



1.1 Understanding, Applying, Analysing, Evaluating and Creating Based Questions (with answers)

CASE PROBLEM-1

Q.1 All the four children of Mr. Madan Mohan Lal are doctors. Shyam is a skin specialist, Krishna is a heart specialist, Radhika is a child specialist and Gauri is a physician. Dr. Shyam joined a multi-speciality private hospital. Dr. Krishna established his own nursing home. Dr. Radhika works in a government hospital and also treats the poor people free of cost in a charitable dispensary. Dr. Gauri opened a medical store wherein she sells genuine medicines, getting the minimum profit margin.

- (a) State, giving reasons, whether they are engaged in economic or non-economic activities.
(b) Also explain in which form of the economic activities and non-economic activities they have been engaged. **4 marks**

Ans. (a) All the four children of Mr. Madan Mohan Lal – Shyam, Krishna, Radhika and Gauri have been engaged in economic activities. However, Dr. Radhika is also engaged in a non-economic activity of social welfare since she treats the poor people free of cost in a charitable dispensary.
(b) Dr. Shyam, who has joined a multi-speciality private hospital, is in employment. Similarly, Dr. Radhika, who works in a government hospital, is also in employment.
Dr. Krishna, who has established his own nursing home, is in profession.
Dr. Gauri, who has opened a medical store is in business.

CASE PROBLEM-2

Q.2. After completing their graduation, Salman and Ram decided to set up a flour mill to earn income. Their main job is to purchase wheat from the market and have ground it into flour. Their flour is available in the packets of 5 kg, 10 kg and 20 kg. They sell these under the brand name 'Desh ka Atta', and earn a reasonable profit of 10% on cost. They worked very hard to flourish the business on a regular basis, and hence in no time their brand became very popular in the market. The main reasons for the success of their business are superior quality and low price. Their business was running very well. But one day, the flour mill caught fire, and as a result they had to suffer a heavy loss. However, Salman and Ram did not lose their heart, and worked even harder. Gradually, their business was back to normal. Now, they are fully satisfied with their business.

Quoting the lines from the above para, explain any four characteristics of business. **6 marks**

Ans. Characteristics of business:

(i) An economic activity

"After completing their graduation, Salman and Ram decided to set up a flour mill to earn income."

Business is considered to be an economic activity because it is undertaken with the object of earning money or livelihood.

(ii) Profit earning

"They sold these under the brand name 'Desh ka Atta' and earn a reasonable profit of 10% on cost."

One of the main purposes of business is to earn money by way of profits. Profit is essential to cover costs and risks of the business. Every business must earn a reasonable profit to survive and grow.

(iii) Dealings in goods and services on a regular basis

"They worked very hard to flourish the business on a regular basis ..."

Business involves dealings in goods or services on a regular or daily basis. One single transaction of sale or purchase does not constitute business.

(iv) Element of risk

"..., the flour mill caught fire, and as a result they had to suffer a heavy loss."

Risk implies the uncertainty of reward or the possibility of loss. There is always some element of risk involved in business, e.g., fire, theft, accidents, etc.



1.2 Understanding, Applying, Analysing, Evaluating and Creating Based Questions (with answers)

CASE PROBLEM-1

Q.1. Shreya and Vrinda joined together and established a partnership firm dealing in electronic goods. Each one of them looks after one particular department. They had made it certain that every Saturday they would hold a meeting and share the information on the activities of their respective departments. In one of their meetings, they discuss about some key areas on which they should focus their attention. Shreya says, "we should focus on increasing the number of products and profits." On the other hand, Vrinda says, "we should keep clear of the anti-social activities like adulteration, hoarding and profiteering, and contribute to the benefits of the society like opening charitable dispensary, educational institution, etc.

What are the objectives of business Shreya and Vrinda focusing on? Explain.

6 marks

Ans. Shreya is focusing on 'Economic Objectives' of business.

Economic objectives of business are centred around the personal profit of the business and are based on one slogan 'to earn maximum profits'.

- (i) Profit earning: Business activities are undertaken primarily to earn profit, which is the excess of income over expenses. Every business must earn a reasonable profit to survive and grow. A business cannot survive without making profits. Indeed, profit is a measure of the success in business. Profit is essential for covering costs and risks of the business.
- (ii) Growth: Every business needs to add to its prospects in the long run. For this it is important for business to grow. Management must exploit fully the growth potential of the organisation. Indicators of growth of a business are — (a) increase in sales turnover, (b) increase in the number of products and employees, etc.

