PRINCIPLESS OF COMMERCE

ORGANISATION

Unit-1

Organization: Meaning, Definition, Concepts and Characteristics

Meaning

An entrepreneur organizes various factors of production like land, labour, capital, machinery, etc. for channelizing them into productive activities. The product finally reaches consumers through various agencies. Business activities are divided into various functions, these functions are assigned to different individuals.

Various individual efforts must lead to the achievement of common business goals. Organization is the structural framework of duties and responsibilities required of personnel in performing various functions with a view to achieve business goals through organization. Management tries to combine various business activities to accomplish predetermined goals.

Definitions

Louis Allen, "Organization is the process of identifying and grouping work to be performed, defining and delegating responsibility and authority and establishing relationships for the purpose of enabling people to work most effectively together in accomplishing objectives." In the words of Allen, organization is an instrument for achieving organizational goals. The work of each and every person is defined and authority and responsibility is fixed for accomplishing the same.

Wheeler, "Internal organization is the structural framework of duties and responsibilities required of personnel in performing various functions within the company. It is essentially a blue print for action resulting in a mechanism for carrying out function to achieve the goals set up by company management". In Wheeler's view, organization is a process of fixing duties and responsibilities of persons in an enterprise so that business goals are achieved.

Koontz and O'Donnell, 'The establishment of authority relationships with provision for co-ordination between them, both vertically and horizontally in the enterprise structure." These authors view organization as a coordinating point among various persons in the business.

Concepts of Organisation

There are two concepts of organisation

1. Static concept

2. Dynamic concept,

1. Static Concept

Under static concept the term 'organisation' is used as a structure, an entity or a network of specified relationship. In this sense, organisation is a group of people bound together in a formal relationship to achieve common objectives. It lays emphasis on position and not on individuals.

2. Dynamic Concept

Under dynamic concept, the term 'organisation' is used as a process of an on-going activity. In this sense, organisation is a process of organising work, people and the systems. It is concerned with the process of determining activities which may be necessary for achieving an objective and arranging them in suitable groups so as to be assigned to individuals. It considers organisation as an open adoptive system and not as a closed system. Dynamic concept lays emphasis on individuals and considers organisation as a continuous process.

Characteristics of Organisation

Different authors look at the word 'organisation' from their own angle. One thing which is common in all the viewpoints is that organisation is the establishment of authority relationship among persons so that it helps in the achievement of organisational objectives.

Some of the characteristics of organisation are studied as follows:

1. Division of Work

Organisation deals with the whole task of business. The total work of the enterprise is divided into activities and functions. Various activities are assigned to different persons for their efficient accomplishment. This brings in division of labour. It is not that one person cannot carry out many functions but specialisation in different activities is necessary to improve one's efficiency. Organisation helps in dividing the work into related activities so that they are assigned to different individuals.

2. Co-Ordination

Co-ordination of various activities is as essential as their division. It helps in integrating and harmonising various activities. Co-ordination also avoids duplications and delays. In fact,

various functions in an organisation depend upon one another and the performance of one influences the other. Unless all of them are properly coordinated, the performance of all segments is adversely affected.

3. Common Objectives

All organisational structure is a means towards the achievement of enterprise goals. The goals of various segments lead to the achievement of major business goals. The organisational structure should build around common and clear cut objectives. This will help in their proper accomplishment.

4. Co-operative Relationship

An organisation creates co-operative relationship among various members of the group. An organisation cannot be constituted by one person. It requires at least two or more persons. Organisation is a system which helps in creating meaningful relationship among persons. The relationship should be both vertical and horizontal among members of various departments. The structure should be designed that it motivates people to perform their part of work together.

5. Well-Defined Authority-Responsibility Relationships

An organisation consists of various positions arranged in a hierarchy with well defined authority and responsibility. There is always a central authority from which a chain of authority relationship stretches throughout the organisation. The hierarchy of positions defines the lines of communication and pattern of relationships.

Principles of Organisation

Everything you need to know about the principles of organisation. Organisation is peopled by human beings arranged in relationship with one another. There are always chances of friction amongst them owing to misconception of authority responsibility, thereby affecting the whole enterprise adversely. Though such misconceptions are inevitable, they can be minimised. Several management theorists have studied this problem and through their observations, investigations, analysis and experience, have put forward some “principles” for creating a sound organisation.

1. Principle of Objective

An organisation and every part of it should be directed towards the accomplishment of basic objectives. Every member of the organisation should be well familiar with its goals and objectives. Common objectives create commonness of interests.

In the words of Urwick, “Every organisation and every part of the organisation must be an expression of the purpose of the undertaking concerned.” The application of this principle implies the existence of clearly formulated and well-understood objectives. An organisation structure must be measured against the criterion of effectiveness in meeting these objectives.

2. Principle of Division of Work

The total task should be divided in such a manner that the work of every individual in the organisation is limited as far as possible to the performance of a single leading function. The activities of the enterprise should be so divided and grouped as to achieve specialisation. However, the principle of division of work does not imply occupational specialisation. The allocation of tasks should be on the basis of qualification and aptitude and should not make work mechanical and boring.

3. Principle of Unity of Command

Each person should receive orders from only one superior and be accountable to him. This is necessary to avoid the problems of conflict in instructions, frustration, uncertainty and divided loyalty and to ensure the feeling of personal responsibility for results. This principle promotes co-ordination but may operate against the principle of specialisation.

4. Principle of Span of Control

No executive should be required to supervise more subordinates than he can effectively manage on account of the limitation of time and ability. There is a limit on the number of subordinates that an executive can effectively supervise. However, the exact number of subordinates will vary from person to person depending upon the nature of job, and basic factors that influence the frequency and severity of the relationships to be supervised.

5. Principle of Scalar Chain

Authority and responsibility should be in a clear unbroken line from the highest executive to the lowest executive. As far as possible, the chain of command should be short. The more clear the line of authority from the ultimate authority in an enterprise to every subordinate position, the more effective will be decision-making and organisation communication.

6. Principle of Delegation

Authority delegated to an individual manager should be adequate to enable him to accomplish results expected of him. Authority should be delegated to the lowest possible level

consistent with necessary control so that co-ordination and decision-making can take place as close as possible to the point of action.

7. Principle of Absoluteness of Responsibility

The responsibility of the subordinate to his superior is absolute. No executive can escape responsibility for the delegation of authority to his subordinates.

8. Principle of Parity of Authority and Responsibility

Authority and responsibility must be co-extensive. The responsibility expected for a position should be commensurate with the authority delegated to that position, and vice-versa. In addition, authority and responsibility should be clearly defined for all positions.

