



# **SNS COLLEGE OF TECHNOLOGY**

## **An Autonomous Institution**

### **Coimbatore-35**



Accredited by NBA – AICTE and Accredited by NAAC – UGC with ‘A+’ Grade  
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai

## **Department of Automobile Engineering**

III YEAR/ VI SEMESTER

19MEE301 / Engineering Economics and cost Analysis

### **UNIT-3**

#### **Proprietorships**

The sole proprietorship is the easiest form of business to start because it involves almost no requirements except for occasional business licenses and fees.

#### **The advantages of a sole proprietorship include:**

Ease of starting up

Relative ease of management

Owner enjoys the profits of successful management

No separate

business income

taxes

Psychological

satisfaction

Ease of getting out of business

#### **The disadvantages of a sole proprietorship include:**

Owner has unlimited liability

Full and personal responsibility for all losses and

debts of the business Difficulty in raising financial capital

Size and efficiency

The business may have to carry a large inventory, or stock of finished goods and parts in reserve Limited managerial experience

Difficulty of attracting qualified employees

Limited life

Firm ceases to exist when owner dies, quits, or sells the business

### **Partnerships**

A partnership is a business jointly owned by two or more persons.

Partnerships are the least numerous form of business organization, accounting for the smallest proportion of sales and net income.

### **Types of Partnerships**

The most common form of partnership is a general partnership, one in which all partners are responsible for the management and financial obligations of the business.

In a limited partnership, at least one partner is not active in the daily running of the business, although he or she may have contributed funds to finance the operation.

Because more than one owner is involved, formal legal papers called articles of partnership are usually drawn up to specify arrangements between partners.

### **The advantages of a partnership include:**

Each partner is fully responsible for the acts of all

other partners Limited partners have limited liability

Limited life

Potential for conflict between partners

Offer increased access to financial capital, but do not always work out

A business may have to file for bankruptcy, a court-granted permission to an individual or business to cease or delay debt payments.

## **Corporation**

A corporation is a business organization that has a separate legal personality from its owners. Ownership in a stock corporation is represented by shares of stock.

The owners (stockholders) enjoy limited liability but have limited involvement in the company's operations. The board of directors, an elected group from the stockholders, controls the activities of the corporation.

In addition to those basic forms of business ownership, these are some other types of organizations that are common today:

### **Limited Liability Company**

Limited liability companies (LLCs) in the USA, are hybrid forms of business that have characteristics of both a corporation and a partnership. An LLC is not incorporated; hence, it is not considered a corporation.

Nonetheless, the owners enjoy limited liability like in a corporation. An LLC may elect to be taxed as a sole proprietorship, a partnership, or a corporation.

### **Cooperative**

A cooperative is a business organization owned by a group of individuals and is operated for their mutual benefit. The persons making up the group are called members. Cooperatives may be incorporated or unincorporated.

Some examples of cooperatives are: water and electricity (utility) cooperatives, cooperative banking, credit unions, and housing cooperatives.

### **Types of partnership:**

The different kinds of Partners that are found in Partnership Firms are as follows

#### **Active or managing partner:**

A person who takes active interest in the conduct and management of the business of the firm is known as active or managing partner.

He carries on business on behalf of the other partners. If he wants to retire, he has to give a public notice of his retirement; otherwise he will continue to be liable for the acts of the firm.

#### **Sleeping or dormant partner:**

A sleeping partner is a partner who 'sleeps', that is, he does not take active part in the management of the business. Such a partner only contributes to the share capital of the firm, is bound by the activities of other partners, and shares the profits and losses of the business. A sleeping partner, unlike an active partner, is

not required to give a public notice of his retirement. As such, he will not be liable to third parties for the acts done after his retirement.

**Nominal or ostensible partner:**

A nominal partner is one who does not have any real interest in the business but lends his name to the firm, without any capital contributions, and doesn't share the profits of the business. He also does not usually have a voice in the management of the business of the firm, but he is liable to outsiders as an actual partner.

**Sleeping vs. Nominal Partners:**

It may be clarified that a nominal partner is not the same as a sleeping partner. A sleeping partner contributes capital shares profits and losses, but is not known to the outsiders.

A nominal partner, on the contrary, is admitted with the purpose of taking advantage of his name or reputation. As such, he is known to the outsiders, although he does not share the profits of the firm nor does he take part in its management. Nonetheless, both are liable to third parties for the acts of the firm.

**Partner by estoppel or holding out:**

If a person, by his words or conduct, holds out to another that he is a partner, he will be stopped from denying that he is not a partner. The person who thus becomes liable to third parties to pay the debts of the firm is known as a holding out partner.

There are two essential conditions for the principle of holding out :

The person to be held out must have made the representation, by words written or spoken or by conduct, that he was a partner

The other party must prove that he had knowledge of the representation and acted on it, for instance, gave the credit.

**Partner in profits only:**

When a partner agrees with the others that he would only share the profits of the firm and would not be liable for its losses, he is in own as partner in profits only.

**Minor as a partner:**

A partnership is created by an agreement. And if a partner is incapable of entering into a contract, he cannot become a partner. Thus, at the time of creation of a firm a minor cannot be one of the parties to the contract. But under section 30 of the Indian Partnership Act, 1932, a minor 'can be admitted to the benefits of partnership', with the consent of all partners. A minor partner is entitled to his share of profits and to have access to the accounts of the firm for purposes of

inspection and copy.

He, however, cannot file a suit against the partners of the firm for his share of profit and property as long as he remains with the firm. His liability in the firm will be limited to the extent of his share in the firm, and his private property cannot be attached by creditors.

On his attaining majority, he has to decide within six months whether he will become regular partner or withdraw from partnership. The choice in either case is to be intimated through a public notice, failing which he will be treated to have decided to continue as partner, and he becomes personally liable like other partners for all the debts and obligations of the firm from the date of his admission to its benefits. He also becomes entitled to file a suit against other partners for his share of profit and property.

### **Other partners:**

In partnership firms, several other types of partners are also found, namely, secret partner who does not want to disclose his relationship with the firm to the general public. Outgoing partner, who retires voluntarily without causing dissolution of the firm, limited partner who is liable only up to the value of his capital contributions in the firm, and the like.

However, the moment public comes to know of it he becomes liable to them for meeting debts of the firm. Usually, an outgoing partner is liable for all debts and obligations as are incurred before his retirement. A limited partner is found in limited partnership only and not in general partnership.