any year the shareholders has no right to receive that dividend in next years.

(b) Participating and Non-participating shares

Participating
The participating shareholders get a fixed rate of dividend. They also participate in the surplus profit with ordinary shareholders.

Non-participating
The non-participating shareholders get the fixed rate of dividend. They cannot participate in the surplus profits with ordinary shareholders.

(c) Convertible and Non-convertible shares

Convertible
These are the shares which can be converted into other shares within a fixed period.

Non-convertible
These are the shares which can not be converted into other kinds of shares.

(d) Redeemable and Irredeemable shares

Redeemable
Shares which can be buy back by the company after the expiry of a fixed period are called redeemable shares.

Irredeemable
Shares which the company cannot not buy back during its life are called irredeemable shares.

2- ORDINARY SHARES
Following are the characteristics of ordinary shares

- Rate of dividend is not fixed
- Dividend is paid after paying to preference shareholders
- At time of winding up of company capital is returned after preference shareholders

3- DEFERRED SHARES
Following are the characteristics of deferred shares

- Rate of dividend is not fixed
- Generally issued to promoters
- Dividend is paid after paying all other shareholders

KINDS OF CAPITAL
Following are different kinds of capital

1- AUTHORIZED CAPITAL
Total amount of capital with which a company is registered is called authorized capital. It is also called registered or nominal capital. It is the maximum amount for

which a company can issue shares. The full amount or part of it can be issued for subscription.

2- ISSUED CAPITAL

The part of authorized capital which is issued to public for sale is called issued capital. The balance is retained for further requirements.

3- SUBSCRIBED CAPITAL

The part of issued capital for which applications are sent by public and which are accepted is called subscribed capital.

4. CALLED UP CAPITAL

Generally the companies do not ask to the shareholders to pay the full amount of shares at once. They take it in installments. That part of the subscribed capital, which the company calls from public, is called up capital.

5. PAID UP CAPITAL

The part of called up capital which the company actually received is called paid up capital. The portion of called up capital which is not paid is called, calls in arrears.

6. RESERVE CAPITAL

The portion of uncalled capital which the company by special resolution decided not to call up, until the company is wound up is called reserve capital.

QUESTION # 19

What is difference between sole trader ship, partnership and company?

ANSWER

DIFFERENCE BETWEEN SOLE TRADERSHIP, PARTNERSHIP AND COMPANY

(a) Sole Tradership
(b) Partnership
(c) Joint Stock Company

1. DEFINITION

(a) Sole proprietorship is a business which is owned and controlled by one person
(b) Partnership is a relation between the persons who have agree to share the profit or loss of the business carried by all or any one of them acting for all.
(c) Company is an artificial person created by law having common seal and perpetual existence.

2. LEGAL ENTITY

(a) Sole tradership has no separate entity from its owners
(b) Partnership business has also no separate entity from its owners
(c) Company has a separate legal entity from its members

3. REGISTRATION

(a) The registration of sole proprietorship is not compulsory
(b) The registration of partnership is optional
(c) The registration of company is compulsory by law

4. NUMBER OF PARTNERS

(a) In sole tradership there is only one owner
(b) In partnership minimum 2 and maximum 20 partners
(c) In public company minimum seven and maximum unlimited

5. MANAGEMENT

(a) All affairs of business manage by single owner
(b) Every partner has a right to participate in management
(c) Company is managed by a board of directors

6. LAW

(a) There is no specific law for the formation of sole tradership
(b) Partnership is formed under Partnership Act 1932
(c) Company is formed under Companies Ordinance 1984

7. LIABILITY

(a) In sole tradership liability of owner is unlimited
(b) In partnership liability of each member is unlimited
(c) In company liability of members is limited

8. DURABILITY
(a) Sole tradership is not durable
(b) Partnership is more durable as compare to sole tradership but less as compare to company
(c) Company is durable. Death or insolvency of member has no effect on life of company

9. Suitable
(a) It is suitable for small scale business
(b) It is suitable for small and medium size business
(c) It is suitable for large scale business

10. AGENT
(a) In sole tradership owner is alone agent of business.
(b) In partnership every partner is agent of other partner
(c) In company no member is agent of other member

11. Membership
(a) No person can become member of sole owner
(b) Only individual can become members of partnership
(c) Individual and institutions can become members in a company

12. TRANSFER SHARE
(a) Sole trader can sell his business without any restriction
(b) In partnership no partner can transfer his share without the consent of other partners
(c) In public limited company shares can be transferred without any restriction

13. CHANGE IN CAPITAL
(a) Sole trader can change volume of capital when he wants
(b) In partnership partners can change volume of capital with mutual consent
(c) In Company volume of capital can be change according to rules given in ordinance

