UNIVERSITY COLLEGE OF ENGINEERING

THIRUKKUVALAI.

(A Constituent College of Anna University :: Chennai)

NAGAPATTINAM- 610 204.

DEPARTMENT OF CIVIL ENGINEERING

GE1451 ENGINEERING ECONOMICS AND COST ANALYSIS

IMPORTANT QUESTION WITN ANSWER

VOLUME-I

UNIT-IV
PART-A

1.What are the major forms of Organization?

1. Sole Proprietorship,
2. Joint Hindu Family Business,
3. Partnership,
4. Joint Stock Company,
5. Co-operative Society

2. Define State Enterprise.

" Public enterprise means state ownership and operation of industrial, agricultural, financial and commercial undertaking"- A.K.Hansen

3. What is Mixed Economy?

Capitalism has some merits and defects. Socialism has some merits and demerits .If the merits of the two System are Combined by judicious policy there will be greater welfare of the society

4.What are the type of Banks?

- Commercial Bank
- Agricultural Bank
- Foreign Exchange Bank
- Industrial Bank
- Central Bank
- Indigenous Bank

6. Define Commercial Bank?

   " The accepting for the purpose of lending or investment ,deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft order or otherwise"

7. List out any Four functions of Commercial Bank.
   - Acceptance of Deposit
   - Advancing of Loans
   - Investment of funds
   - Purchase and sale of foreign Exchange

8. Write down Functions of Central Bank?
   - Monopoly of Note Issue
   - Banker to the Government
   - Banker's Bank
   - Controller of Credit
   - Open Market Operation
   - Bank Rate
   - Promotional Functions
9. What are the methods of credit control?
   - Open market operations

- Bank Rate policy
- Interest rate policy
- Changes in variable Reserve Ratio
- Selective Credit controls
- Direct Actions
- Moral Suasion

10. List out the objective of Monetary Policy.
    Full employment
    Price stability
    Stimulating economic growth

11. What is Joint Stock Company?
    A Joint Stock Company, form of Business Organization is a voluntary association of persons to carry on business. It is an association of persons who generally contribute money for some common purpose. The money So contributed is the capital of the company the persons who contribute capital are its members

12. What are the Sources of Broad Money?
- Borrowing of the commercial sector from the banking system.
- Government borrowing from the banking sector
- Foreign Assets

13. What are the kinds of money?

Real money- all money issue by government under its authority and issued by bank is real money. It is again classified into money in circulation and money of accounts.
Near money- because of liquidity character besides real money there are other assets and credit instruments which are also highly liquid and they are called near money.

14. What is the bank rate?
The bank rate is called the rediscount rate. It is the rate at which a central bank will rediscount first class bills exchange that is eligible papers presented by the commercial banks.

15. Explain the limitation of monetary policy.
Money market are not properly organized in under developed countries.
There is large non monetized sector, there are many financial institutions operating outside the influence of the monetary authority.

PART-B

1. Explain Characteristics of Sole Proprietorship and the advantages and disadvantages.
   Sole proprietorships
   A sole proprietorship is a business that is run by a single individual who makes all the decisions, although the proprietor may engage employees. The sole proprietor is personally entitled to all of the profits and is responsible for any debts that the company incurs.

   Advantages of forming a sole proprietorship
   Sole proprietorship is the simplest and most flexible business structure.

The sole proprietor has total control and full decision-making power over policies, profits and capital investment. It is easy to close down the business. Profits from the business will be taxed at the sole proprietor's marginal tax rate, which may be lower than the corporate (limited company) tax rate. Also, business losses can be offset against the other income of the proprietor (for more details on profits tax please go to another topic – Taxation).

Disadvantages of forming a sole proprietorship

Risks that are taken by the sole proprietor may result in personal bankruptcy. The death or prolonged illness of the sole proprietor will lead to the end of the business. Due to the limitations of a one-person business, the sole proprietor may not be able to raise additional capital fro outside sources to expand the business.