On the other hand, Vrinda is focusing on "Social Objectives" of business.

Social objectives of business are centred around the interests of society and based on the slogan of 'social welfare'. It is necessary that business should also pursue certain objectives desired by the people of the society because business is an integral part of society.

- (i) Avoidance of anti-social and unfair trade practices: A businessman should avoid hoarding, black-marketing, over-charging, misleading advertisements, etc. Such unfair practices may destroy the goodwill and image of the business and may be punishable also.
- (ii) Community service: Large business units should undertake community services like setting up charitable dispensaries, schools, etc.

CASE PROBLEM-2

Q.2. Manjeet Pvt. Ltd. is a reputed company manufacturing computers. The company is earning a considerable profit. Both the proprietors and the employees are putting their best efforts to make good quality products available to the customers at a low price, paying its shareholders a good amount of dividends and the employees a reasonable remuneration. This contributes to the successful operations of the business. With increased profits over time, the company's foundation becomes strong, and it earns a good reputation in the society. It utilises its profits to finance its growth and expansion requirements.

Explain the role of profit in business of Manjeet Pvt. Ltd. by quoting the lines from the above para.

6 marks

Ans. Role of profit in business of Manjeet Pvt. Ltd.:

- (i) Source of income

"... paying its shareholders a good amount of dividends and the employees a reasonable remuneration."

As a source of income for the businessmen, profits provide the means of livelihood for them.

(ii) Indication of efficient working of business

"This contributes to the successful operations of the business."

Profits indicate whether a business is being managed efficiently or not. It is a measure of performance and success of a business.

(iii) Builds up reputation of business

"With increased profits over time, the company's foundation become strong, and it earns a good reputation in the society."

With increasing profits over time, a business earns reputation. It is able to raise loans and obtain credit more easily. It is in a better position to pay higher wages and salaries to its employees.

(iv) Source of funds for meeting expansion requirements

"It utilises its profits to finance its growth and expansion requirements."

Profits can be a source of finance for meeting growth and expansion requirements of business.

CASE PROBLEM-3

Q.3. Ganga Ltd. is a popular company manufacturing water coolers. Its product is very much liked by people in the market. The traders are in a race to become the company's distributors. The company had been earning huge profits for many years. However, in the year 2018, the company's half yearly report shows a great decline in the company's profit. The top management is worried about this. A team of specialists from outside is appointed to solve this serious problem. After a thorough examination, the specialists presented the following reasons for the decline in the profits of the company.

(i) Increase in competition and change in taste of the consumers.

(ii) Theft of cash and goods by the employees.

Identify and explain the two causes of decline in profits.

3 marks

Ans. Two causes of decline in profits:

(i) Economic causes: *"Increase in competition and change in taste of the consumers."*

Economic causes such as fluctuations in demand and prices, competition, change in technology or method of production, etc. may also result in losses.

(ii) Human causes: *"Theft of cash and goods by the employees."*

Human causes of business include carelessness or negligence of employees, theft, strikes, riots, misappropriation of cash and goods, etc



1.3 Understanding, Applying, Analysing, Evaluating and Creating Based Questions (with answers)

CASE PROBLEM-1

Q.1. Geeta Industries Pvt. Ltd. is a large company which produces agricultural products like sugarcane, cotton, etc. Instead of selling these agricultural products in the market, the company uses these as raw materials to produce sugar and cloth in its own established sugar mill and cloth mill at some rural area where there was a high unemployment. In this way, the company provided employment to about 200 local people. To which type and sub-type of industries are related the different products described in the above para? Explain. 4 marks

Ans. (i) **Sugarcane and cotton – Extractive industries (Primary industries)**

Primary industries are connected with the extraction and production of natural resources, and reproduction and development of living organisms, plants, etc.

Extractive industries extract or draw out various products from natural resources such as earth, soil, water, etc. Farming, mining, fishing, hunting, lumbering, oil extraction, etc. are examples of extractive industries.

(ii) **Sugar and cloth – Processing industries (Secondary industries)**

Secondary industries are concerned with using the materials extracted at the primary stage to produce goods for final consumption or for further processing by other industrial units.

