

Important Topics Exposition:

[The important information of this chapter has been provided here at a glance.]

1. Different Types of Business on the Basis of Ownership:

On the basis of ownership business can be classified as the following ways:

- 1) Sole Proprietorship Business
- 2) Partnership Business
- 3) Joint Stock Company
- 4) Cooperative Society
- 5) State Enterprises

2. Concept of Sole Proprietorship Business:

Sole proprietorship is the business formed, operated and controlled by single person. Business in this world started at first on sole ownership. For this reason, this is called the most ancient business firm. Considering the present scenario, we can say that **when a single person out of his own responsibility arranges capital and forms and run business with the objective to earn profit and singly shoulders the profit or loss of the company is called a Sole Proprietorship Business.**

Most of the business organization in our country is formed as sole proprietorship. Not only this, 80% of the business is based on sole proprietorship in Europe and America.

3. Characteristics of Sole Proprietorship Business:

The characteristics of sole proprietorship firm are mentioned below:

- The owner is a single person in sole proprietorship firm who arranges to supply the capital, operates the business and bears the risk.
- Formation of this kind of business is very easy. Since, there is no legal complexity, anyone can form this if he/she wants.
- This sort of business can be formed with less capital. The owner himself supplies the capital. Generally, own savings, if necessary, he/she can borrow from friends, relatives and Banks and operate business.
- In most of the cases, sole proprietorship is of small size. Because of less capital and ownership of a single person, the size of the firm is small.
- In a sole proprietorship firm, the owner has to bear all the risk of the business.
- Sole proprietorship firm does not have a legal entity. Owner and the business are same.
- The owner bears all the responsibilities in this business. Thus, his liability is unlimited. If necessary, one is supposed to sell personal property to meet up the business liability.
- Because of the single ownership of the whole business, the owner enjoys the whole share of profit. On the other hand, he has to bear all the loss singly.
- The existence of sole proprietorship business depends upon the willingness of the owner. Because, to run the business or to close solely depends upon the willingness of the owner.

4. Advantage/merits and disadvantage/demerits of sole proprietorship business:

Advantages of Sole Proprietorship Firm/causes of popularity of sole proprietorship business	Disadvantages/demerits of Sole Proprietorship Firm
<ol style="list-style-type: none">1. Easy formation2. Prompt decision3. Smooth functioning4. Incentives for hard work5. Flexibility in operation6. Maintenance of business secrecy7. Intimate contact with customers8. Inexpensive9. Efficiency in management10. Freedom regarding selection of business11. Minimum government regulation12. Tax advantage13. Better control of business functions14. Healthy relations with employees15. Social responsibility	<ol style="list-style-type: none">1. Unlimited liability and risk2. Limited financial resources3. Limited managerial capability4. Instability of the business5. Uncertainty in purchase and sales6. Weak bargaining power7. Limited scope for employees8. No check and control9. Too much secrecy causes suspicion10. Limited scope for expansion11. Risk of long decision12. Risk of long absence

5. Concept of Partnership Business:

More than one individual together combining their capital and capacity formed a new type of business which is called partnership business. Mainly, the partnership business evolved to eliminate the deficiency of sole proprietorship business.

[In Bangladesh, partnership business is operated under the Partnership Act 1932.](#)

[Generally, when more than one individual willingly comes together to form business on the basis of partnership deed is called partnership business.](#)

As per Partnership Act 1932, 'more than one individual' means minimum two and maximum twenty partners. If the partnership is for banking business, then maximum number of partners should not be more than ten.

Those who builds this type of relation is called "partner" and altogether their business is called partnership business.

6. Concept of Deed of Partnership:

Partnership Business is form with the agreement between two or more people. The agreement can be oral. Or the agreement can be written and registered. It is mandatory to have an agreement to start a partnership business, it does not matter whether the agreement is oral, written, registered and unregistered. For this reason, agreement is treated as the main basis for partnership business.

As per statement from Partnership Act -1932, 'Partnership relation is built from agreement, not from statuses. Written agreement is called Partnership Deed.

[Partnership deed is such evidence that describes the objective of the business, operational guideline, position of each partner, responsibilities, activities and right and specific method to solve potential problem in future.](#)

7. Contents of the Deed of Partnership:

Deed of agreement is treated as the guideline of partnership business. Various important issues are incorporated in the deed to avoid the contradiction among partners and let alone complexities in operational procedure of the business. Generally, the following issues are stated in the deed of agreement:

1. Name and address of the partnership business.
2. Nature of business, objective and scope
3. Expiry or validity of the business
4. Name, address and profession of the partners,
5. Total capital of the firm
6. Capital to be paid by each partner and payment method
7. Rules to run the business
8. Introduction of the partners who will directly run the business
9. Profit & Loss distribution method
10. Responsibilities, power and rights of the partners
11. Name of the bank, Address and nature of account to be opened.
12. Name of the partners to operate the Bank account
13. Guideline to include new partner and exclusion of existing partner.
14. Estimation, reservation and repayment method for share in case of death of a Partner
15. Retirement & dismissal process of partner
16. Solution method for future contradiction
17. Method of dissolution of partnership

8. Advantage/Merits and Disadvantage/ Partnership Business:

Advantages of Partnership Business	Disadvantages of Partnership Business
<ol style="list-style-type: none">1. Simple formation2. Sufficient resources3. Flexibility of operation4. Specialization in management5. Benefits of combined ability6. Prompt and balanced decisions7. Caution for unlimited liability8. Organization9. Protection of minority interest10. Business secrecy11. Close supervision12. Protection to minor partner13. Risk and reward are fairly balanced14. Good personal relations with customers and employees15. Easy dissolution16. Registration	<ol style="list-style-type: none">1. Unlimited liability2. Uncertain continuity3. Limited resources4. Lack of harmony5. Lack of public confidence6. Risk of dishonest co-partners7. Restricted transferability of the partner's interest8. Responsibility after winding up9. Risk of implied authority10. Absence of professional management11. Inability to take quick decision12. Social loss