Characteristics of Sole Proprietorship:

Sole proprietorship form of business organisations have the following characteristics.

i. Single Ownership
ii. No sharing of Profit and Loss
iii.One-man's Capital
iv. One-man Control
v. Unlimited Liability
vi. Less legal formalities

Now we shall discuss each of the characteristics in details.

i. Single Ownership:

A single individual always owns sole proprietorship form of business organization. That individual owns all assets and properties of the busi- ness. Consequently, he alone bears all the risk of the business. Thus, the business of the sole proprietor comes to an end at the will of the owner or upon his death.

ii. No sharing of Profit and Loss :

The entire profit arising out of sole proprietor ship business goes to the sole proprietor. If there is any loss it is also to be borne by the sole proprietor alone. Nobody else shares the profit and loss of the business with the sole proprietor.

iii.One man's Capital :

The capital required by a sole proprietorship form of business organisation is totally arranged by the sole proprietor. He provides it either from his personal resources or by borrowing from friends, relatives, banks or other financial institutions.

iv. One-man Control:

The controlling power in a sole proprietorship business always remains with the owner. The owner or proprietor alone takes all the decisions to run the business. Of course, he is free to consult any body as per hisliking.

v. Unlimited Liability:

The liability of the sole proprietor is unlimited. This implies that, in case of loss the business assets along with the personal properties of the proprietor shall be used to pay the business liabilities.

vi. Less Legal Formalities:

The formation and operation of a sole proprietorshipform of business organisation requires almost no legal formalities. It also does not require to be registered. However, for the purpose of the business and depending on the nature of the business, the sole proprietorship has to have a seal. He may be required to obtain a licence from the local administration or from the health department of the government, whenever necessary

2. Explain different type of Banking.

Type 1. Saving Banks

Saving banks are established to create saving habit among the people. These banks are helpful for salaried people and low income groups. The deposits collected from customers are invested in bonds, securities, etc. At present most of the commercial banks carry the functions of savings banks. Postal department also performs the functions of saving bank.

Type 2. Commercial Banks

Commercial banks are established with an objective to help businessmen. These banks collect money from general public and give short-term loans to businessmen by way of cash credits, overdrafts, etc. Commercial banks provide various services like collecting cheques, bill of exchange, remittance money from one place to another place.

Type 3. Industrial Banks / Development Banks

Industrial / Development banks collect cash by issuing shares & debentures and providing long-term loans to industries. The main objective of these banks is to provide long-term loans for expansion and modernisation of industries.

Type 4. Land Mortgage / Land Development Banks

Land Mortgage or Land Development banks are also known as Agricultural Banks because these are formed to finance agricultural sector. They also help in land development. In India, Government has come forward to assist these banks. The Government has guaranteed the debentures issued by such banks. There is a great risk involved in the financing of agriculture and generally commercial banks do not take much interest in financing agricultural sector.

Type 5. Indigenous Banks

Indigenous banks means Money Lenders and Sahukars. They collect deposits from general public and grant loans to the needy persons out of their own funds as well as from deposits. These indigenous banks are popular in villages and small towns. They perform combined functions of trading and banking activities. Certain well-known indian communities like Marwaries and Multani even today run specialised indigenous banks.

Type 6. Central / Federal / National Bank

Every country of the world has a central bank. In India, Reserve Bank of India, in U.S.A, Federal Reserve and in U.K, Bank of England. These central banks are the bankers of the other banks. They provide specialised functions i.e. issue of paper currency, working as bankers of government, supervising and controlling foreign exchange. A central bank is a non-profit making institution. It does not deal with the public but it deals with other banks. The principal responsibility of Central Bank is thorough control on currency of a country.

Type 7. Co-operative Banks

In India, Co-operative banks are registered under the Co-operative Societies Act, 1912. They generally give credit facilities to small farmers, salaried employees, small-scale industries, etc. Co-operative Banks are available in rural as well as in urban areas. The functions of these banks are just similar to commercial banks.

Type 8. Exchange Banks

Hong Kong Bank, Bank of Tokyo, Bank of America are the examples of Foreign Banks working in India. These banks are mainly concerned with financing foreign trade.

Following are the various functions of Exchange Banks :-

Remitting money from one country to another country,
Discounting of foreign bills,
Buying and Selling Gold and Silver, and
Helping Import and Export Trade.

