Gujarat Board Textbook Solutions Class 11 Organization of Commerce and Management Chapter 6 Forms of Business Organisation-2

1. Select the correct alternative and write answer to the following questions :

Question 1. In a co-operative society member
(A) Can vote per share
(B) Can vote per member
(C) Can vote in proportion of capital
(D) Can vote as per efficiency
Answer:
(B) Can vote per member

Question 2.Co-operative society is called training school for what?
(A) Service
(B) Splendor
(C) Autocracy
(D) Democracy
Answer:
(D) Democracy

Question 3. Co-operative society
(A) Is the institution of capitalists
(B) Has the motive of service to member
(C) Has the motive of profit
(D) Encourages speculation
Answer:
(B) Has the motive of service to member

Question 4. How many persons are required for the formation of co-operative society?
(A) 10
(B) 20
(C) 30
(D) 50
Answer:
(A) 10

Question 5. The uplifment of the members predominates in
(A) Sole proprietorship
(B) Private company
(C) Public company
(D) Co-operative society

Answer:
(D) Co-operative society

Question 6. Co-operative society
(A) Cannot pay dividend
(B) Can pay dividend in any proportion
(C) Can pay dividend subject to the law
(D) Can pay dividend subject in the permission of state and central government
Answer:
(C) Can pay dividend subject to the law

Question 7. What is considered as the engine of economic growth?
(A) Sole proprietorship
(B) Partnership
(C) Co-operative society
(D) Company
Answer:
(D) Company

Question 8. Which Companies Act is in force in India at present?
(A) 1912
(B) 1932
(C) 1956
(D) 2013
Answer:
(D) 2013

Question 9. How does a company express its consent?
(A) By name
(B) By common seal
(C) By memorandum
(D) By artificial personality
Answer:
(B) By common seal

Question 10. In which document does a company state the liability of its members?
(A) Memorandum of Association
(B) Articles of Association
(C) Membership letter
(D) Contract letter
Answer:
(A) Memorandum of Association

Question 11. What is the most important feature of the company form?
(A) Large scale capital
(B) Legal personality
(C) Perpetual entity
(D) Easy transfer of share
Answer:
(D) Easy transfer of share

2. Answer the following questions in one sentence each :

Question 1. State the meaning of Co-operative society?
Answer:
A co-operative society is a voluntary form of business where in individuals intending to set-up a business get associated for economic interests but on the basis of equality i.e. to provide equal right and opportunity to all the members.

Question 2. Why do persons join a Co-operative society?
Answer:
Individuals who wish to uplift their economic society conditions on tne basis of equality join the co-operative society.

Question 3. What is the main objective of Co-operative society?
Answer:
To uplift the weaker sections of the society economically through co-operation among society members.

Question 4. When does a Co-operative society get separate legal identity?
Answer:
When it gets registered.

Question 5. Which type of Co-operative society provides day to day consumable goods to its members at fair price?
Answer:
Consumer Co-operative Societies.

Question 6. What is meant by 'vote per member' in Co-operative society?
Answer:
Each member is allowed to have only one vote irrespective of number of shares he holds. This is called one vote per member.

Question 7. Why is a Company called engine of economic growth?
Answer:
Companies involve in large scale production, provide very large employment opportunities,

set-up huge industries and thus buy huge real estate, machinery, etc. Also, company pays crores of rupees as taxes. Hence,

Question 8. What is the minimum number of members in Public company and Private company?
Answer:
7 and 2 respectively.

Question 9. What does limited liability of the members of a company mean?
Answer:
The liability of members/share-holders is limited to the face value of the number of shares of the company they have.

Question 10. What is meant by one person company?
Answer:
(A) Government company,
(B) Holding company and
(C) subsidiary company.

Question 11. Give full form of SEBI.
Answer:
Securities and Exchange Board of India.

3. Answer the following questions in short :

Question 1. Why is a Co-operative society called training school of democracy?
Answer:
Economic upliftment and growth of members:

- Co-operative societies play a significant role in the growth of its members. For example, consumers' co-operative societies supply day-to-day consumable products like milk, grains, etc. of good^quality at fair prices and prevent economic exploitation of customer by the middleman.
- Similarly, producer's co-operative societies supply raw materials, equipment, tools, etc. at fair prices to the members.
- Small producers can sell their produce easily to these societies and attain economic growth.
- Co-operative societies have achieved much progress in sugar, milk, leather, and cotton industries.