14. AUDIT
(a) In sole tradership audit of accounts is not necessary
(b) Audit of accounts if optional in partnership business
(c) Audit of accounts is compulsory in joint stock company

15. Payment of Debt
(a) In sole tradership private property of owner can also be used to pay debt
(b) Private property of partners can be used to pay debt
(c) Private property of shareholders can not be used to pay debt

16. CHANGE IN BUSINESS
(a) Sole trader can change his business at any time
(b) In partnership business can be change with mutual consent of partners
(c) Company can do only those businesses which are mentioned in MOA

17. LIST OF STOCK EXCHANGE

(a) Sole tradership can not be listed in stock exchange
(b) Partnership also cannot be listed in stock exchange
(c) Public limited company can register itself in the list of stock exchange

18. FORMATION EXPENSES

(a) Sole tradership bears less formation expenses as compared to other businesses
(b) Partnership bears less formation expenses as compared to company
(c) Formation expenses of company are much more as compared to other businesses

19. WITHDRAWAL OF CAPITAL

(a) Sole owner can get his capital by selling his business to other
(b) Partners can get their capital by transferring their share to others by mutual consent
(c) Shareholders can get their capital by selling share to others without any restriction

20. WINDING UP

(a) Sole tradership can be wind up without out any restriction
(b) Partnership can be dissolved according to partnership agreement
(c) Company can be wind up according rules of ordinance

QUESTION # 20

Define Co-operative Society. Discuss its main advantages and disadvantages or limitations. (2009)

`ANSWER

CO-OPERATIVE SOCIETIES

After industrial revolution the society was divided into two parts capitalist and labour classes. Capitalist started exploiting labour. The labour and weaker section started the cooperative movement to protect such exploitation.

DEFINITION

Cooperative society is an association of persons who voluntarily pool their resources for utilizing them for the mutual welfare of members itself.

MAIN POINTS OF DEFINITION

- An association of person
- United voluntarily
- For mutual aid
- Achieving the better living standard

ADVANTAGES OF COOPERATIVE SOCIETY

1. Elimination of Middlemen

In cooperative societies consumer themselves produce the goods or services and supply in market without the involvement of middlemen, which decrease cost of product.

2. Minimum Stock

Stock keeping may result in losses. In cooperative societies demand is known in advance, so there is no need to keep high stock.

3. Better Standard of living

Members can purchases better quality goods at low prices which raise their standard of living.

4. Limited Liability

The liability of members in society is limited up to contributed capital. But in some cases it may be unlimited.

5. Promote Saving

Cooperative society promote saving among members because they get reasonable profit on their investment in addition to other benefits.

6. Less Prices

The society tries to provide goods and services to members at cost price without adding profit. In this way members get quality product at less prices.

7. Equal Status
All members of society enjoy equal status because every member has one vote irrespective of shares held by him.

8. Employment Opportunities
Cooperative society not only provides goods and services to its members, it also provide job opportunities to its members according to their abilities.

9. Management expenses
A cooperative society is an institution of social welfare. So, the members provide honorary services to the society, which saves the society from heavy expenses of salaries.

10. Reduction in expenditures
There is no need of specialists for the production, distribution and management who charge heavy amounts of salary. Therefore reduction in expenditures of society is natural.

11. Vast Market
Rates of society are low as compare to other businesses. So large number of customers purchase from society which increase its profit.

12. Tax Advantage
The purpose of society is welfare of people not to earn profit. So no tax is imposed on society.

13. Economic Development
Cooperative society contributes towards the economic development of a country by increasing output and providing employment.

14. Elimination of Monopoly
The cooperative society provides goods at cheaper rates, so the other business units are bound to reduce their prices.

15. Long Life
Cooperative society enjoys long life. Death, retirement or insolvency of members has no effect on the life of society.

DISADVANTAGES OF COOPERATIVE SOCIETY

1. Limited Capital
A cooperative society has limited capital because the members are poor and working area of the society is limited.

2. Poor Management
The members of society elect managers. There is no guarantee that trained and expert manager are elected. The layman may become the head of society

3. Absence of Discipline

Every member of the society consider himself owner of the business and unnecessarily interfere business affairs. It creates indiscipline.

4. Slow Progress

Due to less capital services of expert can not be hired which is necessary for success. This factor is a big hurdle in the progress of cooperative society.

5. Delay in Decisions

It is managed by elected members. They implement decisions taken by members which may take time. Due to late decisions it may suffer loss.

6. Lack of Mutual Cooperation

The start of society looks useful, but later on the members are divided into groups because, in the present world it is very difficult to find people possessing quality of mutual cooperation.

