Date : Marks : 30	FYJC **Subject : Secretarial Practice** **Ch. 3. Joint Stock Company**	**Duration: 1 Hr. 15 Min.** **Set No. :**

SOLUTION

Q.1. (A) Select the correct answer from the possible options given below and rewrite the statement: (03)

1. Membership in Joint Hindu Family Business is by................ only.
   (a) birth (b) agreement (c) transfer of shares.
2. The .... are elected representatives of shareholders to manage affairs of company.
   (a) Auditors (b) Secretary **(c) Directors**
3. A sole trading organization has a high degree of ....
   (a) rigidity **(b) flexibility** (c) complexity

(B) Match the correct pairs: (05)

	Group "A"		Group "B"
1.	Unlimited liability	a)	Association of two or more persons for business
2.	Partnership	b)	Limited risk
3.	Joint Hindu Family Firm	c)	Heavy investment
4.	Co-operative organisation	d)	Credit sales
5.	Joint Stock Company	e)	Hindu Succession Law
		f)	Involuntary association
		g)	Sole Trader
		h)	Voluntary association for service to members or public.
		i)	Grocery shop
		j)	Transferable shares

Ans: (1 – g); (2 – a); (3 – e); (4 – h); (5 – j)

(C) Write a word / term / phrase which can substitute each of the following statements: (02)

1. The smallest fraction of the capital of a company having a fixed face value. **Share**
2. The form of commercial organisation suitable to carry large scale business.
   Joint stock company

Q.2. Distinguish Between : (05)

1. Sole Proprietorship and Partnership.

Sole Proprietorship	Partnership
A sole proprietorship is a form of business organization owned and managed by one individual called 'sole trader'.	A partnership firm is a form of business organization owned and managed by two or more persons.
The formation of a sole proprietorship is easy and quick in comparison to the formation of partnership firm.	The formation of a partnership firm is comparatively more difficult due to certain legal requirements.
A sole proprietorship is owned, managed and controlled by a single person, i.e., the proprietor himself.	The minimum number of partners required is 2, while the maximum number is 20 for general business and 10 for banking business.
In sole proprietorship, the maximum	The business secret is known to and

business secrecy can be maintained.	shared by many partners. However, it is not known to and shared by the general public.
The capital-raising capacity is quite limited as capital-raising depends on one person.	The capital-raising capacity is comparatively high as capital-raising depends on a number of partners.
In a sole proprietorship, only one person. i.e. sole trader contributes his own skills.	In a partnership firm, diverse talents, skills and business contacts are pooled together. Therefore benefits of principle of division of labour and expertise can be well obtained.
The entire profits are claimed by the sole proprietor.	The profits and losses of a partnership firm are shared by the partners either equally or in certain proportion mentioned in the agreement.

Q.3. Short Note: (Any 1) (05)

1. What are the demerits / limitations of a Joint Stock Company?

Ans: A Joint Stock Company suffers from the following demerits:

(1) Complicated Formation:
- (a) The formation of a company is a time consuming and complicated process.
- (b) Certain documents such as memorandum and articles of association have to be drafted and filed with the Registrar of Companies.
- (c) A number of formalities have to be completed before formation of a company.

(2) Government / Legal Control:
- (a) The joint stock companies are subject to government control.
- (b) A company has to follow numerous provisions of the Indian Companies Act, and other Acts.

(3) Separation of ownership and management:
- (a) There is a separation of ownership and management.
- (b) Shareholders are the owners of company however they do not look after the management.
- (c) As shareholders remain aside, they do not take active part in the management. As such they cannot exercise proper control over the company.

(4) Lack of Secrecy:
- (a) A company form of commercial organisation lacks business secrecy.
- (b) There is obligation on the part of the company to publish its accounts and other records.

(5) Lacks Flexibility:
- (a) A joint stock company is less flexible as compared to sole trading and partnership firms.
- (b) This is because, they cannot change or take immediate decisions. If they want to close down their business, then they have to follow a detailed procedure.
- (c) Again, a change in business line requires approval of the shareholders.

(6) Malpractices by directors:
- (a) Even though the shareholders are owners, they do not take part in the day to day management of a company.
- (b) Management is looked after by the board of directors. In practice directors are whole and sole of the business.

(c) The actual control remains in the hands of directors. Directors may be tempted to do malpractices such as mis-appropriation of funds, frauds, speculation on shares, etc.

(7) No real democracy:

(a) The management of a joint stock company is in the hands of Board of Directors.
(b) Some directors run the company to meet their own selfish interest. The directors may misutilise the company's funds for their personal purposes.
(c) Thus the company suffers because of unethical directors.

(8) Greater tax burden:

(a) A company form is capitalist form by nature. There is more tax burden on a company than any other form of organization.
(b) In fact, a form like co-operative gets many concessions and tax rebates from the government. But a company does not enjoy any such concession.

(9) Social Evils / monopolistic tendencies:

(a) The Joint Stock Company is also responsible to social evils.
(b) They are responsible for pollution and congestion in cities. They charge high prices for their goods and services.
(c) At times, some promoters or directors support corrupt politicians. They may also create monopolies to exploit the customers.