9. Principle of Co-Ordination

There should be an orderly arrangement of group efforts and utility of action in the pursuit of a common purpose. This would help in securing unity of effort.

10. Principle of Flexibility

The organisation must permit growth and expansion without dislocation of operations. Devices, techniques and environmental factors should be built into the structure to permit quick and easy adaptation of the enterprise to changes in its environment. Good organisation is not a straight jacket.

11. Principle of Efficiency

An organisation is efficient if it is able to accomplish predetermined objectives at minimum possible cost. An organisation should provide maximum possible satisfaction to it members and should contribute to the welfare of the community. The principle of efficiency should be applied judiciously.

12. Principle of Continuity

The organisation should be so structured as to have continuity of operations. Arrangements must be made to enable people to gain experience in positions of increasing diversity and responsibility.

13. Principle of Balance

The various parts of the organisation should be kept in balance and none of the functions should be given undue emphasis at the cost of others. In order to create structural balance, it is essential to maintain a balance between centralisation and decentralisation, between line and

staff, etc. Vertical and horizontal dimensions must be kept in reasonable balance by ensuring that the structure is neither too tall nor too flat.

14. Principle of Exception

Every manager should take all decisions within the scope of his authority and only matters beyond the scope of his authority should be referred to higher levels of management. In other words, routine decisions should be taken at lower levels and top management should concentrate on matters of exceptional importance.

Types of Organisation

The types are: 1. Line Organization 2. Line and Staff Organization 3. Functional Organization 4. Project Organization 5. Matrix Organization.

Line Organisation:

Line organisation is the simplest and oldest form of organisation structure. It is called as military or departmental or scalar type of organization. Under this system, authority flows directly and vertically from the top of the managerial hierarchy 'down to different levels of managers and subordinates and down to the operative level of workers.

Line organisation clearly identifies authority, responsibility and accountability at each level. The personnel in Line organization are directly involved in achieving the objectives of the organization.

The line organisation structure is given below:

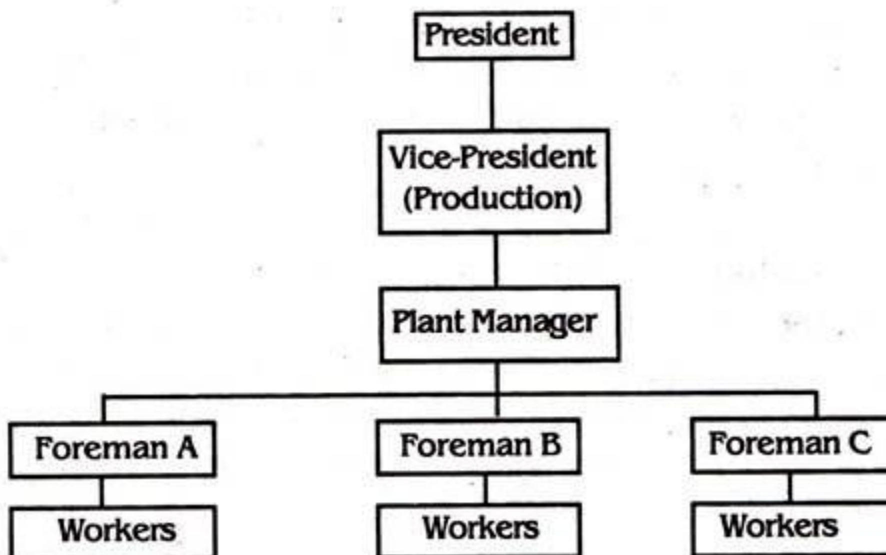

FIGURE 6.11 : LINE ORGANIZATION

Advantages of Line Organization:

a. The line organization structure is very simple to understand and simple to operate.

b. Communication is fast and easy and feedback can be acted upon faster.

c. Responsibility is fixed and unified at each level and authority and accountability are clear-cut, hence each individual knows to whom he is responsible and who is or in truth responsible to him.

d. Since it is especially useful when the company is small in size, it provides for greater control and discipline in the organization.

e. It makes rapid decisions and effective coordination possible. So it is economic and effective.

f. The people in line type of organization get to know each other better and tend to feel close to each other.

g. The system is capable of adjusting itself to changing conditions for the simple reason that each executive has sole responsibility in his own sphere.

Disadvantages of Line Organization:

a. It is a rigid and inflexible form of organization.

b. There is a tendency for line authority to become dictatorial.

c. It overloads the executive with pressing activities so that long-range planning and policy formulation are often neglected.,

d. There is no provision for specialists and specialization, which is essential for growth and optimisation.

e. Different departments may be much interested in their self-interests, rather than overall organizational interests and welfare.

f. It is likely to encourage nepotism.

g. It does not provide any means by which a good worker may be rewarded and a bad one punished.

Line and Staff Organization

This type of organization structure is in large enterprises. The functional specialists are added to the line in line and staff organization. Mere, staff is basically advisory in nature and usually does not possess any command authority over line managers. Allen has defined line and staff organization as follows.

"Line functions are those which have direct responsibility for accomplishing the objectives of the enterprises and staff refers to those elements of the organization that help the line to work most effectively in accomplishing the primary objectives of the enterprises."

Type of Staff

The staff organizations mentioned above all has in common the fact that they are auxiliary to the main functions of the business. There are, however, different types of staff.

The three main divisions may be listed as:

1. Personal Staff.
2. Specialized Staff.
3. General Staff.

1. Personal Staff

Personal staff consists of a personal assistant or adviser attached to the line executive at any level. His main function is to aid and advise the line executive as also to perform any other work assigned to him.

2. Specialised Staff

The specialised staff have expert knowledge in the specific fields. The specialised staff are those that handle the specialised functions. For example, accounting, personnel, engineering and research. It is now impossible for one man to familiarise himself with all the various specialities needed in the modern large business.

3. General Staff

Any decision that cuts across departmental lines must be made by the Chief Executive. It cannot be delegated to the head of a specialised staff group or to a line department head, since other department heads will naturally resent interference in their department heads will naturally resent interference in their department by someone who is in no way their superior.

Functional Organisation

The functional organisation was evolved by F.W. Taylor while he was working as a foreman. He suggested eight foremen, four in factory and four in planning division as under.

Factory Division

(i) The gang boss,
(ii) The speed boss,
(iii) The inspector, and
(iv) The maintenance or repair boss.