Processing industries are manufacturing industries which involve successive stages for manufacturing finished products (e.g., sugar, cloth, paper, etc.).

CASE PROBLEM-2

Q.2. Farhan, a young man, wants to provide employment to the local people of his village. He decided to do the wholesale business of mobile phones made by the latest technique. But so many questions began to crop up in his mind: how will the goods be brought from distant places, how will the finance be arranged, and how will the information on his modern business be conveyed to the people? He consulted a business expert, Mr. Balram who gave him information on the auxiliaries to trade, which could solve his problem. Farhan understood what the expert told him. He employed 50 workers and started his business.

(a) Which economic activity is Farhan going to do?

(b) On which part of business was the information given to Farhan by the business expert?

(c) If we add the answer of (a) to the answer of (b) which part of business shall we have?

(d) Explain the auxiliaries to trade which may solve the problem of Farhan, as suggested by the business expert. 6 marks

Ans. (a) Trade, which refers to buying and selling of goods and services with the objective of earning profit.

(b) Auxiliaries to trade – activities which are meant for assisting trade, i.e., services.

- (c) Commerce, which includes all those activities which are necessary for facilitating the exchange of goods and services. (Commerce = Trade + Auxiliaries to trade)
- (d) (i) Transportation removes hindrance of place by moving goods from the places of production to the markets for sale.
- (ii) Banking removes hindrance of finance by providing funds to a businessman for acquiring assets, purchasing raw materials and meeting other expenses.
- (iii) Advertising removes hindrance of information by informing consumers about the goods and services available in the market.

CASE PROBLEM-3

Q.3. MVT Construction Pvt. Ltd. deals in constructing building, bridges, roads and dams by using cement, steel, bricks and wood. There are 1000 employees in all working in this company. The managing director of the company, Mr. Shyamsundar, takes full care of the quality of work done. Recently, the company got a contract of constructing five big buildings, two bridges, one long road and one dam. The company has got a special division also, which owns one hundred trucks. These trucks are used for transporting goods on hire. This division is working quite successfully under the supervision of the divisional manager, Radhika Dasi.

Identify and state two types of industrial activities from the above para by quoting the lines. **3 marks**

Ans. (i) "MVT Construction Pvt. Ltd. deals in constructing building, bridges, roads and dams by using cement, steel, bricks and wood."

Secondary industries - These industries are concerned with using the materials extracted at the primary stage to produce goods for final consumption or for further processing by other industrial units.

(ii) "The company has got a special division also, which owns one hundred trucks."

Tertiary or service industries - These industries provide services facilities. It includes transport, communication, banking, insurance, warehousing, advertising, etc.

CASE PROBLEM-4

Q.4. Dr. Rajiv Mishra is working against the post of a senior doctor in a government hospital. He does not discriminate between the rich and poor while treating his patients medically. When he returns home from the hospital, he attends to the poor patients at home free of cost between 6 pm to 8 pm. Besides, he gives them the information about the employment opportunities. He advises many young people to go into the fields of advertising and transportation. They went into these fields and remarkably succeeded there.

- (i) What type of activities does Dr. Rajiv Mishra perform in the hospital and at home?
- (ii) Explain the auxiliaries to trade mentioned in the above para.

Ans. (i) Working in a government hospital - An economic activity. **4 marks**

Attending to the poor patients at home free of cost - A non-economic activity.

(ii) (a) Transportation: Transport (road, rail or coastal shipping) facilitates movement of raw materials to the place of production, and the finished goods from factories to the place of consumption. Transportation makes for speed and efficiency in exchange. It is because of transportation that a producer can sell his goods in different parts of the world. It creates place utility.

(b) Advertising: Advertising brings goods and services to the knowledge of prospective buyers. With the help of such knowledge, consumers can obtain better value for their money. Thus, advertising helps to promote the sale of products like electronic goods, automobiles, soaps and detergents, etc. by providing information about them.