Type 9. Consumers Banks

Consumers bank is a new addition to the existing type of banks. Such banks are usually found only in advanced countries like U.S.A. and Germany. The main objective of this bank is to give loans to consumers for purchase of the durables like Motor car, television set, washing machine, furniture, etc. The consumers have to repay the loans in easy installments.

3. Explain monetary policy and the Objectives.
   The term monetary policy is also known as the 'credit policy' or called 'RBI's money management policy' in India. How much should be the supply of money in the economy? How much should be the ratio of interest? How much should be the viability of money? etc. Such questions are considered in the monetary policy. From the name itself it is understood that it is related to the demand and the supply of money.

Objectives of Monetary Policy

The objectives of a monetary policy in India are similar to the objectives of its five year plans. In a nutshell planning in India aims at growth, stability and social justice. After the Keynesian revolution in economics, many people accepted significance of monetary policy in attaining following objectives.

1. Rapid Economic Growth
2. Price Stability
3. Exchange Rate Stability
4. Balance of Payments (BOP) Equilibrium
5. Full Employment
6. Neutrality of Money
7. Equal Income Distribution

These are the general objectives which every central bank of a nation tries to attain by employing certain tools (Instruments) of a monetary policy. In India, the RBI has always aimed at the controlled expansion of bank credit and money supply, with special attention to the seasonal needs of a credit.

Let us now see objectives of monetary policy in detail :-

1. Rapid Economic Growth : It is the most important objective of a monetary policy. The monetary policy can influence economic growth by controlling real interest rate and its resultant impact on the investment. If the RBI opts for a cheap or easy credit policy by reducing interest rates, the investment level in the economy can be encouraged. This increased investment can speed up economic growth. Faster economic growth is possible if the monetary policy succeeds in maintaining income and price stability.
2. Price Stability : All the economics suffer from inflation and deflation. It can also be called as Price Instability. Both inflation are harmful to the economy. Thus, the monetary policy having an objective of price stability tries to keep the value of money stable. It helps in reducing the income and wealth inequalities. When the economy suffers from recession the monetary policy should be an 'easy money policy' but when there is inflationary situation there should be a 'dear money policy'.

3. Exchange Rate Stability : Exchange rate is the price of a home currency expressed in terms of any foreign currency. If this exchange rate is very volatile leading to frequent ups and downs in the exchange rate, the international community might lose confidence in our economy. The monetary policy aims at maintaining the relative stability in the exchange rate. The RBI by altering the foreign exchange reserves tries to influence the demand for foreign exchange and tries to maintain the exchange rate stability.
4. Balance of Payments (BOP) Equilibrium : Many developing countries like India suffers from the Disequilibrium in the BOP. The Reserve Bank of India through its monetary policy tries to maintain equilibrium in the balance of payments. The BOP has two aspects i.e. the 'BOP Surplus' and the 'BOP Deficit'. The former reflects an excess money supply in the domestic economy, while the later stands for stringency of money. If the monetary policy succeeds in maintaining monetary equilibrium, then the BOP equilibrium can be achieved.
5. Full Employment : The concept of full employment was much discussed after Keynes's publication of the "General Theory" in 1936. It refers to absence of involuntary unemployment. In simple words 'Full Employment' stands for a situation in which everybody who wants jobs get jobs. However it does not mean that there is a Zero unemployment. In that senses the full employment is never full. Monetary policy can be used for achieving full employment. If the monetary policy is expansionary then credit supply can be encouraged. It could help in creating more jobs in different sector of the economy.
6. Neutrality of Money : Economist such as Wicksted, Robertson have always considered money as a passive factor. According to them, money should play only a role of medium of exchange and not more than that. Therefore, the monetary policy should regulate the supply of money. The change in money supply creates monetary disequilibrium. Thus monetary policy has to regulate the supply of money and neutralize the effect of money expansion. However this objective of a monetary policy is always criticized on the ground that if money supply is kept constant then it would be difficult to attain price stability.
7. Equal Income Distribution : Many economists used to justify the role of the fiscal policy is maintaining economic equality. However in resent years economists have given the opinion that the monetary policy can help and play a supplementary role in attainting an economic equality. monetary policy can make special provisions for the neglect supply such as agriculture, small-scale industries, village industries, etc. and provide them with cheaper credit for longer term. This can prove fruitful for these sectors to come up. Thus in recent period, monetary policy can help in reducing economic inequalities among different sections of society.

