NAME : __________________________________________
HOSTEL NO: ______________________________________
SCHOOL : ________________________________________
The Preface (PREFACE)

WISH YOU ALL THE BEST FOR YOUR PUBLIC EXAMINATION

"I CALL MY STUDENTS "MY KIDS" BECAUSE IN OUR YEAR TOGETHER. THEY AREN'T JUST KIDS ON MY CLASS LIST. THEY BECOME AN PART OF MY HEART"
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CHAPTER 1

ORGANIZATION

“The Business is coming to realize that, education is to business what fertilizer is to farming”

“EDUCATION IS THE BEST FRIEND. AN EDUCATED PERSON IS RESPECTED EVERYWHERE. EDUCATION BEATS THE BEAUTY AND THE YOUTH”
I. CHOOSE THE CORRECT ANSWER:

1. Which of the following is not the characteristic of sole proprietorship?
   a. Single ownership    b. One man control
   c. Whole profit to proprietorship  d. Non-flexibility

2. What is the advantage of sole proprietorship?
   a. Small capital    b. Hasty decision    c. Limited capital    d. Limited managerial ability

3. The agreement of partnership
   a. Must be oral    b. Must be in writing
   c. Must be writing in the stamp paper  d. Can be either oral or in writing

4. Partnership may come into existence
   a. By the operation of law    b. By an express agreement
   c. By an express or implied agreement  d. By inheritance of property

5. Management of a Joint stock company is entrusted to.
   a. The Registrar of companies    b. The Board of Directors
   c. The shareholder    d. The debenture holders

6. Registration is compulsory in the case of
   a. A Sole trader    b. A partnership
   c. A joint stock company  d. A joint hindu family business

7. In a co-operative society
   a. One share one vote principle is followed    b. One man one vote principle is followed
   c. A member must have 2 votes    d. Shares are transferable.

8. Co-operative society can be started
   a. Only in villages    b. In towns and villages
   c. Only in cities    d. Only in State headquarters

9. The most suitable form of organization for operating defense industries is
   a. Government Company    b. Public corporation
   c. Departmental organization  d. Board organization

10. The share capital of the government company must not be less than
    a. 75%    b. 60%    c. 95%    d. 51%

11. A multinational company is also known as

12. Membership by birth is main feature in
    a. Sole trader    b. Joint Hindu family business
    c. Co-operative society    d. Partnership

13. Division of work is called ____________
14. Delegation means the _________ of part of the work.

15. The liability of sole trader is _______________

16. Partners share profits and losses ____________

17. In India registration of partnership is __________

18. In co-operative society all members are ________

19. A company is regarded as a ______________

20. Broadcasting comes under__________ form of organization.

21. Public corporation is known as ______________ Corporation.

22. Tamilnadu Electricity Board is the example of __________

23. Government policy is also favorable towards __________

24. Government Company employees are not ____________

II. SHORT QUESTIONS

1. Define Organization.
   “A business is an enterprise which makes, distributes or provides an article or service which other members of the community need and are able and willing to pay for it”.
   - Urwick and Hunt

2. What is Scalar Principle?
   * Line of authority must proceed from the highest executive to the worker at the bottom level through a downward flow.
   * This is known as ‘chain of command’.

3. What do you mean by co-ordination?
   * The various activities of undertaking should be co-ordinate to secure the desired results.
   * The purchase department and sales department activities must be well coordinated to increase profit.
4. **What is sole trading business?**
   - Any business unit which is owned and controlled by a single individual is known as a sole trading concern.
   - The person, who manages it, is called a sole trader.

5. **Explain the term ‘partnership’**
   “Partnership is the relation existing between persons competent to make contracts who agree to carry on a lawful business in common with a view to private gain”.
   - **Prof. Haney**

6. **Who is a KARTA?**
   The Joint Hindu Family business organization was controlled and maintain by the head of the family. He is called ‘KARTA’.

7. **What do you understand by co-operation?**
   - It is a voluntary association of persons to achieve a common economic objective.
   - In a co-operative society all the members are equal.
   - Service is primary and profit is secondary.
   - One man one vote is the most important principle.

8. **What is public corporation?**
   - This is established under a specific statute passed in the parliament. It is known as a statutory corporation.
   - It is an autonomous body fully financed by the government.

9. **State the meaning of Board organization.**
   - In this organization management is carried on by a government nominated independent Board.
   - It has its own rules and regulations.
   - **Example:** Tamil Nadu Electricity Board, Tamil Nadu Housing Board, Tamil Nadu Water and Drainage Board are the examples of Board Organization.

10. **Give five examples of Multinational companies**
    - Unilever Limited - British Company
    - Union carbide - American Company
    - Philips - Dutch Company
    - Coca Cola Corporation - American Company
    - International Business machine - American Company
III. PARAGRAPH QUESTIONS.

1. Write a short note on Joint Hindu Family business.

   India is unique in the system of Joint Hindu Families.
   - A joint Hindu family comprises of father, mother, sons, daughters, grandsons and granddaughters.
   - They hold the property jointly.
   - The head of joint Hindu family is known as 'KARTA'.
   - The members are called "Coparceners".
   - These families engage in Agriculture, handicrafts small industries etc.
   - There are two laws "MITAKSHARA" and "DAYABHAGA".
   - Governed under "HINDU SUCCESSION ACT, 1956".
   - It is regulated by the provisions of Hindu Law.

   Conclusion: With the advent of Industrialization the joint families are reduced to small families. As a result, this system is declining.

2. Explain any two types of individualistic institution.

   Sole Trader:
   - Sole trader business is owned and controlled by a Single person.
   - It is the oldest form of business organization.
   - The liabilities of the sole trader are Unlimited.
   - No legal formalities are required to formation of Sole trader.
   - "All is he and he is all in all" is the principle of Sole trader.

   Co-operative Society:
   - It is a voluntary association of persons.
   - All the members are equal in cooperatives.
   - Registration is Compulsory as per Co-operatives Act.
   - It is managed by Board of Directors elected by members.
   - "One man one vote" principle is followed in Co-operatives.

3. Does partnership remove all the defects of sole proprietorship?

   The partnership firm does not remove all he defects of sole proprietorship.

   Unlimited Liability:
   - The liability of a sole trader is unlimited.
   - In partnership, every partner is jointly and severally liable for the entire of the firm.

   Limited Resource:
   - The Resource and borrowing capacity of sole proprietorship and partnership firms are limited.
Therefore, they are not suitable for undertaking business involving huge investment of capital and risk.

**Lack of continuity:**

- The sole proprietorship comes to an end with the death, incapacity and insolvency of a sole trader.
- A partnership comes to an end with the retirement, incapacity, insolvency and death of a partner.

4. **On what reasons study of organization is important?**

**Meaning:**

Organization means finding out the objectives, grouping the activities aimed at their achievement, assigning them for performance and coordinating them, are the features of an organization.

**The study of organization is important for the following reasons:**

- Organization pervades all the important phases of human life.
- A man is born in organization (hospitals and clinics).
- He is educated in an organization (Schools, Colleges and universities).
- He works in an organization (office, factories and business).
- Knowledge of organization helps the manager to work effectively.
- Organization satisfies and sometimes frustrates.
- It is not well organized.

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**IV. ESSAY TYPE QUESTIONS.**

1. **Explain briefly the principles of organization.**

   **i). Unity of Objective:**
   - The term objective means **a goal to be achieved.**
   - The objective of the organization should **clearly fixed.**

   **ii). Division of Work**
   - The total work should be divided that is '**Departmentation**'.
   - All the activities must be **planned** and **dividing the work on specialization.**

   **iii). Span of Control**
   - No executive in the organization should be required to supervise more subordinates.
   - An executive effectively manage only for to **supervise a reasonable number of subordinates.**

   **iv). Scalar Principle**
   - **Line of authority** must proceed from the highest executive to the workers to the bottom level through **downward flow.**
This is known as 'Chain of Command'.

v). Unity of Command

- Each person should receive orders from only one boss.
- A person cannot serve under two masters.
- Dual subordination should be avoided as it creates disorder and confusion and leads to indiscipline.

2. Describe the various types of business organization. (any 5)

**TYPES OF BUSINESS ORGANISATION**

**INDIVIDUALISTIC INSTITUTIONS**
1. Sole Trader
2. Joint Hindu Family
3. Partnership
4. Joint Stock company
5. Co-operatives
6. Multinational companies

**GOVERNMENT INSTITUTIONS**
1. Departmental Undertaking
2. Public Corporation
3. Government Company
4. Board organization

**Sole Trader:**
- Sole trader business is owned and controlled by a single person.
- It is the oldest form of business organization.
- The liabilities of the sole trader are Unlimited.
- No legal formalities are required for formation of Sole trader.
- "All is he and he is all in all" is the principle of Sole trader.

**Joint Hindu Family Business:**
- This system is found only in India.
- A Joint Hindu Family comprises of father, mother, sons, daughters, grandsons etc.
- The head of the family is known as 'KAR TA'.
- The members are called coparceners.
- It is regulated by the provisions of Hindu Law.

