

Class 11th | Business Studies



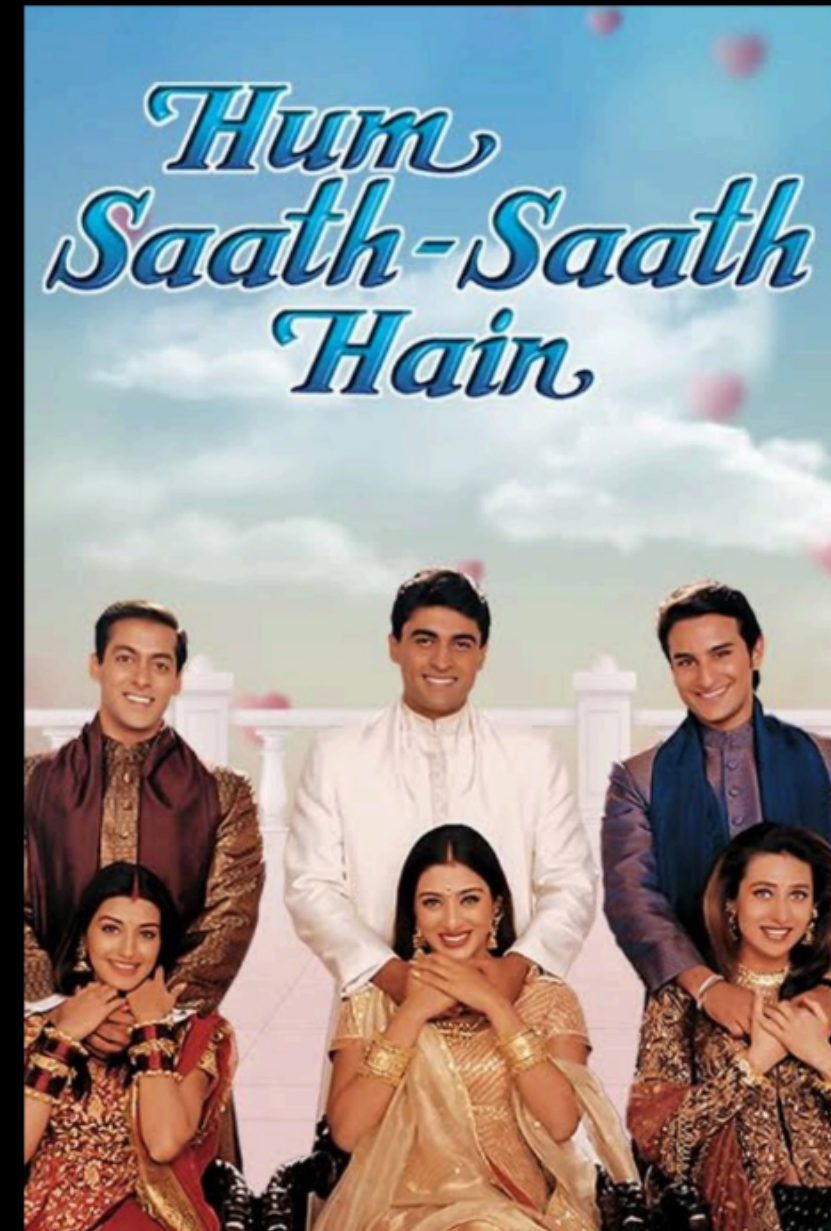
Forms of Business Organisations

LECTURE - 2

HINDU UNDIVIDED FAMILY BUSINESS

- The Hindu undivided family business or Joint Hindu Family Business is a unique form of business organisation, which is found only in India. It is governed by the provisions of the Hindu Law (The Hindu Succession Act, 1956). It is one of the oldest forms of business organisation in the country
- It refers to a form of organisation wherein the business is owned and carried on by the members of the Hindu Undivided Family (HUF).

