

# NEW VENTURE AND TAX IMPLICATIONS

## (RECOGNITION TYPE OF NEW VENTURE—TAX IMPLICATIONS OF VARIOUS FORMS OF BUSINESS)

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### DIFFERENT FORMS OF NEW BUSINESS ORGANIZATIONS

Viewed from the angle of ownership, a business firm may be owned privately, or by the government, or be in the joint sector. The chart below illustrates the various forms of business organizations.



#### SOLE PROPRIETORSHIP

An individual or sole proprietorship is a form of organization in which an individual introduces his own capital, applies his own intelligence and skills in the business and remains entitled to all the ensuing profit or losses thereon.

As Peterson and plowman state, "a sole proprietorship has no legal existence apart from the proprietor himself. He is the firm".

#### Advantages

The advantages of sole proprietorship includes the following :

- (a) Easiness information;
- (b) The owner's complete control over the business;
- (c) A direct motivation to work hard and succeed;
- (d) Maintenance of absolute business secrecy;
- (e) Possibility of quick and timely decisions;
- (f) Personal contacts with employees, customers and others.

#### Disadvantages

The following may be listed as the disadvantages that an individual proprietorship would suffer from :

- (a) Limited capital resources;
- (b) Limited managerial ability or technical expertise;
- (c) Limited avenues for diversification and growth;
- (d) Limited personal liability for business losses; and
- (e) Uncertain life and lack of continuity.

**Suitability sole proprietorship**

An individual proprietorship is deemed to suitable in the following cases;

- (a) Where only a small trade is involved;
- (b) Where capital required is not much;
- (c) Where risk involved is not for bidding;
- (d) Where quick decisions are required; and
- (e) Where personal supervision is merited.

**PARTNERSHIP — 23**

A partnership has been defined by the Indian Contract Act as “the relationship which subsists between persons, who have agreed to combine their property, labour or skill in some business and to share the profits thereof between them.”

The Indian Partnership Act, 1932 has defined partnership as follows : “partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.”

*W.R. Sprigal* notes that, “partnership has two or more members, each of whom is responsible for the partnership.”

**Characteristics of Partnership**

Thus, persons who enter into a partnership are individually called the partners, collectively referred to as the partnership firm, and they conduct their business under a firm name.

Essential characteristics of a partnership may be briefly outlined as follows :

- (a) There should be two or more persons;
- (b) An agreement must have been entered into;
- (c) There must be a lawful business in existence;
- (d) Sharing of profit or losses is to be done;
- (e) Every partner is an agent of every other partner;
- (f) The management is to be done;
- (g) Every partner is an agent of every other partner;
- (h) The management is to be collective.

**Partnership Deed**

Partnership deed is a document which contains the terms and conditions of partnership agreed by partners. A partnership is formed by an agreement. This agreement may be either written or oral. When the agreement is in writing, it is called partnership deed. If such a written agreement is made, future disputes between partners can be avoided.



### TYPES OF PARTNERSHIP

A partnership can be of two kinds, namely :

1. General Partnership
2. Limited Partnership.

#### General or Unlimited Partnership

A partnership in which the liability of all the partners is unlimited is known as unlimited partnership. In such a case all the partners have the right to take part in the management of the firm. It can be of three types :

(a) *Partnership at will* : Partnership at will is a partnership which is formed to carry on business without specifying any period of time, and no provision is made as to when and how the partnership continues as long as the partners are willing.

(b) *Particular Partnership* : It is a partnership established for a stipulated period of time or for the completion of a specified venture. It automatically comes to an end with the expiry of stipulated period or when the specified venture is completed.

(c) *Joint venture* : A joint venture is a temporary partnership which is formed to complete a specific venture or job during a specified period of time. A joint venture may be set up to underwrite an issue of securities, to construct a building or for any other similar purpose.

#### Limited Partnership

A limited partnership is one where there are two types of partners. They are limited partners and general partners. The liability of limited partner is limited to the extent of his capital contribution. Limited partnerships are not allowed by the Indian partnership act.

### LIMITED LIABILITY PARTNERSHIP

In India limited liability partnership act was passed in the year 2008 and it came into force with effect from January 9, 2009. Limited liability partnership is a hybrid corporate form of organization. It enables professional enterprise and entrepreneurial initiative to combine, organize and operate in an innovative and efficient manner. It has the flexibility of the partnership firm and the advantages of the company at a low compliance cost.

### FORMATION OF PARTNERSHIP

A partnership firm can be formed through an agreement among two or more persons. The agreement may be oral or in writing. But it is desirable that all the terms and conditions of partnership are put in writing so as to avoid misunderstanding and disputes among partners. Such a written agreement of partnership is known as partnership deed.