4. Bring out the methods of credit control

There are two methods that the RBI uses to control the money supply in the economy-

- Qualitative Method
- Quantitative Method

Qualitative Method

By *Quality* we mean the uses to which bank credit is directed.

For example- the Bank may feel that spectators or the big capitalists are getting a disproportionately large share in the total credit, causing various disturbances and inequality in the economy, while the small-scale industries, consumer goods industries and agriculture are starved of credit.

Tools used under this method are-

Marginal Requirement

Marginal Requirement of loan = current value of security offered for loan-value of loans granted. The marginal requirement is increased for those business activities, the flow of whose credit is to be restricted in the economy.

e.g.- a person mortgages his property worth Rs. 1,00,000 against loan. The bank will give loan of Rs. 80,000 only. The marginal requirement here is 20%.

In case the flow of credit has to be increased, the marginal requirement will be lowered. RBI has been using this method since 1956.

Rationing of credit

Under this method there is a maximum limit to loans and advances that can be made, which the commercial banks cannot exceed. RBI fixes ceiling for specific categories. Such rationing is used for situations when credit flow is to be checked, particularly for speculative activities. Minimum of"Capital:Total Assets" (ratio between capital and total asset) can also be prescribed by Reserve Bank of India

Publicity

RBI uses media for the publicity of its views on the current market condition and its directions that will be required to be implemented by the commercial banks to control the unrest. Though this method is not very successful in developing nations due to high illiteracy existing making it difficult for people to understand such policies and its implications.

Direct Action

Under the banking regulation Act, the central bank has the authority to take strict action against any of the commercial banks that refuses to obey the directions given by Reserve Bank of India. There can be a restriction on advancing of loans imposed by Reserve Bank of India on such banks. e.g. - RBI had put up certain restrictions on the working of the Metropolitan Co-operative Banks. Also the 'Bank of Karad' had to come to an end in 1992.[3]

Moral Suasion

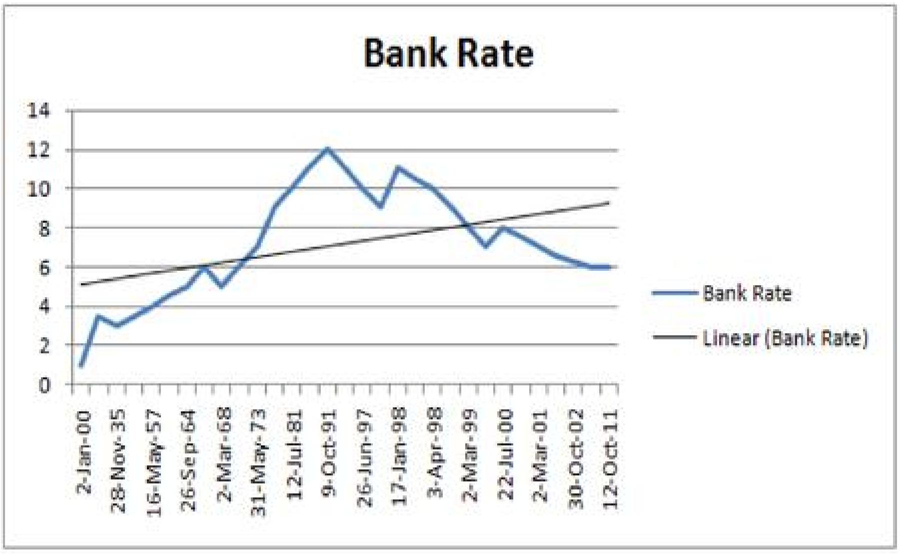
This method is also known as "Moral Persuasion" as the method that the Reserve Bank of India, being the apex bank uses here, is that of persuading the commercial banks to follow its directions/orders on the flow of credit. RBI puts a pressure on the commercial banks to put a ceiling on credit flow during inflation and be liberal in lending during deflation.

Quantitative Method

By Quantitative Credit Control we mean the control of the total *quantity* of credit.