7. Lack of interest

The objective of the society is not earning profit due to which members do not take proper interest for the expansion of activities of organization.

8. Lack of legal governance

If the society is not registered then contracts made by it are not legally enforceable, because there is no proper and effective machinery to control and supervise it.

9. Lack of Secrecy

It is necessary for registered society to disclose all the affairs of society to registrar and members due to which maintenance of secrets is not possible.

10. No Innovation

A cooperative society cannot introduce innovation and technology due to small capital and non-professional management.

CONCLUSION

We conclude that co-operative societies are the need of developing countries. Co-operative societies can be operated successfully under an effective control. Sincerity and honesty is the basis of its success.

QUESTION # 21

Define Co-operative societies. Discuss important kinds of cooperative societies (2010) (2008)

ANSWER

CO-OPERATIVE SOCIETIES

Cooperative society is an association of persons who voluntarily pool their resources for utilizing them for the mutual welfare of members itself.

MAIN POINTS OF DEFINITION

- An association of person
- United voluntarily
- For mutual aid
- Achieving the better living standard

TYPES OF COOPERATIVE SOCIETIES

Following are different types of cooperative societies

1. Consumer's Cooperative Society

These societies purchases goods directly from wholesaler and sell them to the member at cheaper rates than the market. However the goods are sold to non member at market rates and profit is distributed among the members.

2. Producers Cooperative Society

This society provides raw material, tools and money etc to members for production purpose. The members of the society produce goods at their houses or at a common place. The output is collected by the society and sold in the market at wholesale rate. The profit is distributed among the member in proportion to the goods supplied by each member.

3. Marketing Cooperative Society

The marketing cooperative society collects the produce of its members. It grades them, keeps them in its warehouses and sells at the wholesale prices. The sale proceeds are distributed among the members.

4. Farming Cooperative Society

In these societies small agriculturists join together for cultivating their land. The important aim of these societies is to enable the small agriculturist to get the benefits of large scale farming.

5. Tube-Well Society

These societies are formed to supply water to farmers. In arid (waterless) areas the crops depend upon rains. The farmers can install tube well to cultivate their land. The water can be used for irrigation of crops.

6. Housing Cooperative Society

This society is formed to provide finance (loan) to its member at low rate of interest for the purchase of land or house or construction of house. It also provides raw material to members on non profit basis for construction of house.

7. Credit Cooperative Society

These societies get funds from other financial institutions and provide loan to its members at low rate of interest. All the members are responsible to return the loans. Society protects the members from money lenders who gave loan at higher rate of interest.

8. Storage Cooperative Society

This society provides storage facility to the members for perishable and non-perishable goods. Grading and distribution services are also provided by the society.

9. Transport Cooperative Society

This society is formed to provide the services of transport to its members at concessional rates. Welfare Buss Scheme is one example of this society. A pass is given to the regular passengers to travel on permitted routes of the government.

10. Labour Cooperative Society

The unskilled labourers set up this society to sell their services jointly for various projects at favourable rates.

11. Sugar Cane

Society can be established to get better crop of sugar cane. Society supply fertilizers and pesticides to farmers. Farmers can get reasonable price through society.

12. Fisherman Society

This society provide loan to members for purchase of tools for fishing. The fishermen can get maximum benefit for sale of fish. In Pakistan there are more than 60 such societies.

13. Dairy Farming Society

The People linked with dairies can set up their society. The dairy owners keep cows and buffalos. They try to sell milk and milk made products.

14. Cooperative Insurance

These societies are formed to provide the group insurance to its members. It may contract with sound insurance company collectively for lower premium. The cooperative insurance society can also be organized for issuing polices of small amount.

QUESTION # 22

What is business combination? What are the causes of business combination? (2009)

OR

What is business combination? What are the motives which lead to business combination?

ANSWER

BUSINESS COMBINATION

Business combination means combining of two or more business units. The combining units are controlled by a common management. The expert and talented management are able to increase profits by eliminating competition.

ACCORDING TO RALPH ESTES

Business combination is the joining of two or more companies to form a single organization for the conduct of business activities.

REASONS / CAUSES OF BUSINESS COMBINATION

Following are the various causes of business combination.

1. Larger Capital

Deficiency of capital is a great hindrance for the expansion of business. So, small business units may form a combination to overcome this problem.

2. Financial Problem

Small business units face problems during the period of depression. They setup combination in order to remove the shortage of capital and reduce the risk of business failure.

3. Controlling Competition

Unnecessary competition among business units is harmful for progress. So the businessmen feel pleasure to set up combination in order to avoid the waste of their source in excessive competition.