Planning Division

(i) Route Clerk,
(ii) Instruction card clerk,
(iii) Time and cost clerk, and
(iv) The shop disciplinarian.

He evolved his functional organisation system, which consists in “so dividing the work of management that each man, from the assistant superintendent down, shall have as few functions as possible to perform.”

According to Terry, “Functional organisation refers to the organisation which is divided into a number of functions such as finance, production, sales, personnel, office and research and development and each of functions are performed by an expert”. Line authority, staff authority and functional authority as a third type of authority are in this type of organisation.

Features of Functional Organisation

a. Each worker receives instructions not only from one superior, but also from a group of specialists.

b. Three types of authority relationships are in the functional organisation such as line authority, staff authority and functional authority.

c. Staff specialists are given the authority to decide and do things in a limited way.

d. The scope of the work is kept limited but the area of authority is left unlimited.

e. There is a grouping of activities of the enterprise into certain major functional departments.

Advantages of Functional Organisation

a. Each manager is an expert in his field. He has to perform a limited number of functions. So complete specialization will be in functional organisation.

b. The greater degree of specialisation leads the improvement in the quality of product.

c. Since the job requirements are definite and tangible, organisation can achieve the intensive utilisation of the principle of specialisation of labour at the managerial level.

d. Specialisation will lead for mass production and standardisation.

e. Since experts get sufficient time for creative thinking, planning and supervision are made efficient.

f. It increases the work satisfaction for specialists who presumably do what they like to do.

Disadvantages of Functional Organisation

a. Since there is no direct boss or controller of the workers, co-ordination is hard to achieve.

b. Since workers are under different bosses, discipline is hard to achieve. As results there will be low morale on the part of the workers.

c. The non-supervisory employees are uncertain as to whom they should turn for advice and aid when problem call for analysis.

d. Due to that control is divided, action cannot be taken immediately.

e. Since there will be many foreman of equal rank in the same department, the conflicts of leadership may arise.

f. It reduces the opportunities for the training of all-round executives to assume further leadership in the firm.

Project Organisation

This organisational structure are temporarily formed for specific projects for a specific period of time, for the project of achieving the goal of developing new product, the specialists

from different functional departments such as production, engineering, quality control, marketing research etc., will be drawn to work together. These specialists go back to their respective duties as soon as the project is completed.

Really, the project organisation is set-up with the object of overcoming the major weakness of the functional organisation, such as absence of unity of command, delay in decision-making, and lack of coordination.

Matrix Organisation:

According to Stanley Davis and Paul Lawrence matrix organisation is “any organisation that employs a multiple command system that includes not only the multiple command structure, but also related support mechanism and an associated organisational culture and behaviour pattern.”A matrix organisation, also referred to as the “multiple command system” has two chains of command. One chain of command is functional in which the flow of authority is vertical.

The second chain is horizontal depicted by a project team, which is led by the project, or group manager who is an expert in his team’s assigned area of specialisation.

Since the matrix structure integrates the efforts of functional and project authority, the vertical and horizontal lines of authority are combination of the authority flows both down and across. The matrix form of organisation is given below.

Sole trader – What is a sole trader?

A sole trader – also known as a sole proprietorship – is a simple business arrangement, in which one individual runs and owns the entire business.

Although many people use the term to refer to businesses that have no other employees aside from the owner, the actual definition of ‘sole trader’ refers to the legal structure of the business, rather than the number of employees. As such, while a business registered as a sole trader might only consist of the owner, it might also consist of the owner and additional employees.

Registering as a sole trader

Certain people are required to register as a sole trader with HMRC. The most common reason for registering as a sole trader is earning more than £1,000 from self-employment in the last tax year.

You'll also need to register as a sole trader if you want to prove that you're self-employed (for example, if you want to claim tax-free childcare) or if you want to make voluntary tax payments that help you qualify for certain benefits

How to register as a sole trader

Unlike limited companies, which are required to follow a process called incorporation, there is no specific process for registering as a sole trader. Instead, all you have to do is register as self-employed by registering for Self Assessment. The most common way to register for Self Assessment is to do it directly through HMRC's website.

It is recommended that sole traders register for Self Assessment as soon as possible, and you're required to register as a sole trader no later than October 5th in your business's second tax year. If you don't register on time, you could be fined.

Sole traders and taxes

As a sole trader, you will become liable for paying a number of different taxes, including:

- Income Tax, which is a tax paid on certain types of income.
- National Insurance. As a sole trader, you will pay Class 2 and Class 4 National Insurance.

Both Income Tax and National Insurance are assessed, calculated, and paid by completing a yearly Self Assessment tax return.

Sole traders and VAT

Sole traders may or may not be registered for VAT. You will be required to register for VAT if you have a taxable turnover about the VAT threshold, which is currently £85,000. However, you can also voluntarily register for VAT if you turnover is below the threshold.

Partnership Firm

Everything you need to know about the partnership form of business. The need for partnership form or organization arose from the limitations of sole proprietorship and joint hindu family firm. With the expansion of business, it became necessary for a group of person to join hands together and supply necessary capital and skill. A person may possess exceptional business ability but no capital; he can have a financing partner. Section 4 of Indian Partnership Act of 1932 defines partnership as "the relation between person who has agreed to share profits of a business carried on by all or any of them acting for all." Owners of the partnership business are individually called partners can collectively called a "firm".

Definitions:

According to the Oxford Dictionary for the Business World. "Partner is a person who shares or takes part in activities of another person. Partnership is an association of two or more people formed for the purpose of carrying on a business"

According to Prof. L. H. Haney, "Partnership is the relation existing between persons competent to make contracts, who agree to carry on a lawful business in common, with a view to private gains."