**Partnership:**
- Partnership is the relationship between two or more persons
- The minimum number of partners is 2 and maximum is 10 in banking and 20 in other business.
- Partnership business is governed by Indian Partnership Act 1932.
- In India the registration of partnership firm is not compulsory. It is only optional.
• Partners sharing profit or loss in agreed ratio.

**Joint Stock Company:**

- A company is a **artificial person** created by law.
- Registration is **Compulsory** as per **Indian Companies Act 1956**.
- Classified into **Private** Limited and **Public** Limited Company
- It is managed by **Board of Directors** elected by Share holders.
- The liability of the share holders is **limited**.

**Co-operative Society:**

↔ It is a voluntary association of persons. All the members are **equal** in cooperatives.
↔ Registration is **Compulsory** as per **Co-operatives Act**.
↔ It is managed by **Board of Directors** elected by members.
↔ "One man one vote" principle is followed in Co-operatives.

**Multinational Company:**

- A Multinational Company is a company carrying on business in **two or more countries**.
- A Multinational Corporation is also known as ‘Global giant’ or
- ‘World Enterprise’ or ‘International Enterprise’
- Example: Union Carbide, IBM, Coco Cola Corporation, Philips.

**Government Enterprises**

**Departmental Enterprises:**

- It is one of the part of the Government
- It is the oldest form of organization of state enterprise.
- Its administration is in the hands of Civil Servants.
- It may be run either by central government or by the state government.
- **Example:** Railway, Post, Telephone, Defense etc.,

**Public Corporation:**

- A public corporation is created by a **Special Act** passed in the Parliament or State Legislature.
- It is otherwise called **"Statutory Company"**.
- Service to the public is main aim of public corporation.
- It is managed by Board of Directors appointed by Government.
- Example: LIC, RBI, UTI etc.,

**Government Company:**

- It is registered under **Indian Companies Act 1956**.
Government Company is which **not less than 51% of the paid-up share capital** is held by the **Central Government** or any other **State Governments or both**.

- It is managed by Board of Directors appointed by Government.
- **Example:** BHEL, SAIL, TANSI etc

**Board Organisation:**  [www.nammakalvi.org](http://www.nammakalvi.org)

- It is management by Independent Board nominated by a government.
- It has its own rules and regulations.
- **Example:** Tamil Nadu Electricity Board, Tamil Nadu Housing Board etc.,

3. **What do you understand by multinational companies and explain its features?**

**Meaning:**

- The ‘multi’ means many, and the ‘national’ means countries.
- The multinational company is the company that operates in several countries.
- It is also called ‘Global giant’ or ‘World enter price’ or ‘International enterprise’.

**Definition:** According to **Neil H. Jocoby** “A multinational corporation owns and manages business in two or more countries”.

**Features:**

- A multinational company is operated in more than one country simultaneously.
- It is generally very large in size.
- Its purpose is to reduce transport costs and to make use of raw materials, labour, capital and market of foreign countries.

**MNC:**

- There are 500 to 700 MNC operating in the world today.
- The USA have the largest share of foreign direct investment.
- It is followed by the U.K, Germany, Japan, Switzerland, France and Canada.
- In underdeveloped countries the investment and employment created by the MNC in 12 countries.
- They are namely Brazil, Mexico, Hongkong, Philippines, Singapore and South Korea.

**Example:**

- Unilever Limited - British Company
- Union carbide - American Company
- Philips - Dutch Company
- Coca Cola Corporation - American Company
- International Business machine - American Company

 *@*@*@*@*@*@*@*@*

*“DON'T STOP WHEN YOU'RE TIRED. STOP WHEN YOU ARE DONE”*
CHAPTER 2

SOLE TRADER

“Business is like riding a bicycle; either you keep moving or you fall down”

“SILENCE IS THE BEST ANSWER FOR ALL QUESTIONS.

SMILING IS THE BEST REACTION IN ALL SITUATIONS”
I. CHOICE THE BEST ANSWER:

1. Sole trading business can be started by:
   a) At least two persons     b) At least seven persons     c) Any one person

2. The liability of a sole trader is:
   a) Limited only to his investment in the business
   b) Limited to total property of the business     c) Unlimited

3. Sole proprietorship is suitable for:
   a) Large scale concerns     b) Medium scale concerns     c) Small scale concerns

4. Decision-making process in sole trading business is:
   a) Quick     b) Slow     c) Neither quick nor slow

5. A sole trader:
   a) Cannot keep his business secrets     b) Can keep his business secrets
   c) None of these

6. A sole trader has a ________ liability.
   a) Limited     b) Unlimited     c) None of these

7. ________ is the oldest form of organization.
   a) Joint hindu family     b) Partnership     c) Sole trading

8. It is not difficult to form a ________ trading business.
   a) Sole Trading     b) Partnership     c) Co-operative

9. No legal formality is required to start a ________ business.
   a) Joint Stock Company     b) Partnership     c) Sole Trading

II. SHORT ANSWER QUESTIONS:

1. State the various kinds of non-corporate enterprises.
   i) Sole trading     ii) Joint Hindu Family     iii) Partnership

2. What is a sole proprietorship business?
   ♦ It is an individual invests the entire capital, uses his own skill and is solely responsible for his business.
   ♦ He alone owns and controls the business.

3. Define “sole trader”.
   ♦ “A business carried on by a single person exclusively by and for himself “.
     - Dr. O.R. Krishnaswami

4. What is unlimited liability?
   The creditors have the right to recover their dues even from the personal property of the proprietor in case the business assets are not sufficient to pay their debts.
III. ESSAY TYPE QUESTIONS

1. Explain the main characteristics of sole trading form of organisation. (Any 5)

One-man Ownership and Control

- A sole trading concern is owned by an individual.
- He independently manages and controls the business.

Unlimited Liability

- The liability of the proprietor for the debts of the business is unlimited.
- The creditors have the right to recover their dues even from the personal property of the proprietor in case the business assets are not sufficient to pay their debts.

Enjoyment of Entire Profit

- The sole trader is entitled to enjoy all profits of the business.
- At the same time, he himself should bear the entire loss.

No Separate Legal Entity

- The sole trader and the business are one and the same.
- A sole trading concern has no legal entity separate from its owner.
- The sole trader owns the assets and owes the liabilities of the concern.

Registration

- A sole trader business need not be registered with any authority.
- He is to obtain a licence from the local authority like municipality or panchayat.

Simplicity

- It is simple to commence and simple to close a sole trader business.
- It requires lesser efforts and it is free from complicated legal formalities.

2. Discuss the merits and demerits of sole trading form of business.

A). MERITS

1. Easy Formation

- There are no legal formalities and no agreement is required and registration of the firm is not essential.
- Anybody willing to start a sole-trading concern can do so immediately.

2. Direct Motivation

- The entire profit of the business goes to the sole trader.
- Nobody can claim a share in the profit.
- It motivates him to expand his business activities.
3. Flexibility

- It is a highly flexible type of organization.
- In case a change in operation is required, it is possible without involving much expenditure.

4. Retention of Business Secrets

- A sole trader can maintain business secrets.
- Being the sole proprietor, he is not expected to share his trade secrets with anybody else.

5. Quick Decision

- The sole proprietor is his own boss and need not consult others while making any decision.
- He can take quick decision and implement them without any delay.

B. DEMERITS

1. Limited capital

- The resources of a sole proprietor are limited.
- He depends only on his personal resources and his borrowing capacity.
- It is obvious that financial resources of a single person will be insufficient for business expansion.

2. Unlimited Liability

- The unlimited liability of a sole proprietor may affect his enthusiasm and restrict introducing novel ideas in business.

3. Uneconomic Size

- Because of limited capital and skill, the sole traders have to work on a small scale basis.
- Thus he is deprived of economies of large scale operation.

4. Lack of Consultation

- He has no one else to consult before taking any important decisions except his family members.
- This may result in heavy loss if his decisions go wrong.

5. Risk of Entire Loss

- As the sole trader is the sole owner of the business, he has to bear all losses of his business.
3). Explain the role of sole trading concern in the society.

1. Solution to unemployment problem

- It gives large employment opportunities to the less educated and uneducated persons.
- It helps to reduce the unemployment problem in the society.

2. Provides Investment Avenues

- Sole trader organisation provides a chance for small investors who has small amount of capital to utilize their savings in the productive line.

3. Helps small producers

- Most of the goods sold by sole traders are procured locally from local producers.
- Thus small local producers are benefited by the sole traders.

4. Supply of Quality goods

- Sole traders sell goods of high quality nowadays to maintain their reputation.
- They even accept return of defective goods.
- This ensures enhancing the welfare of the public.

5. Helpful to consumers

- The sole traders supply the goods to the consumers at their door steps.
- So the time and energy of the consumers are saved.

4). One man control is the best in the world provided that one man is big enough to take care of everything” Discuss.

It has said that one-man control is the best in the world only when the business is small indeed, to allow one actually to know and supervise everything in the business.