Question 2. Under what circumstances non Co-operation can be created in co-operative society?
Answer:
Non Co-operation among members:

- The success of a co-operative society depends highly on the honesty, loyalty and co-operative approach of the members.
- When members lack these values it may result in disharmony, conflicts, division of members in various groups, selfishness, enmity and ultimately non-co-operation.
- Owing to these reasons, the co-operative society may not be able to fulfill its objectives.

Question 3. How is profit distributed in Co-operative society?
Answer:
Fair distribution of profit:

- The objective of a co-operative society is service'. However if the society makes surplus income it distributes some part of profit among the society members in the form of dividend as per the provision of law.
- The remaining profit is utilized for the welfare of the members and the society.

Question 4. How do ownership and management differ in Company form?
Answer:
Management:

- The shareholders (investors) elect representatives from among themselves who are then called the director of the company. More than one director is elected and together they are called Board of Directors.
- The Board of Directors manages the company on behalf of the shareholders as per the Memorandum of Association and Articles of Association. Hence in a company the owners are the shareholders whereas the managers/directors are the Board of Directors i.e. ownership and management are separate unlike proprietorship/partnership.

Question 5. Explain any three characteristics of a Company.
Answer:
1. Legal entity:

- Being an artificial person, a joint stock company has its own separate legal entity independent of its investors.
- This means a company can own property, enter into contracts, it can sue and can be sued by others.

2. Perpetual existence:

- As per the law, a 'company' is separate from its investors. So, it is not affected by the death or insolvency of the members.
- A company can be brought to an end only through liquidation procedure.

3. Divison of capital in small fractions:

- If for a public company, the capital to start the company is raised from the public in the form of shares.
- The company asks the public to apply for purchasing shares of the company or in simple words 'purchasing a share' in the company.
- People buy company's shares from stock market and become shareholders. The company than starts its business with the share capital i.e. fund raised by selling the shares.

Question 6. What are benefits to society and nation by Company?
Answer:
Benefit to society and nation:

- People invest in the shares, debentures and public deposits of the company. This induces saving habit.
- On the other hand they receive dividend and interest on their investment as income.
- The society gets advantage of employment and large scale production.
- Some companies also enhance the society by developing public gardens, schools and colleges, play grounds, art centers, etc.
- Companies pay crores of rupees to the government as taxes. This is then used by the government for the welfare of the country.
- Company provides several facilities to the employees.

Question 7. What is vote per share in a Company?
Answer:
Voting right per share:

- The members of company can cast votes on the basis of the number of shares they hold.
- Unlike the single vote right that individuals commonly possess, the number of votes a share-holder can vote corresponds to the number of shares that he owns.
- Easy transfer of shares and voting per share are special characteristics of the company.

4. Answer the following questions in brief :

Question 1. state the advantages of co-operative society?
Answer:
Co-operative society:

- A co-operative society is a voluntary form of business where in individuals intending to set-up a business get associated for economic interests but on the basis of equality i.e. to provide equal right and opportunity to all the members.

- Thus, people with common interests voluntarily get associated to fulfill economic interest of members through co-operation among members but, by treating all members equally. In other words to uplift economically weaker sections of society. The co-operative societies are set-up by weaker sections of society to protect its members from the clutches of profit hungry businessman.
- Amul is one of the best examples of a co-operative society.

Advantages of a co-operative society:

1. Easy establishment:

It does not require lengthy legal procedure to set-up a co-operative society. Ten persons can simply come together voluntarily and form a co-operative society. If they wish they can even easily register it.

2. Perpetual existence:

- As soon as a co-operative society gets registered it becomes a separate legal entity i.e. members and society are considered two separate entities.
- The existence of the society than does not get affected by the exit, death or insolvency of the member.
- Hence, a co-operative society enjoys a long and also in many cases a perpetual life.

3. Open membership:

The membership is open to all who have a common interest. Anyone can become a member irrespective of religion, caste, sex or economic condition.