2.1 Understanding, Applying, Analysing, Evaluating and Creating Based Questions (with answers)

CASE PROBLEM-1

Q.1 Radhika Priya Dasi opened a boutique along with four workers. No problem of any type was faced in opening the boutique. At her boutique special dresses made for marriages and parties are sold. Despite there being a lot of competition in the market, the boutique was earning a good profit. Since all the profit went into her pocket, Radhika Priya Dasi was getting inspired to work with great efficiency. With the increase in workload, the number of workers was increased from 4 to 6 by her. All of them were happy since the business was running successfully. Unfortunately, one day the boutique caught fire due to a short circuit. Consequently, Radhika Priya Dasi had to suffer a heavy loss. The circumstances deteriorated so much that she had to dispose off her personal properties to repay the boutique's debts. In order to revive the boutique, she approached a bank which did not extend a long-term loan to her.

- (a) Identify the form of business organisation discussed in the above para.
- (b) Explain any three merits of the form of business organisation identified in (a) by quoting the lines from the above para.
- (c) Also explain any two limitations of the form of business organisation identified in (a) by quoting the lines from the above para. 6 marks

Ans. (a) The form of business organisation of Radhika Priya Dasi's boutique is 'Sole Proprietorship'.

- (b) (i) Ease of formation
"No problem of any type was faced in opening the boutique."
 Hardly any legal formalities are required to start a sole proprietary business.
- (ii) Direct incentive
"Since all the profit went into her pocket, Radhika Priya Dasi was getting inspired to work with great efficiency."
 A sole proprietor directly gets the benefits of his efforts as he is the sole recipient of all the profits.
- (iii) Flexibility of operations
"With the increase in workload, the number of workers was increased from 4 to 6 by her."
 In a proprietorship business, all decisions are taken by a single person. There are no delays and the business can quickly adapt itself to the changing environment. This provides flexibility to the business.
- (c) (i) Unlimited liability
"The circumstances deteriorated so much that she had to dispose off her personal properties to repay the boutique's debts."
 Sole proprietors have unlimited liability. In the case of business losses, if the business assets are not sufficient to meet all business liabilities, the proprietor may have to sell his personal property to pay off the liabilities.
- (ii) Limited resources
"In order to revive the boutique, she approached a bank which did not extend a long-term loan to her."
 Resources of a sole proprietor are limited to his/her personal savings and borrowings from others. Banks and other lending institutions may hesitate to extend a long-term loan to a sole proprietor.

CASE PROBLEM-2

Q.2. Gopal Sharma and Balram Sharma are two brothers, who inherited some ancestral property. They decided to form a Hindu Undivided Family (HUF) business consisting of four male members. Gopal Sharma is the elder brother. So he became 'Karta'. The business took a loan of ₹ 20 lakh from Punjab National Bank having maturity period of 5 years. Due to poor financial position of the business, they

were unable to repay the loan. They sold the ancestral property for ₹10 lakh and paid the same to Punjab National Bank. They could not pay the balance amount of loan with interest. The bank filed a case for recovery of the balance amount. Gopal Sharma pleaded the court that the loan was taken for the purpose of business, therefore, all the members of the business were liable to repay the loan. The court held that all other members were responsible only to the extent of their share in business, and the business property was already sold. However, Gopal Sharma, being 'Karta' would have to repay the balance amount even by selling his personal properties. Gopal Sharma had to sell some of his personal assets to repay the balance amount of bank loan.

(a) Is the court's decision justified? Give reasons in support of your answer.

3 marks

(b) State any three other features of HUF businesses.

Ans. (a) Yes, the court's decision is justified because in a Hindu Undivided Family (HUF) business, 'Karta' has unlimited liability, whereas the liability of all other members is limited to their share in the property of the business.

(b) Features:

- (i) Membership by Birth: Membership of the Joint Hindu Family Business is automatic by birth.
- (ii) No Maximum Limit: There is no restriction on the number of co-parceners of the HUF business. However, only three successive generations can be members in the business.
- (iii) Formation: There should be at least two members and ancestral property to form a Joint Hindu Family Business. It is not created by an agreement between persons.

CASE PROBLEM-3

Q. 3. A group of people in a locality of Delhi used to go for a walk in the morning. After the walk, they would often sit together and discuss the subjects like Politics, Demonetisation, Elections, Market prices of different goods, etc. There were about fifty persons in this group. One day, instead of other subjects, their focus of discussion was 'Market Prices of Different Goods'. During the discussion, the emphasis laid on the point was that goods become very costly by the time they reach the consumers after getting transported from the producers. Consequently, everyone's budget is getting disturbed. To get rid of this problem some people suggested that they should join together to form a society. The society would sell the goods to all the members as per their requirements after buying them in a large quantity directly from the producers. This suggestion was appreciated by all of them. They all became members of the society and encouraged other people also to become its members. In no time, 100 members assembled and the society was formed. The idea of forming the society immediately proved to be successful. Now their budget became balanced. A special characteristic of this society was that apart from its members it also sold goods to the other people of the society at cheaper rates. All of them were very happy with the formation of the society.