- William R. Basset

Following are some of the points in favour of one man control: (any 6)

- Easy and quick formation.
- Direct control.
- Retaining business secrets.
- Close touch with the consumers.
- Enjoying all profits.
- Inexpensive management.
- No legal restrictions.
- Direct contact with the employees.
- Social desirability.
Limitations of one-man control

- Limited capital
- Limited managerial ability
- Unlimited liability
- Absence of large scale business operation
- Risky decisions
- Uncertainty

**Conclusion:** One-man control is the best from the point of view of profitability and efficiency, provided that one man is able to manage everything efficiently.

"FAILURE IS THE OPPORTUNITY TO BEGIN AGAIN MORE INTELLIGENTLY"
CHAPTER 3

PARTNERSHIP

Coming together is a beginning
Keeping together is progress
Working together is success.

“SUCCESSFUL PEOPLE NEVER WORRY ABOUT OTHERS ARE DOING”
I. CHOOSE THE CORRECT ANSWER:

1. A partnership is formed by
   a) Agreement
   b) Relationship among persons
   c) The direction of government

2. The basis of partnership is
   a) Utmost good faith
   b) Money available for investment
   c) Desire to work together

3. A partnership firm may be registered under
   a) 1949 Act
   b) 1956 Act
   c) 1932 Act

4. Registration of partnership is
   a) Compulsory
   b) Optional
   c) Not Necessary

5. In partnership there exists a relationship of
   a) Principal and Agent
   b) Owner and Servant
   c) Employer and Employee.

6. The profit and loss of a partnership firm is shared in the __________ among the partners.
   a). Agreed Ratio
   b). Optional
   c). Equal

7. The partners liability in India is ________________
   a). Limited
   b). Unlimited
   c). None of these

8. The maximum number of members in non-banking firm is ____________
   a). 10
   b). 20
   c). 25

9. A partner who does not take part in the working of the firm is called__________ partner.
   a). Active
   b). Nominal
   c). Sleeping

II. SHORT QUESTIONS

1. Define Partnership.

   Prof. Haney, “partnership is the relation existing between persons, competent to make contracts, who have agreed to carry on a lawful business in common with a view to private gain”.

2. What are the minimum and maximum numbers of members in the partnership firm?

   ✦ Minimum 2 members
   ✦ Maximum 10 in the banking and 20 in the other business.

3. What is the relationship that exits among partners?

   ★ There must be agent and principal relationship between the partners.
   ★ Every partner is a proprietor as well as an agent of the firm.
   ★ It is described as an extension of the ‘Principle of Agency’.

4. Who is a dormant partner?

   ➢ The partners who merely contribute capital and do not take active interest in the business.
   ➢ It is also called sleeping or financing partners.
5. What is limited partnership?
- The liability of the partner is limited is called limited partnership.
- A limited partnership firm must have at least one partner whose liability is unlimited.
- This law is only in Europe and U.S.A. limited partnership is allowed.

6. What is a partnership deed? [www.nammakalvi.org]
- It can be formed through an agreement among two or more persons.
- In India, this agreement may be oral or in writing.
- The partnership agreement is also known as Partnership Deed or Articles of Partnership.

7. Define implied authority of a partner.
- An implied authority is a right vested with a partner to be used in emergency situations to protect the interest of the firm.
- The act of partner which is done to carry on the firm is controlled by the partners and partnership.
- The authority of a partner to bind the firm is called implied authority.

8. What is Joint and Several liabilities?
- The creditors of partnership firm can claim their dues from the private assets of all the partners taken together. It is called joint liabilities.
- They can take action against the private properties of any one of the partners to get back their dues. It is called several liabilities.

9. Who is a minor? Can a minor become a partner?
- A minor is a person who has not completed 18 years of age.
- Where a guardian is appointed by a court, his age of majority extends to 21 years.
- Legally, a minor cannot become a partner because he is incapable of entering into a contract.

10. Bring out the difference between dissolution of partnership and dissolution of partnership firm.

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<th>S. No</th>
<th>Dissolution of Partnership</th>
<th>Dissolution of Firm</th>
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<tr>
<td>1</td>
<td>Only one or more of the partners terminate their connections with the firm.</td>
<td>All the partners terminate their connections with the firms.</td>
</tr>
<tr>
<td>2</td>
<td>May or may not bring the business of the firm to an end,</td>
<td>It brings the business of the firm to an end.</td>
</tr>
<tr>
<td>3</td>
<td>The business will continue even after dissolution</td>
<td>It cannot be continued in the case of dissolution of firm.</td>
</tr>
<tr>
<td>4</td>
<td>Its need not necessarily results in the dissolution of firm,</td>
<td>It is necessarily results in dissolution of firm.</td>
</tr>
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III. **PARAGRAPH QUESTIONS:**

1. **Explain the position of minor in the partnership firm.**

   **Minor Meaning:** A minor is a person who has not completed 18 years of age. A minor cannot become a partner. He can be admitted into the firm as a partner.

   **I). Position before attaining majority**
   - He can share the property and profits of the firm.
   - He can inspect and take copy of the accounts of the firm.
   - His liability is confined only to the extent of his share in the profits and property of the firm.

   **II). Position after attaining majority**
   - On attaining majority the minor partner has to decide within six months by giving notice whether he shall continue in the firm or not.
   - Otherwise he becomes liable to the firm from the date of admission.

2. **Explain the procedure for registration of a partnership firm.**

   **Registration of a partnership firm:**
   A partnership firm can be registered at any time by filing a statement in the prescribed form. The form should be duly signed by all the partners.

   **The statement should contain the following particulars:**
   - Name of the firm
   - Principal place of its business
   - Name and address of each partner
   - Date of admission of each partner
   - Date of commencement of business of the firm
   - Duration of the firm

   **Certificate of Registration:**
   - On receipt of the statement and the fees, the registrar makes an entry in the register of firms.
   - A certificate is issued by the registrar.
   - The firm is considered to be registered when the entry is made.
   - This register is open for inspection on payment of a nominal fee.

3. **What are the drawbacks of non-registration of partnership firm?**
   - An unregistered firm cannot file any case against its partners.
   - An unregistered firm cannot enforce its claims against third parties for recovering a sum exceeding rupees one hundred.
A partner of an unregistered firm cannot file any case against any other partners.
The firm forfeits its rights in re tricking the outsiders from using the trademarks and copyrights of the firm.

4. What are the contents of partnership deed?

**Partnership Deed:**
- A partnership firm can be formed through an agreement among two or more persons.
- In India this agreement may be oral or in writing.
- The partnership agreement is also known as Partnership Deed

**Contents of Partnership Deed**
- Name of the firm.
- Date of agreement and principal place of business.
- Names and addresses of all the partners.
- Duration of the partnership, if any.
- Amount of withdrawal of each partner.
- Profit sharing ratio.
- Interest on capital and interest on drawings.
- Procedure for admission or retirement of partners.

5. Describe the various kinds of partners.

<table>
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<th>S.No</th>
<th>Partners</th>
<th>Explain</th>
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<tbody>
<tr>
<td>1</td>
<td>Sleeping partner</td>
<td>✗ The partners who do not take active interest in the conduct of the business are called sleeping partners.</td>
</tr>
<tr>
<td>2</td>
<td>Nominal partner</td>
<td>✗ He is a partner who neither contributes capital nor takes any part in the management of the firm.</td>
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<td></td>
<td></td>
<td>✗ They are not eligible for the share of profit.</td>
</tr>
<tr>
<td>3</td>
<td>Active Partner</td>
<td>✗ A partner who takes active part in the management of the firm is known as “Active Partner”.</td>
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<tr>
<td>4</td>
<td>Minor partner</td>
<td>✗ A minor is a person who has not completed 18 years of age where a guardian is appointed by court his age of majority extends to 21 years.</td>
</tr>
<tr>
<td>5</td>
<td>Secret Partner</td>
<td>✗ He is one whose name is not disclosed to outsiders. This position of secret partner lies between sleeping and active partner.</td>
</tr>
</tbody>
</table>
IV. ESSAY TYPE QUESTIONS

1. Explain the basic features of partnership.
   i). Agreement:
   - A partnership is created by an agreement.
   - The agreement may be oral or in writing.
   - It is better to put it in writing to avoid misunderstanding in future.
   ii). Multiplicity of Person:
   - Partnership is the relationship between two or more persons.
   - The maximum members of 10 in the banking business and 20 in the other business.
   iii). Sharing of Profits:
   - The profit or loss of partnership is shared by the partners in the ratio as given in the agreement.
   - If there is no agreement regarding sharing of profit or loss, all the partners share equally.
   iv). Implied Agency:
   - Each and every partner is considered to be an agent of the business.
   - Every partner as an agent can bind the firm by his acts done in good faith and on behalf of the firm.
   v). Registration:
   - In India the registration of partnership firm is not compulsory.
   - It is only optional. If it is registered, it can enjoy certain advantages.