4. Limited liability of the members:

The liability of each member is limited only to the number of shares he purchases.

5. Government aid:

Government provides financial assistance to the society for conducting activities to uplift the members and serve the society. The assistance can be in the form of loan, grant or subsidy.

6. Democratic management:

- The business of co-operative society is managed by the committee elected by the members. Each member has a right to caste only one vote irrespective of the number of shares he holds.
- The decisions of the society are taken on the basis of majority.
- Every member can contest the election, cast vote and participate in meetings and elect the representatives of the society.

7. Lesser administrative expenses:

- The co-operative society works on the principle of thrift i.e. wisely managing money and other resources.
- Members provide honorary services for managing the society. Moreover, management is done on an economical way without spending or spending very less on advertisements and marketing of the products.
- These things together reduces overall administrative expenses of the society.

8. A specific class of customers:
Mostly the members are customers too. Members are specific and goods are sold to them.

9. Strong competitor against trading firms:
Sometimes business firms in order to earn more profit may involve in unfair practices like adulteration, cheating, profit-maximization, black marketing, etc. -» A co-operative society can stand strongly against such firms because it does not involve in unfair trade particles and aims at providing goods at reasonable prices. Also its administrative expenses are lesser and so it can provide a good competition to business firms.

10. Welfare activities for the society (public):

- Co-operative societies from their profits and reserve conduct various types of welfare activities for the society.
  They arrange activities like setting-up medical camps free of charge or at very nominal rates, develop schools, dispensaries, gardens, etc.
- These activities are advantages to general public of the country.

11. Training school for democracy:

- A co-operative society works purely on a democratic way. It gives importance to humans and not money or power.
- In this sense the co-operative society works as a training school democracy where ideals of democracy can be thoroughly learnt.

12. Economic upliftment and growth of members:

- Co-operative societies play a significant role in the growth of its members. For example, consumers' co-operative societies supply day-to-day consumable products like milk, grains, etc. of good quality at fair prices and prevent economic exploitation of customer by the middleman.
- Similarly, producer's co-operative societies supply raw materials, equipment, tools, etc. at fair prices to the members.
- Small producers can sell their produce easily to these societies and attain economic growth.

- Co-operative societies have achieved much progress in sugar, milk, leather, and cotton industries.

Question 2. Clarify the limitations of co-operative society.
Answer:
Limitations of co-operative societies:
1. Limited capital:
It is difficult to raise capital in a co-operative society. The main reason for this is that the price of shares to be sold to members is quite low and members generally belong to poor class. Moreover, unlike companies any member can have only one vote irrespective of the number of shares he holds. So, members are not much interested in buying shares which further adds to capital shortage.

2. Lack of efficient management:
The directors of co-operative societies work on an honorary basis i.e. without taking any fees or salary. Hence, at times they may not take personal and deep interest in the management and administration.

- Since the directors work honorary the society may hot get an efficient person / having specialized knowledge, business experience and time.
- Lack of personal interest may also result in formation of opposite groups within the society and hence poor management.

3. Political interference:
Various political parties directly or indirectly try to control the co-operative societies. If the society starts functioning according to their political will the business freedom gets affected which in turn affects the objective of the co-operative society and its democracy.

4. Non Co-operation among members:

- The success of a co-operative society depends highly on the honesty, loyalty and co-operative approach of the members.
- When members lack these values it may result in disharmony, conflicts, division of members in various groups, selfishness, enmity and ultimately non-co-operation.
- Owing to these reasons, the co-operative society may not be able to fulfill its objectives.

Question 3. Explain the types of company.
Answer:
The different types of companies are explained below:
(A) Statutory company:

- A statutory company is a public enterprise brought into existence by a special act of the parliament or legislative assembly.

- Reserve Bank of India (RBI), Life Insurance Corporation (LIC) of India, etc. are statutory companies.

(B) Companies from the view point of number of members:
(I) Public company:

- As per Companies Act, a company which is not a private company is called a public company.
- A public company needs to have minimum 7 members. There s no limit on maximum number of members.
- Such companies can invite public to buy its shares and debentures. Moreover, one can easily transfer the shares.