For Example- let us consider that the Central Bank, on the basis of its calculations, considers that Rs. 50,000 is the maximum safe limit for the expansion of credit. But the actual credit at that given point of time is Rs. 55,000(say). Thus it then becomes necessary for the Central Bank to bring it down to 50,000 by tightening its policies. Similarly if the actual credit is less, say 45,000, then the apex bank regulates its policies in favor of pumping credit into the economy.

Different tools used under this method are-



Graph showing variations in the Bank Rate from 1935-2011 (current year)[4]

Bank Rate

Bank Rate also known as the Discount Rate is the official minimum rate at which the Central Bank of the country is ready to rediscount approved bills of exchange or lend on approved securities.

Section 49 of the Reserve Bank of India Act 1934, defines Bank Rate as “the standard rate at which it (RBI) is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase under this Act”.

When the commercial bank for instance, has lent or invested all its available funds and has little or no cash over and above the prescribed minimum, it may ask the central bank for funds. It may either re-discount some of its bills with the central bank or it may borrow from the central bank against the collateral of its own promissory notes.

In either case, the central bank accommodates the commercial bank and increases the latter's cash reserves. This Rate is increased during the times of inflation when the money supply in the economy has to be controlled.

At any time there are various rates of interest ruling at the market, like the Deposit Rate, Lending Rate of commercial banks, market discount rate and so on. But, since the central bank is the leader of the money market and the lender of the last resort, al other rates are closely related to the bank rate. The changes in the bank rate are, therefore, followed by changes in all other rates as the money market.

The graph on the right hand side shows variations in the Bank Rate since 1935-2011.

5. Describe co-operative society .What are its merits and demerits?

Advantages of Cooperative Society

1. Easy to form:

The formation of a cooperative society is very simple as compared to the formation of any other form of business organisations. Any ten adults can join together and form a cooperative society. The procedure involves in the registration of a cooperative society is very simple and easy. No legal formalities are required for the formation of cooperative society.

2. No obstruction for membership:

Unless and otherwise specifically debarred, the membership of cooperative society is open to everybody. Nobody is obstructed to join on the basis of religion, caste, creed, sex and colour etc. A person can become a member of a society at any time he likes and can leave the society when he does not like to continue as ; member.

3. Limited liability:

In most cases, the liabilities of the members of the society is limited to the extent of capital contributed by them. Hence, they are relieved from the fear of attachment of their private property, in case of the society suffers financial losses.

4. Service motive:

In Cooperative society members are provided with better good and services at reasonable prices. The society also provides financial help to its members < the concessional rates. It assists in setting up production units and marketing of produces c small business houses so also small farmers for their agricultural products.

5. Democratic management:

The cooperative society is managed by the elected members from and among themselves. Every member has equal rights through its single vote but can take active part in' the formulation of the policies of the society. Thus all member are equally important for the society.

6. Stability and continuity:

A cooperative society cannot be dissolved by the death insolvency, lunacy, permanent incapability of the members. Therefore, it has stable life are continues to exist for a longer period. It has got separate legal existence. New members m< join and old members may quit the society but society continues to function unless are otherwise all members unanimously decided to close the same.

7. Economic operations:

The operation carried on by the cooperative society economical due to the eliminations of middlemen. The services of middlemen are provided by the members of the society with the minimum cost. In the case of cooperative society, the recurring and non-recurring expenses are very less. Further, the economies of scale-ma production or purchase, automatically reduces the procurement price of the goods, thereby minimises the selling price.

8. Surplus shared by the members:

The society sells goods to its members on a nominal profit. In some cases, the society sells goods to outsiders. This profit is utilised for meeting the day-to-day administration cost of the society. The procedure for distribution of profit that some portion of the surplus is spent for the welfare of the members, some portion kept reserve whereas the balance shared among the members as dividend on the basis of this purchases.

9. State patronage:

Government provides special assistance to the societies to enable them to achieve their objectives successfully. Therefore, the societies are given financial lo< at lower rates. Government also extends many type of subsidies to cooperative societies strengthening their financial stability and sustainable growth in future.