In the words of Prof. Macnaughton, "Partnership results from the desires of business to take advantages of complementary ability and to raise more capital"

Advantages of Partnership:

i. Ease of Formation:

Any two persons capable of entering into contract can start partnership. The partnership deed can be oral or written. Registration is not compulsory. Thus, partnership is very easy to form. However, business conditions or requirements may force partnerships to be formed through a partnership deed, which is in writing. For example, banks may not allow a partnership firm to open a banking account unless there is a written partnership deed.

ii. Flexibility of Operations:

There is considerable freedom in carrying out business operations. There is no need for taking approvals from Government or any other authority, to change the nature, scope or location of the business.

iii. Greater Financial Resources:

Partnership combines the financial strength of all partners, as the liability of partners is joint and several. Not only is the ability to contribute capital greater, it also enhances the borrowing capacity of the firm.

iv. Greater Managerial Resources:

Partnerships are often formal by people looking for advantages of synergy. If one partner has technical knowledge, other could be marketing or finance expert. Thus, the managerial resources of the firm are enhanced. The financial resources available with the firm enables the firm to employ a good manager on salary basis for taking care of the business in a professional manner.

v. Greater Creditworthiness:

When a lender evaluates the proposal for loan, he looks at the creditworthiness of the borrower. A partnership firm, by definition, has more than one person responsible for the business. All partners are jointly and severally liable for the debt taken by the firm. The personal assets of all the partners can be used for repayment of the loan. All this gives greater confidence to the lenders. Thus, a partnership firm enjoys greater creditworthiness and therefore raise more debt for the business.

vi. Balanced Judgement:

In a partnership, the day to day management might be taken care of by one or few partners. However, in case of major issues, partners are likely to discuss the circumstances and arrive at a balanced judgement. Decisions are unlikely to be taken in haste, or in emotion.

vii. Specialisation:

Partnership can benefit from division of labour. Partners may choose to specialise in an area of interest. Partners can clearly define responsibilities and duties amongst themselves. This will result in expertise in management, apart from increase in efficiency, thereby maximising profits.

viii. Maintenance of Secrecy:

A partnership firm is a closely held business. It is not required by law to share its performance and position with others. Thus, all knowledge about the firm is restricted to only the partners of the firm.

ix. Personal Contacts with Staff and Customers:

A partnership concern is a relatively small organisation, whose activities can be managed by a group of people. Thus, partners keep in close contact with customers and staff. They are thus able to note the changing tastes and attitudes and react faster to such changes.

x. Economies in Management:

Partners have a stake in the profits of the business. They ensure that wastage is kept at the minimum. All expenses are closely supervised. Thus, expenses of management are controlled.

xi. Conservative Management:

Partners have unlimited liability. Unlimited liability prevents the partners from taking reckless decisions. They not only ensure that the decisions taken by them are acceptable to all, but also confirm that no other partner is acting needlessly aggressive.

xii. Protection of Minority Interest:

A partner being jointly and severally liable for any action of the firm, he has a right to stop the firm from taking action that is not in the interests of the firm. Such a partner cannot be ignored even if majority of partners feel otherwise. Decisions of partnership need the consent of all partners.

xiii. Incentive to Hard work:

Partners have share in the profits of the firm. Partners put in hard work and try to increase profits of the firm. A sincere and committed effort brings in extra rewards.

xiv. Risk Reduction:

The profits and losses are shared by all partners. Similarly, if the firm is unable to meet any of its payment obligations, all partners are responsible. Thus, partnership offers risk reduction as the risk is spread across partners.

xv. Greater Scope for Expansion:

As number of partners is larger, the firm can plan for faster expansion. It can also have geographical expansion, as a partner can be mobile and sufficiently experienced to handle the organisational activities from a new place.

xvi. Easy Dissolution:

It is very easy to dissolve the partnership firm. Any partner can ask for dissolution of firm by giving a 14 day notice. The firm can be dissolved on death, insolvency or lunacy of any partner. No legal formalities are required.

xvii. Taxation:

The Income Tax Act, 1961 treats a Partnership as a separate 'person' and its tax is calculated separately. This allows scope for partners to do tax planning and reduce total tax payable to minimum.

Disadvantages of Partnership:

i. Unlimited Liability:

Partners become fully liable for all claims against the firm to an unlimited extent. The partner might lose all the savings of his life on account of a loss or a mistake in business. This is one of the reasons that the selection of a partner or association with a like-minded partner is the most important thing in forming a partnership business.

ii. Restriction on Transfer of Interest:

One of the golden rules of any investment is that there must be an easy exit. If partner needs money, or is not in agreement with others, he cannot transfer his interest in the firm to outsiders without the consent of outsiders. A partner will not be able to reduce or increase his stake in the partnership.

iii. Inadequacy of Capital:

The number of partners in a firm is restricted to a maximum of twenty persons. Thus, a partnership firm may not be in a position to raise the required capital to finance its expansion plans. Hence, businesses that need large amounts of capital are generally organized as Joint Stock companies. For example, an oil refining business like Reliance Industries Limited or a car manufacturing business like Tata Motors Limited, cannot be imagined as Partnership firms.

iv. Mutual Conflicts:

Partnership requires close cooperation and a lot of understanding amongst partners. If there is a serious difference of opinion amongst partners, with different partners trying to pursue different goals then it is not good for the health of the business. Friction between partners will eventually lead to closure of business.

v. Uncertain Continuity:

Partnership may be dissolved on account of death, insolvency, insanity or incapacity of any of the partners. There is always a serious threat to continuity of business in its existing form. Hence, partnership firms are not suited to businesses requiring long term capital and plans.

vi. Delay in Decision Making:

While day to day management is handled by one or more partners independently, any major decision requires the consent of all partners. A discussion and consensus on decision to be taken might be time consuming, resulting in the firm losing out on prompt action.

vii. Risk of Implied Authority:

A partner can bind all other partners of the firm by his actions. This is a great risk to the other partners, as any hastily taken action may result in wiping out the life savings of all partners. It is seen that mistrust and wrong decisions by managing partners usually lead to dissolution of partnership firms.

viii. Lack of Public Confidence:

The affairs of the firm are not subject to public scrutiny. The performance and position of the firm is not published. Hence, the firm does not enjoy any public confidence.

ix. Aversion to Risk:

The liability of all partners is unlimited. Also, the partners are jointly and severally liable. In other words, a wrong step taken by one partner can result in all or some of the partners becoming bankrupt. Keeping this in mind, partners have a very high aversion to risk.

x. Limited Scope for Expansion:

A partnership firm can have only a limited number of partners. The liability of these partners is unlimited. Therefore, their ability to take risk is limited. This limits the ability of the firm to expand and grow.

xi. Continuation of Responsibilities:

Normally, the responsibilities pertaining to a business end with closure of the business. However, in case of Partnership firms, unless the liability of the firm is limited (LLP or Limited Liability Partnership), the responsibility of partners continues even after the firm is closed down (dissolved). This continues till the claims of all outsiders are completely settled.

xii. No Independent Legal Status:

Partnership firm is not separate or distinct from its members. It does not have a separate legal entity of its own. Partners enter into contracts on behalf of each other.

Joint Stock Company

When you think of all the largest companies in the world, these are not proprietorships or partnerships. These companies are all joint stock companies. When dealing with business on a fairly large scale, a joint stock company is the most suitable form of business organisation. Let us see why.