From liability of member's point of view a public limited company can be divided In three parts. They are:
1. Company limited by share capital:
In such companies the liability of members is limited to the face value of the number of shares held by them These companies put a word Limited' at the end of the company. name. For example. National Insurance Company Limited.

2. Company limited by guarantee :

- A company limited by guarantee does not usually have a share capital or shareholders but instead has members who act as guarantors.
- The guarantors give an undertaking to contribute the amount guaranteed by them at the time of liquidation of the company.

3. Company by unlimited liability:

- A company in which the liability of members is unlimited is called a company by unlimited liability.
- If the debts of such companies exceed their assets or if the company goes under liquidation than the members may have to pay their contribution even by selling their personal assets.

(II) Private company:

- A private company is a company that has minimum 2 members and maximum 200 members.
- Unlike public company there are restrictions on the transfer of shares of a private company.

From liability point of view a private company can be divided into three types. They are:
1. Company limited by share:

- The liability of the members is limited to the face value of the number of shares they possess.
- Such private company has to put the words 'Private Limited' at the end of its name. For example, ABC Private Limited.

2. Company limited by guarantee:

- A private company in which the liability of members of the company is limited to the amount of guarantee given by them is called a company limited by guarantee.
- In case of liquidation of the company the members have to pay the guaranteed amount to the company.
- Such companies add the word 'private' at the end of company name.

3. Company with unlimited liability:

- A company in which the liability of members is unlimited is called a company by unlimited liability.
- If the debts of such companies exceed their assets or if the company goes under liquidation than the members may have to pay their contribution even by selling their personal assets.
- Such companies add the word 'private' at the end of company name.

(III) One person company:

- The concept of One Person Company (OPC) is a new form of private company introduced by the Companies Act, 2013. It consists of only one member (person) and so the name.
- One Person Company can enter into contract with director who is its member (i.e. the person itself as a director) through written consent of that person.
- The OPC needs to present the Memorandum and Articles before the Registrar of Companies during the incorporation of the company.

(C) Companies from the point of view of domination:
1. Government company:

- A company whose 51 % or more capital is held by either (1) Central government or (2) State government or (3) more than one state governments or (4) Central government and one or more than one state governments is called a government company.
- For example, Ashok Hotels Limited, Bharat Heavy Electricals Limited (BHEL), Bharat Sanchar Nigam Limited (BSNL), etc. are government companies.

2. Holding company:
A company which holds more than 50% shares of another company and holds the right to appoint majority of directors of that company is called a holding company.

3. Subsidiary company:
A company whose more than 50% shares are with the holding company and the right to appoint majority of its directors also lie with the holding company is called a subsidiary company.

(D) Types of companies with the view point of place of registration.
1. Indian company:

- A company which is registered in India under the Indian Companies Act or under the special act passed by the parliament is called an Indian company.
- An Indian company can be private company, public company or government company.

2. Foreign company:
A company which is registered outside India and whose registered office is also outside India, but whose place of business is in India is called a foreign company. For example, Vodafone.

5. Answer the following questions in detail:

Question 1. Explain the meaning of Co-operative society and describe its characteristics.
Answer:
Co-operative society:

- A co-operative society is a voluntary form of business where in individuals intending to set-up a business get associated for economic interests but on the basis of equality i.e. to provide equal right and opportunity to all the members.
- Thus, people with common interests voluntarily get associated to fulfill economic interest of members through co-operation among members but, by treating all members equally. In other words to uplift economically weaker sections of society. The co-operative societies are set-up by weaker sections of society to protect its members from the clutches of profit hungry businessman.

Characteristics of co-operative society:
1. Voluntary association:
Individuals with common interest associate voluntarily. They join on the basis of equality.

2. Easy formation process:

- Compared to a company it is quite easy to form a co-operative society.

- To form a society a minimum of 10 members need to get associated and create , a co-operative society and register it with the Registrar of Co-operative society as per the Co-operative Society Act. On registering it gets a separate legal entity (identity) of its own.

3. Equality of members:

- All the members of the society have equal right and opportunity in the co-operative society.
- The members are not discriminated on the basis of capital investment caste or any other reason.

4. Separate identity:
Though registering a co-operative society is not compulsory, one can get a separate legal identity on registering it. Moreover, one can become the member of society as and when he wishes to and also leave it on his will. The entry or exit of members does not affect the legal status of the co-operative society.