The partnership deed must be stamped properly and each partner should be given a copy of the deed. The partnership deed is not a



public document. It can be altered with the mutual consent of all the partners. It lays down the mutual rights and obligations of the partnership deed usually contain the following points :

- (i) Name of the firm,
- (ii) Name and addresses of all the partners,
- (iii) Nature of the firm's business,
- (iv) Date of the agreement,
- (v) Principal place of the firm's business,
- (vi) Duration of partnership, if any,
- (vii) Amount of capital contributed by each partner,
- (viii) Profit and loss sharing ratio,
- (ix) Loans and advances by partners and interest payable on that,
- (x) Withdrawal allowed to partners and rate of interest on that,
- (xi) Amount of salary or commission payable to any partners,
- (xii) The duties, powers and obligations of partners,
- (xiii) Maintenance of accounts and audit,
- (xiv) Mode of valuation of goodwill on admission, retirement or death of a partner.
- (xv) Procedure for dissolution and settlement of accounts,
- (xvi) Arbitration for settlement of disputes,
- (xvii) Arrangement in case a partner becomes insolvent,
- (xviii) Any other clause which may be found necessary.

### TYPES OF PARTNERS

#### Active or Working Partner

A partner who contributes capital and takes active part in the management of the partnership firm is known as active or working partner. He has unlimited liability and is partner in the real sense.

#### Special or limited partner

He is a partner whose liability is limited to the extent of his capital contributed to the firm. He has no authority to take part in the management of business.

#### Dormant or sleeping partner

Such partner does not take active part in the management of the firm. He shares the profit and his liability is unlimited.

#### Nominal or ostensible partner

He is a partner in name only because he neither contributes capital nor takes part in the management of the firm.

**Partner in profits only**

A partner who shares in the profit of a firm but who is not liable for losses is called 'partner in profits only'.

**Sub-partner**

When a person makes an arrangement with a partner to share his profit, he is known as a sub-partner.

**Minor as a partner**

A minor is a person, who has not completed 18 years of age. Legally, a minor cannot become a partner but he may be admitted to the benefits of partnership.

**RIGHTS AND OBLIGATIONS OF PARTNERS****Rights of Partners**

(1) Right to take part in the conduct and management of the firm's business.

(2) Right to express his opinion on any matter related to firm.

(3) Right to inspect and copy any books of accounts and records of the firm.

(4) Right to an equal share of profit unless otherwise agreed.

(5) Right to receive interest on loans and advances made by him.

(6) Right to indemnified for the expenses incurred and losses sustained by him.

**Duties of Partners**

(1) Must act diligently and honestly in the discharge of his duties.

(2) Must act in a just and faithful manner towards each other.

(3) Must act within the scope of his authority entrusted to him.

(4) Every partner is bound to share the losses of the firm equally unless otherwise agreed.

(5) Every partner must identify the firm against losses sustained due to his willful negligence.

(6) Must maintain and render true and correct accounts.

**Dissolution**

A distinction should be made between the 'dissolution of partnership' and 'dissolution of firm'.

**Dissolution of partnership** : Implies the termination of the original partnership agreement or change in the contractual relationship among partners. A relationship is dissolved by the admission, insolvency, retirement, incapacity, death, etc. of a partner or on the expiry/completion of the term/venture of partnership. Partnership can be dissolved without dissolving the firm.

**Dissolution of firm** : it implies dissolution among all the partners. The business of the partnership firm comes to an end. It's assets are realized and the creditors are paid off. Thus dissolution of firm always



involves dissolution of partnership but the dissolution of partnership does not necessarily mean dissolution of the firm.

A partnership firm may be dissolved in following ways :

(1) **Dissolution by agreement** : A partnership firm may be dissolved with the mutual consent of all the partners in accordance with the terms of the agreement.

(2) **Dissolution by notice** : In the case of partnership-at-will, a firm maybe dissolved if any partner gives a notice in writing to other partners indicating his attention to dissolve the firm.

(3) **Contingent dissolution** : It involves dissolution of expiry of term, on completion of venture, on death of partner or insolvency of partner.

(4) **Compulsory dissolution** : A firm automatically dissolves if all partners or all but one is declared insolvent or when business of firm becomes unlawful.

(5) **Dissolution through court** : Court may order dissolution is a partner becomes of unsound mind, if a partner becomes permanently incapable of performing duties, guilty of misconduct or it is just or equitable to do so.

#### Disadvantages of Partnership

The partnership form of organization suffer from the following major disadvantages :

(a) **Possibility of conflict** : The partners may disagree on various aspects of business, leading to disharmony and conflict.

(b) **Risk of Implied Authority** : Since the act of any partner is legally binding on the other partners and the firm, every partner will have to pay the consequence for any partner's indiscretion or inefficiency.

(c) **Unlimited Liability** : The liability of the partners being unlimited, i.e. extending even into their private estates, breeds an element of conservatism into the firm's strategies and operations.

(d) **Instability** : A partnership is an appropriate form of ownership for medium sized business involving limited capital, application of personal skill and judgment, diversified managerial talents and moderate risk.