The simplest way to describe a joint stock company is that it is a business organisation that is owned jointly by all its shareholders. All the shareholders own a certain amount of stock in the company, which is represented by their shares.

Professor Haney defines it as "a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company." Studying the features of a joint stock company will clarify its structure.

1] **Artificial Legal Person**

A company is a legal entity that has been created by the statues of law. Like a natural person, it can do certain things, like own property in its name, enter into a contract, borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its board of directors.However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

2] **Separate Legal Entity**

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

3] **Incorporation**

For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

4] **Perpetual Succession**

The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company's life.

5] **Limited Liability**

This is one of the major points of difference between a company and a sole proprietorship and partnership. The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company.

A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this. Only the companies assets can be sold off to repay its own debt. The members cannot be made to pay up.

6] **Common Seal**

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a common seal. A common seal is engraved seal with the company's name on it.

So no document is legally binding on the company until and unless it has a common seal along with the signatures of the directors.

7] **Transferability of Shares**

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a public company, there are some restrictions, but the transfer cannot be prohibited.

Advantages of a Joint Stock Company

- One of the biggest drawing factors of a joint stock company is the *limited liability of its members*. their liability is only limited up to the unpaid amount on their shares. Since their personal wealth is safe, they are encouraged to invest in joint stock companies
- The shares of a company are *transferable*. Also, in the case of a listed public company they can also be sold in the market and be converted to cash. This ease of ownership is an added benefit.
- *Perpetual succession* is another advantage of a joint stock company. The death/retirement/insanity/etc does affect the life of a company. The only liquidation under the Companies Act will shut down a company.
- A company hires a board of directors to run all the activities. Very proficient, talented people are elected to the board and these results in effective and efficient management. Also, a company usually has large resources and this allows them to hire the *best talent and professionals*.

Disadvantages of a Joint Stock Company

- One disadvantage of a joint stock company is the complex and lengthy procedure for its *formation*. This can take up to several weeks and is a costly affair as well.
- According to the Companies Act, 2013 all public companies have to provide their financial records and other related documents to the registrar. These documents are then public documents, which any member of the public can access. This leads to a complete *lack of secrecy* for the company.
- And even during its day to day functioning a company has to follow a numerous number of laws, *regulations*, notifications, etc. It not only takes up time but also reduces the freedom of a company
- A company has many stakeholders like the shareholders, the promoters, the board of directors, the employees. the debenture holders etc. All these stakeholders look out for their benefit and it often leads to a *conflict of interest*.

What is a cooperative?

Cooperatives are **people-centred enterprises** owned, controlled and run by and for their members to realise their common economic, social, and cultural needs and aspirations.
Cooperatives bring people together in a democratic and equal way. Whether the members are the customers, employees, users or residents, cooperatives are democratically managed by the *'one member, one vote'* rule. Members share equal voting rights regardless of the amount of capital they put into the enterprise.

As businesses **driven by values**, not just profit, cooperatives share internationally agreed principles and act together to build a better world through cooperation. Putting fairness, equality and social justice at the heart of the enterprise, cooperatives around the world are allowing people to work together to create **sustainable enterprises** that generate long-term jobs and prosperity.

Cooperatives allow people to take control of their economic future and, because **they are not owned by shareholders**, the economic and social benefits of their activity stay in the communities where they are established. Profits generated are either reinvested in the enterprise or returned to the members.

The cooperative movement is far for being a marginal phenomenon, **at least 12% of humanity** is a cooperator of any of the 3 million cooperatives on earth.

UNIT-II

SOLE TRADER

Sole Trader

A sole trader is the simplest form of business structure and is relatively easy and inexpensive to set up. As a sole trader you will be legally responsible for all aspects of the business. You'll generally make all the decisions about starting and running your business and you can employ people.

A sole trader is a self-employed person who owns and runs their own business as an individual. A sole trader business doesn't have any legal identity separate to its owner, leading many to say that as a sole trader ***you are the business***. In this article, we look at what a sole trader is, how to get started and your ongoing responsibilities.

As a sole trader, you have absolute control over your business, its assets and profits after tax. Alongside this control, this business model offers comparative simplicity, versatility and a number of other advantages. In another article, we look in detail at sole trader advantages.

Unlike the owners of a limited company, however, a sole trader is personally liable for their business's debts and their personal assets may be at risk if creditors cannot be paid. This unlimited liability and the pressure involved in having to shoulder all the responsibility can be significant challenges.

Getting started as a sole trader

If you start working for yourself on a self-employed basis as a sole trader, you must register with HM Revenue and Customs (HMRC), which can be done online. While it's not possible to register in advance, you must inform HMRC promptly after you start trading. That will include registering for self assessment, if you haven't had reason to do so before.

Other things you'll need to consider when starting the business include:

- Whether, before starting in business, you need permission to do so from your local authority or another body – this applies to types of work like driving a taxi, for example.
- Setting up a bank account – it's invariably best to keep a bank account for the business that's separate to your personal accounts
- Depending on the type of business, finding suitable premises from which to operate. If you choose to operate from home, depending on the circumstances you may need to

consider whether your rental agreement permits it, any alterations that may be necessary (and planning permission required) and whether you'll need to pay business rates to your local authority for the use of part of your home for business purposes.

- Whether you'll need complete VAT registration (or want to register voluntarily) and, if so, then register for VAT
- If you're going to employ people, registering a Pay As You Earn (PAYE) payroll scheme. You'll also need to consider employment contracts, statutory pension entitlements and various other employment-related matters.
- Business insurance that's required or desirable. In another article, we look at some of the different types of business insurance that may be necessary or useful.
- If you're a contractor or sub-contractor in the construction industry, you'll need to register with the Construction Industry Scheme (CIS).
- Any funding that might be available for the business – for example, grants or loans.

Advantages of being a sole trader

- Simple to set up and operate.
- You retain complete control of your assets and business decisions.
- Fewer reporting requirements.
- Any losses incurred by your business activities may be offset against other income, such as your investment income or wages (subject to certain conditions).
- Allows you to use your individual tax file number (TFN) to lodge tax returns.
- You are not considered an employee of your own business and therefore don't pay payroll tax, superannuation or workers' compensation on income you draw from the business.
- Relatively easy to change business structure if your business grows or if you wish to wind things up.

Disadvantages of being a sole trader

- Unlimited liability which means all your personal assets are at risk if things go wrong.
- Little opportunity for tax planning – you can't split business profits or losses with family members and you are personally liable to pay tax on all the income from the business.