(a) Identify and explain the type of the society formed by them.

(b) Under what Act, the society must have been formed?

(c) What is the liability of the members of the society so formed?

(d) Explain any one merit of the society so formed?

6 marks

Ans. (a) Consumers' Cooperative Society

Its purpose is to protect the interests of consumers. Consumers desirous of obtaining good quality products at reasonable prices become its members. It purchases goods in bulk directly from the wholesalers and sells goods to the members.

(b) The Cooperative Societies Act, 1912

(c) Limited Liability

The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. The personal assets of the members are safe from being used to repay business debts.

(d) (i) Ease of formation: Any ten adult persons can form a cooperative society. The registration procedure is simple involving a few legal formalities.

(ii) Stable existence: It is a separate legal entity distinct from its members. Death, bankruptcy or insanity of the members do not affect its continuity.

- (iii) Support from government: Government gives all kind of support to cooperative societies in the form of relief in taxation, subsidies and low interest rates on loans. (any one)

CASE PROBLEM-4

Q.4. Shonali Sharma, after completing her MBA, began to help her father, Mr. Shiv Sharma, in his business. The business had a limited capital investment. Shonali wanted to use the modern business techniques in every area of business, namely, purchase, sales, production, finance, etc. In fact, she wanted to implement the methods, which she had learnt in her MBA course, in her father's business. As soon as she started adopting the latest techniques, the workers began to protest and resist the changes. So she became disappointed and left her father's business. She started working in an MNC. Mr. Shiv Sharma was unable to assume the responsibility of all managerial tasks such as purchasing, selling, financing, etc. Good workers started leaving the organisation. The goodwill of the business in the market went on declining. In no time, the liabilities of the business became many times more than the assets. On account of the pressure exerted on him by the creditors, Mr. Shiv Sharma had to repay the debts of the business by disposing off his personal properties.

- (a) Identify the form of business organisation discussed in the above para.
(b) Quoting the relevant lines from the para explain any three limitations of the form of business organisation identified in (a). 4 marks

Ans. (a) Sole proprietorship

- (b) (i) Limited resources

"The business had a limited capital investment."

Resources of a sole proprietor are limited to his/her personal savings and borrowings from others. Banks and other lending institutions may hesitate to extend a long-term loan to a sole proprietor.

- (ii) Limited managerial ability

"Mr. Shiv Sharma was unable to assume the responsibility of all managerial tasks such as purchasing, selling, financing, etc. Good workers started leaving the organisation."

The owner has to assume the responsibility of all managerial tasks such as purchasing, selling, financing, etc. Due to limited resources, he may not be able to employ talented employees.

- (iii) Unlimited liability

"Mr. Shiv Sharma had to the debts of the business by disposing off his personal properties."

Sole proprietors have unlimited liability. In the case of business losses, if the business assets are not sufficient to meet all business liabilities, the proprietor may have to sell his personal property to pay off the liabilities.

CASE PROBLEM-5

Q.5. Rajeev Lochan Das is the only owner of a shirt manufacturing factory. He took a loan of ₹20 lakh from a finance company for expansion of his business. In the beginning his business was running well but later on he started incurring losses and due to continuous losses he was not able to repay the loan. After receiving many reminders from the finance company, Rajeev planned to close the business. He sold all his machines and other assets and realised ₹15 lakh. He requested the finance company to settle the accounts at ₹15 lakh. But the finance company refused, and on his failure to pay the total debt, it filed a case against him in the court. Rajeev gave an argument in the court that he had sold all his business assets, and the loan was taken by him for business, not for his personal use. So the finance company must settle the account at ₹15 lakh. The court did not agree with the argument of Rajeev and gave the decision in favour of the finance company. He was ordered to pay full amount of loan by selling off his personal assets.