#### JOINT HINDU FAMILY BUSINESS (3)

The joint Hindu family form of business is one in which the undivided family possesses some property and the 'karta', the head of the family, operates it. The joint family business arises out of the provisions of the Hindu laws, and so is not governed by the Indian Partnership Act, 1932.

The two forms of joint Hindu family business prevalent are follows :

(a) **The Mitakshara** : In this mode, only the successive generation in the male line can simultaneously inherit the ancestral property.



This form is prevalent in the whole of the country, except West Bengal.

(b) *The Dayabhaga* : In this form, females can also share the family property. This system commonly prevails in West Bengal.

#### **Advantages of Joint Hindu Family Business**

The following may be cited as the prime advantages of this system :

(a) *Continuity* : It need not be dissolved on the insolvency or death of any member.

(b) *Centralized Management* : The management being centralized in the hands of the 'karta' leads to discipline and efficiency in the firm's operations.

(c) *Unlimited Membership* : This form is not limited in membership by law. Hence, a large family would automatically mean more coparceners.

(d) *Limited Liability* : The liability of all the coparceners being limited, with the exception of the 'karta', is a prime advantage of this form.

#### **Disadvantages of Joint Hindu Family Business**

The chief disadvantages marking this form of business may be listed as the following :

(a) *Lack of Congruence between Effort and Reward* : Through the 'karta' look after the business, the rewards are shared by all the coparceners.

(b) *Limited Financial Resources* : This form has relatively limited financial resources, nor can it raise funds as a joint stock company can.

(c) *Limited Managerial Ability* : Since the management is vested with the family head under law, it does not ensure any criterion for the decision making powers to be centred in him other than age. This may handicap the business owing to the 'karta's' lack of relevant knowledge, qualification, vision or innovativeness.

(d) *Relative Instability* : This form of business is dependent on the continuance of the joint family system itself, which is gradually disintegrating in the face of rapid modernization and the consequent social mobility.

#### **Cooperative societies**

The cooperative movement has been the outcome of the economic and social imbalances caused by the Industrial Revolution. Cooperative societies have acquired significance in both capitalist countries as the US and Japan, as well as in socialist countries.

*International Labour Organization* defines "A cooperative is an association of persons (usually of limited means) who have voluntarily joined together to achieve a common economic end, through the



formation of a democratically controlled business organization, making equitable contributions of risks and benefits of the undertaking."

**Characteristics of Cooperative societies :**

1. A cooperative society is a voluntary association of persons.
2. Membership is not restricted on the basis of caste, sex, creed, colour or religion, but may be limited to the employees of a particular company.
3. A cooperative undertaking must seek registration under the Cooperative Societies Act, 1912 or under the relevant cooperative societies act of the state government.
4. A cooperative society, like a joint-stock company, has a separate legal existence, distinct from its members.
5. The capital of a cooperative is raised from among its members in the form of share capital.
6. The primary aim of a cooperative is service to its members, though it may also in the process happen to earn reasonable profits for itself.
7. The cooperative is managed by a managing committee, elected by its members.

**Types of Cooperatives**

Cooperative may be classified on the basis of the nature of services rendered by them. The following are the main types of cooperatives :

- (a) Industrial cooperatives;
- (b) Consumer cooperatives;
- (c) Marketing cooperatives;
- (d) Thrift and credit societies;
- (e) Cooperative banks;
- (f) Cooperative farming societies;
- (g) Cooperative housing societies; and
- (h) Multipurpose cooperatives.

**Advantages of Cooperatives**

1. It is a voluntary organization that can flourish under both the capitalist and socialist economic systems.
2. The management is democratic, based on the 'one man, one vote' precept.
3. The profit are distributed so as to prevent overconcentration of wealth in a few hands. Moreover, the ceiling of 10 per cent on profits enables the remaining surplus to be ploughed back for greater returns.
4. The value of shares of a cooperatives is generally low, enabling even persons of modest means to benefit there from.



5. Cooperatives are non-competitive organizations that aim to lead to overall prosperity, not at the expense of any others.

6. Cooperatives provide a training ground to the people in the important art of self government.

#### **Disadvantages of Cooperatives**

1. The cooperatives may be plagued by a lack of competitive spirit.

2. Cooperatives may fail to mobilize adequate capital for business of a risky nature or that is on a large scale, because the rate of interest offered on capital is limited.

3. The success of a cooperative depends on the loyalty of its members, something that is neither assured nor can be enforced.

4. The management of a cooperative may not be particularly competent, because a cooperative generally offers only low scales of remuneration to officers employed.

5. The cooperative is not a suitable form for organizing all types of economic activities, particularly those on a large scale.

#### **JOINT STOCK COMPANY** —

A joint stock company is an artificial person created by law with a perpetual succession and a common seal. L.T. Lindley has defined it as "an association of many persons who contribute money or money's worth to a common trade or business and who share the profit or loss arising there from."

The capital of a company is divided into a number of shares of equal value. Members of the company, holding one or more shares, are called the company's shareholders.