4. Tariff Facilities

By combining business units businessmen can compete foreign producer in national and international market. Therefore government provides tariff facilities to this business combination.

5. Advantages of Large Scale

When goods and services are produce at large scale it decrease production cost and hence increase profit. Large organizations may purchased goods in large quantities and get discount.

6. Research Result

It is not possible for small business units to enjoy separate laboratory and research facilities due to their limited resources. They combine together in order to interchange their research results.

7. Economy in Expenses

After combination, all selling and administrative expenses are incurred collectively. It helps to reduce the cost of per unit and earn more profit.

8. Efficient Management

Due to lack of capital small firms cannot hire the services of experts. By combination they become able to hire the services of qualified and experienced persons.

9. Improved Method of Production

Due to large amount of capital, new methods of production can be used which improve quality of product. In this way sale and profit also increased.

10. Saving in Transportation cost

Combined units make contracts with various transporters for the transportation of goods in bulk, which reduces the transportation cost to a great extent.

11. Increase in Sales Volume

Due to large scale production per unit cost decreases. In this way business unit can reduce sale price which will increase sale and in a result profit will also be increased.

12. Credit Standing

Small business units have low credit standing as compare to large business units. Small units can combine to increase their credit standing and can easily obtain loan.

13. General Tendency

When the tendency of combination takes place in a particular industry, other industrial sectors are also affected as a result. So, they form combination for their common objectives.

14. Survival

The business is not free from ups and downs. The survival of the fittest is a common rule. So, a weak business unit may become strong through combination.

15. Elimination of Risky products

The member units can eliminate the production of risky products. The losses can be kept under the normal limits. The production become simple and profitable.

QUESTION # 23

What do you understand from business combination? What are different types/kinds of business combination explain with example. (2010, 11)

ACCORDING TO RALPH ESTES

Business combination is the joining of two or more companies to form a single organization for the conduct of business activities.

TYPES OR KINDS OF BUSINESS COMBINATION

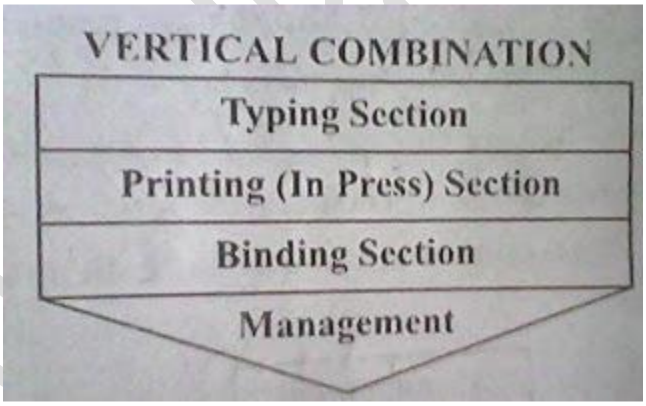
Vertical Combination | **Horizontal Combination** | **Circular Combination** | **Diagonal Combination**

1. VERTICAL COMBINATION

Every product goes from different processes. When different business units performing different processes on same product combine together, it is called vertical combination.

EXAMPLE

For example publishing of books goes from different steps like typing, printing and binding. If different business units performing these functions are combined together it will be vertical combination.



Objectives / Advantages

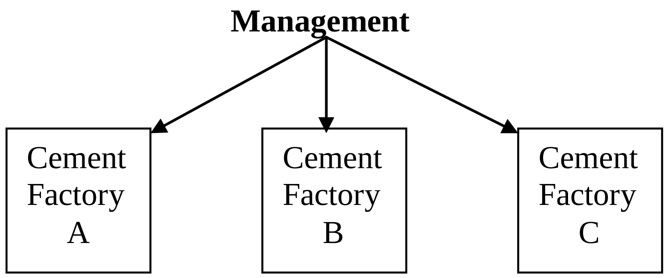
1. To regulate the supply of raw material
2. To hire the services of experts.
3. To use improved methods of production.
4. To reduce the middleman commission.
5. To earn maximum profit.

2. HORIZONTAL COMBINATION

When different business units doing same businesses are merged with each other, it is called horizontal combination.

EXAMPLE

For example there are three cement factories. They all make whole sale. If these factories combined with each other it will be horizontal combination.



Objectives / Advantages
1. To avoid competition
2. To regulate the prices of production
3. To avoid over production.
4. To use improved methods of production.
5. To earn maximum profit.

3. CIRCULAR OR MIXED COMBINATION
When different business units doing different businesses merged with each other it is called circular combination.

EXAMPLE
If a cloth industry combining with shoes industry and sugar industry is an example of mixed combination.