- (a) Identify the form of business carried on by Rajeev Lochan Das.
(b) State the feature of the form of business identified in (a) which is considered by the court while giving the judgement.
(c) State why Rajeev's argument was not correct. 3 marks

Ans. (a) Sole Proprietorship

(b) Unlimited Liability

Sole proprietors have unlimited liability. In the case of business losses, if the business assets are not sufficient to meet all business liabilities, the proprietor may have to sell his personal property to pay off the liabilities.

(c) Rajeev's argument was not correct because a sole proprietor does not enjoy separate legal entity.

Q.6. "One man control is best in the world if that one man is big enough to manage everything." Explain the statement. 6 marks

Ans. "One man control is best in the world if that one man is big enough to manage everything" – W.R. Basset.

One man control is best in the world because of the unique advantages of one man businesses.

These **advantages** are as follows:

- (i) It requires less amount of capital.
- (ii) Ease of formation and closure of business.
- (iii) Quick decision making without consulting others.
- (iv) Confidentiality of information.
- (v) A sole proprietor is the sole recipient of all the profits.
- (vi) Flexibility of operations because all decisions are made by a single person.

These advantages are available provided the man is capable of managing everything. In real life such a person does not exist. A person may be a rich engineer but he may lack financial ability. Therefore, one man business suffers from several

limitations:

- (i) Limited financial resources and limited scope for expansion.
- (ii) Limited life of a business concern, depending on the life of the owner.
- (iii) The sole proprietor has unlimited liability.
- (iv) Limited managerial ability

Though sole proprietorship suffers from various shortcomings, many entrepreneurs opt for this form of organisation because of its inherent advantages. It requires less amount of capital. It is best suited for businesses which are carried out on a small scale and where customers demand personalised services.

Q.7. Briefly explain three activities which can be suitably undertaken by cooperative societies. 3 marks

Ans. Following are the activities undertaken by cooperative societies:

- (i) A cooperative society may undertake the construction of houses/flats for its members at lower costs and giving the option of paying in instalments. (Cooperative housing societies)
- (ii) A cooperative society may undertake the provision of easy credit on reasonable terms to the members at low interest rates. (Credit cooperative societies)
- (iii) A cooperative society may undertake the sale of the products of its members at reasonable prices. (Marketing cooperative societies)

Q.8. "Karta is the most active member in a Joint Hindu Family Business. He is too powerful to ruin the business." Comment. 3 marks

Ans. Karta is the most active member in a Joint Hindu Family Business. The right to manage the business vests in Karta alone. He has the implied authority to obtain loans through mortgages, etc. for the purpose of the business. His decisions are binding on other members. Other members have neither any right to manage the affairs of business nor any right to take loans on mortgage of business property.

But if Karta is inefficient and incapable for managing the business, he may ruin the business. The decisions of such a person (Karta) may not be acceptable to other members, which may cause conflicts, resulting in the break-down of the family business.

CASE PROBLEM-2

Q.2. The two friends, Soniya and Raman started a business by the name of 'Soniyo Fancy Dress Shoppy'. Both of them invested equal capital in the business. At the start of the business, Soniya had placed one condition before Raman that if unfortunately they suffered a heavy loss in their business, she would not be able to give anything except the capital invested in the business. Raman had accepted this condition on the terms and condition that Soniya would not enjoy the right to participate in the management of the firm. Their business was gradually growing well and they were fully satisfied with their business.

- (a) To what form of business organisation is concerned the above para?
 (b) Identify and explain the type of the form of organisation identified in (a).

3 marks

Ans. (a) Partnership
 (b) Limited Liability Partnership (LLP) (Explain)

CASE PROBLEM-3

Q.3. Dhruv, Sarthak and Dheeraj are three partners in a firm. The name of the firm is 'Friends Pustak Bhandar'. The latest books of almost all subjects remain available at the Pustak Bhandar. All the three partners decided that 10% of the total profit of the firm would be distributed among the poor children every year. This has a very positive effect on the goodwill of the firm. Dheeraj is a renowned businessman who allowed the use of his name by the firm but does not contribute capital. Sarthak had contributed capital to the firm but does not participate in the management of the firm. Dhruv actively participates in the management and does business on behalf of other partners.

Explain what types of partners Dhruv, Sarthak and Dheeraj are in 'Friends Pustak Bhandar'. **3 marks**

Ans. (i) Dhruv is an active partner.

