

Joint stock company

[Business, Company](#)



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A company is an artificial person created by law, having a separate legal entity, with a perpetual succession and a common seal. It is an association of individuals for the purpose of earning profit. It has a capital divided into a number of shares, of which each member possesses one or more shares and which are transferable by its owners. Joint Stock Company has been defined by many eminent authors, jurists and institutions. Some of these definitions are given below – According to L. H.

Haney – “ A company is an artificial person created by law, having a separate legal entity, with a perpetual succession and a common seal. ” According to Company Act 1994 – “ Company means a company formed and registered under this Act or any existing company. ” [Section 2(1. c)] According to Chief Justice Marshall – “ A company is an artificial being invisible, intangible and existing only in the eyes of law. ” The system of joint stock organization is very useful for large undertakings for which large capital is required.

It is an incorporated association created by law, having distinctive name, a common seal, perpetual succession, limited liability etc. formed to carry on business for profit. Characteristics of Joint Stock Company The most distinguishing characteristics of a joint stock company can be stated as follows –

1. Incorporated association : A company is an incorporated association. It comes into existence only after registration under the Companies Act.
2. Voluntary association : A company is an association of many persons on a voluntary basis. So, a company is formed by the choice and consent of the members.

3. Artificial legal person : A company has a legal personality and as such it is regarded by law as an artificial legal person. A company has the right to acquire and dispose of the property.
4. Separate legal entity : A company has a legal entity distinct from its members. It has an independent existence.
5. Common seal : The common seal with the name of the company engraved on it, is used as a substitute for its signature.
6. Perpetual succession : The company has perpetual succession as its existence is not affected in any way by the death, insolvency or exit of any shareholders.
7. Transferability of shares : The shareholders can transfer their shares to any person of their choice. It enables a shareholder to increase or decrease his investment in a company at any time.
8. Limited liability : Liability of the members of a limited company is restricted to the face value of the shares purchased by them. The personal property of the members cannot be attached to satisfy the claims of creditors of a company.
9. Separation of ownership from management : The company is not managed by all the members because the number of members may be large. The authority to manage the whole affairs is conferred to elected representatives of members known as directors.
10. Statutory regulations and government control : The company is governed by the Company Act and it has to follow various provisions of the aforesaid Act. A company has to comply with numerous statutory requirements.

11. R rigidity of objects : The type of business in which the company would participate must be mentioned in the ' object clause' of its Memorandum of Association.
12. Strict legal formalities to commence business : In order to form a company, it is necessary to submit certain documents to the Registrar Companies such as memorandum of association, articles of association, prospectus, list of directors etc.
13. Social benefits : Company form of business enables better utilization of available resources and thus ensures that society have benefited.
14. Accountabilityto shareholders : All the affairs of the company are to be disclosed to the shareholders so that they may come to know about the prospects and other problems of the company as a whole.
15. Public confidence : The financial statements of a company are published every year. Thus public can have clear idea about the activities of the company so a company enjoys greater public confidence.
16. Scope for expansion : A company is better placed as regards the facilities of the growth, development and expansion of its business.

Memorandum of association According to Company Act 1994 - “ Memorandum means the memorandum of association of a company as originally formed or as altered in pursuance of this Act. ”

According to Lord Cairns – “ The memorandum of association of a company is its charter and it defines the limitation of the power of the company. ” So we can say that the memorandum governs the relationship of the company

with the outside world and it is the foundation upon which the superstructure of the company is built. Clause of Memorandum of association 1.

Name clause : The name of the proposed company is mentioned in this clause. The name of a company must end with the word ‘ Limited’ the word ‘ Public Ltd” and the word “ Private Ltd”. All the time of selecting the name of the company the promoter should follow the following things –

1. The name should not be identical with the name of any existing company. b. The name should not create an impression that the company is carrying on the business of some other existing companies.
c. The name should exclude words like crown, emperor, empire, president or prime minister’s name.
2. Address clause : The memorandum must contain the full address of the register office.
3. Object clause : This is the most important clause in the memorandum which states what the company can do. The object must include all the possible lines of business in which company is likely to be engaged. Usually this clause is so drafted that the company may enjoy wide fields for activities in future.
4. Liability clause : This clause states the nature of liability of the members of the company. a. In case of a company limited by shares, member’s liability is limited to face value of the shares. It means that when the shares are fully paid up, members are free from any liability.
b. In case of a company limited by guarantee, the liability clause must state the extent of liability of each individual member in the event of

its being wound up. c. Incase of an unlimited company, the liability clause does not appear in the memorandum of association.