Objects
The main object of mixed combination is to secure the benefits of administrative ability through common management.

4. DIAGONAL COMBINATION
When two or more than two businesses which supply helping goods and services to each other are combined under one management, it is called diagonal combination.

EXAMPLE
If designing and tailoring business units are combined with the garments industry it is called diagonal combination.

Objects
The main object and advantage of this combination is that it makes the business unit very large and self sufficient.

QUESTION # 24

Distinguish between vertical combination and horizontal combination. What are the motives which lead to formation of such combination? (2008, 11)

DIFFERENCE BETWEEN VERTICAL AND HORIZONTAL COMBINATION

(a) Vertical Combination
(b) Horizontal Combination

1. Formation

(a) If different departments of same industry combined it will be vertical combination
(b) If different business units combined it will be vertical combination

2. Competition

(a) There is no competition among combining units
(b) There is a vast competition among combining units

3, Monopoly

(a) The vertical combination cannot create monopoly in supply of goods
(b) The horizontal combination can create monopoly in supply of goods

4. Economy

(a) The economies of large production may not be achieved
(b) The economies of large production can be achieved in horizontal combination

5. Dependence

(a) The members of vertical combination are dependent on each other
(b) The members of horizontal combination do not depend on each other

6. Types of activities

(a) The combining units perform different types of activities
(b) The combining units perform same types of activities

7. Production

(a) Excessive production cannot be avoided in vertical combination
(b) Excessive production can be avoided in horizontal combination

8. Commission

(a) The middleman’s commission may be reduced in vertical combination
(b) The middleman’s commission may not be reduced in horizontal combination.

9. Regulation of prices

(a) Regulation of prices of goods is not possible in vertical combination
(b) Regulation of prices of goods is possible in horizontal combination

10. Management

(a) The members of vertical combination cannot make their own policies.
(b) The members of horizontal combination are independent in making policies for their business unit.

Note: Write 10 points of question number 21

QUESTION # 25

Define marketing. Discuss its functions. Also describe the concept of "marketing mix" (2010, 2012)

ANSWER

MARKETING

Marketing means all those activities which are done to satisfy customer's needs and wants and meet organization objectives.

Marketing activities include:

- Planning and execution of
- Product, price, place and promotion

FUNCTIONS OF MARKETING

1. Market Research

Customer is the king of market. Satisfaction of customer is necessary for the success of business. In this function customer needs and wants are determined so that goods can be delivered according to their demand.

2. Product design

Product development is an essential function of marketing. It is the duties of the marketing department to identify what the market need or want and then design effective product based on the identified need and want of the market.

3. Buying

It involves buying goods at right price, at right time, in right quantity and quality and from a right source. Goods or material is purchased by the purchasing department, but information for purchasing is transferred from marketing department.

4. Production

Production is made by production department. Though, this is interrelated to the department of marketing. Marketing department gives informations to production department which are collected by it in market research so that product can be produced according to customers demand.

5. Grading

Grading is a process in which goods are divided into different groups according to size, shape, colour etc. If goods are divided into different groups they can be easily bought and sold.

6. Packing

Packing means covering of goods with glass bottles, cans etc. The packing of goods is necessary for protection against damage, leakage and spoilage. Packing should be attractive and economically.

7. Labeling

The labeling is an act of putting a sign on the product. It gives information about quality and producer of the product. Label may be printed or attached to the product.

8. Pricing

Decision of pricing is a difficult task. Before fixing the price of a product purchasing power of consumer, economic condition and competition must be judged in the market.

9. Advertising

Advertising is a process through which general public are informed about product and its availability in market. Effective advertising plays very important role in the sale of product. There are different ways of advertising such as TV, Radio, Newspaper, and Internet.

10. Selling

Selling is the most important function of the marketing. It includes finding buyers and supplying satisfactory goods and services, negotiating price and other terms of sale.

11. Distribution

Goods are normally produced at one place and used at other place. The availability of goods at right time and at right place is very important for successful selling. It is the duty of marketing department to select effective means of distribution.

12. Storing

At this time goods are normally produced in huge quantity which may not be sold at once. Unsold goods are kept in warehouses until their demand arises.

13. Risk taking

Risk mean possibility of loss which may occur in future due to fire, flood, theft. It may arise because of price fluctuation, decrease in demand etc. Some risks can be reduced through insurance but other can not be insured.

14. After sales-services

For the success of business it is not enough to sale the product. Building long term relation with customer is necessary for the success of business. For this purpose most marketing organization provide after sale services free or by little service charges.

Marketing Mix Or 4 P's

Marketing mix is a combination of marketing techniques with the help of which desired objectives can be achieved. It consists of following four factors.

