

Chapter – 6

Joint Stock Company

I. Choose the Correct Answer

Question 1.

The relationship between outsiders and the company is defined in

.....

- (a) Prospectus
- (b) Articles of Association
- (c) Memorandum of Association
- (d) Certificate of Incorporation

Answer:

- (a) Prospectus

Question 2.

Table A of the Companies Act is a

- (a) Model minutes book
- (b) Model form of Balance Sheet
- (c) Model of AOA
- (d) Model of MOA

Answer:

- (c) Model of AOA

Question 3.

Which of the' following is created by a Special Act of Parliament or in State Assemblies?

- (a) Chartered company
- (b) Foreign company
- (c) Government company
- (d) Statutory company

Answer:

- (d) Statutory company

Question 4.

The Board of directors of a company is elected by

- (a) Creditors
- (b) Debtors
- (c) Debenture holders
- (d) Shareholders (members)

Answer:

- (d) Shareholders (members)

Question 5.

Companies established as a result of a charter granted by the King or Queen of a country is called

- (a) Chartered companies
- (b) Statutory companies
- (c) Registered companies
- (d) Foreign companies

Answer:

- (a) Chartered companies

II. Very Short Answer Questions

Question 1.

What are the different types of companies?

Answer:

The Companies can be classified on the basis of the following:

- Incorporation
- Membership
- Member liability
- Control
- Nationality

Question 2.

Define a Company.

Answer:

“A company is an artificial person created by law having a separate entity with a perpetual succession and a common seal.” – L.H. Haney.

Question 3.

What is meant by Limited liability?

Answer:

The liability of the members in a company is limited by shares only to the unpaid value of the shares subscribed by them. No personal property of the members can be made use of, for the satisfaction of the company's debt beyond the limit of the shareholding or guarantee money.

Question 4.

Explain any two characteristics of a company.

Answer:

1. Separate Legal Entity:

Under Incorporation, a company becomes a separate legal entity as compared to its members. The company is distinct and different from its members.

2. Limited Liability:

The liability of the members of the company is limited to contribution to the assets of the company upto the face value of shares held by him. A member is liable to pay only the uncalled money due on shares held by him.

Question 5.

What is meant by Chartered Company?

Answer:

Chartered companies are established by the King or Queen of a country. The powers and privileges of the chartered company are specified in the charter. Power to cancel the charter is, vested with King/Queen. Companies Act does not apply to them. It cannot be started in India. E.g. East Indian Company, Standard Chartered Bank, Bank of England.

III. Short Answer Questions

Question 1.

What are the advantages of Companies? (Any 3)

Answer:

1. Large Capital:

A company can secure large capital compared to a sole trader or partnership. A large amount of capital is necessary for conducting business on a large scale.

2. Limited liability:

The liability of a shareholder is limited. In the case of a company limited by guarantee, his liability is restricted to the amount that he has guaranteed to contribute in the event of winding up of the company.

3. Transferability of Shares:

Transaction of shares between two individuals is easy. So there is the liquidity of the investment. Any shareholder can easily convert his shares into money by selling his shares.

Question 2.

What is meant by Private Company?

Answer:

A private limited company is a type of company which is formed with minimum of two shareholders and two directors, the minimum requirement with respect to authorised or paid-up capital of Rs. 1,00,000 has been omitted by the Companies (Amendment) Act, 2015 w.e.f. 29th of May, 2015.

Another crucial condition of a private limited company is that it by its articles of association restricts the right to transfer its shares and also prohibits any invitation to the public to subscribe for any securities of the company.

Question 3.

What is meant by Government Company?

Answer:

A public enterprise incorporated under the Indian Companies Act, 1956 is

called a government company. These companies are owned and managed by Central or the State government. 51% of the paid-up share capital of the company should be held by Central or state governments.

Question 4.

What is meant by Foreign Company?