5. Capital clause : This clause states the amount of capital with which the company is registered or authorized to conduct business and the division of capital into equity share and preference share capital should be mentioned.

6. Association clause : This clause contains a declaration by the person(promoter) who signed the memorandum to form the company in a legal way for a legal purpose and to take minimum share of the company.

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Articles of association The Articles of Association is the second important document of Joint Stock Company. It contains the rules and regulations for the internal management, administration and organization of the company |

Memorandum of association | factors of distinguish | Articles of association ||

Memorandum is the fundamental charter of a | Nature | Articles are subsidiary to the charter. | company. | | | Memorandum states the relationship between | Scope | Articles contain provisions for internal management of| | the companies an outsider. | | the company. | |

Memorandum defines the objects of the | Objectives | Articles define the

rules for carrying out the objects| | company. | | of the company. | | Memorandum can't be altered easily.

It | Alteration in the document | Articles can easily be altered without the | | requires court information. | | confirmation of the court. | | Registration of memorandum is compulsory | Registration | Registration of articles is not compulsory for a | | for any company. | | public company. | | Memorandum of association is based on the | Application of rules | Articles of association are based on the doctrine of | | doctrine of constructive notice. | | indoor management. | It has no optional. | Optional | Public company may optional for table A for the | | | incorporation purposes. | | Memorandum of association is always | Misunderstandings. | Articles of association can be changed in | | unchanged in misunderstandings. | | misunderstandings. | | Any work out of its subject matter is | Illegal work | Any work can be done beside it but in the range of | | illegal. | | memorandum. | Memorandum definite the working area. | Working area | Articles are not any working area. It orders process. | Dissolution means dissolve or close. Dissolution of company means to close or dissolve of any existing company. The process by which a company can be closed is called company's dissolution or winding up of a company. Company is an artificial personality organized by an individual organization created by law. According to 1994 company act, " To dissolve or winding up of any existing company the activities of company's is called dissolution of company. "

A company is said to be dissolved when it ceases to exist as a corporate entity." ---C. B. Gupta " Winding up company is a process by which its life comes to end and the assets of company is utilize for the help of creditors

and members. " ---Prof. Gower In 1994 company act section 234(1) there mentions three methods of dissolution of company. These are:

1. Mandatory dissolution by court.
2. Dissolution by own will. .
3. Dissolution by court's supervision.

Mandatory dissolution by court [Section 234-1(A)]: In circumstances the causes by which a company can be dissolved mandatorily by the law of court by the application of company's shareholders, creditors or company's registrar are:

1. Taking decision of dissolution in special meeting.
2. Failing to start a business in one year after the date of registration.
3. To close any company one or more year continuously without any legal reason.
4. Lacking of minimum members of a company according to law.
5. Failure to pay the loan five thousand or above.
6. Any reason of followings: a. Inefficiency in direction. b. Related with illegal job. c. Facing loss continuously. d. Neglecting of shareholders or their rights etc.

Based on above causes court can take the decision of winding up and recruit a liquidator who firstly distributed the asset between third parties and rest of between shareholders.

Dissolution by own will [Section 234-1 (B)]: Creditors or shareholders of any company can dissolve their business whenever they wish. In this

circumstances, shareholders and creditors can winding up the business without taking any help of court.

Causes by which a company can be dissolved by own will:

1. Taking decision of dissolution in special meeting by creditors or shareholders.
2. Formed any company for pre-determined purpose or objective.
3. If any company is not able to pay their liabilities.
4. Direction of company is proved not profited.

Dissolution by court's supervision [Section 234-1 (C)]: In the circumstances of company's dissolution by own will by the application of any parties a company can be dissolved by court's supervision. Causes of dissolution by court's supervision:

1. To take decision for mistreating with creditors or shareholders.
2. Collection and selling of company's asset illegally.