Product

Product is anything that can be offered to a market to satisfy the needs and wants.

Price

That amount of money which we spend in order to get the product.

Place

Place does not mean any building only. It includes all those activities which make possible the availability of goods and services.

Promotion

Promotion includes advertising, personal selling, and sale promotion.

Above four elements of marketing mix should be tied together to get desired objectives. The marketing mix strategy should be flexible.

QUESTION # 26

What is E-Commerce? Discuss its advantages/importance/role in today's business (2012)

ANSWER

E-Commerce
The buying and selling of goods and services through electronic systems such as internet is called e-commerce.

Advantages/Roles/Importance of E-commerce

1. Quick Information
Through e-commerce customer can get information in seconds about the availability of products, its price etc.

2. Saving of time and cost
By using internet businessmen can deal with customers and suppliers without traveling. It will save time and traveling cost.

3. 24 Hours Business
We can buy and sell goods and services all over the world when we want.

4. Easy advertisement
Through e-commerce businessmen can easily advertise its product. The use of e-commerce also reduces the cost of marketing and promotions.

5. Variety of choices
The e-commerce has provided customers variety of choices in the selection of goods and services at reasonable prices.

6. Wide Market
It helps businessmen to expand the market both at national and international level.

7. Minimum Inventories
Through e-commerce we can purchase goods and material when we need it. The e-commerce helps in minimizing the inventories and other expenses.

8. Quick payment and receipt
Through e-commerce we can make payments and receipts very easily and quickly.

9. Reduction in communication expenses
The use of internet in business reduces the use of stationary and telephone for communication. It helps in reduction of communication expenses.

10. Elimination of middlemen
Through e-commerce buyer and seller can transact directly without the involvement of middlemen. It is beneficial for both buyer and seller.

11. Display of Products
Before the use of e-commerce the seller normally delivered the samples physically. This was very costly for seller. Now the sellers can display their products as samples through Web sites.

12. Increased efficiency
There is increase in efficiency of enterprise due to automated order processing, inventory control, billing, shipping and so on.

13. Better Forecasting
The electronic commerce is helpful to note the liking and disliking of customers. The sellers can forecast the demand in time to meet the needs of their customers.

14. Interaction
E-commerce allows customers to interact with other customers, exchange ideas and experience in the purchase of goods or services.

15. Discount
Due to use of e-commerce the competition among supplier is increased. Due to this reason customer is in a position to get discount in business deals.

QUESTION # 27

Stock Exchange play vital role in development of economy. Discuss its functions.

OR

Discuss main functions or importance of Stock Exchange. Does it really promote economic growth? (2008, 10)

STOCK EXCHANGE

A stock exchange is a market for the purchase and sale of shares and debentures.

Stock exchange indicates about the good or bad health of economy. If the share prices are raising it means country is running on the path of development and prosperity.

FUNCTIONS OF STOCK EXCHANGE

1. Price Quotation

The price quotations of shares are issued for information of general public. The quotation department is responsible for display of prices of shares on ready board in the trading hall.

2. Pricing of Securities

The stock market helps to value the securities on the basis of demand and supply. The securities of profitable companies are valued higher as there is more demand for such securities.

3. Ready Market

The main function of stock exchange is to provide ready market for sale and purchase of securities. The presence of stock exchange market gives assurance to investors that their investment can be converted into cash whenever they want.

4. Regulations of Companies

It is necessary for companies to follow the rules and regulations of stock exchange if they want to register on stock exchange. In this way stock exchange has a great influence on the management of the companies.

5. Safety of Transactions

In stock market only the listed shares are purchased and sold. Stock exchange authorities include the companies names in the trade list only after verifying the soundness of company. This ensures safety of dealing through stock exchange.

6. Promotes Habits of Savings and Investment:

The stock market offers attractive opportunities of investment in various securities. These attractive opportunities encourage people to save more and invest in securities of companies rather than investing in gold, silver, etc.

7. Public Debts

The stock exchange arranges loans for the government through the sale of government securities. The long-term funds can be managed for the government.

8. Employment opportunities

It is an important source of employment not only for investors but also for the members and their employees.

9. Economic Barometer:

A stock exchange is a reliable barometer to measure the economic condition of a country. Every major change in country and economy is reflected in the prices of shares. The rise or fall in the share prices indicates the boom or recession cycle of the economy.

10. Facility of loan

The securities purchased through stock exchange can be presented to banks as security for obtaining loan. The banks can recover the amount of loan easily by selling the securities in case of non-payment.

QUESTION # 28

Define life insurance. What are the principles and advantages of life insurance?