2. What are the advantages (or) disadvantages of partnership firm?
   **ADVANTAGES**
   i. Easy Formation.
   - A partnership firm is very easy to form.
   - No formal document is required to be prepared as necessary in the case of Joint Stock Company.
   - A simple agreement among the partners is sufficient to start a partnership firm.
   ii. Registration not compulsory
   - A partnership firm is relieved of registration because registration is not compulsory.
   - It is left to the discretion of the partners.
   iii. Larger Financial Resources
   - Creditworthiness of the firm is also higher because every partner is personally and jointly liable for the debts of the business.
Larger resources give greater scope for the expansion of business.

iv. Greater Managerial Talent
- The partners may be assigned duties according to their talent.
- The talent and experience of partners will help to increase the efficiency of the business resulting in more profit.

v. Easy Dissolution
- The partnership can be easily dissolved on insolvency, lunacy or death of a partner.
- No legal formality is required at the time of dissolution.

DISADVANTAGES
i. Unlimited Liability
- Every partner is jointly and severally liable for the entire debts of the firm.
- A partner has to suffer not only for his mistakes.
- Unlimited liability discourages many people from becoming a partner in the firm.

ii. Limited Resources
- The resources of partnership firm are limited.
- The borrowing capacity of the partners is also limited.

iii. Danger of Implied Agency
- The acts of partners legally bind the business and every other partner in the normal course of business.
- A dishonest or inefficient partner may bring loss to others by his actions.

iv. Limitation on Transfer of Share
- No partner can transfer his share to a third party without the consent of the other partners.
- If a partner wants to withdraw his share, it is not possible without the consent of other partners.

v. Lack of Continuity
- A partnership comes to an end with the retirement, incapacity, insolvency and death of a partner.
- Even a single partner, if he is dissatisfied with the business, can dissolve the partnership.

3. Explain the rights and duties of partners.

Rights of partners
- Right to expression opinion.
- Right to the consulted.
Rights to an equal share in the profits.
Rights to receive interest on loans and advances.
Right to indemnify for the express incurred.
Right to retire from the firm.

**Duties of partners**

↔ Act diligently and honestly in the discharge of his duties.
↔ Act in a loyal and faithful manner towards each other.
↔ Act within scope of the authority entrusted to him.
↔ To share the losses.
↔ No partner can transfer his interest.

4. What are the circumstances under which a partnership firm is dissolved?

   i). Dissolution by Agreement (Sec.40)

* A partnership is created and dissolved by an agreement.
* A firm may be dissolved by an agreement either with the consent of all partners.

ii). Compulsory dissolution (Sec 41)

* A firm is compulsorily dissolved either by the agreement of all the partners or on the insolvency of all the partners except one.
* Example, the passing of Prohibition Act, declaration of war with another country.

iii. Dissolution on the happening of certain contingencies (Sec 42)

* Death of a partner.
* Expiry of the time, if partnership is for a fixed period.
* Completion of the venture for which the firm was formed.
* Adjudication of a partner as an insolvent.

iv. Dissolution by notice of partnership-at-will (Sec 43)

* Where the partnership is at will, the firm may be dissolved by any partner by giving a notice in writing to all the other partners of his intention to dissolve the firm.

v. Dissolution through Court (Sec.44)

* Any partner may bring a suit in a court of law to get the partnership dissolved on any of the following grounds.
  ↔ Partner’s Insanity
  ↔ Permanent Incapacity
  ↔ Persistent Breach of Agreement
  ↔ Misconduct of a Partner
  ↔ Transfer of Share
5. Compare and contrast a partnership with a sole proprietorship.

Comparison of partnership with a sole proprietorship:

i). Easy Formation:
Both the business are easy to establish.

ii). Flexibility:
Both the business can be altered if they are unsuccessful.

iii). Unlimited Liability:
The liability of sole trader and partners are unlimited.

iv). Size of Business:
The size of both the business is smaller.

v). No compulsory audit:
Audit of accounts is not compulsory.

Difference between partnership and sole proprietorship:

<table>
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<tr>
<th>S.No</th>
<th>Difference</th>
<th>Partnership</th>
<th>Sole trading</th>
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<tbody>
<tr>
<td>1</td>
<td>Specific Act</td>
<td>Indian partnership Act 1932</td>
<td>There is no separate act.</td>
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<tr>
<td>2</td>
<td>Number of members</td>
<td>Minimum – 2</td>
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<td></td>
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<td>Maximum 10 in banking</td>
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<td></td>
<td>20 in non banking</td>
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<tr>
<td>3</td>
<td>Agreement</td>
<td>Agreement is essential</td>
<td>No agreement</td>
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<tr>
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<td>Registration</td>
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<td>5</td>
<td>Liability</td>
<td>Joint and several liability</td>
<td>Unlimited liability</td>
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</tbody>
</table>

“YOUR MOST UNHAPPY CUSTOMERS ARE YOUR GREATEST SOURCE OF LEARNING”
CHAPTER 4

JOINT STOCK COMPANY - I

“A Company is a long Shadow of the Boss”

“EDUCATION IS THE MOVEMENT FROM DARKNESS TO LIGHT”
I. CHOOSE THE CORRECT ANSWER:

1. Registration of a joint stock company is
   a.) compulsory       b) optional
   c) compulsory for public limited companies and optional for private limited companies
   d) optional for public limited companies and compulsory for private limited companies

2. The minimum number of members for a public limited company is
   a) 2               b) 3               c) 7                  d) 10

3. The liability of shareholders of a private limited company is limited to
   a) the paid up value of the shares       b) amount remaining unpaid on the shares
   c) the extent of private assets         d) amount called up

4. A private limited company can commence business
   a) immediately on receiving the certificate of incorporation
   b) only after the certificate of commencement of business is received
   c) on getting name approval from the Registrar
   d) on filing all the documents necessary for formation with the Registrar

5. The existence of a company comes to a close
   a) on the death of all its promoters     b) on death of all the directors of the Board
   c) on transfer of shares by most of its original members          d) none of the above

6. Table A of the Companies Act is a
   a) model minutes book             b) model form of balance sheet
   c) model of Articles of Association   d) model of memorandum of association

7. Which of the following documents define the scope of a company’s activities?
   a) Memorandum of Association  b) Articles of Association
   c) Prospectus                  d) Statutory Declaration

8. Which of the following is created by a Special Act of Parliament or in State Assemblies?
   a) Chartered company       b) Foreign company
   c) Government company     d) Statutory company

9. Which of the following companies must file with the Registrar a statement in lieu of prospectus?
   a) a public limited company which raises funds from the public through issue of shares
   b) a public limited company which has made arrangement for raising its capital from directors and their relatives
   c) a private limited company          d) all of them

10. The minimum subscription specified in the prospectus must be received within
    a) 90 days      b) 120 days     c) 130 days     d) 60 days
11. A preference share has priority in
   a) dividend only     b) only in return of capital at the time of winding up
   c) voting rights    d) both dividend and return of capital on winding up

12. Shares can be forfeited for
   a) non-payment of any debt due to the company
   b) not attending three annual general meetings consecutively
   c) for nonpayment of call money
   d) for violent activities at the annual general meetings

13. Where the shares are issued at a discount and the nominal value of share is Rs.100, the maximum discount that can be allowed is
   a) Rs.5       b) Rs.10    c) Rs.20      d) Rs.15

14. Debenture holders of a company are its
   a) Creditors  b) Members    c) Credit customers   d) Borrowers

15. Debenture holders are entitled to receive interest in the following circumstances
   a) when there are profits        b) when shareholders also get dividend
   c) every year irrespective of loss d) all the above

16. The minimum of a number of members in a public limited company is _______

17. The liability of a member of a company limited by guarantee is _______

18. The minimum number of members in a private company is _____

19. A company, the members of which not less than fifty one percent of the paid-up-share capital is held by a state Government, is known as _________ company.

20. The company, which need not have separate Articles of Association of its own is _______ company limited by shares.

21. The manner in which the internal management of a company carried on is contained in _________
    a). Articles of Association    b). Memorandum of Association
    c). Prospectus                  d). None of these

22. An advertisement inviting the public to buy the debenture of a public company is known as
    a). Prospectus    b). Statutory meeting    c). Debentures       d). None of these
23. Preference shares which carry a right to arrear dividend are known as
   a). Cumulative Preference Shares       b). Equity Shares
   c). Debentures                        d). None of these

24. Such shares, as are entitled to a further dividend in addition to the usual fixed rate
    of dividend are known as _______shares.
   c). Non-Cumulative preference         d). Non-participating preference

25. A private company should have at least _______directors.
   a). Two                              b). Five
   c). Six                              d). Ten

26. The aggregate nominal value of qualification shares shall not exceed _______rupees.
   a). 5000                             b). 10000
   c). 15000                            d). 20000

27. When a company has issued shares of Rs. 6000 each only, the minimum number of
    qualification shares that a director should hold is ____________
   a). One                              b). Two
   c). Three                            d). Four

II. SHORT QUESTIONS

1. Define a private limited company.
   A private limited company is a company which has a minimum paid up capital of
   rupees one lakh or such higher paid up capital, as may be prescribed.

2. What is a guarantee company?
   In a company limited by guarantee the liability of a shareholder is limited to the
   amount he has voluntarily undertaken to contribute to meet any deficiency at the time
   of its winding up.