If court takes responsibility of dissolution for any reason it recruits a liquidator to solve dissolution process. (Section 319) Share is a unit of capital. Capital is created by selling of shares or exchange.

But, share can be different according to their price, rights, transferability, advantages etc. Mainly share is divided into four types. Such as:

1. General share.
2. Preference share.
3. Deferred share.
4. Special share.

Ordinary share: Ordinary shares are those shares on which no special privilege is attached. In other words, all the shares except preference shares are called ordinary shares. It is also known as equity share. Ordinary shareholders collect their profit after distributing profit among the shareholders of the preference share. But, the rights, responsibility, duties etc. of the company are performed by them. " All the shares except preference are called equity share. " ---J. K. Mitra Some characteristics of ordinary share are given below:

1. Ordinary shareholders get their profit after distributing to the preference shareholders.
2. In case of dissolution of company they have equal rights to get their assets.
3. They can take participation to direct the company.
4. They can take part in company's meeting.

Preference share: Preference shares are those shares to which some preference is attached in terms of: (a) payment of dividend, (b) return of capital. (c) both. In the first case, the preference shareholders are entitled to receive a fixed rate of dividend before the dividends given to equity shareholders.

In the second case, preference shareholders are entitled to get back their capital in priority to equity shareholders in the event of liquidation of the company. Some characteristics of preference share are given below: 1. Rate of return is guaranteed. Thus, the amount of dividend to be received is certain. 2. Preference shares are better suited for conservative investors, who care more for security of investments and certainty of income. 3. The

holders of this share get a fixed rate of dividend even if the company makes a larger amount of profit.

Preference share can have several types. Such as:

1. Cumulative preference share: Preference shares are cumulative where the preference dividend, if not paid in one year is carried forward to succeeding years.
2. Non-cumulative preference share: The holders of these shares have no claim for the arrears of dividend. They are paid a dividend if there are sufficient profits.
3. Participating preference shares: These share holders are entitled to participate in the surplus profits of the company in addition to their usual fixed rate of dividend.
4. Non-participating preference shares: Preference shares on which only a fixed rate of dividend is paid, are known as non-participating preference shares.
5. Redeemable preference share: The holders of redeemable preference shares can get back their capital at the expiry of a certain period or at the option of the company as may be mentioned in the articles of association.
6. Irredeemable preference share: The preference shares that can't be redeemed unless the company is liquidated are known as irredeemable preference shares.

Deferred share: The owner of those shares get chance to take profit or to exchange capital after meeting.

To bear the preliminary or other expenses company provide these shares in exchange of cash. 4. Special share: Some special shares are given below:

1. Bonus share: Company can't provide all of its profit to shareholders. It deposits some part of profit at the reserve fund. When the amount of reserve fund is more than sufficient or in crisis of company; the amount of reserve fund is brought to company as capital as like as cash and shares are distributed to shareholders. According to J. K. Mitra," Shares which are issued free of cost to the existing equity shareholders are known as bonus shares.
2. Right share: Sometimes Company increases their capital by distributing new shares. Old shareholders are get preferences at the time of distribution of new shares. In this case new shares are divided among them by their profit ratio.
3. Non-par value share: Non-par share refers those shares which are not fixed from the beginning but it determines based on asset after a specific year is called non par value share. In Bangladesh it is not popular. Minimum subscription means the minimum amount of capital which a company requires for the starting of the business.

The minimum subscription should be received within 120 days after the date of the issue of the prospectus. A company can't allot any shares unless the minimum subscription has been raised through the application for shares. If this minimum amount is not collected within the stipulated time period, the amount received from the applicants must be returned within the next 10 days (i. e. within 130 days after the issue of shares) " The minimum subscription is to be fined by the directors or by the persons who have

signed the memorandum. ---Sen. & Mitra “ Minimum subscription is the minimum amount which is the opinion of the directors or of the signaturaries of the memorandum arrived at after due enquiry. ” ---M. C. Shukla The amount of minimum subscription is fixed by the directors. Minimum subscription is necessary to cover the following expenses:

1. Preliminary expenses.
2. Underwriting commissions on sale of shares.
3. Working capital.
4. The cost of any property purchased or to be purchased.
5. Payment of any money borrowed for the above purpose.
6. Any other necessary expenditure. A prospectus is a document inviting the general public to subscribe to the share capital of a public company.