What is Partnership?

A partnership is a kind of business where a formal agreement between two or more people is made and agreed to be the co-owners, distribute responsibilities for running an organization and share the income or losses that the business generates.

In India, all the aspects and functions of the partnership are administered under 'The Indian Partnership Act 1932'. This specific law explains that partnership is an association between two or more individuals or parties who have accepted to share the profits generated from the business under the supervision of all the members or behalf of other members.

Features of Partnership

Following are the few features of a partnership

1.Agreement between Partners: It is an association of two or more individuals, and a partnership arises from an agreement or a contract. The agreement (accord) becomes the basis of the association between the partners. Such an agreement is in the written form. An oral agreement is evenhandedly legitimate. In order to avoid controversies, it is always good, if the partners have a copy of the written agreement.

2. Two or More Persons: In order to manifest a partnership, there should be at least two (2) persons possessing a common goal. To put it in other words, the minimal number of partners in an enterprise can be two (2). However, there is a constraint on their maximum number of people.

3. Sharing of Profit: Another significant component of the partnership is, the accord between partners has to share gains and losses of a trading concern. However, the definition held in the Partnership Act elucidates – partnership as an association between people who have consented to share the gains of a business, the sharing of loss is implicit. Hence, sharing of gains and losses is vital.

4. Business Motive: It is important for a firm to carry some kind of business and should have a profit gaining motive.

5. Mutual Business: The partners are the owners as well as the agent of their firm. Any act performed by one partner can affect other partners and the firm. It can be concluded that this point act as a test of partnership for all the partners.

6. Unlimited Liability: Every partner in a partnership has unlimited liability.

Types of Partnerships

A partnership is divided into different types depending on the state and where the business operates. Here are some general aspects of the three most common types of partnerships.

General Partnership

A general partnership comprises of two or more owners to run a business. In this partnership, each partner represents the firm with equal right. All partners can participate in management activities, decision making, and have the right to control the business. Similarly, profits, debts, and liabilities are equally shared and divided equally.

In other words, the general partnership definition can be stated as those partnerships where rights and responsibilities are shared equally in terms of management and decision making. Each partner should take full responsibility for the debts and liability incurred by the other partner. If one partner is sued, all the other partners are considered accountable. The creditor or court will hold the partner's personal assets. Therefore, most of the partners do not opt for this partnership.

Limited Partnership

In this partnership, includes both the general and limited partners. The general partner has unlimited liability, manages the business, and the other limited partners. Limited partners have limited control over the business (limited to his investment). They are not associated with the everyday operations of the firm.

In most of the cases, the limited partners only invest and take a profit share. They do not have any interest in participating in management or decision making. This non-involvement means they do not have the right to compensate the partnership losses from their income tax return.

Joint Venture

Short-term projects or alliances that bring together multiple partners for a project are typically structured as joint ventures. If the venture performs well, it can be continued as a general partnership. Otherwise, it can be shuttered.

Limited Liability Partnership

In Limited Liability Partnership (LLP), all the partners have limited liability. Each partner is guarded against other partners legal and financial mistakes. A limited liability partnership is almost similar to a Limited Liability Company (LLC) but different from a limited partnership or a general partnership.

Partnership at Will

Partnership at Will can be defined as when there is no clause mentioned about the expiration of a partnership firm. Under section 7 of the Indian Partnership Act 1932, the two conditions that have to be fulfilled by a firm to become a Partnership at Will are:

- The partnership agreement should have not any fixed expiration date.
- No particular determination of the partnership should be mentioned.

Therefore, if the duration and determination are mentioned in the agreement, then it is not a partnership at will. Also, initially, if the firm had a fixed expiration date, but the operation of the firm continues beyond the mentioned date that it will be considered as a partnership at will.

Indian Partnership Act 1932

Most of the businesses in India adopt a partnership business, so to monitor and govern such partnership The Indian Partnership Act was established on the 1st October 1932. Under this partnership act, an agreement is made between two or more person who agrees to operate the business together and distribute the profits they gain from this business.

Advantages of Partnership

- **Easy Formation –** An agreement can be made oral or printed as an agreement to enter as a partner and establish a firm.
- **Large Resources –** Unlike sole proprietor where every contribution is made by one person, in partnership, partners of the firm can contribute more capital and other resources as required.
- **Flexibility –** The partners can initiate any changes if they think it is required to meet the desired result or change circumstances.

- **Sharing Risk** – All loss incurred by the firm is equally distributed amongst each partner.
- **Combination of different skills** – The partnership firm has the advantage of knowledge, skill, experience, and talents of different partners.

Partnership deed

A partnership is a kind of business where a formal agreement between two or more people is made and agreed to be the co-owners, distribute responsibilities for running an organisation and share the income or losses that the business generates. This features of partnerships are documented in a document which is known as partnership deeds.

What is a Partnership Deed?

Partnership deed is a partnership agreement between the partners of the firm which outlines the terms and conditions of the partnership between the partners. The purpose of a partnership deed is to provide clear understanding of the roles of each partner which ensures smooth running of the operations of the firm.

The Partnership comes into the limelight when:

- There is an outcome of agreement among the partners.
- The agreement can be either in written or oral form.
- The Partnership Act does not demand that the agreement has to be in writing. Wherever it is in the form of writing, the document, which comprises terms of the agreement is called 'Partnership Deed.'
- It usually comprises the attributes about all the characteristics influencing the association between the partners counting the aim of trade, the contribution of capital by each of the partner, the ratio in which the gains and losses will be divided by the partners and privilege and entitlement of partners to interest on loan, interest on capital, etc

Registration of Partnership Deed

All the rights and responsibilities of each member are recorded in a document known as Partnership Deed. This deed can be oral or written; however, an oral agreement is of no use when the firm has to deal with the tax. Few essential characteristics of partnership deed are:

- The name of the firm.
- Name and addresses of the partners.
- Nature of the business.

- The term or duration of the partnership.
- The amount of capital to be contributed by each partner.
- The drawings that can be made by each partner.
- The interest to be allowed on capital and charged on drawings.
- Rights of partners.
- Duties of partners.
- Remuneration to partners.
- The method used for calculating goodwill.
- Profit and loss sharing ratio

Partnership Deed Contents

While making partnership deed, all the provisions and the legal points of the partnership deed are included. This deed also includes basic guidelines for future projects and can be used as evidence at times of conflict or legal procedures. For a general partnership deed below mentioned information should be included.