9. Classification of Partners:

The partners in a partnership firm can select their role in a business considering the various conditions of the business, advantages and disadvantages, duties and responsibilities. The concepts and characteristics of different types of partners are mentioned below:

Different Types of Partners	Concept & Characteristics
1. Ordinary Partner	<ul style="list-style-type: none"> • Partners invest capital in the business and actively participate in the operational activities of the business • Partners have unlimited liabilities • Equally shares the profit and loss as per deed of agreement • Gets remuneration if mentioned in the agreement
2. Sleeping Partner	<ul style="list-style-type: none"> • Partners invest capital into the business • Shares the profit as per agreement • Does not participate actively in the operational activities of the firm having rights though. • Sleeping partner has limited liabilities • Is not liable to any third party for the activities of the business
3. Nominal Partner	<ul style="list-style-type: none"> • Does not invest capital into the business • Does not participate in the business operational activities • Allows to use name/goodwill against profit sharing or in return of particular amount of money as per deed of agreement. • Nominal Partners does not have unlimited liabilities like the ordinary partners • But, if anybody lends money to the firm considering him as a partner and able to prove it, then the partner shall be equally liable like others.
4. Quasi Partner	<ul style="list-style-type: none"> • This type of partner does not withdraw the money invested as capital and retains in the business as a loan • In fact, this sort of partners are the creditors to the business • If, any ordinary partner remains in the business in such a way without publishing notice, then he/she will be liable to the third party for the activities of the business.
5. Limited Partner	<ul style="list-style-type: none"> • If liability of a partner is limited as per deed of agreement or if any minor is taken as partner legitimately to facilitate him with the consent of other partner is called a limited partner. • The liability of such partner is limited to the amount of invested capital. • Does not take part in the business operation • Any major person can also be such partner on the basis of deed of agreement.
6. Partner by Holding Out	<ul style="list-style-type: none"> • When any person introduce himself as the partner of a business verbally, written or in any other manner though he is not a partner, then he is called partner by holding out. • If, anybody being influenced by his attitude; lends money to the business, then such partner shall be liable.

10. Dissolution of Partnership Business:

Partnership business is formed for a particular time period or to complete a specific task. As per Partnership Act 1932, Section 39, dissolution of the relationship among the partner is the dissolution of the partnership business. According to the partnership act dissolution of the partnership business can be in many ways:

1. Dissolution by mutual consent:

According to Section 40 of Partnership Act, all the partners of the firm mutually dissolve the business.

2. Forced Dissolution:

According to Section 41 of Partnership Act, because of the following two reasons forced dissolution can happen:

- a) All but one or one of all the partners become bankrupt or
- b) If the business become anti legal or illegal for any reason.

3. Eventual Dissolution:

According to Section 42 of Partnership Act,

- a) If the specific time of the business ends
- b) If the specific task for which the business started is finished
- c) In case of death of any partner
- d) If any partner is declared bankrupt by the court

4. Dissolution through Notice:

Section 43 of the Partnership Act states that Partnership business can be dissolved through the notice by any partner of his desire to quit the business.

5. Dissolution by the Order form the Court:

Section 44 of the Partnership Act states that for any of the following reasons partnership firm can be dissolved:

- a) if any partner becomes insane,
- b) If a partner becomes incapable forever,
- c) If the trust and faith among the partners are affected by the misdeeds of any partner;
- d) If any partners transfer his share to any third party by violating the terms and condition of the partnership deed.
- e) If the business incurring continuous loss and if it seems impossible to run the business without incurring loss.

The court may order for dissolution for a partnership firm for other logical reasons.

CQs for Self-assessment:

1. Badol was in Singapore for about 12 years. Recently, he has come back home with some money. With the capital, he has established a shop of phone, fax and photocopier. He himself photocopies and directs the business. There are government college and a high school. Due to interesting demand, Badol has purchased a computer and employed a boy to operate it. As a result, his business extends more.
 - a. What is a sole proprietorship business?
 - b. Why sole proprietorship business is so popular?
 - c. What type of business was established by Badol? Narrate its features.
 - d. Evaluate Badol's logic of purchasing a computer and employed a boy for it.

2. Two years ago, Shila, Brishti and Megla started a business named "Sneha Beauty Parlour" in Sylhet city. They became successful in their business in Sylhet city. They wanted to expand their business throughout the country. So, they needed a huge amount of money. For this, they proposed Mrs. Rahman to invest money in their business as a limited partner and she accepted the proposal. After getting money from Mrs. Rahman, they started their business with that capital.
 - a. What do you mean by "Deed of Agreement"?
 - b. Mention some ways of dissolution of partnership business.
 - c. Could any one of them be a partner without investing money? Explain.
 - d. Explain the contribution and the liability of Mrs. Rahman in this business.

3. Three friends Raju, Saju and Reju has established a partnership firm named "Friends and Brothers". "friends and Brothers" organization on the base of mutual understanding they have distributed the profit properly by discussing among them. Last cupel of year the business is running smoothly. Recently Reju has got injured by a road accident and become mad or incense. As a result, the dissolution of that business is incurred.
 - a. What do you mean by Quasi Partner?
 - b. Why does a registered partnership business get more facilities? Explain.
 - c. What type of business organization is of 'Friends and Brothers' on the base of ownership? Explain.
 - d. Analyze the cause of dissolution 'Friends and Brothers' business organization.