A prospectus is issued by a public company after obtaining the “ Certificate of Incorporation’ from the register. “ Document containing offer of shares or debentures for sale to be deemed a prospectus. ” --According to company act 1994 section 142 A document containing detailed information about the company and invitation to the public subscribing to the share capital and debentures issued is called prospectus. ” ---S. S. Sarkar and Others From the view point of above discussion we can say that-

1. Prospectus is an invitation letter to public.
2. It must be served from company.
3. It is a complete description of shares and debentures.

Finally it can say that to raise capital from public limited company issues prospectus.

If the shares are divided between the partners then to start the business, partners should prepare an additional prospectus. To apply for commencement it is necessary to submit prospectus or additional prospectus.

3. Distinguish between Private limited Company V/S Public Limited Company.

Private limited company	Basis of differentiation	Public limited company
Two	Minimum number of members	Seven
Maximum number of members	Unlimited	Restricted
Transferability of shares	Freely transferable	Not allowed
Raising capital from public	Allowed	Minimum-Two
Number of directors	Minimum-Three	Maximum-Unlimited
Maximum-A specified by the articles	After obtaining certificate of	Commencement of business
After obtaining certificate of	incorporation	commencement.
Not required	Holding of statutory meeting and submission of	Required to be submitted to the
statutory report	registrar of the companies.	
Not required	Filing of prospectus or a statement in the lieu of	Prospektus
Name must end with the words	Name of company	Name must end with the word ' Limited. '
' Private Limited.	Two	Quorum at the annual general meeting
Five	Need not retire by rotation.	Rotation of directors
Retire by rotation.	Simple and cheap.	Procedure for formation
Complicated and relatively costly.	No need to maintain	Index of members
Index to be maintained.	Low protection	Protection to members
High protection.	Possible.	Not possible.
Ability to make quick decisions	Small	Financial and managerial resources
Large.	Low Scope for expansion	High.
Not		

allowed. | Disposal of shares | Allowed. | | Less liquid. | Liquidity of investment in shares | Greater liquidity. | 4. What is artificial personality? Joint Stock Company is an organization which is formed and directed by company act 1994. According to 1994 company act," Any Company is formed and registered under this act is called company. " " A company is an artificial being invisible, intangible and existing only in contemplation of law" ---John Marshal Company is an incorporated association which is an artificial person created by law having a common seal and perpetual succession," --- Sherlekar and Sherlekar Artificial personality of the company means the personality as like as person. These are:

1. Lawful: It is formed and registered by company act.
2. Common seal: It has a common seal which is used in all documents.
3. Lawful rights: Company act gives some right to it.
4. Transaction by own name: It can deal by its own name like other person.
5. Direction of case: A company can able to case on another company like person.
6. Fixed existence: A company is formed by law.

So, it has fixed existence. From the above discussion we can say though company is not any person but it seems as a person because it is created by law. So Y. K. Bushan said," A company may be defined as an artificial person recognized by law. "

Who is underwriter?

The person or organization who takes responsibilities to sale the shares of public limited company by an agreement is known as underwriter. Underwriter takes responsibilities to sale the shares of public ltd. company by a certain commission. If the underwriter fails to sale the shares then he takes the liability for rest of the shares. Functions of underwriter are known as underwritten. The term underwriter means any person who has purchased from an issuer with a view to, or sells for an issuer in connection with. " --- Securities act 1933 2(11) " A person who underwrites issue of stocks, bonds etc. " ---Webster's new World Dictionary " A person or company that underwrites an issue of securities. " ---Charles J. Woelfel From the above definitions we found some characteristics of underwriter:

1. Underwriter may be any person or organization.
2. It can be performed underwritten activities as a part of business.
3. They purchase shares, bonds, debentures etc. for a certain commission.
4. They provide surety to sale shares, stock, debentures of company.
5. They take all responsibilities though the shares are not sold. Finally it can be said that underwriter is a businessmen who helps company to collect capital by selling shares, debentures etc.
6. Method of retirement of company directors.