Chief justice John Marshall has given definition of a company as "an artificial being, invisible, intangible and existing only in contemplation of law; being the mere creature of law it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence; and the most important of which are immortality and individuality." Thus a company is an artificial legal person having an independent legal entity.

#### **Salient Features of a Company**

The distinctive characteristics of a company are as follows :

(i) **Separate Legal Entity** : A company has an existence entirely distinct from and independent of its members

(ii) **Artificial Legal Person** : A company is an artificial person created by law and existing only in the contemplation of law. It is intangible and invisible having no body and no soul.

(iii) **Perpetual Succession** : A company enjoys continuous or uninterrupted existence and its life is not affected by the death, insolvency, lunacy, etc. of its member or directors.



(iv) **Limited Liability** : Liability of the members of a limited company is limited to the value of the shares subscribed to or to the amount of guarantee given by them.

(v) **Common Seal** : A company being an artificial person cannot sign for itself. Therefore, the law provides for the use of common seal as a substitute for its signatures.

(vi) **Transferability of Shares** : The shares of a public limited company are freely transferable. They can be purchased and sold through the stock exchange

(vii) **Separation of Ownership and Management** : The number of members in a public company is generally very large so that all of them or most of them cannot take part in the day management of the company.

(viii) **Incorporated Association of Persons** : A company is an incorporated or registered association of person, one person cannot constitute a company under law.

### TYPE OF COMPANIES

Companies may be classified as follows :

(i) **Chartered Company** : Companies established by the royal charter or under a special order granted by a king or queen. Such a company does not exist now-a-days.

(ii) **Statutory Company** : Such a company is established under a special Act passed by a parliament or by a state legislature as the case may be. The objects and powers of such a company are defined by the act constituting it. Examples- RBI, IDBI, LIC, UTI, etc.

(iii) **Registered Company** : A company registered under the Companies Act is called Registered or Incorporated Company. Such companies are most common in practice. These are classified as :

**Registered companies may be further classified into :**

I. **One Person Company [Section 2(62)]** : One person company is a new concept in India which has been introduced by the Companies Act, 2013. In the old Companies Act, 1956 a minimum of two directors and shareholders were required to form a private limited company. However in case of a one person company, only 1 person is required who can be a shareholder as well as the director.

Section 2(62) of the Companies Act, 2013 defines "One Person Company" that means a company which has only one person as a member.

**The "One Person Company" has following characteristics :**

- (A) OPC is run by an individual but still have a separate legal entity.
- (B) A One Person Company is incorporated as a private limited company.



- (C) It must have only one member at any point of time and may have only one director.
- (D) As per earlier Act the member and nominee should be natural persons, Indian Citizens and resident in India. But now non resident Indian can also incorporate OPC in India. (As per Finance Act, 2021).
- (E) For considering a person as Resident in India a stay in 120 days in India is needed.
- (F) An individual cannot incorporate more than one OPC or become nominee in more than one OPC.
- (G) No minor shall become member or nominee of the One Person Company or hold share with beneficial interest.
- (H) Such company cannot be incorporated or converted into a company under Section-8 of the Companies Act, 2013.
- (I) Such company cannot carry out Non-Banking Financial Investment activities including investment in securities of anybody corporate.
- (J) No such company can convert voluntarily into any kind of company unless 2 years have expired from the date of incorporating, except in cases where capital or turnover threshold limits are reached.
- (K) The Companies Act, 2013, had put some restrictions on maximum paid up capital and turnover of OPC. However, the Finance Act, 2021 has removed the earlier restriction on paid up capital and turnover.
- (L) Letters 'OPC' to be suffixed with the name of One Person companies to distinguish it from other companies.

#### **PROCESS OF INCORPORATION OF ONE PERSON COMPANY**

The process of incorporation of one person company is a very simple one.

First the sole shareholder shall get a Director Identification Number (DIN) as well as Digital Signature Certificate,



Then he should apply for the name of the company.



After that he should get the consent of the nominee in the prescribed forms.



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Then he shall file the consent along with the final incorporation forms with the Memorandum and Articles and other Required Documents.

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After that he shall receive the final incorporation certificated from the register of companies. Now he can commence the business under the name.

After that he shall receive the final incorporation certificate from the register of companies. Now he can commence business under the name. The words "One Person Company" shall be mentioned in brackets below the name of such company, wherever it's name is printed, affixed or engraved.

II. **Private Company** [Section 2(68)] : Private company is defined under Section 2(68) as :

"A company which has a minimum paid-up capital as may be prescribed, and by it's articles :

- (i) restricts the right to transfer its shares;
- (ii) exception case of One Person Company, limits the number of its members to two hundred)not including :
  - (a) Persons who are in the employment of the company; and
  - (b) Persons who, having been formerly in the employment of the company, were the members of the company while in that employment and have continued to be members after the employment ceased; and
- (iii) prohibits any invitation to the public to subscribe for any shares or debentures of the company."