Disadvantages of Cooperative Society:

Despite many an advantages, the cooperative society suffer from certain limitations c drawbacks. Some of these limitations, which a cooperative form of business has are as follows:

1. Limited resources:

Cooperative societies financial strength depend on the cap contributed by its members and loan raising capacity from state cooperative banks. The membership fee is limited for which they are unable to raise large amount of resources as their members belong to the lower and middle class. Thus, cooperative^ are not suitable for the large scale business which require huge capital.

2. Inefficient management:

A cooperative society is managed by the members only. They do not possess any managerial and special skills. This is considered as major drawback of this sector. Inefficiency of management may not bring success to the societies.

3. Lack of secrecy:

The cooperative society does not maintain any secrecy in business because the affairs of the society is openly discussed in the meetings. But secrecy is very important for the success of a business organization. This paved the way for competitors to compete in more better manner.

4. Cash trading:

The cooperative societies sell their products to outsiders only in cash. But, they are usually from the poor sections. These persons require to avail credit facilities which is not possible in the case of cooperatives. Hence, marketing is a shortcoming for the cooperatives.

5. Excessive Government interference:

Government put their nominee in the Board of management of cooperative society. They influence the decision of the Board which may or may not be favourable for the interest of the society. Excessive state regulation, interference with the flexibility of its operation affects adversely the efficiency of the management of the society.

6. Absence of motivation:

The members may not feel enthusiastic because the law governing the cooperatives put some restriction on the rate of return. Absence of relationship between work and reward discourage the members to put their maximum effort in the society.

7. Disputes and differences:

The management of the society constitutes the various types of personnel from different social, economical and academic background. Many a times they strongly differs from each other on many important issues. This becomes detrimental to the interest of the society. The different opinions and disputes may paralyses the effectiveness of the management.

6. Explain the principle of organization

Principle of objective: The organizational goal should be formulated for the business as whole and organization should be framed to achieve that goal. Departmental goals should be developed so that ultimate common goal should be attained. If the common organizational goal is not decided, departments may set their own goals and there may be occurrence of conflict about the common objective.

Division of work: the organization should be framed in a manner such that every individual should get work according to his ability, skills and knowledge. The employees should do that work continuously to achieve specialization that particular work. This will increase his efficiency.

Authority and responsibility: The amount of authority decreases as we go downward in the organizational level. For every given work or responsibility there must be provision of authority to get that work done. The manager can delegate his authority to his subordinates to complete the task but responsibility to complete that work can not be delegated, only manager would be answerable for the given work not his subordinates.

Unity of command: There should be unity of command in the organization. An employee should be controlled by one boss. He should get orders from one superior and should report to the same superior. If a person is under the control of more than one person then there would be confusions and conflicts. Unity of command would lead to better coordination and controlling.

Span of control: There should be proper span of control. Span of control is the number of subordinate reporting directly to a manger. The number of subordinates should be in such manner so that supervision can be done effectively. If span is not planned appropriately efficiency of workers will be affected.

Scalar chain: There should be proper chain of supervisor from top level to lower level in vertical direction. This also shows the direction of communication in the organization. This suggests that communication should pass through each position placed in the chain.

7. Explain the forms of organization.

An organizational chart is a diagram that illustrates the structure of an organization and the relationship and positions of its employees. Organization charts help to organize the workplace, while giving the direction of management control of subordinates.
A business can be organized in one of several ways, and the form its owners choose will affect the company's and owners' legal liability and income tax treatment. Here are the most common options and their major defining characteristics.

Sole Proprietorship

The default option is to be a sole proprietor. With this option there are fewer forms to file than with other business organizations. The business is structured in such a manner that legal documents are not required to determine how profit-sharing from business operations will be allocated.

This structure is acceptable if you are the business's sole owner and you do not need to distinguish the business from yourself. Being a sole proprietor does not preclude you from using a business name that is different from your own name, however. In a sole proprietorship all profits, losses, assets and liabilities are the direct and sole responsibility of the owner. Also, the sole proprietor will pay selfemployment tax on his or her income.