Director of the company means the members who are voted for directing the company. They are also determined company policies and many other activities for business. Directors take their position by the vote of members, board of directors, company act as well as government. To remove the

director for its place is also maintain some rules. Such are given below: 1. Special decision: In special meeting, by the decision of shareholders any directors can be removed from his post. 2. Statutory removal: In company act 108(1) is said," The position of director can be removed if-

1. If the director failed to gain preference share in given time.
2. If the director is announced mentally sick.
3. If the director be
4. If he failed to pay the call money in between six months.
5. If the director was absent in meeting of board of directors without permission.
6. If the director make any agreement without the permission of board of directors.
7. If the director involved in any illegal work.
8. . If the director involved in crime.

Removal by government: Director can be removed from his post by government and also by shareholders and creditors with the help of government.

What is an article of association? Articles of Association

The Articles of Association is the second important document of Joint Stock Company. It contains the rules and regulations for the internal management, administration and organization of the company. They define the power, rights and duties of directors or other officers of the company and regulate the relations between the company and its members. The main purpose of articles of association is to execute the object clause of the memorandum. “

Articles are the internal laws of a company. Article devise ways for the internal management of the company. " ---Lord Robene The articles of association are the regulations or bye-laws which govern the internal management and conduct of the affairs of the company. " ---M. C. Shukla It must be framed within the items of the memorandum of association and provisions of the Company Act. A company limited by shares (Public Limited company) may adopt ' Table A' a model-Article as provided by Company Act as its articles. But a Private Limited company or a company limited by guaranty must have their own articles. 8. What is ' Certificate of commencement'? A private company can commence business immediately after the grant of Certificate of Incorporation.

A public company cannot commence business until it obtains a ' Certificate of Commencement' in addition to the ' Incorporation Certificate' from the register of companies. At first public limited company submit a application to registrar according to Company Act 1994

If all the responsibilities are performed by public limited company accurately then registrar gives a letter or certificate to public limited company. The matters which are included in certificate of commencement are described at below:

1. Name and address of registered office.
2. Issuing date of Certificate of commencement.
3. Date of Commencement.
4. Certificate no.
5. Office seal.
6. Name and profession of registrar with seal and signature.

7. Description of conditions. (If exists.)

The ' Certificate of commencement' is issued in favour of a public company by the registrar, only when the following conditions are fulfilled:

Describe the advantages of public limited company than private limited company.

Private limited company: A private company is an incorporated body registered under the Companies Act with three important respective provisions in the ' Articles of association'. Public limited company: A public limited company is an association consisting of seven or any higher number of members, which is registered under the Companies Act. The advantages of public limited company over private limited company are described at below:

1. Liability: In public limited business the liability of each share holders are limited by their shares. But, in private limited company the liability of shareholders is huge.
2. Sufficient capital: The shareholders of public limited company are more than private limited company. So, public limited company enjoys more capital than private limited company.
3. Membership: In public limited company there is no upper limit to the number of members. But, in private limited company it is limited.
Financial resources: Public limited company generally refers a huge organization. So, collection of financial resources is comparatively more than private limited company.
4. Economies of large scale production: Huge financial resources lead to a phenomenal growth in the size of the company. Economies may relate

to greater division of labour, specialization, more effective use of resources, bulk purchase of raw materials at lower prices etc. Private limited company can't get sufficient advantages as like as public limited company. 5

5. Large size: Private limited company is not a large size business. It generally established in one specific area. Public limited company is a large scale business. It has branches at all over.
6. Transferability of shares: The shares of private limited company are not easily transferable. But, the shares of public limited company are simply transferable.
7. Perpetual succession: Public limited company is formed by law. So, it the company is not being closed for the poor condition of shareholders. But, private limited company can be closed on its measurable condition.
8. Public confidence: Public limited company is directly related with public. So, they can acquire confidence of public. But, in private limited company this possibility is not exist.
9. Creation of employment: Public limited company is a huge company. So, the opportunity of creation of employment is more than private limited company.
10. Research: Public limited company always tries to distribute their products worldwide. So, they always research to develop their product more and more. In that case private limited company is not so superior.