**Note** : The Companies (Amendment) Act, 2015 has amended section 2(68) of the Companies Act, 2013. Now there is no requirement of minimum paid up capital of 1 lakh for a Private Company [w.e.f. 29-5-15].

**Features of private company :**

(i) **Limitation on Number of Membership** : There should be at least two persons to form a private company and the maximum number of members in a private company cannot exceed 200. Where two or more persons hold one or more shares in a company jointly, they shall be treated as a single member.

(ii) **Right of transfer of shares must be Restricted** : A private company is in the nature of a partnership of persons with mutual faith in each other and its articles place absolute restrictions an transfer of shares. The Companies Act does not specify in what manner the right to transfer shares must be restricted. It is probably sufficient if the right is so contained in the articles. The restriction as to transfer of shares must be made applicable in respect of all shareholders. There



cannot be any discrimination. No share can be free from the restrictions.

(iii) **Prohibition in invitation to public to subscribe for shares or debentures or public deposits** : A private company is prohibited from issuing any invitation, oral or written to the public (as opposed to a member of the public) to subscribe for shares or debentures of the company. An offering of shares to the Kith and Kin of a Director is not an invitation to the public to buy shares. Consequently, a private company must raise its capital privately for example, from the members, or a bank or other financial institutions.

(iv) **Name** : A private limited company is required to add the words 'Private Limited' at the end of its name.

(v) **Issue of debentures** : It may be noted that it is only the number of members that is limited to 200. A private company may issue debentures to any number of persons, the only condition being that any invitation to the public to subscribe for debentures is prohibited.

(vi) **Number of directors** : A private company needs to have only 2 directors. It can start its business with only 2 directors.

(vii) **Minimum subscription** : It is the minimum amount of the shares subscribed by the shares otherwise the company cannot commence with its issue process. In case of private company, shares can be allotted without receiving the amount of such minimum subscription.

(viii) **Index of members** : A private company is not required to keep an index of its members, if the number of members is less than 50.

(ix) **Further issue of capital** : Under Section-62, a public company is required to offer shares to its existing shareholders whenever it proposes to increase its subscribed capital. But no such restriction is applicable to a private company. It is free to allot new issues to outsiders.

A private company is compulsorily required to have articles of association. They are necessary, if not for anything else, to embody the restrictions provided in section 2(68). If a private company fails to comply with any of the restrictions contained in the articles, it ceases to be entitled to some of the privileges of a private company.

**III. Public Company [Section 2(71)]** : As per sec. 2(71) a public company means a company which

- (a) Is not a private company
- (b) Has a minimum paid-up capital as may be prescribed;
- (c) Is a private company which is a subsidiary of a public company.

**Note** : As per the Companies (Amendment) Act, 2015, there is no requirement of minimum paid up capital of ₹ 5 lakh for a Public Company (w.e.f. 29/5/15).



It is of the essence of public company that its articles do not contain provisions restricting the number of its members or excluding generally the transfer of its shares to the public or prohibiting any invitation to the public to subscribe for its shares or debentures or acceptance of deposits from persons other than its members, directors or their relatives. Generally speaking, any member of the public may acquire shares in a public company on payment of the share money.

**Features of public companies are :**

(i) **Number of members :** There must be at least seven persons to form a Public Company and there is no maximum limit.

(ii) **Transferability of shares :** The shares of the public company are freely traded at secondary markets and hence are freely transferable.

(iii) **Prospectus :** Public Companies are compulsorily required to file a prospectus or a statement in lieu of prospectus with the Registrar.

(iv) **Number of directors :** Public company is required to have at least 3 directors and a maximum of 15 directors.

(v) **Further issue of shares :** Public Company has to offer the further issue of shares to its existing share holders as right shares.

(vi) **Minimum Subscription :** In case of public companies, shares can't be allotted without receiving the amount of such minimum subscription.

**Companies Limited by Guarantee [Sec. 2(21)] :**

- The liability of a member in these companies is limited to the amount undertaken to be contributed by him at the time of winding up of the company.
- The amount of guarantee is mentioned in the Memorandum of Association.
- Such companies are formed for non-trading purposes such as charity, promotion of sports, science, arts, culture and other charitable purposes.
- These companies may or may not have any share capital.
- If these companies do not have any share capital, the members can be required to pay the amount of guarantee undertaken by them and that too in the event of liquidation. The amount of guarantee is like reserve capital of the company.
- Generally, a company limited by guarantee must use the word 'Limited' or the words 'Private Limited', as the case may be, as the last word or words of its name. However, the Central Government may by a license exempt such a company from using the word 'Limited' or the words 'Private Limited' in its name.