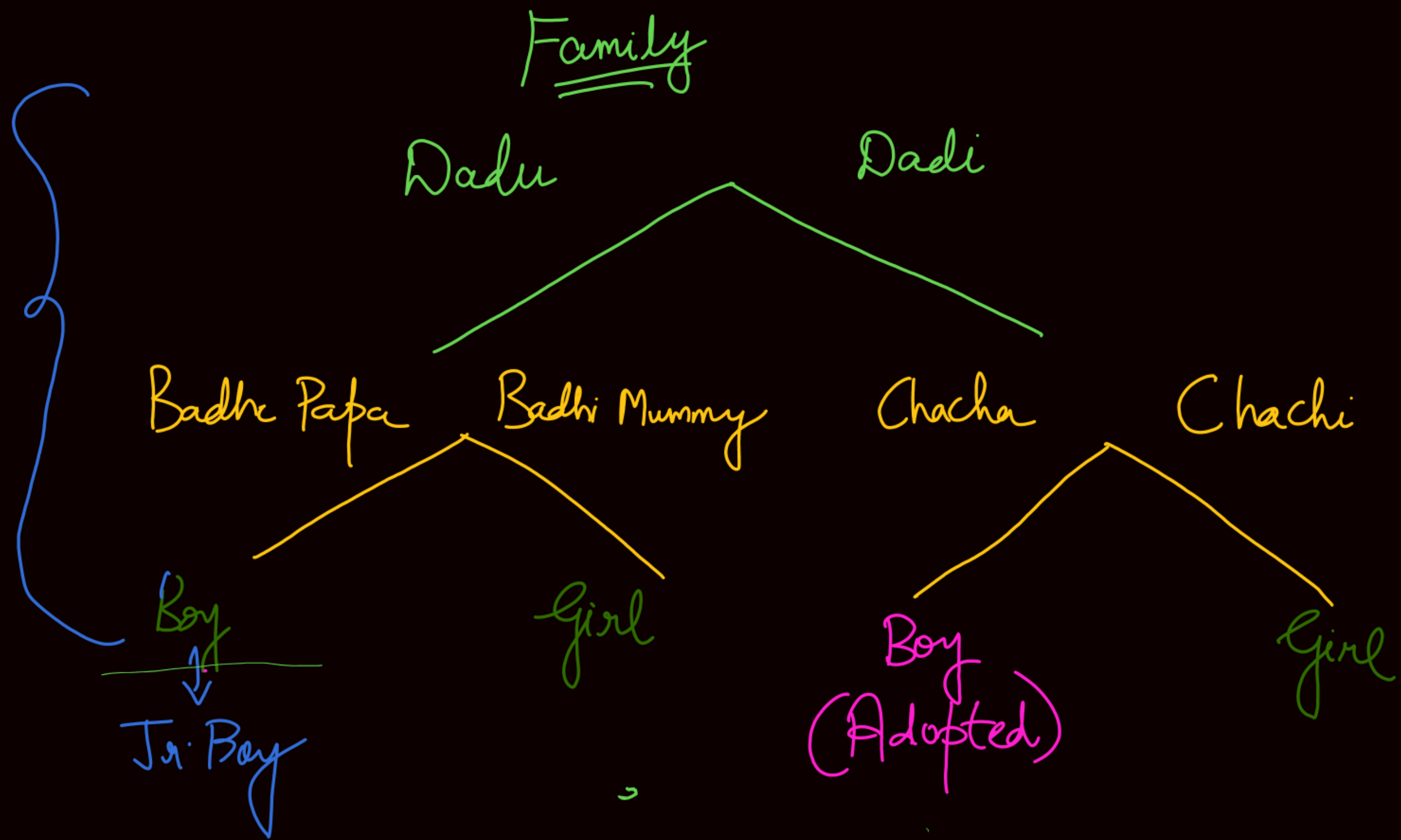
HUF



HINDU UNDIVIDED FAMILY BUSINESS

- The basis of membership in the business is birth in a particular family and three successive generations can be members in the business.
- The business is managed and controlled by the eldest male member of the family known as 'Karta' or 'Manager'. The decisions of the karta are binding on all the members.
- All members have equal ownership right over the property of an ancestor and they are known as co-parceners.





Q. If the Karta dies, then who will become the next Karta?

Ans. Senior most male member -

HINDU UNDIVIDED FAMILY BUSINESS

There are two systems of inheritance under the Hindu Law:

- **Dayabhaga System:** This system prevails in West Bengal and Assam only. Under this system, both male and female members of the family are allowed to be co-parceners. The right in the joint family property is acquired only after death of the father.
- **Mitakashara System:** This system prevails all over India except West Bengal and Assam. Under this system, only the male members are allowed to be co-parceners in the business. The right in the joint family property is acquired by birth.

Mnemonic

F	L	C	C	M
Fatafat	Lucknow	chalo	chatori	Mata.

F	-	Formation
L	-	Liability
C	-	Control
C	-	Continuity
M	-	Minor Members

HINDU UNDIVIDED FAMILY BUSINESS

Features of Hindu Undivided Family

- **Formation:**

For formation of Hindu undivided family business, there should be at least two members in the family and ancestral property must be inherited by them. There is no need for any agreement between the family members as membership arises by virtue of birth. It is governed by the Hindu Succession Act, 1956.

→ At least 2 members
→ Ancestral property



Q. Can Modiji ^{start} a HUF?

5

HINDU UNDIVIDED FAMILY BUSINESS

- **Liability:**

The liability of all members (except karta) is limited to the extent of their shares in the co-parcenary property of the business. However, the karta has unlimited liability, i.e. his self-acquired property can also be attached for paying the debts of the business.

Karta - Unlimited
Co-parceners - limited.



HINDU UNDIVIDED FAMILY BUSINESS

- **Control:**

The control of the family business lies with the karta. He is authorised to manage the business. He takes all the decisions and his decisions are binding on the other members.