Finally we can say that public limited company is more advanced than private limited company. But, private limited company has enjoyed some special advantages which can't be enjoyed by public limited company.

Merits or Advantages of a company form of organization

The following are the merits of a joint stock company –

1. Accumulation of huge financial resources : The company form of business facilitates mobilization of large amounts of capital for investment in industries.
2. Economies of large-scale production : The company form of business can enjoy all the benefits of large-scale production such as minimum cost of production and maximum profit.
3. Scope for expansion : A company can easily expand its managerial capacities and financial resources. It has great potential for diversification and growth.
4. Stability of existence : The organization of a company as a separate legal entity gives it a character of continuity. As an incorporated body, a company enjoys perpetual existence.
5. Transferability of shares : The shares of a public company are freely transferable. The shareholders are at full liberty to dispose of their shares to any person they desire.
6. Democratic control : The company is managed on the principle of democracy. The boards of directors who manage the company are elected by the shareholders. The directors are responsible and accountable to the shareholders.

7. Managerial efficiency : A company can secure the services of highly qualified persons who are experts in different fields of business management.
8. Stimulation to savings and investments : The company is an effective media of mobilizing the scattered savings of the community and investing these savings for commercial purposes. Insurance companies, banks and other financial institutions invest their money in the shares of different joint stock company.
9. Tax relief : The company enjoys greater tax relief as compared to other forms of business. Company pays lower tax on a higher income as it pays tax on the flat rates.
10. Diffused risk : The membership of a public company is large. The business risk is divided among several members of the company.
11. Statutory regulation and control : Formation and working of companies are well regulated by the provisions of the Company Act. These strict regulations safeguard the interests of shareholders and people who deal with the company.
12. Public confidence and popularity : A company is guided and controlled by strict regulations and government control. These ensure public confidence and popularity.
13. Social responsibilities : Due to the existence of the company form of business, society is benefited in different ways.

So we can say that the joint stock company constitutes an important advancement in the modern emerging commercial structure with its different

advantages. Demerits or disadvantages of Joint Stock Company The following are the disadvantages of a joint stock company -

1. Adherence of too many legal formalities : The formation of a company requires adherence of too many legal formalities. The establishment and running of a company would prove to be troublesome because of complicated legal regulations.
2. Concentration of power in few hands : Shareholders of the company have practically no say in the affairs of the company. The directors of the company become self-centred and they do not care for shareholders.
3. Excessive Government control : A company has to observe too many provisions of different laws imposed by the government.
4. Undue speculation in shares of the company : Undue speculation in shares of a company is injurious to the interests of the shareholders.
5. Fraudulent management : The promoters and directors may indulge in fraudulent practices. The unscrupulous directors may present a rosy picture of the company in its annual report.
6. Bureaucratic control : Quick decisions and prompt action are absent in the management of a company. It makes a company an inflexible enterprise.
7. High nepotism : In companies, employees are selected not on the basis of ability but on the basis of personal interest of the management.
8. Inflexibility in management : A company cannot quickly adjust with the changing conditions in the market because of its complex structure and legal obligations.

9. Monopolistic control and exploitation of consumers : Joint stock companies facilitate formation of business combinations which ultimately lead to monopolistic control and exploitation of consumers.

10. Social abuses : Evils of factory system like installation, pollution, congestion of cities are attributed to the company form of organization.

Moreover, the close and cordial relationship between the management and employees is difficult to maintain. Formation of Joint Stock Company Joint Stock Company is formed under the Company Act followed by the country where the company is established.