5. Democratic management:

- The business of co-operative society is managed by the committee elected by the members.
- The basic element on which the co-operative democracy works is 'One man one vote'. Here, one man or say one member may have 10,000 shares of the society and another may have only 1 share still both have the right of one vote only i.e. equal voting right. In this regard we can say that in a co-operative society it is the 'person' that counts and not the money he has or holds in the society. Whereas in companies a person is allowed the number of votes based on the number of shares he holds.
- Any member can contest the election of executive committee, participate in management, etc.
- Hence, we can say that the management of a co-operative society is truly democratic and also that the society is a training school of democracy where one can learn ideal principles of democracy.

6. Motive of service:

- The primary objective of the co-operative society is to serve its members. Profit is a secondary objective.
- The society aims to raise the economic conditions and living standards of the members and to make .them self-reliant.
- For example, the objective of Amul is providing milk at desired quality and fair price. It does this by collecting milk from villagers, pay them reasonably well and sell it to market. This helps to improve economic condition of villagers who supply milk and hence make them self-reliant.

7. Fair distribution of profit:

- The objective of a co-operative society is service'. However if the society makes surplus income it distributes some part of profit among the society members in the form of dividend as per the provision of law.
- The remaining profit is utilized for the welfare of the members and the society.

8. Low priced shares:
The price of shares of a co-operative society is quite low. So, an economically backward person can easily purchase it to become the member of the society -> At times if the price of share is high the society also provides the facility of ' payment in installments.

9. Voting right per member:

- Unlike companies each member is allowed to have only one vote irrespective of the number of shares he holds.
- The representatives of the society are elected on the basis of 'one member one vote' principle.

10. Educations and training:
To promote equality and brotherhood and to increase literacy of members the society conducts various conferences and trainings.

11. Separate institution from politics and religion:

- A co-operative society does not exist on the basis of politics or religion. Any one belonging to any religion, caste or sex can become its member,
- Thus, the society is separate from politics and religion.

12. Unrestricted number of members:
There is no limit to the number of people that can join a co-operative society. Any individual who wishes to uplift himself economically can be a member.

Question 2. Give the meaning of Company and state its characteristics.
Answer:
Joint stock company:

- As per Companies Act, 1956, a company is an artificial, invisible and intangible person created by law, having a separate legal entity.
- As per Companies Act, 2013, 'Company' means a company registered under this act or any former act.
- This means that the company 'is different' from investors who invest in the company. For example, if an investor has invested ₹ 1000/- in a particular company and the company goes bankrupt, an investor loses only that money which he has invested i.e.

his liability is limited and in the eyes of law the company and investor are two different persons. The investor need not sell his personal assets to pay the company's debts.

Characteristics of a joint stock company:

1. Legal entity:

- Being an artificial person, a joint stock company has its own separate legal entity independent of its investors.
- This means a company can own property, enter into contracts, it can sue and can be sued by others.

2. Perpetual existence:

- As per the law, a 'company' is separate from its investors. So, it is not affected by the death or insolvency of the members.
- A company can be brought to an end only through liquidation procedure.

3. Divison of capital in small fractions:

- If for a public company, the capital to start the company is raised from the public in the form of shares.
  The company asks the public to apply for purchasing shares of the company or in simple words 'purchasing a share' in the company.
- People buy company's shares from stock market and become shareholders. The company than starts its business with the share capital i.e. fund raised by selling the shares.
- In case of a private limited company, fund is raised by members or borrowed from banks and other sources.

4. Easy transfer of shares:

- The shareholders sell and purchase the shares of the company in the stock market. They can easily do so subject to the provisions of the company and the law.
- If one sees trial ine company is performing well he can buy its shares from the stock market. On the other hand the holder of the shares can sell them at the stock market and book his profit.
- This way the share-trading continuous in the market. Thus, trading and transfer of ownership of shares is one of the main and continuous characteristic.

5. Common seal:

- A company has a 'seal' or say stamp is used while dealing with third parties, entering into contracts, issuing share certificates, documents and day-to-day transactions of the company.
- This seal is called 'common seal' because it can be used by any authorized officer of the company.
- Stamping a document with this seal means that the company expresses its consent to whatever is mentioned in the document.