ANSWER

LIFE INSURANCE
Life insurance is a contract between an insured and an insurer. The insurer promises to pay a sum of money against a premium, upon the death of the insured person.

PRINCIPLES OF LIFE INSURANCE

1. Good faith
Both parties in the contract must disclose all facts for the benefit of each other. False information or non-disclosure of any important fact makes the contract avoidable.

2. Insurable Interest
The presence of insurable interest is a legal requirement life insurance. So an insurance contract without the existence of insurable interest is not legally valid and cannot be claimed in Court.

ADVANTAGES or IMPORTANCE OF LIFE INSURANCE
Following are the main advantages of life insurance :

1. Promotes Savings
The insured person saves the money to pay the premium of the policy. So it develops the habit of savings among the policy holders.

2. Financial Aid
After the death of a policy holder insurance company pays the insured amount to the heirs. So the family gets the financial aid to face many problems.

3. Planning for Future
Life insurance is very useful for the last age of a person. At that stage man cannot do any job so due to the availability of insured amount he can lead a good life.

4. Payment of Deceased Debts
Due to sudden death, the debts can be paid by the insured amount.

5. Profit Earning
Life insurance not only provides financial aid to the family of a deceased person but also gives profit on the capital.

6. Tax Concession
Sometimes Government provides tax concessions to the policy holders. It is also an advantage of life insurance.

7. Credit Facility
A policy holder can also obtain credit from various financial institutions against the life insurance policy.

8. Security and Peace of Mind

A policy holder feels security and peace of mind that in case of his sudden death, his family will not face the financial problem. The life insurance also provides relief and security to the dependents.

9. Lump Sum Payment

If the policy holder survives then insurance company pays him lump sum amount. He can purchase the house with the money or he can do any business. It is also an advantage of insurance company.

QUESTION # 29

Define fire and marine insurance and discuss the essentials/requirements/principles of a valid fire and marine insurance contract

FIRE INSURANCE

A contract between the policy holder and insurance company, in which the insurance company promises to indemnify the loss by fire to a property in a particular period.

Essentials or Principles of Fire Insurance

1. Good Faith

All the facts about the subject matter should be disclosed by the insured to the insurer. The contract will be invalid in case of fraud.

2. Insurable Interest

The presence of insurable interest is a legal requirement. So an insurance contract without the existence of insurable interest is not legally valid and cannot be claimed in Court.

3. Contract of Indemnity

It is a contract of indemnity. When the amount is claimed after the loss has occurred. Insurance company compensates the loss up-to the insured amount limit. If there is no loss than no claim is acceptable.

4. Personal Right

A man whose name is mentioned in the contract, he has a right to receive the insured amount from the company in case of loss.

5. Personal Contract

It is a personal contract between the insured and insurer. This contract can not be transferred without the consent of insurance company.

6. Direct Loss

In fire insurance claim can only be made if loss is occurred due to fire.

7. Particular Period

The contract of fire insurance is for a specific period, usually for a one year.

8. Description of Property

It is also an essential part of the contract . The location of the property should be described in the contract.

9. Premium Consideration

The policy must mention the sum of insurance and the rate of premium.

10. General Conditions

A prescribed form should be used for the fire insurance. Both parties should be competent to contract. The object of contract should be legal and not against the public interest.

MARINE INSURANCE

A contract of indemnity whereby the insurer promises to compensate the insured against perils insured.

Principles or Essentials of Marine Insurance

1. Good Faith

All the facts about the subject matter should be disclosed by the insured to the insurer. The contract will be invalid in case of fraud.

2. Insurable Interest

The presence of insurable interest is a legal requirement. So an insurance contract without the existence of insurable interest is not legally valid and cannot be claimed in Court.

3. Contract of Indemnity

It is a contract of indemnity. When the amount is claimed after the loss has occurred. Insurance company compensates the loss up-to the insured amount limit. If there is no loss than no claim is acceptable.

4. Good Paring

The Cargo must be packed properly and it should be in sound condition.

5. Proper Route

The ship must adopt the proper route which is specified in the policy. If a ship do not adopts the proper route it is called deviation. It is only allowed in case of unfavorable conditions.

6. Legality of Voyage

The object of voyage must be lawful. For example a policy to cover the risk of smuggling is invalid.

7. Good Condition of Ship

The ship must be in a good condition and may be able to face the ordinary sea perils.

8. Competent Parties

The parties must be competent to make contract and contract should also be supported by a valuable consideration.

QUESTION # 30

What are the principles of insurance? Distinguish between Life, fire and marine insurance

INSURANCE
A contract between two parties in which one party promises to indemnify the loss suffered by other party against a premium.