Sole proprietorships are not ideal for high-risk businesses because they put your personal assets at risk. If you are taking on significant amounts of debt to start your business, if you've gotten into trouble with personal debt in the past or if your business involves an activity for which you might potentially be sued, then you should choose a legal structure that will better protect your personal assets. Nolo, a company whose educational books make legal information accessible to the average person, gives several examples of risky businesses, including businesses that involve child care, animal care, manufacturing or selling edible goods, repairing items of value, and providing alcohol. These are just a few examples. There are many other activities that can make your business high risk.

If the risks in your line of work are not very high, a good business insurance policy can provide protection and peace of mind while allowing you to remain a sole proprietor. One of the biggest advantages of a sole proprietorship is the ease with which business decisions can be made.

LLC

An LLC is a limited liability company. This business structure protects the owner's personal assets from financial liability and provides some protection against personal liability. There are situations where an LLC owner can still be held personally responsible, such as if he intentionally does something fraudulent, reckless or illegal, or if she fails to adequately separate the activities of the LLC from her personal affairs.

This structure is established under state law, so the rules governing LLCs vary depending on where your business is located. According to the IRS, most states do not allow banks, insurance companies or nonprofit organizations to be LLCs.

Because an LLC is a state structure, there are no special federal tax forms for LLCs. An LLC must elect to be taxed as an individual, partnership or corporation. You will need to file paperwork with the state if you want to adopt this business structure, and you will need to pay fees that usually range from $100 to $800. In some states, there is an additional annual fee for being an LLC.

You will also need to name your LLC and file some simple documents, called articles of organization, with your state. Depending on your state's laws and your business's needs, you may also need to create an LLC operating agreement that spells out each owner's percentage interest in the business, responsibilities and voting power, as well as how profits and losses will be shared and what happens if an owner wants to sell her interest in the business. You may also have to publish a notice in your local newspaper stating that you are forming an LLC.

Corporation

Like the LLC, the corporate structure distinguishes the business entity from its owner and can reduce liability. However, it is considered more complicated to run a corporation because of tax, accounting, record keeping and paperwork requirements. Unless you want to have shareholders or your potential clients will only do business with a corporation, it may not be logical to establish your business as a corporation from the start - an LLC may be a better choice.

The steps for establishing a corporation are very similar to the steps for establishing an LLC. You will need to choose a business name, appoint directors, file articles of incorporation, pay filing fees and follow any other specific state/national requirements. (Find out how becoming a corporation can protect and further your finances. See *Should You Incorporate Your Business?*)

There are two types of corporations: C corporations (C corps) and S corporations (S corps). C corporations are considered separate tax-paying entities. C corps file their own income tax returns, and income earned remains in the corporation until it is paid as a salary or wages to the corporation's officers and employees. Corporate income is often taxed at lower rates than personal income, so you can save money on taxes by leaving money in the corporation.

If you're only making enough to get by, however, this won't help you because you'll need to pay almost all of the corporation's earnings to yourself. If the corporation has shareholders, corporate earnings become subject to double taxation in the sense that income earned by the corporation is taxed and dividends distributed to shareholders are also taxed. However, if you are a one-person corporation, you don't have to worry about double taxation.

S corporations are pass-through entities, meaning that their income, losses, deductions and credits pass through the company and become the direct responsibility of the company's shareholders. The shareholders report these items on their personal income tax returns, thus S corps avoid the income double taxation that is associated with C corps.

All shareholders must sign IRS form 2553 to make the business an S corp for tax purposes. The IRS also requires S corps to meet the following requirements:

- Be a domestic corporation
- Have only allowable shareholders, including individuals, certain trusts and estates
- Not include partnerships, corporations or non-resident alien shareholders
- Have no more than 100 shareholders
- Have one class of stock
- Not be an ineligible corporation (i.e., certain financial institutions, insurance companies and domestic international sales corporations)

General Partnerships, Limited Partnerships (LP) and Limited Liability Partnerships (LLP)
A partnership is a structure appropriate to use if you are not going to be the sole owner of your new business.

In a general partnership, all partners are personally liable for business debts, any partner can be held totally responsible for the business and any partner can make decisions that affect the whole business.

In a limited partnership, one partner is responsible for decision-making and can be held personally liable for business debts. The other partner merely invests in the business. Although the general structure of limited partnerships can vary, each individual is liable only to the extent of their invested capital.