- Name of the firm as determined by all partners.
- Name and details of all the partners of the firm.
- The date on which business commenced.
- Firm's existence duration.
- Amount of capital contributed by each partner.
- Profit sharing ratio between the partners.
- Duties, obligations and power of each partner of the firm.
- The salary and commission if applicable that is payable to partners.
- The process of admission or retirement of a partner.
- The method used for calculating goodwill.
- The procedure that must be followed in cases of dispute arising between partners.
- Procedure for cases where a partner becomes insolvent.
- Procedure for settlement of accounts in the event of *dissolution of a firm.*

<u>Importance of partnership deed</u>

Few are the important advantages of the well-drafted deed:

- It controls and monitors the rights, responsibilities, and liabilities of all the partners
- Avoids dispute between the partners.
- Avoids confusion on profit and loss distribution ratio among the partners.
- Individual partner's responsibilities are mentioned clearly.
- Partnership deed also defines a remuneration or salary of the partners and working partners. However, interest is paid to each partner who has invested capital in the business.

Different between Sole trader and Partnership

Sole Trader vs Partnership

Sole trader	Partnership
Definition	
It is a business model where an individual is an owner as well as the operator of the business.	It is a business model where two or more persons agree to carry on business and share profits and losses mutually.
Business act	
Comes under no specific act	Governed by the Indian Partnership Act, 1932
Owner called as	
Sole Proprietor	Individual members known as partners and collectively known as a firm.
Incorporation Required	
Not required	Voluntary
Minimum Members	
One	Two
Maximum Members	
Only One	100
Freedom to operate	
Decision-making rests with the proprietor only, hence full freedom to operate.	The decision needs to be mutually acceptable to all partners. A difference of opinion can arise and cause loss of business.
Liability	
Rests with the proprietor only	Shared by partners of the firm
Finance	
Scope of raising capital is limited.	Scope of raising capital is relatively high.

UNIT-III

COMPANIES

Joint Stock Company

Definition: A joint stock company is a legal association between individuals that creates a new entity for business purposes. It is a way to incorporate a given business with two or more shareholders.

The term "joint stock company" has been defined by the Companies Act in India as a company limited by shares having a permanent paid-up or nominal share capital of fixed amount divided into shares, also of fixed amount held and transferable as stock, and formed on the principle of having in its members only the holders of those shares or stock and other persons."

Features of Joint Stock Company

1. **Separate Legal Entity –** A joint stock company is an individual legal entity, apart from the persons involved. It can own assets and can because it is an entity it can sue or can be sued. Whereas a partnership or a sole proprietor, it has no such legal existence apart from the person involved in it. So the members of the joint stock company are not liable to the company and are not dependent on each other for business activities.
2. **Perpetual –** Once a firm if born, it can only be dissolved by the functioning of law. So, company life is not affected even if its member keeps changing.
3. **Number of Members –** For a public limited company, there can be an unlimited number of members but minimum being seven. For a private limited company, only two members. In general, a partnership firm cannot have more than 10 members in one business.
4. **Limited Liability –** In this type of company, the liability of the company's shareholders is limited. However, no member can liquidate the personal assets to pay the debts of a firm.
5. **Transferable share –** A company's shareholder without consulting can transfer his shares to others. Whereas, in a partnership firm without any approval of other partners, a partner cannot move his share.
6. **Incorporation –** For a firm to be accepted as an individual legal entity, it has to be incorporated. So, it is compulsory to register a firm under a joint stock company.

Types of Joint Stock Company

The joint stock company is divided into three different types.

- **Chartered Company** – A firm incorporated by the king or the head of the state is known as a chartered company.
- **Statutory Company** – A company which is formed by a particular act of parliament is known as a statutory company. Here, all the power, object, right, and responsibility are all defined by the act.
- **Registered Company** – An organisation that is formed by registering under the law of the company comes under a registered company.

Advantages

1. Financial Strength:

The joint stock company can raise a large amount of capital by issuing shares and debentures to the public. There is no limit to the number of shareholders in a company. (However, in a private company the membership cannot exceed 50.) The capital of the company is divided into numerous parts of small value called shares and this attracts even the person with limited resources.

Further, anyone can purchase the shares and leave the responsibility of management to the body of persons called directors. Again, as the shares are freely transferred by selling it in the stock market, this works as an added attraction to the investors. Because of this, the joint stock form of organization is well adopted for raising amounts of capital.

2. Limited Liability:

One important factor which attracts the investors to subscribe is the principle of limited liability. According to this a shareholder's liability is limited only to the extent of the face value of the shares held by him and his personal properties are not affected. This form of organization is a great attraction to persons who do not want to take much risk in other forms of organization that do not enjoy the benefit of limited liability.

3. Benefits of Large Scale Organization:

As the size of a company is large, the economies of large-scale organization and production are secured. Due to this, the cost of production will be less and the society is in a position to get its requirements at a lesser price.

4. Scope for Expansion:

As there is no limit to the number of persons in a company, there is a great scope for expansion of the business. A company, which is making good profits, can create big reserves which can be

used for the expansion of the company. In addition, the availability of managerial talent in the company facilitates the expansion of the business.

5. Stability:

A company is a legal entity and enjoys perpetual succession which means the retirement or death of a shareholder cannot affect the company Even the change in the management or the owner or disputes over the ownership of shares or stock cannot affect the continuity of a company. The companies are well suited for business, which require a long period to establish and consolidate.

6. Transferability of Shares:

One special feature of company is that shares are freely transferable from one person to another without the knowledge of the shareholders. The existence of stock exchanges where shares and debentures are sold and purchased has facilitated as good as cash as they can be sold at any time and there is an added attraction to the investors.

7. Efficient Management:

In company organizations, the agents of production are effectively combined and also there is scope for increased efficiency of direction and management. The most efficient persons may be chosen as directors and if found indifferent, they may be changed in the next meeting. Normally, as the directors have a great stake in the business, in the interest of the company, and in their own interest, they have to be very efficient.

8. Higher Profit:

As a large capital is invested in companies, it would be possible for them to use the expensive machinery and up-to-date equipment resulting in greater production, reduced cost, and higher profit. The progress of industries and commerce of the nation.

9. Diffused Risk:

In this form of organization, the risk is reduced for each shareholder, because it is diffused and spread over several shareholders of the company. This is an advantage from the individual investor’s point of view.

10. Bolder Management:

In this form of organization, as the persons who manage the company have relatively smaller financial stake, they can become adventurous. There are many industries, which would not have come into existence if people had been unduly cautious.