3. What do you mean by a Government company?
   A Government company is one in which not less than 51% of the paid up capital is
   held by the Central Government or by anyone or more State Governments or partly by
   the Central Governments and partly by one or more State Governments.

4. What is stated in the situation clause in a memorandum?
   ★ The State in which a company has its registered office is to be stated here. Exact
     address within the State need not be given in this clause.
   ★ It determines the jurisdiction of the Registrar of Companies and of the court.

5. What does the Articles of Association deal with?
   ▶ Article of Association contains the rules and regulations connected with the internal
     management of the company.
6. For what reasons are shares forfeited?

- Forfeiture refers to confiscation of shares held by a member for non-payment of calls due.
- Once shares are forfeited, the holder of such shares is deprived of the membership of the company.
- Even the amounts already paid on such shares will be retained by the company.

7. What is the consequence of not receiving minimum subscription?

- If the minimum subscription is not received within 90 days of the issue of prospectus, money received on application must be refunded.
- Without receiving the minimum subscription allotment of shares cannot be made.

8. Define debentures.

- It refers to a document issued by a company acknowledging a debt due by it to its holders.
- It also provides for payment of interest at a fixed rate at stated intervals. It also contains an undertaking to repay the debt or at its option.

9. What is limited liability?

- The liability of a member of a joint stock company is limited to the amount remaining unpaid on his shares.
- In view of this feature of limited liability, people come forward readily to invest in the shares of joint stock companies.

10. What is share premium?

- A company can issue shares at a premium.
- It means that the issue price can be higher than the face value of the shares.

11. Mention the documents to be filed for getting the certificate of incorporation.

- Memorandum of Association
- Articles of Association
- Original letter of approval of name
- A list of Directors
- Written consent to act as directors
- Notice of the registered office
12. Mention the documents to be filed for getting certificate to commence business after incorporation.

- A declaration that the minimum subscription stated in the prospectus has been collected in cash.
- A declaration stating that each director has paid in cash for the application and allotment on the shares taken up by them.

13. What is cumulative preference share?

- In case dividend is not declared, because of inadequate profit, the right to dividend for that year does not lapse in the case of cumulative preference shares.
- Dividends Preference shares are always cumulative.

14. What is meant by perpetual succession?

- “Members may come and go but the company can go on forever” - Lord Gower.
- This is because company’s existence does not depend upon the existence of even promoters who were instrumental in its formation.

15. What do you understand by redeemable debentures?

Where debentures are to be redeemed (bought back), after a specified period or at the option of the company, they are known as redeemable debentures.

16. What do you mean by issue of shares at a discount?

When shares are issued at a price less than its face value, it is called issue of shares at a discount.

17. What is the significance of the common seal of the company?

- Though the separate personality of the company is legally recognised, it needs human agency to act.
- Obviously it cannot sign. Any contract entered into by a company, to be valid, must bear the official seal of the company.

18. What are redeemable preference shares?

- It means, that the capital raised by means of these shares can be returned after a specified period or at any time at its options after giving notice as per terms of issue.
- Redeemable preference shares can be redeemed if they are fully paid-up.

19. What are you mean by a foreign company?

- Foreign company means a company incorporated outside India but having a place of business in India.
20. What do you mean by calls in advance?

- A shareholder can pay the whole or part of the amount remaining unpaid on its shares even before a call is made.
- This voluntary payment is known as calls in advance.

21. What do you understand by Promotion of company?

↔ The term promotion refers to the process by which the idea of forming a company takes a definite shape resulting in its incorporation.
↔ It is in fact the first stage of the formation of a company.

22. What is meant by Reissue of Forfeited shares?

- When shares are forfeited they come back to the company, and it has the effect of reducing share capital amount.
- The forfeited shares can be reissued at a discount.

III. PARAGRAPH QUESTIONS:

1. Briefly explain the features of the company form of organisation

i). Separate legal entity

- A company is a person created by law.
- It means that it comes into existence only by complying with all formalities prescribed under the Companies Act, 1956.
- It enjoys a separate personality of its own, different from the members composing it.

ii). Perpetual Succession- Continuity of Life

- Members may come and go but the company can go on forever” - Lord Gower.
- This is because company’s existence does not depend upon the existence of even promoters who were instrumental in its formation

iii). Limited Liability

- The liability of a member of a joint stock company is limited to the amount remaining unpaid on his shares.
- In view of this feature of limited liability, people come forward readily to invest in the shares of joint stock companies.
2. Write a note on Guarantee Company.

   i). Company Limited by Guarantee:
       If the liability of shareholder is limited to the amount he has voluntarily
       undertaken to contribute to meet any deficiency at the time of its winding up.

   ii). Share Capital and Liability:
       ♦ Guarantee Company may or may not have share capital.
       ♦ If it has a share capital a member’s liability is limited.

   iii). Object:
       ■ Guarantee Company is started with the object of promoting science, arts, charity,
            etc.
       ■ It is clear that its objective is not profit earning.

3. What do you understand by Holding and Subsidiary Companies?

   Holding and Subsidiary Companies
   ★ A company becomes a holding company of another
     ■ if it can appoint or remove all or majority of the directors of the latter company.
     ■ if it holds more than 50% of the equity share capital of the latter.
     ■ if it can exercise more than 50% of the total voting power of the latter.
   ★ The other company which is so controlled is called subsidiary company.

4. Briefly state the documents to be filed for getting certificate of incorporation.

   i) Memorandum of Association
      ♦ This document which is of fundamental importance defines the scope of activities of
        the company.
      ♦ It should be printed and duly stamped, signed and witnessed.
        ♥ Minimum Private limited company – 2 persons
        ♥ Minimum Public limited company – 7 persons must sign the document

   ii) Articles of Association
      ♦ This document must also be duly stamped and signed by the signatories to the
        memorandum and witnessed.

   iii) Original letter of approval
       ➢ Original letter of approval of name be obtained from the Registrar and be filed.

   iv) A List of Directors
       ♦ A list of directors who have consented to be its directors must be filed.

   v) Notice of the Address of the registered office
vi) Statutory declaration

- A declaration stating that all the requirements of law relating to registration have been complied with is to be filed.

5. **Briefly explain the documents to be filed for getting a certificate to commence business.**

- A declaration that the minimum subscription stated in the prospectus has been collected in cash.
- A declaration stating that each director has paid in cash for the application and allotment on the shares taken up by them.
- A declaration that no money has become refundable to applicants because of its failure to obtain permission for shares or debentures to be dealt in on any recognised stock exchange.
- A statutory declaration by the Secretary or one of its directors stating that the above requirements have been complied with.

6. **What is Memorandum of Association? What are its contents?**

- Memorandum of Association is a document defines the **scope of a company’s Activities.**
- It contains “the **fundamental conditions** upon which alone the company is allowed to be incorporated.

**Contents of the Memorandum: (any 3)**

- i). Name clause
- ii). Situation clause
- iii). Objects clause
- iv). Liability clause
- v). Capital Clause

**Name clause:**

- In this clause the name of company is mentioned.
- If it is a Public Limited Company it should end with the word ‘limited’.
- If it is a private limited company it should end with the word ‘Private Limited’.

**Situation Clause:**

- The state in which company has its registered office is to be stated here.

**Objects Clause:**

- It states the activities of the company. It lays down the maximum permitted range of activities.

**Liability Clause:**

- This clause states that the liability of members is limited.

**Capital Clause:**

- The amount of share capital with which the company is to be registered and division into share of fixed must also be mentioned.
7. State briefly the contents of Articles of Association.

- The extent to which the regulations in Table A are to be excluded.
- Adoption of preliminary contracts if any.
- Allotment of shares, calls on shares.
- Issue of share certificates and share warrants.
- Alteration of share capital.
- Borrowing powers of directors.
- Appointment of directors.
- Winding up.

8. Write an explanatory note on Redeemable Preference Shares.

- If the Articles of Association authorise, a company can issue redeemable preference shares.
- It means, that the capital raised by means of these shares can be returned after a specified period or at any time at its options after giving notice as per terms of issue.
- These shares can be redeemed either out of profits or out of the proceeds of a fresh issue of shares.
- Redeemable preference shares can be redeemed if they are fully paid-up.
- A company cannot convert existing preference shares into redeemable preference shares.

9. What are the points to be considered while allotting shares? (any 3)

- A copy of the prospectus must be filed with the Registrar before its issue to the public.
- Minimum subscription must be received within 90 days from the date of prospectus.
- Application money received must be kept deposited with a scheduled bank.
- If minimum subscription is not received within 90 days of the issue of the prospectus, money received on application must be refunded.
- The company cannot commence allotment until the beginning of the 5th day of the issue of prospectus. This is known as the opening of the subscription list.

10. Write a note on Irregular Allotment:

- If allotment is made, without receiving at least 5% of the nominal value of shares.
- Without receiving the minimum subscription within 90 days of the issue of prospectus.
- If the application money received is not deposited in scheduled bank.
- Where a company does not issue a prospectus because it has made private arrangement for raising capital.
If the company has not filed with the Registrar a statement in lieu of prospectus at least 3 days before the allotment of shares, the allotment becomes irregular.