6. Management:

- The shareholders (investors) elect representatives from among themselves who are then called the director of the company. More than one director is elected and together they are called Board of Directors.
- The Board of Directors manages the company on behalf of the shareholders as per the Memorandum of Association and Articles of Association. Hence in a company the owners are the shareholders whereas the managers/directors are the Board of Directors i.e. ownership and management are separate unlike proprietorship/partnership.

7. Status of members:
The company and members are two separate entities. So a member can neither enter into a contract on behalf of the company nor can a company be held liable for the act of its members.

8. Number of members:
In a private limited company there are minimum 2 and maximum 200 members whereas in a public limited company there are minimum 7 members. There is no limit to the maximum numbers of members in a public limited company.

9. Liability of members:
The liability of members is limited to the face value of number of shares he possesses of that company. This means that if a share-holder possesses 50 shares of ₹1 00 each then his total share in that company is of ₹ 5000. If the company goes bankrupt the share-holder will lose only ₹ 5000 he invested in the company and he will not be liable for the entire loss of the company.

- Note that, the concept of unlimited liability is rarely seen in companies.
- The company in its Memorandum of Association on mentions whether the share-holder will have limited or unlimited liability.

10. Fundamental rights:
Although a company is treated as a separate person in the eyes of law it cannot be

considered as a citizen of the country because it is in invisible form. Hence, a company does not enjoy any fundamental rights just like the citizens of a nation.

11. Voting right per share:

- The members of company can cast votes on the basis of the number of shares they hold.
- Unlike the single vote right that individuals commonly possess, the number of votes a share-holder can vote corresponds to the number of shares that he owns.
- Easy transfer of shares and voting per share are special characteristics of the company.

Question 3. Clarify the advantages and limitations of a Company.
Answer:
Advantages of company:
1. Huge capital fund:

- To raise the capital a company divides the entire capital it needs in tiny fractions known as shares.
  This attracts people to invest in the company through buying their shares and hence become share holder or say part owner of the company.
- People also buy shares with an objective of earning profit by trading them in the share market.
- The voting right is per share so people get attracted and invest as much as possible which then helps the company to raise a very large capital.

2. Easy transfer of shares:

- Members or say share-holders can easily buy and sell the shares through the stock exchange where the company is registered. This means that the transfer of share in the company is quite easy.
- Note that in case of a private company it is not so easy to transfer the shares.

3. Limited liability of the members:

- The liability of the members is limited to the face value of the shares they possess.
- If a company goes bankrupt or is getting liquidated or is winding up, the shareholder / is at a loss of only the amount of share he holds.

4. Separate identity and perpetual life:
As per the law, the company has a separate identity from its members. So, the existence of a company does not get affected even in situations like death, insolvency, insanity of members or transfer of shares by members. The company remains a perpetual entity.

5. Advantage of large scale:

- Due to its special characteristics a public limited company is able to raise a large capital.
- Large capital enables set-up of modern machineries, hiring experts, research and development, purchasing raw material at lower prices and hence large scale production and sales.

6. Efficient management:
Efficient directors hire expert services and employ highly skilled people. The director makes best possible use of company's resources and command a highly efficient management.

7. Democratic management:

- A company is managed democratically by the elected representatives called the directors.
- The decisions regarding the company's operations, policy, etc. are taken by the majority in the general meetings of the directors.

8. Benefit to society and nation:

- People invest in the shares, debentures and public deposits of the company. This induces saving habit. On the other hand they receive dividend and interest on their investment as income.
- The society gets advantage of employment and large scale production.
- Some companies also enhance the society by developing public gardens, schools and colleges, play grounds, art centers, etc.
- Companies pay crores of rupees to the government as taxes. This is then used by the government for the welfare of the country.
- Company provides several facilities to the employees.

Limitations of company:
1. Lengthy and expensive incorporation procedure:

- Unlike other forms of businesses the formation of a company is lengthy, complicated and expensive.
- A company needs to hire services of experts who help the company to prepare the documents like Memorandum, Articles, etc. and submit them to the Registrar of Companies for obtaining certificate of incorporation.
- Over and above the registration fees the companies also pay fees to the experts for their services.