### Advantages of Company

The company form of organization has become very popular in modern business; it has several advantages :

1. **Limited Liability** : Share holders of a company are liable only to the extent of the face value of shares held by them.
2. **Large Financial Resources** : Company form of ownership enables the collection of huge financial resources. The capital of a company is divided into shares of small denomination so that people with small means can also buy them.
3. **Continuity** : A company enjoys uninterrupted business life. As a body corporate, it continues to exist even if all members die or desert it.
4. **Transferability of Shares** : A member of public limited company can freely transfer his shares without the consent of other members.
5. **Professional Management** : Due to its large financial resources and continuity, a company can avail of the services of expert professional managers.
6. **Scope for growth and expansion** : There is considerable scope for expansion of business in a company because of its vast financial and managerial resources and limited liability.

### Disadvantages of Company

1. **Difficulty of Formation** : It is very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of companies. Services of experts are required. This is a time consuming process.
2. **Excessive Government Control** : a company is subject to elaborate statutory regulation in its day-to-day operations. Periodical reports, audit and publications of accounts is obligatory.
3. **Lack of Motivation and Personal Touch** : there is a divorce between ownership and management in large company. The affairs of the company are managed by the professional manager who does not have a personal involvement and stake in the company. It results in lack of initiative and responsibility.
4. **Oligarchic Management** : In theory, the management of a company is supposed to be democratic but in actual practice company becomes an Oligarchy (rule by few). It is managed by a small number of people.
5. **Delay in Decision** : too many levels of management in a company result in red-tape and bureaucracy. A lot of time is wasted in calling and holding meeting and in passing resolutions.



### FORMATION OF A JOINT STOCK COMPANY

Any seven or more persons (two or more in the case of a private company) who are associated together for any lawful purpose may form a company. Before a company can be registered, the approval for its proposed name has to be acquired from the registrar of companies. After this has been received, the following documents need to be filed with the registrar, along with the required fees :

1. Memorandum of association.
2. Articles of association.
3. A list of persons who have consented to function as directors of the company.
4. The proposed directors' written consent to act as directors.
5. The directors' written consent to purchase and pay for the qualification shares.
6. A statement pertaining to the nominal capital. If the capital is in excess of ₹ 25 lakh, the sanction of the controller of capital issues is to be obtained and submitted to the Registrar.
7. A statutory declaration stating that all the legal requirements of the act have been duly complied with.

The Registrar, upon scrutiny of the documents and finding them to be in order, will register the company and issue a certificate of Incorporation. This certificate is evidence of the fact of the company having been duly registered.

A private company may commence business immediately after receiving the certificate of incorporation. But a public company can do so only after obtaining a certificate of commencement of business from the registrar. For obtaining this certificate, the following additional documents require to be filed with the registrar.

1. A declaration that every director has paid in cash for his shares.
2. A declaration that shares payable in cash have been allotted to the extent of the minimum subscription.
3. A declaration that no money remains refundable to the applicants of shares.
4. A statutory declaration by a director that the above mentioned requirements have been complied with.

After the company is incorporated, the next stage is to raise the necessary capital from the public. A private company and a public company without share capital can commence business immediately after incorporation. But a public company having share capital has to complete the formalities of subscription and commencement of business.



**Joint ventures** — (6)

Joint venture is a very common strategy of entering the foreign market. Joint venture may be in the following ways :

1. Sharing of ownership and management is an enterprise
2. Licensing/franchising agreements
3. Contract manufacturing
4. Management contracts.

A joint ownership venture may be brought about by a foreign investor buying an interest in a local company, a local firm acquiring an interest in an existing foreign firm or by both the foreign and local entrepreneurs jointly training a new enterprise.

A licensing agreement may also be one of cross licensing, where there is a mutual exchange of knowledge and/or patents. In cross licensing, a cash payment may or may not be involved. Franchising is a form of licensing in which a parent company (the franchiser) grants another independent entity (the franchisee) the right to do business in a prescribed manner. This right can take the form of selling the franchisor's products. Using its name, production and marketing techniques, or general business approach.

Under contract manufacturing a company doing international marketing contracts with firms in foreign countries to manufacture or assemble the products while retaining the responsibility of marketing the product.

In management contract the supplier brings together the supplier brings together a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership.

**TRUSTS** — (7)

A trust is an arrangement whereby property (including real, tangible and intangible) is managed by one person or persons or organizations for the benefit of another. The trust is governed by the terms of the trust document. The trust is created by "trustor" and trustee who manages the trust. The trustee is obliged to administer the trust as per the terms of the trust document and governing law. Trust agreement involves three parties. They are;

1. Trust maker or settler or grantor
2. Trustee
3. Beneficiary.

**Nonprofit organizations**

Non Profit Organization that do not seek to earn profit as a goal, but are permitted to do so, if profits are left with the organization. NPO and Non Government Organizations (NGOs) are part of the country's NGO sector like trust established under the Indian trust act 1882, charitable trust constituted under the charitable endowments



act, 1920, societies formed under the societies registration act, 1860, and companies formed under Section 8 of the Companies Act, 2013.