Control - Karta

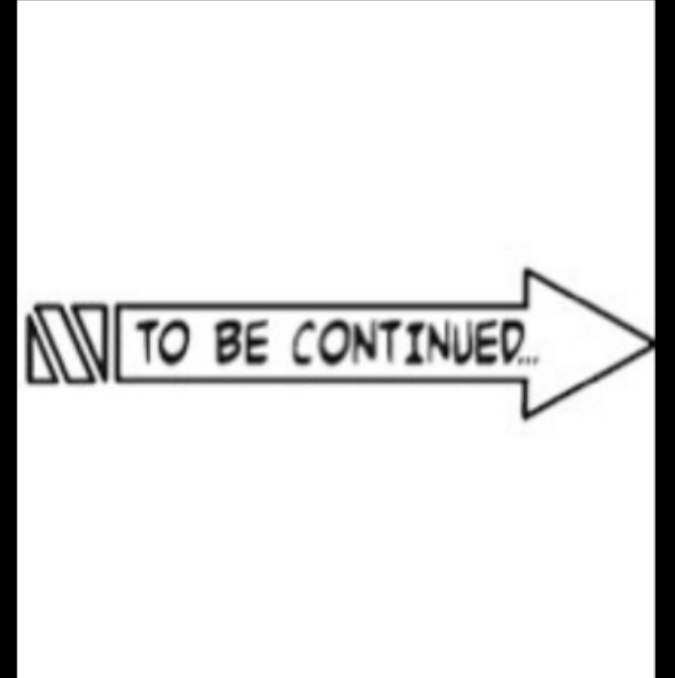


HINDU UNDIVIDED FAMILY BUSINESS

- **Continuity:**

This form of business is not affected by the death of the members. In the case of death of karta, the next eldest male person in the family becomes the karta, leaving the business stable. However, the business can be terminated with the mutual consent of the members.

Continue by next male member.



HINDU UNDIVIDED FAMILY BUSINESS

- **Minor Members:**

Minors can also be members of the business as inclusion of an individual into the business occurs due to birth in the Family.

An adopted son can also become the member of the HUF.

→ Below 18 yrs

Patandi Parivar.



HINDU UNDIVIDED FAMILY BUSINESS

Merits of Hindu Undivided Family

- **Effective control:**

The karta has absolute decision making power. This avoids conflicts among members as no one can interfere with his right to decide. This also leads to prompt and flexible decision making.



HINDU UNDIVIDED FAMILY BUSINESS

- **Continued business existence:**

The death of the karta will not affect the business as the next eldest member will then take up the position. Hence, operations are not terminated (end) and continuity of business is not threatened.



HINDU UNDIVIDED FAMILY BUSINESS

- **Limited liability of members:**

The liability of all the co-parceners except the karta is limited to their share in the business, and consequently their risk is well-defined and precise.



HINDU UNDIVIDED FAMILY BUSINESS

- **Increased loyalty and cooperation:**

Since the business is run by the members of a family, there is a greater sense of loyalty towards one other. Pride in the growth of business is linked to the achievements of the family. This helps in securing better cooperation from all the members.



HINDU UNDIVIDED FAMILY BUSINESS

Limitations of Hindu Undivided Family

- **Limited resources:**

The joint Hindu family business faces the problem of limited capital as it depends mainly on ancestral property. This limits the scope for expansion of business.



HINDU UNDIVIDED FAMILY BUSINESS

- **Unlimited liability of Karta:**

The karta is burdened not only with the responsibility of decision making and management of business, but also suffers from the disadvantage of having unlimited liability. His personal property can be used to repay business debts.

Merit Limited liability of co-parceners.
Unlimited liability of Karta.



HINDU UNDIVIDED FAMILY BUSINESS

- **Dominance of karta:**

The karta individually manages the business which may at times not be acceptable to other members. This may cause conflict amongst them and may even lead to break down of the family unit.



HINDU UNDIVIDED FAMILY BUSINESS

- **Limited managerial skills:**

Since the karta cannot be an expert in all areas of management, the business may suffer as a result of his unwise decisions. His inability to decide effectively may result into poor profits or even losses for the organisation.



QUESTIONS

1. Who becomes 'Karta' in Joint Hindu Family Business?
- a. By voting of members
 - b. Senior most male member
 - c. Most Educated member of family
 - d. Any member can become.

QUESTIONS — Case Study (Home work)

Sharma brothers inherited some ancestral property. They decided to form a Hindu undivided family consisting of four male members. Mr. Raman Sharma was eldest brother so he became 'Karta'. The business took a loan of ₹20 lac from Canara Bank, which was to be returned within 5 years. Due to poor financial position of the business, they were unable to repay the loan. Brothers sold the ancestral property for ₹10 lac and paid the amount to Canara Bank. The bank filed a case for recovery of balance amount. Mr. Raman Sharma pleaded the court that the loan was taken for the purpose of Business; so all members of business are liable to repay. The court said all members are responsible only to the extent of their share in business and business property is already sold, but you being Karta will have to repay whole amount even by selling your personal property.

1. In this case who has unlimited liability?
2. Was the decision of court to claim only from Raman is justified?



STAY
CONNECTED

KEEP
LEARNING

* "ALRIGHT
EVERYONE.
THAT'S
ALL
FOR
TODAY.
HAVE !"

MADE BY --KAIRA