2. Legal restrictions:

- A company comes into existence by law and so it needs to observe the legal provisions lifetime.
- It needs to submit its statements, reports and accounts to the Registrar of Companies periodically.
- It also needs to follow the provisions laid by SEBI (Securities and Exchange Board of India)

3. Higher administrative expenses:
The administrative expenses of a company are quite high, due to higher fees of registration, fees of experts, very high salaries skilled and experienced personnels, expense on research, etc.

4. Autocratic management:

- Although the share-holders or say members are entrusted several powers as per the law but they enjoy only a few of them.
- Due to the existence of voting right per share, people having a very large quantity of shares of a company might get associated and dominate the company management. They may use company's money, assets and secrets for fulfilling their personal desires and goals.

5. Difficulty in maintaining secrecy:

- A company has to mandatory get itself audited and provide the audit report and accounts to the members and the Registrar of Companies.
- Moreover, as per the law, redemption of debentures, bonus shares, etc. should also be published by the company. Hence, it is difficult for a company to maintain its secrets.

6. Delay in deciding policies:

- A company needs to take consent of its members before taking decisions related to company's policies.
- It needs to notify the members before few days about the meeting it will hold for policy matters and then hold the meeting. Unless a resolution is not passed by the majority of members the decision cannot be taken.
- All these activities consume a lot of time and hence the decisions get delayed.

7. Less flexibility:

- Compared to proprietorship and partnership a company is less flexible.
- To make important changes it need to pass a resolution in the general meeting.

- It may also need approval from the central government in certain cases.

8. Encouragement to speculation:

- -» The directors of the company are very well versed with company's secrets. Hence, they can use these secrets to raise rumors in the market and create artificial changes in the stock market. This can encourage speculation of the shares which then badly affects the economic interests of small investors.
- —> For example, a company to raise additional capital may spread news in the market that it is planning to associate with international companies. The small investors unaware of the truth may start buying the shares in the hope of high profit and thus company's capital increases.

9. Disadvantages to the society:

- Large companies have huge powers to dominate the society.
- The decisions and behaviour of the companies may result in strikes of employees, removal of employees unless they agree to certain conditions of the employers, lock-outs, monopolistic evils, etc.
- Owing to these things there arise unequal distribution of income and wealth in the society.

Question 4. Explain the procedure for getting the Certifacate of Incorporation
Answer:
Procedure for obtaining certificate of incorporation:
Once the promotion phase is over the process of obtaining certificate of incorporation begins. A certificate of incorporation is to be obtained from the Registrar of Companies.

Following documents need to be prepared and submitted to the Registrar of Companies to obtain the certificate:
1. Memorandum of Association (MOA):

- A Memorandum of Association (MOA) is a legal document prepared during the formation and registration process of the company. MOA defines company's relationship with shareholders.
  General public can access company's MOA. It contains company's name, physical address of registered office, name of share-holders, etc.
- The MOA and Articles of Association together serve as a constitution of the company. Just like a constitution describes the country, a company's MOA and Articles of Association describe the company.

An MOA must compulsorily include the following clauses:
(A) Name clause:
As per the name clause, a public company with liability by share needs to insert the word

‘Limited’ at the end of company name whereas a private company needs to insert the words ‘Private Limited’ at the end of its name.
A company cannot not select a name which resembles name of other registered company in India or which can harm the national interest.

(B) Address of Registered office clause:
The company needs to mention the physical address of its registered office so that the Registrar of Companies and public can communicate with the company. Moreover, based on the address the court can decide the jurisdiction of the company.

(C) Object clause:

- Object clause is the most important clause of memorandum.
- Under this clause, the company needs to clearly mention the objective and the type of business it would conduct. It cannot conduct activities other than mentioned in this clause.

(D) Liability clause:

- Under this clause the company mentions if the liability of members is limited, unlimited or limited by guarantee.
- In case of One Person Company, the company needs to mention name of the person who will replace the original person in case of death, inability to enter into contracts, etc. of the original person.

(E) Capital clause:
Under the capital clause the company mentions the amount of share capital with which the company proposes to register and the division of capital into shares of fixed amount.