An active partner is one who contributes capital to the firm and takes actual part in carrying out business of the firm on behalf of other partners. He shares profits and losses of the business. He has unlimited liability to the third parties for the repayments of the firm's debts.

(ii) Sarthak is a sleeping partner.

A sleeping partner contributes capital to the firm but does not participate in the management of the firm. He shares profits and losses of the business. He has unlimited liability.

(iii) Dheeraj is a nominal partner.

A nominal partner is one who allows the use of his name by a firm, but does not contribute capital. He does not take part in management of the firm. He generally does not share profit or losses. He has unlimited liability.

CASE PROBLEM-4

Q.4. Mr. Mukul Gupta contracted with a firm. According to the contract, he has advanced a loan of ₹ 20 lakh to the firm and in exchange he got the power to take a few decisions regarding the firm's business. Besides, he got 9% interest on the loan and 12% of profits earned by the firm.

Is Mr. Mukul Gupta a partner of the firm? Give reasons in support of your answer. **4 marks**

Ans. No, Mr. Mukul Gupta cannot be regarded as a partner of the firm because on the basis of the contract he has been given power to take a few decisions only, whereas to become a partner of the firm, the following additional conditions have to be fulfilled:

- (i) Unlimited liability: The partners of a firm have unlimited liability. Personal assets may be used for repaying debts.
- (ii) Risk bearing: The partners bear the risks involved in running the business. The reward comes in the form of profits which are shared by them in an agreed ratio.
- (iii) Mutual agency: The partnership business can be carried on by all partners or any one of them acting for all. In other words, every partner is both an agent and a principal of other partners.

CASE PROBLEM-5

Q.5. The business assets of a firm are worth ₹ 2,00,000 but the debts remain unpaid are worth ₹ 3,00,000. What course of action can the creditors take in the following cases?

(a) The organisation is a sole proprietorship firm.

(b) The organisation is a partnership firm with A and B, two partners sharing profit equally. **3 marks**

Ans. (a) The creditors may claim from the personal property of the proprietor as he has unlimited liability.

(b) A and B are jointly and individually liable to repay the firm's debts in their profit sharing ratio, i.e., 1:1; and if one of the partners becomes insolvent then the other is liable to repay the whole debt.

Q.6. Compare the status of a minor in a Joint Hindu Family Business with that in a partnership firm. 4 marks

Ans. A minor is a person who has not attained the age of 18 years.

- In a Joint Hindu Family Business, membership is by birth. Therefore, minors can also be members of the business.

The liability of minor is limited to his share in the business. They have to share losses also.

The liability of minor is limited to his share in the business. They have to share losses also.

- In a partnership firm, a minor cannot become a partner because he is not capable of entering into a valid agreement. However, a minor can be admitted to the benefits of an existing partnership firm with the mutual consent of all other partners. He cannot be asked to bear the losses.

Q.7. The owner of a general store wants to open a branch in a nearby town. Will you advise him to take a partner to run the branch store or employ a manager/assistant? Give reasons for your advice. 6 marks

Ans. Since the owner of the general store (sole proprietorship business) wants to expand his business by opening a branch in a nearby town, he may appoint a salaried manager/assistant or may take a partner.

Employment of salaried manager/assistant: Advantages

- Division of work:* The proprietor can delegate duties to the manager/assistant according to his ability and experience. In this way, the burden of work on the proprietor is reduced. He can devote more time and attention on key issues.
- Centralised control and freedom of decision-making:* The proprietor has full control over the business. He is free to decide business policies without any interference from the manager/assistant.
- No profit sharing:* The proprietor is the sole recipient of all profits as the manager/assistant is appointed on salary.

Admitting a partner: Advantages

- More financial resources:* By taking a partner, the problem of capital will be solved.
- Division of work:* Work can be divided among partners according to their skills and experience.
- Joint liability:* Both the partners will be jointly liable to the firm's debts.

Conclusion: The choice between salaried manager/assistant and partner will depend upon the type of assistance required by the owner of the general store.

- If he requires additional capital for the purpose of expansion of business as well as managerial assistance, and is interested in sharing of risk, taking a partner will be a better choice.
- But if he himself can arrange more capital, needs someone to share his managerial duties only and is ready to bear entire risk, then it is better to employ a salaried manager/assistant.