An NPO may be defined as a association having a definite cultural, educational, economic, religious or social program registered with the central govt. A World Bank key document, working with NGOs has a broader usage; the term NGO can be applied to any nonprofit organization that is entirely or largely independent from government and exist to serve humanitarian, social or cultural interest, either of their membership or of society as a whole, using charitable donations and voluntary service. NPOs fill certain needs of society that are not provided for by the to basic institutions – govt. and business.

NPOs must, by law, keep all surpluses in the organization; there can be no distribution to its members. These organization come into being when a group of individuals join together to achieve a common objective. The main sources of receipts for NPOs in India are self generated funds, loans, grants and donations. India has one of the largest nonprofit sector in the world there are no pre registration formalities for receiving contributions from local sources other than those required under the income tax act, 1961. However, contributions to NPOs or NGOs from overseas are governed by Foreign Contribution (Regulation) Act, 1976 and FEMA Act.

### **BUSINESS EXAMPLES IN DIFFERENT SECTORS OF THE ECONOMY**

The term economy denotes the operations and management of the economic system—the activities related to the production of goods and services, consumption, investment, exchange of goods and services within the country and exports and imports with rest of the world. The three sectors of the economy are the primary sector, the secondary sector and the tertiary sector. The primary sector includes activities such as agriculture, forestry and logging and fishing. The secondary sector includes mining and quarrying, manufacturing, electricity, gas and water supply and construction. The tertiary sector includes trade, hotels and restaurants, transport, storage, communication, banking and insurance, real estate, and public administration. The tertiary activities are also called service activities.

#### **Primary Sector : Agriculture**

Agriculture dominates the Indian economy to such an extent that about two-thirds of India's workforce is directly engaged in agriculture for its livelihood. Indian agriculture has been the source of supply of raw materials to our leading industries. The cotton and jute textile industries, sugar, vanaspati and plantations all these depend on agriculture directly. Many of our small-scale and cottage industries like handloom weaving, oil crushing, rice husking, and so on depend upon agriculture for their raw materials.



The role of agriculture in the development of an economy is discussed below.

1. **Contribution to national income** : The leading industrialized countries of today were ones predominantly agriculture, while developing economies are still dominated by agriculture. It contributes greatly to the national income.

2. **Major source of livelihood** : Agriculture has been and is still a major source of livelihood in India. Population is absorbed by this sector.

3. **Source of foreign exchange** : Most developing countries are exporters of primary products.

4. **Source of food and supply** : Agriculture is the source of food supply for all countries.

5. **Extension of market for industrial product** : As a result of agricultural progress, there will be extension of the market for industrial products, as the purchasing ability of those involved in agriculture will increase.

6. Improving the living standards of rural masses.

7. It facilitates the infrastructure development.

8. Helpful in phasing out economic recession.

### **Secondary Sector : Manufacturing**

Manufacturing refers to the business or industry of producing those that are concerned with the conversion of raw materials into finished goods. Manufacturing industries may be divided into four types - analytical, synthetic, processing and assembling industries.

Analytical industries analyze and separate different elements from the starting material. For example, in oil refineries, crude oil is analysed and separated into several products such as petrol, diesel and lubricating oil.

In synthetic manufacturing, two or more materials are combined to form a new product, as in the case of cement. In processing industries, a raw material is taken through various stages to make the final product, as in case of cotton cloth.

In assembling industries, manufactured components are assembled together mechanically or chemically to make a new product, as in case of watches and computers.

The composition of the Gross Domestic Product of an economy explains the relative strength of the different economic sectors. When a country is in a state of underdevelopment, the primary sector makes the largest contribution to the national income. As the economy develops, the contribution of the industrial (manufacturing) and services sectors gradually increases. The secondary sector of the economy is composed



of mining, manufacturing, electricity, gas and water supply and construction. Manufacturing is further sub-divided into the registered and unregistered sectors. Registered manufacturing refers to factories and the organized sector, and includes all factories using power and employing ten or more workers, or factories not using power and employing 20 or more workers. All other types of manufacturing fall under the unregistered category. Registered manufacturing has been grown at a consistently faster rate than unregistered manufacturing and today accounts for nearly two-thirds of India manufacturing output.

### **Tertiary Sector**

The tertiary sector consists of service-related economic activities such as banking and insurance, which provide a service rather than a manufactured end-product.

### **Trading**

Trade refers to the sale, transfer or exchange of goods and services for a certain price. Trading helps in making the goods produced available to the ultimate consumers and users. Persons who are engaged in trade are called 'traders' or 'middleman (also called international trade or foreign trade). Internal trade refers to buying and selling of goods and services within the country. This may further be divided into wholesale and retail trade.

Wholesale trade refers to buying of goods in bulk from manufacturers and selling them directly to the ultimate consumers. Those engaged in retail trade are called retailers.