(F) Association clause:
In this clause minimum 7 members in case of a public company and minimum 2 members in case of a private company need to give a slatement along with their signatures showing their desire to establish the company.

2. Articles of Association:

- The Articles of Association is a document that contains the purpose of the company as well as the duties and responsibilities of its members.
- It also contains the rules and regulations under which the company will conduct its administration.
- Rights of members, share installment, share forfeiture, powers of Board of Directors, etc.
- Both the documents i.e. Memorandum of Association and Articles of Association become public documents after they get registered.

3. List of directors:

- The company needs to provide and register the list of persons who wish to work as directors to the Registrar of Companies.
- The list contains name of persons, address, age, sex, occupation, nationality, etc.
- The company must compulsorily include one female director in its Board of Directors.

4. Written consent of directors:
People whose name is mentioned as directors in the company need to give a written consent that they wish to work with the company on their own will.

5. Declaration of interest in other companies:
If the directors of company, managers, secretary or subscribers have interest in any other company, firms, etc, then they need to disclose it by filing a statement.

6. Statement of fulfillment of provisions of law:

- Once the company fulfills all the legal provisions discussed so far it needs to prepare a statement in the prescribed format and register it before the Registrar of Companies stating that the company has fulfilled all the legal provisions needed for incorporating a company.
- On completing all the procedures and documents the Registrar of Companies after verification and thorough investigation issues certificate of incorporation and Corporate Identification Number (CIN) to the company. The date of issue of this certificate becomes the date of establishment of company.

Question 5. Distinguish :
(a) Co-operative society and Company
Answer:

Points of difference	Co-operative society	Company
Meaning	It is a voluntary association of people on the basis of equality to improve the economic conditions of all members.	It is a voluntary association of people to conduct business lawfully and earn profit.
Motive	Primary motive is service, economic development and upliftment of members. The motive of profit is secondary.	Primary motive is to earn profit.

Number of members	Minimum 10 members and maximum unlimited members.	In case of public company, minimum 7 members and maximum unlimited whereas in private company minimum 2 and maximum 200 members.
Process of establishment	Process of establishment is easier than company.	Process of establishment is quite lengthy and complicated.
Management	It is managed democratically. It works on principle of single vote per member.	Democratic management is only in principle. It is not followed at times of voting.
Issue of shares	Society can issue shares carrying equal rights and of same type.	Can issue equity shares in addition to preference shares.
Transfer of shares and end of membership	Transfer of shares does not take place. Members can end the membership by redeeming the shares to society.	Shares can be easily transferred. They cannot be redeemed from the company but can be sold to others.
Effect on share capital.	The members are allowed to redeem the shares from the society and take their capital back. So, capital of society may get reduced.	Members cannot redeem their shares from the company and hence company's capital is not affected.
Use of profit	As per the provisions of law the profit is used to aive dividend to the members for their benefit.	Some part of profit may be distributed as dividend among members.

(b) Private company and Public company.
Answer:

Points of difference	**Private company**	**Public company**

Number of members	Minimum 2 and maximum 200.	Minimum 7 and maximum no limit.
Transfer of share	Private company puts restriction on the transfer of shares through its Articles.	One can freely transfer the shares.
Invitation to public	Private company cannot issue prospectus invite public to subscribe for shares or debenture	Public company can invite public to subscribe for share or debentures by issuing prospectus.
One person company	Private company can be of the type one-man or say one person company. One person can enter in contract with one member who is the director.	Public company cannot be a one person company and public company cannot do such contract.
Number of directors	A private company must have minimum 2 directors.	There must be minimum 3 directors of which one must be a female.
Name of company	A private company with limited liability must add the words 'Private Limited' at the end of company name and that with unlimited liability must add 'Private'.	The word Limited' is added after the name of the public company with limited liability.
Articles of Association	Articles of Association is to be prepared and get registered compulsorily with the Registered of Companies.	In case Articles are not prepared Model Articles stated in Schedule-1 gets automatically applicable.
Minimum subscription	The provisions of minimum subscription do not apply.	The provision of minimum subscription is applicable.
New issues	People other than the members can be offered issue of new shares.	Issue of new shares is first offered to existing members i.e. share-holders of the company.