Answer:

A Foreign company means a company which is incorporated in a country outside India under the law of that country. After the establishment of business in India, the following documents must be filed with the Registrar of Companies within 30 days from the date of establishment:

1. A certified copy of the charter or statutes under which the company is incorporated or the memorandum and articles of the company translated into English.
2. The full address of the registered office of the company.
3. A list of directors and secretary of the company.
4. The name and address of any person resident of India who is authorised to accept, on behalf of the company, service of the legal process and any notice served on the company.

IV. Long Answer Questions

Question 1.

What are the contents of the Memorandum of Association?

Answer:

Meaning:

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.

Name Clause:

The name clause requires stating the legal and recognized name of the company. The company name is allowed to be registered if it does not bear any similarities with the name of an existing company only.

Situation Clause:

The registered office clause requires to 'show the physical location of the registered office of the company. It is required to keep all the company registers in this office. The registered office should be established prior to commencing business activities.

Objective Clause:

The objective clause requires summarizing the main objectives for establishing the company with reference to the requirements for shareholding and use of financial resources. The objectives should be free of any provisions or declarations that contravene laws or public good.

Liability Clause:

The liability clause requires stating the extent to which shareholders of the company are liable to the debt obligations of the company in the event of the company dissolving. There are companies limited by shares and limited by guarantee.

Capital Clause:

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

Association Clause:

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

Question 2.

What are the contents of the Articles of Association?

Answer:

Contents of Articles of Association (AOA):

- (1) Amount of shares, capital, value, and type of shares.
- (2) Rights of each class of shareholders regarding voting, dividend, the return of capital.
- (3) Rules regarding the issue of shares and debentures.
- (4) Procedures as well as regulations in respect of making calls on shares.
- (5) Manner of transfer of shares.
- (6) Declaration of dividends.
- (7) Borrowing powers of the company.
- (8) Rules regarding the appointment, remuneration, removal of directors.
- (9) Procedure for conducting proxy, quorum, meetings, etc.,
- (10) Procedures concerning the keeping of books and audits.
- (11) Seal of the company.
- (12) Procedures regarding the winding up of the company.

Question 3.

What is meant by Prospectus?

Answer:

Meaning:

A prospectus is “the only window through which a prospective investor can look into the soundness of a company’s venture”. Hence it must specify at least the following matters as per Schedule II:

- The prospectus contains the main objectives of the company, the name and addresses of the signatories of the Memorandum of Association and the number of shares held by them.
- The name, addresses and occupation of directors and managing directors.
- The number and classes of shares and debentures issued.
- The name and addresses of the vendors of any property acquired by the company and the amount paid or to be paid.
- Particulars about the directors, secretaries and the treasures and their remuneration. ® The amount for the minimum subscription.

Question 4.

What is meant by a Multi-National Company?

Answer:

A Multi-National Company (MNC) is a huge industrial organisation which:

1. Operates in more than one country.
2. Carries out production, marketing, and research activities on an international Scale in those countries.
3. Seeks to maximize profits the world over.
4. Examples: Micro Soft Corporation, Nokia Corporation, Nestle, Coca – Cola, International Business Machine, Pepsico, Sony Corporation.

Question 5.

What is meant by a Holding and Subsidiary company?

Answer:

Holding Company:

A company is known as the holding company of another if it has control over that company. The following are the circumstances under which a company becomes a holding company.

- A company which controls the composition of the Board of directors of a company.
- A company which holds the majority of shares in company and
- A company which is a subsidiary of another company.

Subsidiary Company:

“Subsidiary company” or “Subsidiary”, in relation to any other company means a company in which the holding company controls the composition of the Board of Directors; or exercises or controls more than one half of the total share capital either at its own or together with one or more of its subsidiary companies:

Examples:

H Ltd. holds more than 50% of the equity share capital of S Ltd. Now H Ltd. is the holding company of S Ltd., and S Ltd. is the subsidiary of H Ltd.