LLPs are most commonly used by professionals such as doctors and lawyers. The LLP structure protects each partner's personal assets and each partner from debts or liability incurred by the other partners. Different states have varying regulations regarding these establishments of which business owners must take note.

Partnerships must file information returns with the IRS, but they do not file separate tax returns. For tax purposes, the partnership's profits or losses pass through to its owners, so a partnership's income is taxed at the individual level. LPs and LLPs are also state entities and must file paperwork and pay fees similar to those involved in establishing an LLC.

Regardless of the way a business is structured, its owners will have the same overarching goals when it comes to the company's financial management.

Joint stock company

a company may be defined as a legal and invisible artificial person, incorporated under an association of persons having an independent, separate legal entity along with perpetual succession and common seal, whose liability is ordinarily limited, the capital is divided into transferable shares, held by shareholders in order to earn profit.

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8. Explain the features of joint stockcompany

Definitions of Joint Stock Company:

Before going for starting a business in company form of business, the entrepreneur must passes detail knowledge about the company. A good number of authors have defined .he company in their own ways and languages. Few important among them are presented below :

Prof. L. H. Haney - "A Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

Indian Companies Act, 1956 - According to Section 3 of Indian Companies Act, .956, "A company means a company formed and registered under this Act or an existing company." According to Clause (ii) of Section 3, "Existing company means a company formed .md registered under any of the previously formed Companies Act."

Thus, a company may be defined as a legal and invisible artificial person, incorporated under an association of persons having an independent, separate legal entity along with perpetual succession and common seal, whose liability is ordinarily limited, the capital is divided into transferable shares, held by shareholders in order to earn profit.

Characteristics of Joint Stock Company:

The analysis of above definitions reveals the following characteristics of a company:

1. Association of persons:

A company is a voluntary association of persons established for profit motive. A private company must have at least two persons and the public limited company must have at least seven persons to get it registered. The maximum number of persons required for the registration in case of private company is fifty and in case of public company there is no maximum limit.

2. Artificial person:

A company is an artificial person. It is created by law. Like that of the natural person, it can own property, incur debts, file suits, enter into contracts with others under its own name. It can be sued and fined but cannot be imprisoned.

3. Separate legal entity:

A company being created under law has a separate entity from its members. Any of its members can enter into contracts with others. A member cannot bind a company by his acts or dealings with the third parties. The company can file a suit against its members and its shareholders can also sue the company. Further, a shareholder is not liable for the acts of the company even though he may be holding all the shares of that company.

4. Limited liability:

The liability of the members or shareholders is limited to the extent of the value of shares held or the amount guaranteed by them. The shareholders are not personally liable for the debts of a company beyond that limit.

5. Transferability of shares:

The shares of a public limited company are freely transferable and can be purchased and sold through the stock exchanges. A shareholder of a public limited company can transfer his shares without the consent of other shareholders. But there are certain restrictions on transferability of shares in case of private limited company.

6. Common seal:

Since a company is an artificial person, it cannot put its signature on any document. Therefore, it is statutory for every company to have a seal on which the name of the company is engraved. Affixing of seal on any document signifies the signature of the company. Of course two directors have to sign as witnesses in such .cases.

7. Separation of ownership from management:

The shareholders are the owners of the company. They are heterogeneous group of people who are widely scattered throughout the country and abroad. The shareholders elect their representatives called directors to manage the company. Thus, the company is managed by directors rather than the shareholders. This results in separation of ownership from management.

8. Perpetual succession:

The company enjoys a continuous existence. Its existence is not affected by death, lunacy or insolvency of its shareholders or directors as the case in partnership or sole proprietorship. The company can only be dissolved by the operation of law.

9. Investment facilities:

A joint stock company raises its funds through issue of shares to general public. Due to the small denomination of the shares, the company provides investment opportunities to all sections of people who want to put their surplus money in the company's share.

10. Accountability:

A joint stock company has to function as per the provisions of the Companies Act. The accounts are to be audited by qualified auditors. Such accounts and exports are published for the information of all stakeholders. Regular and timely reports are to be submitted to the Government.

11. Restricted action:

A company cannot go beyond the powers mentioned in the abject clause of the Memorandum of Association. Therefore, its action is limited.