

Semester “Fall 2011”
“Introduction to Business (MGT211)”
Solution of 1st Assignment

Question No. 1

The form of the business organization was **sole proprietorship** when business was initially run by Mr. Bilal.

Reason

A business which is owned and operated by one person is known as sole proprietorship. In the given case only Mr Bilal was operating and controlling the whole business and he was enjoying the entire profit.

Question no 2

When Mr. Yasir joined the business with Mr. Ali, the form of business organization becomes **partnership** as he will take active part in managing the affairs of business with Mr. Ali on 50% profit/loss sharing basis.

Mr. Ali and Mr. Yasir can have following benefits from this form of ownership:

- The responsibilities of running the business are now shared among the two partners.
- More capital can be invested.
- It will reduce the chances of making wrong decisions.
- It is possible to develop personal contacts with the customer.
- Chances of expanding the business are there.
- It can create better and direct relations with suppliers and other stakeholders.
- It will ensure the efficient management of business because of distribution of work.
- Both partners will be motivated to work hard because both of them would be benefited from the profits made. In addition, any losses suffered by the business would now be shared among the partners.

Question no 3

In case, if the business is liquidated then initially the assets of the business will be sold at Rs 450,000/- to pay some of the debt out of total debt of Rs. 800,000/- and remaining liabilities of Rs. 350,000/- will be shared by both the partners. Mr. Ali will pay Rs. 175,000/- from his personal property to satisfy the creditors' claim as the partnership was created on equal basis of profit/loss sharing. But, Mr. Yasir can pay up to Rs. 125,000/- as his personal property is worth Rs. 125,000/- only. Finally, Mr. Yasir is declared as an insolvent by the court of law to the amount of Rs. 50,000/- . This amount is now considered to be a loss to the creditors.