In Bangladesh a joint stock company whether a public or a private may be formed by registration under the Company Act 1994. The whole process of company formation in any country may be divided into three Distinct stages

- a. Promotional stage : The process of conceiving an idea and developing it into a concrete of project to be accomplished by the incorporation and floatation of company is called promotion. The number of promoter in Public Limited company who take necessary steps are minimum two and maximum 50 in case of Private Limited company and minimum seven, maximum contains by share in Public Limited Company. These are four main stages in the promotional stage of a company -) Identifying the idea : The promoters at first conceive an idea and identify the business opportunities. ii) Detail investigations : Detail investigations of - a. Market condition b. Demand for the products c. Estimated cost of production d. Estimated profit margin e. Capital requirement iii) Assembling: After a through investigations of project the promoters decides whether they will take risk or not. iv) Selection of the name of the company and submission : In this step, the company prepare

two documents – a. Article of association b. Memorandum of association b. Incorporation stage : When the promoters can finish the primary arrangements, they apply in prescribed form to the register of joint stock company.

And along with the application, they submit with the register, the registration fee as per Table(B) of the Company Act and a copy of each of the following documents for the registration of the company. a. A copy of the memorandum of association b. A copy of the articles of association c. A statement of nominal capital d. The address of the registered office of the company (selected by the registrar) e. A declaration to the effect that all legal requirements have been duly complied with. Incase of Public Limited Company the following document is to be estimated – a. A list of directors b. A written contest of each director to act as such and to take up the qualifications shares.

The registrar will examine all this documents and if he is satisfied that every thing is in order, he will then enter the name of the company on the register maintain his office and issue a certificate known as the Certificate of Incorporation which gives the company a legal existence. c. Floatation stage : When a company has been incorporated it has to raise capital sufficiently to commence business and to carry it on with satisfactory. The Private Limited Company may obtain this capital from friends and relatives. A Public Limited company raises the greater part of the capital from the general public by issuing a prospectus. d. Commencement: A Private company can start its business after obtaining a Certificate of Incorporation

but a Public Limited company cannot. It must receive another certificate known as Certificate of Commencement.

The registrar will issue this certificate on fulfillment of the following requirements - a. Minimum subscription has been raised. b. The direction has been taken up and paid for their qualification shares. c. The prospectus on the statement in lieu of prospectus has been filled. d. A declaration has been made to the effect that all legal requirements have been duly complied with.

It is to be noted that, a Public Limited company is to start business within one year from the date of receiving the Certificate of Commencement.

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The name should not create an impression that the company is carrying on the business of some other existing companies. f. The name should exclude words like crown, emperor, empire, president or prime minister’s name. 2.

Address clause : The memorandum must contain the full address of the register office. 3. Object clause : This is the most important clause in the memorandum which states what the company can do. The object must include all the possible lines of business in which company is likely to be engaged. Usually this clause is so drafted that the company may enjoy wide fields for activities in future. 4. Liability clause : This clause states the nature of liability of the members of the company. d.

Incase of a company limited by shares, member's liability is limited to face value of the shares. It means that when the shares are fully paid up, members are free from any liability. e. Incase of a company limited by guarantee, the liability clause must state the extent of liability of each individual member in the event of its being wound up. f. Incase of an unlimited company, the liability clause does not appear in the memorandum of association. 5. Capital clause : This clause states the amount of capital with which the company is registered or authorized to conduct business and the division of capital into equity share and preference share capital should be mentioned. 6.

Association clause : This clause contains a declaration by the person(promoter) who signed the memorandum to form the company in a legal way for a legal purpose and to take minimum share of the company.

Articles of Association The Articles of Association is the second important document of Joint Stock Company. It contains the rules and regulations for the internal management, administration and organization of the company. They define the power, rights and duties of directors or other officers of the company and regulate the relations between the company and its members.

The main purpose of articles of association is to execute the object clause of the memorandum. It must be framed within the items of the memorandum of association and provisions of the Company Act.

A company limited by shares (Public Limited company) may adopt 'Table A' a model-Article as provided by Company Act as its articles. But a Private Limited company or a company limited by guaranty must have their own articles. Private Limited Company A private company is an incorporated body, registered under the Company Act with three important restrictive provisions in its 'Articles of Association'. A private company is one which –

1. Restricts the rights of its members to transfer their shares in the company.
2. Limits the number of its members to fifty.
3. Prohibits any invitation to the public to subscribe for any shares or debentures of the company.