11. **What are the essential conditions of forfeiture of shares?**

- The articles must authorise the power to forfeit the shares.
- Shares can be forfeited only for non-payment of calls due.
- Shares cannot be forfeited for any other debt due from the shareholder.
- At least 14 days’ notice must be given to the defaulting member for paying the call amount.
- Shares can be forfeited when the Board passes a resolution, forfeiting the shares.

12. **What are the conditions for issuing shares at a discount?**

- The shares to be issued at a discount must be of a class already issued.
- It means a company cannot originally issue shares at a discount.
- It must be authorised by an ordinary resolution.
- It should be sanctioned by the Central Government.
- The resolution must specify the maximum rate of discount at which the shares are to be issued.
- At least one year should have elapsed since the company was entitled to commence business.

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**IV. ESSAY TYPE QUESTIONS:**

1. **Discuss the merits (or) demerits of company form of organisation.**

**Merits**

i). **Limited Liability**

- The liability of a member of a joint stock company is limited to the amount remaining unpaid on his shares.
- In view of this feature of limited liability, people come forward readily to invest in the shares of joint stock companies.

ii). **Easy and Speedy Transferability of Shares**

- The fully paid up shares of a public limited company can be easily transferred from one person to another by following the procedure prescribed by the Companies Act, 1956.

iii). **Professionalization of Management**

- In a company form of organisation there is complete divorce between ownership and management.
- Though shareholders are the real owners.
Management of a company is entrusted to a Board of Directors elected by the shareholders from among themselves.

iv). Economies of large scale

↔ In view of the suitability of the company form of organisation for undertaking large-sized industries, it can reap all the advantages of economies of large scale operation.

v). Better credit

♣ A company enjoys greater public confidence and reputation in the capital market as its functioning is subject to many legal restrictions with a view to protecting the interest of all the shareholders.

DEMERITS

i). Complicated legal formalities

♣ The legal formalities to be complied with at the time of forming a company are complicated and difficult.

♣ Even after incorporation, its functioning is subject to severe restrictions.

ii). Heavy cost of Floating a company

➢ At the promotion and incorporation stage itself, the company has to get the services of specialised professionals.

➢ Many documents are to be drafted and printed.

iii). Separation of Ownership and Control

✓ Though divorce of ownership and control is an advantageous feature of a company form of organisation.

✓ Their interest may not be well taken furthering their own selfish motives, and thereby harming the larger interest of the company and the shareholders.

iv. Fraudulent Promoters

★ Unscrupulous promoters may mobilise large capital through attractively designed prospectus, swindle the money and disappear, despite the stringent legal restrictions.

★ Shareholders lose their entire money.

★ Such companies, known as ‘fly by night companies’ are a threat to a healthy capital market.

v. Oligarchic Management

★ Board of Directors who are elected by the shareholders from among themselves. However, in reality it proves to be a case of oligarchy.

★ Since the voting strength depends on the number of shares, the power is concentrated in a few hands.

★ Also the shareholders attending the meeting is far less.
They do not have any voice in the management and the general meetings prove to be only a farce.

2. Bring out the distinction between a company and a partnership. (any 5)

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<th>Joint stock company</th>
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<td>Registration</td>
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<td>3</td>
<td>Number of members</td>
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<td>Non Banking - 20</td>
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<td>5</td>
<td>Stability</td>
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<td>6</td>
<td>Financial Resources</td>
<td>Mobilizing large resources.</td>
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<tr>
<td>7</td>
<td>Audit</td>
<td>Audit is essential</td>
</tr>
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</table>

3. Discuss briefly the different kinds of companies.

a). On the basis of Incorporation:

- Any company is to be incorporated under an Act. The provisions of the particular Act under which it is established governs it’s working.
- Companies of this kind are of three types. They are:
  - Chartered Companies
  - Statutory Companies
  - Registered Companies

b). On the Basis of Liabilities:

On the basis of the extent of liabilities of the shareholders such companies are divided into three categories.

- Companies Limited by Shares
- Companies Limited by Guarantee
- Unlimited Companies

c). Companies on the Basis of Nationality:

They are of two type’s viz domestic companies and foreign companies.

- Domestic Company
- Foreign Company

d). On the Basis of Ownership:

They are of three types viz holding company, subsidiary company and Government Company.
4. Discuss briefly the privileges of a private limited company.

- A private limited company can be incorporated with just two persons. This facilitates easy formation as well as efficient functioning.
- A private limited company is prohibited from issuing prospectus for collecting its share capital.
- It can proceed to allot shares without having to wait for getting minimum subscription.
- It is exempted from holding a statutory meeting.
- A private company can work with just two directors.
- Further they need not give any undertaking to take up any qualification shares.

5. Explain briefly the procedures to be followed for forming a public limited company.

Different stages of promotion

i). Choosing business opportunities:

The first step consists in successfully choosing one among the many business opportunities, which is likely to be most profitable.

ii). Feasibility of the project:

- It consists in examining the feasibility of the project.
- The amount that may be required for acquiring plant and machinery, building, working capital requirements are all calculated.
- In other words he examines the viability and profitability of the project.

iii). Selecting People

- Who are desirous of associating themselves with his scheme.
- The amount of capital, the place of its registered office are all settled at this stage.

iv). Registration: The final stage is the registration.

v). Incorporation

For registering the company with the Registrar of Companies, the promoter has to initiate a number of steps as outlined below.
Approval for the proposed name

Filing of Documents

- Memorandum of Association
- Articles of Association
- Original letter of approval
- A List of Directors
- Statutory declaration

vi). Commencement of Business:

✓ A declaration that the minimum subscription stated in the prospectus has been collected in cash.
✓ A declaration stating that each director has paid in cash for the application.
✓ A statutory declaration by the Secretary or one of its directors stating that the above requirements have been complied with.


Meaning:

Any document issued by a company inviting the public to buy shares or debentures comes under the definition of prospectus.

Contents of the Prospectus:

- The main objects of the company.
- The minimum subscription required for allotment of shares
- The time during which subscriptions list will remain open
- The amount of premium or discount on shares
- The names of underwriters if any.
- Particulars about reserves and surpluses.
- The amount of preliminary expenses.
- The names and addresses of the auditors.

7. Explain the different types of shares

i). Cumulative Preference Shares

➢ In case dividend is not declared, because of inadequate profit, the right to dividend for that year does not lapse in the case of cumulative preference shares.
➢ Preference shares are always cumulative, unless the contrary is expressly stated in the Articles of Association.
ii). Non Cumulative Preference Shares

- In the case of non cumulative preference shares if dividend is not paid in any particular year, it lapses.
- Dividend is not allowed to accumulate and such unpaid dividend will not be paid in subsequent years even though sufficient profits are earned.

iii). Convertible Preference Shares

- Where preference shares entitle their shareholders to convert their preference shares into equity shares within a specified period, they are known as Convertible Preference Shares.

iv). Redeemable Preference Shares

- If the Articles of Association authorise, a company can issue redeemable preference shares.
- It can be redeemed if they are fully paid-up.
- Existing preference shares cannot convert into redeemable preference shares.

v). Irredeemable Preference Shares

- Any preference share that cannot be redeemed during the lifetime of the company is known as irredeemable preference Shares.

8. Explain the different types of debentures.

i). Registered Debentures

Debentures made out in the names of particular persons and whose names appear in the register of debentures is known as registered debentures.

ii). Bearer Debentures

Debentures which are payable to bearer and whose names do not appear in the register of debenture holders are known as bearer debentures.

iii). Unsecured or Naked Debentures

Such debentures which are not secured by any charge on the assets of the company are called unsecured or naked debentures.

iv). Redeemable Debentures

Where debentures are to be redeemed (bought back), after a specified period or at the option of the company, they are known as redeemable debentures.

v). Irredeemable or perpetual debentures

This term does not connote that they will never be redeemed. It only indicates that no time limit is fixed for their redemption. However they become repayable

- when the company defaults in payment of interest
- when it is wound up
### 9. Distinguish between shares and debentures

<table>
<thead>
<tr>
<th>S.No</th>
<th>Difference</th>
<th>Shares</th>
<th>Debentures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Basis of rights</td>
<td>Share holder is a real owner of the company</td>
<td>Debenture holder is only a creditor of the company</td>
</tr>
<tr>
<td>2</td>
<td>Level of profit</td>
<td>The rate of dividend is changeable</td>
<td>A fixed rate of interest is payable.</td>
</tr>
<tr>
<td>3</td>
<td>Payment of returns</td>
<td>Dividend is an appropriation of profit</td>
<td>Interest is a charge on the profit.</td>
</tr>
<tr>
<td>4</td>
<td>Liability</td>
<td>Limited</td>
<td>There is no such limited</td>
</tr>
<tr>
<td>5</td>
<td>Charge on assets</td>
<td>Share have no charge on the assets of the company</td>
<td>Debentures are generally secured</td>
</tr>
<tr>
<td>6</td>
<td>Return of capital</td>
<td>Shares are non-payable</td>
<td>Debentures are redeemable</td>
</tr>
</tbody>
</table>