External trade consists of the exchange of goods and services between individuals and organizations operating in two or more countries. It consists of export trade, import trade and entrepot trade. Export trade involves the selling of goods and services to other countries. Import

trade involves the buying of goods and services from other countries. Entrepot trade means goods from one or more countries with the purpose of exporting them to some other country or countries. Singapore, Hong Kong and South Korea are important entrepot trade centres.

Activities that assist or support trade are known as auxiliaries to trade. These activities are referred to as services because they facilitate activities related to business. Transport and communication, banking and insurance, warehousing, and advertising are regarded as auxiliaries to trade.

1. **Transport and communication.** Transportation is concerned with the movement of goods and passengers. Communication services such as postal services, telephone, and others are necessary so that producers, traders and consumers may exchange information with one another.



2. **Banking and finance.** Banks and other financial institutions remove financial hindrances by providing funds to undertake various activities. Commercial banks generally lend money by providing overdraft and cash credit facilities, loans and advances. Banks also provide agency services like collection of cheques, bills or promissory notes, remittances of money and so on. Banks also provide general utility services like issue of letter of credit, locker facility, and credit card facility.

3. **Insurance.** Business involves several types of risks due to fire, theft, accident and so on. Insurance removes the hindrance of risks. There are various types of insurance, such as life insurance, fire insurance, marine insurance, crop insurance, and so on. On payment of nominal premium for the relevant insurance policy, the amount of loss or damage and compensation for injury, if any, can be recovered from the insurance company.

4. **Warehousing.** This refers to the function of preserving goods from the time they are produced to the time they are consumed. It helps the businesses to overcome the problem of storage and creates time utility by providing the goods when needed.

5. **Advertising.** Advertising is any form of non-personal presentation and promotion of ideas, goods, and services by an identified sponsor. It removes the hindrance of knowledge by communicative information about the products to prospective consumer.

### **Hospitality Industry**

The hospitality industry refers primarily to organization that provide lodging or accommodations and food services for people when they are away from homes. It includes traditional accommodations like hotels, motels and guest houses; food services like restaurants; theaters; recreational parks; and other entertainment establishments. Hotels and motels constitute the largest sector of accommodation. Motels are similar to hotels, but more specifically, are roadside hotels with parking space to accommodate travelling tourists.

### **Tourism and Travel**

The United Nations World Tourism Organization (UNWTO) defines tourism as 'the activities of person travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purpose not related to the exercise of an activity remunerated from within the place visited.'

Tourism is a pleasure activity in which money earned in one's normal domicile is spent in places visited. It is a unique activity because it involves industry without smoke, education without classroom, integration without legislation, diplomacy without formality. Often the various components of travel, such as food and



accommodation, transportation and attractions are combined and sold as package tour by travel agents.

### Recreation

Recreation refers to activities engaged in during leisure time. It can be home based, like watching TV, reading and gardening; daily leisure can involve day trips and to cinema, theaters, restaurants, or calling on friends; weekend leisure can involve day trips and picnics, and tourism, which involves temporary movement to a location where one does not normally reside. The recreation industry generates millions of jobs in the manufacturing, sales and service sectors.

### Adventure sport

Many outdoor recreation activities are sports related and have been classified adventure travel. These are a package of recreation, enjoyment, education and the thrill of participating in an adventure. There has been an increasing participation in a wide variety of sporting activities such as mountaineering, hiking, wall climbing, rock climbing, trekking, sailing, golf, alpine skiing, water skiing, hunting, motor car racing, parachuting, skydiving, and water sports, which are especially popular in Kerala and other coastal states.

### Healthcare

Health is the state of perfect physical, social and mental well-being. The health status of population is now considered an important indicator of development, and health is increasingly being seen as a development issue, rather than just a medical problem. Health services have a major influence on the well-being of individuals and societies and are an important parts of a nations politics and economy. The countries has traditionally identified with the provision of primary health care. The state is responsible for establishing well-equipped Primary Health Centers (PHCs) throughout the countries for the benefit of public at large.

### Education

The modern concept of education is considered to be a tool for development of individual and society. According to the Indian Education Commission, 1964-66, (Kothari Commission), education is a powerful instrument of social, economic and cultural transformation and upliftment.

At present, India's world-class institution of higher education are mainly limited to the Indian Institute of Technology (IITs), the Indian Institute of Management (IIMs), and a few others such as Indian Institute of Science (IISc), All India Institute of Medical Science (AIIMS) and the Tata Institute of Fundamental Research.

Higher Education in India has evolved in divergent and district streams with each stream monitored by an apex body under control of Ministry of Human Resource Development.

*National Study Centre*



**Business Process Outsourcing**

Outsourcing implies obtaining goods and services by contract from an outside source. Business Process Outsourcing (BPO) occurs when a host country producer prefers to get a job fully or partly done by a producer in a foreign country.

The BPO services in India at present are largely related to customer services, payment processing, advertising services, courier services, transcription services, translation services and finance and accounting services. Today some of the host segments in BPO are legal outsourcing, engineering and design services and research and analytics services.