PRINCIPLES or ESSENTIALS OF INSURANCE
The following are the basis essentials or requirement of insurance.

1. Good faith
Both parties in the contract must disclose all facts for the benefit of each other. False information or non-disclosure of any important fact makes the contract avoidable.

2. Insurable Interest
The presence of insurable interest is a legal requirement. So an insurance contract without the existence of insurable interest is not legally valid and cannot be claimed in Court.

3. Cancellation
Both parties have right to cancel the policy before its expiry date. The protection provided by the insured stops from the date of cancellation and premium is returned to insurer.

4. Mitigation of loss
According to this principle the insured should take steps to minimize the loss. Otherwise the insurance company can refuse to compensate the insured due to this negligence.

5. Attachment of Risk
An insurance contract cannot be enforced without the element of definite risk. So the element of risk is always mentioned in policy otherwise it will be considered invalid.

6. Proximate cause
If there are so many reasons of a loss then first of all causes of loss will be determined. If loss is occurred due to insured cause then claim will be paid otherwise not.

7. Principle of subrogation
If a loss arises due to the negligence of a third party then the loss can be recovered from only one party either from the insurance company or from the third party.

8. Principle of indemnity
Insurance is a contract of indemnity. The amount is claimed after the loss has occurred. Insurance company compensates the loss up-to the insured amount limit. If there is no loss then no claim is acceptable.

9. Arbitration

The arbitration is to be appointed in writing by both the parties in case of differences. Due to this the chances of litigation can be reduced.

Difference or Distinguish between Life, fire and marine insurance

1. NATURE OF CONTRACT

(a) Life insurance is not the contract of indemnity.
(b) Fire insurance is a contract of indemnity.
(c) Marine insurance is a contract of indemnity.

2. DURATION PERIOD

(a) Life insurance covers larger duration.
(b) Fire insurance duration is from 1 years to 10 years but it is renewable.
(c) Marine insurance is issued for a specified period but maximum period is not more than one year.

3. CREDIT FACILITY

(a) Against the life insurance policy credit can be obtained.
(b) Against fire insurance policy credit can not be obtained.
(c) Against marine insurance policy credit can not be obtained.

4. TAX CONCESSION

(a) In case of life insurance sometimes income tax concession is granted.
(b) In case of fire insurance income tax concession is not granted.
(c) In case of marine insurance tax concession is not granted.

5. NATURE OF EVENT

(a) The event of death which is considered the base in the contract of life insurance is death which is certain.
(b) In the fire insurance event fire is uncertain. It may take place or may not take place.
(c) In marine insurance the event of sea perils may take place or may not take place.

6. SHARE IN PROFIT

(a) In a life insurance insured person also takes the share from profit.
(b) In case of fire insurance nothing is paid excess from insured amount.
(c) In case of marine insurance not profit is paid.

7. SECURITY AND INVESTMENT

(a) Life insurance possess the element of security and investment both.
(b) Fire insurance includes the element of security only.
(c) Marine insurance includes the element of security only.

8. TITLE

(a) The word Assurance is generally used along with life policy due its certainty.
(b) The word insurance is used along with fire due to its uncertainty.
(c) The word insurance is used along with marine due to its uncertainty.

9. INSURABLE INTEREST

(a) Insurable interest must exist when insurance policy is taken but no need at the time of loss.
(b) Insurable interest must be present at the time of fire policy taken and at the time of loss.
(c) When the marine insurance policy is taken insurable interest may not exist but these should exist at the time of loss.

10. DOCTRINE OF SUBROGATION

(a) In the life assurance it is not applicable.
(b) In case of fire insurance it is applicable.
(c) In case of marine insurance it is applicable.

11. TRANSFER OF LOSS

(a) In case of loss insured person can not transfer the loss to insurance company.
(b) In case of fire insurance loss can be transferred to insurance company.
(c) In case of marine insurance loss can be transferred to insurance company.

12. SURRENDER VALUE

(a) Life insurance policy has a surrender value after three years of its existence.
(b) Fire insurance does not have any surrender value.
(c) Marine insurance does not have any surrender value.

13. DETERMINATION OF PREMIUM

(a) The life insurance policy premium determination is very simple and do not change
(b) Fire insurance premium rate changes according the change in risk.
(c) Marine insurance premium rate changes according the change in risk.

14. CLAIM LIMIT

(a) In the life assurance after maturity whole of the assured amount becomes payable.
(b) In fire insurance case only the actual value of the property destroyed by fire can be claimed.
(c) In case of marine insurance shipping charges, plus 10% to 15% margin of anticipated profit and cost of goods destroyed by sea peril are payable by the insurance company.