“NO ONE IS PERFECT - THAT’S WHY PENCILS HAVE ERASERS”
CHAPTER 5

JOINT STOCK
COMPANY - II

“Only those who can give the best for
the least will survive and others will be for sale”

“THE ROOTS OF EDUCATION ARE BITTER, BUT THE FRUIT IS SWEET”
I. CHOOSE THE BEST ANSWER

1. First directors are appointed by
   a) members in statutory meeting   b) members in the first Annual General meeting
   c) by being named in the Articles of Association   d) Registrar of Companies

2. A director is acting as
   a) agent of the company   b) trustee of the company
   c) chief executive officer of the company   d) all of these

3. A person can hold directorship of not more than _______ public limited companies
   a) 10   b) 15   c) 20   d) limitless

4. The value of qualification shares of a director in a public limited company shall not exceed
   a) Rs.5000   b) Rs.5,00,000   c) Rs.50,000   d) Rs.500

5. The overall maximum managerial remuneration in a public limited company shall not exceed
   a) 11% of net profits   b) 11% of paid up capital and free reserves
   c) 5% of net profits   d) 5% of paid up capital and free reserves

6. A company secretary is appointed by
   a) Government   b) The Institute of Company Secretaries of India
   c) The Board of Directors   d) Shareholders in Annual General Meetings

7. A company should compulsorily appoint a qualified company secretary, having a paid up capital of more than
   a) Rs. 5 Lakh   b) Rs.50 Lakh   c) Rs.25 Lakh   d) Rs.15 Lakh

8. Which of the following must hold a statutory meeting?
   a) Statutory Companies   b) Private Limited Companies
   c) Public Limited Companies   d) Chartered Companies

9. The interval between two annual general meetings shall not exceed
   (a) 15 months   (b) 12 months   (c) 18 months   (d) 2 months

10. Which of the following business is not transacted at the Annual General Meeting
    a) Appointment of auditors   b) Issue of debentures
    c) Appointment of directors in place of those retiring   d) Declaration of dividend

11. Who can call Extraordinary General Meeting?
    a) Company Law Tribunal
    b) Board of Directors on its own or on the requisition of members
    c) By the requisitionists themselves on Board’s failure to convene
    d) All of these

12. Directors act as _______ trustees and officers of the company
    a) Members   b) Partners   c) Agents   d) Owners
13. The share holders are the real __________ of the company

14. First directors are usually named in the __________
   a). Memorandum of association  b). Articles of association
   c). Joint Stock Company  d). None of these

15. Statutory meeting must be held not later than __________ and not earlier than
    __________ from the date on which a public company is entitled to commence business
   a). 2 month, 1 month  b). 4 month, 2 month
   c). 6 month, 1 month  d). 6 month, 4 month

16. A statutory report must be sent to every member of the company at least _______ days
    before the meeting is to be held.

17. The time between two consecutive annual general meetings should not exceed __________ months.

18. Altering the Articles of Association requires __________ Resolution
   a) Special  b). Ordinary  c). Special Notice  d). None

19. A person Appointed to attend a meeting on behalf of a share holder is known as
   a). Quorum  b). Agenda  c). Proxy  d). None

20. The Quorum for a General Meeting of members of a public company is __________

21. The minimum number of members required for a meeting is known as __________
   a). Quorum  b). Agenda  c). Proxy  d). None

22. Auditors are generally appointed and their remuneration, fixed at the ____ meeting.

23. The notice calling the annual general meeting, must, be given to all its members at
    least ________ days before the date of the meeting.

II. SHORT ANSWER QUESTIONS.

1. Mention the methods in which directors are appointed.
   - First directors are usually named in the Articles
   - Appointment of Directors by the Company
   - Appointment by Board of directors
   - Appointment by Third Parties
   - Appointment by Central Government
2. What is a statutory meeting?

The first meeting of the shareholders of a public limited company which is mandatory as per the Companies Act is known as statutory meeting.

3. What is statutory report?

A report that sets out the details of shares, receipts and payments, preliminary expenses, particulars of underwriting contract, commission, brokerage, particulars about calls, directors and other officers of the company is known as statutory report.

4. When is Extraordinary General Meeting convened?

Any meeting other than the statutory meeting and the annual general meeting of the company is called extraordinary general meeting.

5. Who can convene Extraordinary General Meeting?

- Extraordinary general meeting convened by the Board of directors
- Extraordinary General Meeting convened by the requisitionists
- Extraordinary General Meeting by Company Law Board

6. What is proxy?

- The term ‘proxy’ may refer to a person who is authorised by a member for the purpose of attending a meeting.
- It also means the instrument by which the proxy is authorised.

7. What do you mean by quorum?

- The word ‘quorum’ means the minimum number of members required to be personally present at a meeting for validly transacting any business.
- Usually the quorum is fixed by the Articles.

8. What is an agenda?

- Agenda means the list of business to be transacted at the meeting.
- It is generally prepared by the secretary in consultation with the chairman.

9. What is “Minutes”?

- The term minutes refers to accurate official record of decisions taken at various company meetings.
- Minutes should be brief and factual.
- It should be so accurate as not to give room for misinterpretation.

10. What usual business is done at an Annual General Meeting?

- Consideration and adoption of the annual accounts and the reports of the directors and auditors.
- Declaration of dividend
- Appointment of directors in place of those retiring
- Appointment of auditors and fixing remuneration to them
11. Is there any special qualification prescribed for a company director?

- Only individuals can be appointed as directors of the company.
- They must have contractual capacity.
- They must possess qualification shares.

12. Who is an alternate director?

If directors are absent for valid reason, for a period of not less than three months from the date in which meetings of the board are ordinarily held, the board of directors can appoint a person to act as director in his place.

13. What is meant by resolutions requiring special notice?

- Resolution requiring special notice does not belong to a separate category.
- It can be either an ordinary resolution.
- The mover of the proposed resolution must give a special notice of 14 days to the company.

14. What is a special resolution?

- Special resolution is one which is required for transacting any special business.
- It has to be passed by a three-fourths majority.

15. What do you mean by poll?

- Either the chairman on his own motion or on demand by prescribed number of members present in person or by proxies can order poll.
- Proxy is allowed to vote in a poll.

16. How is the voting right in a company exercised?

- The voting rights of a member in a company, are in proportion to his share of the paid up equity capital of the company.
- Each member records his vote on a voting card for or against the resolution.

III. PARAGRAPH QUESTIONS.

1. Explain the position of a director in a company.

i). Directors as agents

- When the directors enter into contract with third parties, sign documents for and on behalf of the company etc. they act as the agent of the company.

ii). Directors as Trustees

- They are in the position of trustees, when they manage the assets and properties of the company.
- Similarly when they exercise the powers entrusted to them they are in the same position.
iii). Directors as Officers

- Directors also act as officers of the company. When they have to manage the affairs of the company, they are in the position of Chief Executive Officers.

2. **What are the disqualifications for a director?**

- A person of unsound mind
- An undischarged insolvent
- Any person who has applied for being adjudged an insolvent
- Any person who had been sentenced with imprisonment for an offence involving moral turpitude for a period exceeding 6 months and a period of 5 years has not elapsed since the date of expiry of the sentence
- A person who has not paid the call money and the calls in arrear are outstanding for more than 6 months
- Any person disqualified by a court for appointment as director for having committed fraud in management

3. **How are directors appointed in a public limited company?**

a. **Appointment of Directors by the Company**

- Subsequent directors are elected by shareholders at the Annual General Meetings.
- If a company adopts the principle of retirement by rotation, one-third of the directors must retire by rotation.
- The retiring directors are eligible for reappointment.

b. **Appointment by Board of directors**

- The Board can appoint additional directors.
- They can fill up casual vacancy caused by death, resignation, etc.
- They can also appoint alternate director.

c. **Appointment by Third Parties**

- If authorised by the Articles, third parties such as vendor of the business, banking or financial institutions which have advanced loans to the companies, can appoint their nominees on the Board.

d. **Appointment by Central Government**

- The Central Government can also appoint directors on an order passed by the Company Law Board or on the application of not less than 100 members of the company or of members holding 10% of the total voting power.
4. State the circumstances in which a director can be removed?

- A director can be removed from office by the company by an ordinary resolution before the expiry of his term.
- When such a director has acted in fraudulent manner or abused his fiduciary position.
- The Central Government can remove a director under certain circumstances.
- The Company Law Tribunal may also order for removal of a director.
- Where an application has been made to it on charges of oppression and mismanagement of the company’s affairs.

5. State the circumstances in which a director vacates his office.

- When he is found to be of unsound mind by a competent court.
- If he is adjudged an insolvent.
- If he fails to obtain his qualification shares within the prescribed time.
- If he fails to pay any call money within 6 months.
- If he becomes disqualified by an order of the court.


**Meaning**

Managing Director is a director who is entrusted with substantial powers of management, which would not be otherwise available to him.

