

# Chapter - 7 Formation of a Company

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## Question 1

State the three stages in the formation of a company.

**Answer:** The three stages in the formation of a company are.

- Promotion
- Incorporation
- Subscription of a company

## Question 2

Define the formation of the company.

**Answer:** Formation of a company is complicated and include multiple stages of legal formalities and procedures. The formation process comprises of three stages promotion, incorporation, and subscription of a company. Unlike public limited companies, private business is restricted to raise funds from the public, and also they don't require to issue a prospectus to complete the formalities.

## Question 3

In a company, who is known to be the first directors of the company?

**Answer:** In a company, the promoter decides who will sign the memorandum of association of the proposed company. Whoever signs the memorandum, they will also be the first directors of the company.

## Question 4

When a company is legally born?

**Answer:** The date when the certificate of incorporation has printed a company is legally born.

## Question 5

How many members should sign a memorandum of association in a public company?

**Answer:** A minimum of seven members should sign a memorandum of association in a public company.

## QUESTION 6

How many members should sign a memorandum of association in a private company?

**Answer:** Only two members are required to sign a memorandum of association in a private company.

### **Question 7**

What do you mean by Technical feasibility?

**Answer:** Technical feasibility means analyzing an idea which may be great but technically impossible to execute. It could be because of the desired raw material or technology is not easily available.

### **Question 8**

What do you mean by Financial feasibility?

**Answer:** Fund is an essential element while planning to start a company. The promoters have to estimate and arrange the funds properly for the desired company. If the promoters fail to arrange the funds then the plan has to be dropped.

### **Question 9**

What do you mean by Economic feasibility?

**Answer:** A plan or a project can be technically and financially feasible but the outcome of it being profitable is very limited.

### **Question 10**

What are the documents required for the registration of incorporation document?

**Answer:** The documents required for the registration of incorporation document are.

- Stamped, signed, and witnessed memorandum of association. For a public company, a minimum of seven members are required to sign the memorandum, and for private two members is required.
- The article of association should be stamped and witnessed
- Written approval of the proposed directors to act as the first directors and undertaking to purchase qualification shares.
- A signed agreement if there is any Managing director, manager or whole time director.
- Registrar's letter with the approved name of the company
- A statutory declaration mentioning that all the necessary legal requirements for registration are completed with signature.

- An address proves documents should be submitted with the required documents.
- Registration fee receipt or any documentary evidence.

### **Question 11**

What do you mean by the promoter?

**Answer:** In common, a promoter is a person who has control over the operation of a company directly, indirectly or as a shareholder. According to his advice, the director or the board members of the company takes the decision.

### **Question 12**

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