Starting of a new enterprise needs an adventurous spirit and in case of joint-stock company because of its limited liability and smaller financial stake of the persons, who manage it, people can become adventurous and thus start new enterprises.

11. Social Benefit:

The company form of organization has encouraged the habit of saving and investment among the public. It has also indirectly helped the growth of financial institutions such as banks and insurance companies by providing avenues to invest their funds. Further, as companies cannot be managed by all the shareholders who are large in number, it has to employ professional managerial personnel and this has helped the development of management as a profession.

Again, as the affairs of the company are published, and as the companies are well regulated and controlled by the State, the public has great confidence in the company form of organization.

Disadvantages of Joint-Stock Company:

In spite of so many advantages of company form of organization, there are many drawbacks and limitations from which it suffers.

They are as follows:

1. Formation is Difficult:

The formation of a company involves a long-drawn-out complex procedure. For formation many provisions of the Companies Act are be complied with. Large amount of money have to be spent in order to fulfill the preliminaries. Further, in many cases government sanction is required. These difficulties discourage many persons from starting companies.

2. Fraudulent Management:

Many a time unscrupulous promoters by presenting the prospectus as a rosy picture manage to get capital from the public. This results in companies being started and managed by incapable and fraudulent hands.

3. Concentration of Control in Few Hands:

In theory, democratic principles are followed in the management of companies, but in practice it is nothing but oligarchy of managing director and directors leading to concentration of control in a few hands. The shareholders have no say in the affairs of the company.

As they are spread throughout the country, very few care to attend the meetings and those who do not attend, normally give proxies in favor of managing director or directors. All these facilitate the concentration of economic power in the hands of a few persons.

4. Encourages Speculation:

This form of organization encourages speculation on the stock exchange. Usually the value of the company's share depends on the dividends declared and reputation of the company, which can be manipulated. This may encourage the managing director and directors to manipulate the shares on the stock exchange in their own interest to the detriment of the majority of shareholders.

5. Lacks Initiative and Motivation:

As there is indirect delegated management in the company form of organization, there is no initiative and motivation. The paid officials who manage the company have no personal interest and this leads to inefficiency and waste.

6. Conflict of Interest:

There is a conflict of interest between persons who are at the helm of affairs of company and shareholders. Many times dishonest persons at the top succeed in cleverly misleading and cheating the shareholders. Again there is a clash of interest between the shareholders.

Again there is a clash of interest between the preference shareholders and equity shareholders. While the preference shareholders want the creation of large reserves out of profits, the equity shareholders are interested in distributing the entire profit by way of dividends.

7. Excessive Government Control:

A company form of organization is very much controlled by the government and it has to observe many provisions of the different regulations of the government. Again, heavy penalty is imposed for the non-observance of the provisions of the Acts. Companies spend much of their precious time in complying with the provisions and the statutory rules.

8. Lack of Prompt Decision:

The prompt decisions which are possible in case of other organizations such as sole-trading organization and partnership are not possible in a company form of organization. Owing to the difficulty of getting the requisite quorum and the presence of diverse interests, which may lead to disagreement, prompt decision cannot be taken.

9. Monopolistic Control:

There is a great possibility for companies to form combination or amalgamate with a view to getting monopolistic control. This is very harmful to the other producers and businessmen in the same line and also to the consumers.

Formation of a Company

Formation of a company to establish a 'new' company. A new company is set to be established when it is registered under the companies act. the formation of the company involves various legal formalities and activities.

Stages in the Company Formation

A. Promotion stage

B. Incorporation stage

C. Capital raising stage

D. Commencement of business stage

Memorandum of Association

A Memorandum of Association (MOA) is a legal document prepared in the formation and registration process of a limited liability company to define its relationship with shareholders. The MOA is accessible to the public and describes the company's name, physical address of registered office, names of shareholders and the distribution of shares. The MOA and the Articles of Association serve as the constitution of the company. The MOA is not applied in the U.S. but is a legal requirement for limited liability companies in European countries including the United Kingdom, France and Netherlands, as well as some Commonwealth nations.

Legal Name of the Company

The name clause requires you to state the legal and recognized name of the company. You are allowed to register a company name only if it does not bear any similarities with the name of an existing company. Your company name must end with the word "limited" because the preparation of an MOA is a legal requirement for limited liability companies only.

Physical Address of the Registered Office

The registered office clause requires you to show the physical location of the registered office of the company. You are required to keep all the company registers in this office in addition to using the office in handling all the outgoing and incoming communication correspondence. You must establish a registered office prior to commencing business activities.

Objectives of the Company

The objective clause requires you to summarize the main objectives for establishing the company with reference to the requirements for shareholding and use of financial resources. You also need to state ancillary objectives; that is, those objectives that are required to facilitate the achievement of the main objectives. The objectives should be free of any provisions or declarations that contravene laws or public good.

Liability of Shareholders

The liability clause requires you to state the extent to which shareholders of the company are liable to the debt obligations of the company in the event of the company dissolving. You should show that shareholders are liable only their shareholding and/or to their

commitment to contribute to the dissolution costs upon liquidation of a company limited by guarantee.

Authorized Share Capital

The capital clause requires you to state the company's authorized share capital, the different categories of shares and the nominal value (the minimum value per share) of the shares. You are also required to list the company's assets under this clause.

Association and Formation of a Company

The association clause confirms that shareholders bound by the MOA are willingly associating and forming a company. You require seven members to sign an MOA for a public company and not less than two people for a MOA of a private company. You must conduct the signing in the presence of witness who must also append his signature.

Shares and Debentures

Shares are the company-owned capital. Debentures are the borrowed capital of the company. Holder. The person who holds the ownership of the shares is called as Shareholders. The person who holds the ownership of the Debentures is called as Debenture holders.

Shares	Debentures
What it means?	
Shares are the company-owned capital.	Debentures are the borrowed capital of the company.
Holder	
The person who holds the ownership of the shares is called as Shareholders.	The person who holds the ownership of the Debentures is called as Debenture holders.
Status	
Owners.	Creditors
Mode or return	
Shareholders are given the dividends.	Whereas, debenture holders are given interest.

Payment of return	
Dividends can be paid to the shareholders out of profits earned by the company.	Interest can be paid to the debenture holders, regardless of if the company has earned profits.
Voting rights	
Shareholders possess voting rights.	Debenture holders possess any right for voting.
Conversion	
Shares cannot be converted into Debentures.	However, debentures can easily be converted into Shares.
Trust Deed	
Trust deed is not carried out in the shares.	When the debentures are circulated to the public, a trust deed has to be carried out.