(10) Conflicting interests:

(a) In case of Joint Stock Company, every group related to company has different interest.
(b) Shareholders are interested in the dividend, directors are interested in control of the company, employees are interested in the remuneration etc.
(c) Thus the interest of every group is different which affects the working of company.

(11) Not suitable for every business:

(a) Company form is not suitable for every kind of business.
(b) It is especially not suitable for small scale and simple businesses.

2. Discuss the concept of Joint Hindu Family business. State its features.

Ans: Hindu undivided family business is in practice in India. Only A few Indian families in rural and urban areas are engaged in business under this form of organization. However, in modern world due to urbanization and industrialization, Hindu undivided family system is slowly abolishing and therefore the business form is also diminishing.

Features:

(1) The ownership of Hindu undivided family business rests with the male members of the family. However all the family members take part in the business.
(2) Membership is acquired by birth. Outsiders are not allowed to participate in the business. Members are called co-parceners.
(3) Hindu undivided family business comes into existence by the operation of Hindu Law.
(4) The business is managed by the most senior person of the family called 'Karta'. Karta takes all the decisions regarding business.
(5) The liability of Karta only is unlimited and coparcener's liability is limited.
(6) The profit and losses are divided equally to all the members in the family.

All forms of business organisations mentioned above have certain limitations such as :

(1) Limited capital
(2) Inefficient and non-professional management
(3) Lack of stability
(4) Unlimited liability etc.

Q.4. Long Answer : (10)

1. What is a Joint Stock Company? Explain its features.

Ans: Meaning : A Joint Stock Company is a voluntary association of members formed for the purpose of undertaking a business. It is called a Joint Stock Company, because the shares or stock of the company are jointly owned by its members.

A Joint Stock Company undertakes different business activities like manufacturing, marketing and servicing. The funds required by the company are contributed by its members called Shareholders. The shareholders are the Co-owners and they share in the profits of the company in the form of dividends.

The company is managed by Board of Directors. The Board is a group of elected representatives of the shareholders. The Board frames the plans and policies of the company. The Board in turn appoints several other managers and subordinate staff to look after day-to-day aspects of the organisation.

In India, the Joint Stock Companies are governed by the Indian Companies Act, 1956. A Joint Stock Company has to register itself under the Indian Companies Act, 1956.

Definitions:

According to Sec 3(1) (i) of the Companies Act, 1956 : 'Company means a company registered under this Act or an existing company. An existing company means a company formed and registered under any of the previous Indian Companies Act.'

Prof. Haney defines a Joint Stock Company as 'A company is an incorporated association which is an artificial person created by law, having a separate legal entity, with a perpetual succession and a common seal'.

According to Lord Justice Lindley : "A company is meant to be an association of many persons who contribute money or money's worth to a common stock and employ it for a common purpose.

Features of a Joint Stock Company :

The following are the features of a Joint Stock Company :

(1) Artificial Person:
- (a) A company is an artificial person created by law.
- (b) It has no physical existence, but it has legal existence.
- (c) Like human beings, it can acquire property, enter into a contract, take legal action, etc.

(2) Incorporated Association:
- (a) Every company in India has to be registered under the Companies Act, 1956
- (b) Registration or incorporation gives birth to a company.

(3) Perpetual Succession:
- (a) A company has perpetual succession. It means that the company has a long and stable life.
- (b) Its existence is not affected by death, insolvency or insanity of its members.

(4) Common Seal:
- (a) A company is an artificial person, and as such it has to sign documents and other papers.
- (b) However, it cannot sign as a human being and, therefore, the common seal serves as its signature.
- (c) The affixing of common seal on important documents is witnessed by the signature of two directors of the company.
- (d) The common seal remains in the custody of Board of Directors.

(5) Separate Legal Entity:

(a) A company has an independent legal entity, separate and distinct from its member. A company cannot hold a member responsible for the debts of the company.

(b) A member in turn cannot bind the company for his acts.

(6) Share Capital:

(a) A company collects capital by selling shares to general public. The capital is divided into small parts called shares. Any person who is interested can purchase the shares and become the shareholder of the company.

(7) Transfer of Shares:

(a) The shares of a public company can be freely transferable from one person to another in the open market.

(b) There are certain restrictions on the transfer of shares in a public company, especially, in the case of preferential allotment of shares.

(c) There are also restrictions on the transfer of shares in the case of a private limited company.

(8) Voluntary Association:

(a) A company is a voluntary association of persons. Any person competent to enter into a contract can become its member.

(b) To be a member, a person should buy or own the shares.

(9) Separation of Ownership and Management:

(a) The shareholders are the owners of the company. They elect the Board of Directors to look after the management of the company.

(b) The Board is responsible for the management of the company. Thus, there is separation between ownership and management.

(10) Limited Liability:

(a) The liability of the members of the joint stock company is limited to the extent of the capital contributed.

(b) If the shares are fully paid, the member is not liable.

(11) Large Membership:

(a) A joint stock company enjoys large membership.

(b) In a private company, the minimum members are two and maximum members is 50.

(c) In a public company, the minimum members are seven and there is no maximum limit. Thus, the membership is large.

(12) Written constitution:

(a) The constitution of joint stock company is written and registered. Any person has the access to the constitution. The two important documents are :

(b) Memorandum of Association and

(c) Articles of Association.

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