A managing director is appointed

↔ as result of an agreement entered into with the company or
↔ as a result of a provision contained in the memorandum or articles

**Important:**

- Without the approval of Central Government no change can be effected in the terms of appointment of a managing director.
- A managing director cannot be appointed for a period exceeding 5 years at a time.
- A person cannot act as a managing director of more than 2 companies at a time.
- The remuneration should not exceed 5% of the annual net profits if there is one managing director.

7. Write an explanatory note on Manager.

- Managers and managing directors have similar functions to perform.
- A managing director must be a director, a manager need not be a director.
- Only an individual can be appointed as a manager.
Subject to the superintendence, control and direction of the Board of directors, a manager is entrusted with the management.

**Important:**

- A company cannot have more than one manager.
- The powers of a manager are wider than those of a managing director, because the manager may be entrusted with the management.
- Maximum remuneration payable to a manager cannot exceed 5% of the annual net profit.
- Manager cannot be appointed for a period exceeding 5 years at a time.

8. **State the differences between Managing director and Manager.**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Managing Director</th>
<th>Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>He must be a director.</td>
<td>He need not be a director.</td>
</tr>
<tr>
<td>ii</td>
<td>There can be more than one managing director.</td>
<td>A company cannot have more than one manager.</td>
</tr>
<tr>
<td>iii</td>
<td>The powers of the manager are wider than those of a managing director.</td>
<td>The manager may be entrusted with the management of whole of the affairs of the company.</td>
</tr>
</tbody>
</table>

9. **Write a short note on Managerial Remuneration.**

- Managerial remuneration may take the form of monthly salary, or a specified percentage of net profits or a commission, etc.
- This expression shall include the value of perquisites.
- The total managerial remuneration payable by a public limited company to its director or manager must not exceed 11% of the net profits.
- In a year of no profits or inadequate profits, such managerial remuneration shall be governed by the provisions of Schedule XIII to the Companies Act.

10. **What are the requisites of a valid meeting?**

- It must be properly convened. That is, it should be called by the proper authority entitled to call the meeting.
- It must be legally constituted. This means that the meeting should have a proper chairman; quorum must be present.
- It should be conducted according to the provisions of the Act and the Articles.
- It should be properly conducted.
11. **Enumerate the contents of a statutory report.**

- Details of shares issued for cash.
- Total amount of cash received on account of shares and other sources.
- An abstract of receipts and payments up to a date within 7 days of the report.
- An account or an estimate of the preliminary expenses.
- Particulars about directors, managing directors, manager and secretary.
- Particulars of calls due from directors, managing director, etc.

12. **Write notes on Extraordinary General Meeting.**

**Meaning:**
- Any meeting other than the statutory meeting and the annual general meeting of the company is called extraordinary general meeting.
- It may be convened by the Board of directors on its own.

**Extraordinary General Meeting convened by the requisitionists:**
- If the Board of directors fails to call the meeting within 21 days and the meeting is not held within 45 days of requisition.
- The requisitionists themselves may call the meeting within three months of the date of requisition.

**Extraordinary General Meeting by Company Law Board:**
- If it is not possible for the members to convene an extraordinary meeting.
- The Company Law Board either on its own motion or on the application of any director or member may call such a meeting.

13. **Write notes on Annual General Meeting.**

↔ Every company is required to hold an annual general meeting in addition to any other meetings.
↔ The first annual general meeting must be held within a period of 18 months from the date of its incorporation. Subsequently the interval between two annual general meetings must not be more than 15 months.

*The ordinary business at this meeting is:*
- Consideration and adoption of the annual accounts and the reports of the directors and auditors
- Declaration of dividend
- Appointment of directors in place of those retiring
- Appointment of auditors and fixing remuneration to them
IV. ESSAY TYPE QUESTIONS

1. Discuss the powers of directors and restrictions placed on them.

   a). General Powers

   The Board of directors of a company is entitled to exercise all such powers and to do all such acts and things as the company is authorised to do.

   b). Statutory Powers

   ♥ To make calls
   ♥ To issue debentures
   ♥ To invest the funds of the company
   ♥ To make loans

   c). Other Powers to be exercised at Board Meetings

   ♦ To fill up casual vacancy in the office of directors
   ♦ To appoint additional directors, if authorised by the articles
   ♦ To appoint an alternate director if authorised by the articles
   ♦ To appoint the first auditors of the company

   d). Restrictions on the powers of directors

   ♦ To sell, lease or otherwise dispose of the whole or substantially the whole of the undertaking of the company
   ♦ To extend time for repayment of any debt due by a director

2. Briefly explain the functions and duties of directors.

   DUTIES

   General Duties

   ✓ They must act bonafide in the interest of the company.
   ✓ They should not make any secret profits.
   ✓ They must attend the Board meeting regularly.
   ✓ They must perform the duties personally.

   Statutory Duties

   ✷ Not to allot shares before receiving minimum subscription.
   ✷ To hold the meetings at least once in three months.
   ✷ To call for annual general meeting every year.
   ✷ To file all statutory returns with prescribed authorities.

   LIABILITIES OF DIRECTORS

   A. Civil Liabilities

   Liabilities to Third Parties:

   ♠ When they enter into contracts which are beyond the powers of memorandum.
- For misstatement in the prospectus.
- When they enter into contract in their own names.

**Liability to the company:** They are liable to the company,
- for breach of trust.
- when they fail to act honestly in the interest of the company
- for misfeasance.

**Criminal Liability**
- Misstatement in the prospectus.
- Failure to file Return of Allotment.
- Failure to issue share certificates within the prescribed period.
- Destruction of important documents.

3. **Bring out the significant role of a company secretary.**

**Definition**
According to the Company Secretaries Act, 1980 a company secretary is a person who is a member of the Institute of Company Secretaries of India.

1. **The importance of company secretary:**
   - Though he is chiefly concerned with the implementation of the policy framed by the company, he has authority to do many important things on behalf of the company.
   - With growing industrialisation the company administration has become more and more complex.
   - He is in fact the Chief Executive Officer and the principal co-ordinator.
   - It is the secretary who makes the spade work for the successful conduct of any meeting.
   - He also acts as a spokesperson of the company, raising its image and reputation of the company through his personality, integrity, time sense and knowledge of business.

4. **Discuss the functions and duties of a company secretary.**

**Functions:**
- As a head of the Secretarial department, the secretary controls and supervises the activities of the department under his control.
- He ensures that the actions of the Board do not infringe the provisions of the Companies Act and are not beyond the scope of Memorandum and Articles of association.
The secretary functions in the best interest of the shareholders. He has to deal with the shareholders with tact.

As a chief officer closely connected with the Board, he has to coordinate the work of different departments.

He has to inspire confidence in their staff and win their cooperation.

**Statutory Duties**

- To sign any document requiring authentication under any statute.
- To arrange for filing statement in lieu of prospectus.
- To file notice of situation of the registered office of the company.
- To sign the annual return.
- To send notices of general meetings to every member of the company.

**5. What is a statutory meeting? List out the contents of a statutory report.**

**Statutory Meeting:**

- The first meeting of the shareholders of a public limited company which is mandatory as per the Companies Act is known as statutory meeting.
- This is held only once in the life time of the company.

**Content of Statutory Report:**

- Total amount of cash received on account of shares and other sources.
- An abstract of receipts and payments upto a date within 7 days of the report.
- An account or an estimate of the preliminary expenses.
- Particulars of contracts for approval and proposed modifications.
- Particulars about directors, managing directors, manager and secretary.
- Particulars of calls due from directors, managing director, etc.

**6. Write explanatory notes on a) Annual General Meeting  b) Board Meeting  c) Extraordinary General Meeting.**

**a) Annual General Meeting:**

- Every company is required to hold an annual general meeting in addition to any other meetings.
- The first annual general meeting must be held within a period of 18 months from the date of its incorporation. Subsequently the interval between two annual general meetings must not be more than 15 months.

*The ordinary business at this meeting is:*

- Consideration and adoption of the annual accounts
- Declaration of dividend
- Appointment of directors in place of those retiring
b) Board Meeting:

- Meetings of directors are called Board meetings.
- They are very important because all important matters relating to the company and its policies are decided thereat.

Provisions regarding Board meetings:

- The Board meeting must be held at least once in every three calendar months.
- At least four such meetings should be held in every year.
- The notice of every Board meeting must be given in writing to every director who is present in India at his usual address.

c) Extraordinary General Meeting:

- Any meeting other than the statutory meeting and the annual general meeting of the company is called extraordinary general meeting.
- It may be convened by the Board of directors on its own.
  - Extraordinary General Meeting convened by the requisitionists
  - Extraordinary General Meeting by Company Law Board

7. Discuss the different types of resolutions that can be passed in the meetings of a public limited company and the business transacted in each category.

Meaning:

When a proposal placed before the meeting is passed by the meeting, it becomes a resolution. A resolution thus reflects the decision of the majority.

Kinds of resolutions:

- Ordinary Resolution
- Special Resolution
- Resolution requiring special notice.

i). Ordinary Resolution:

- Any resolution passed by a simple majority is an ordinary resolution.
- Simple majority means that 51 per cent or more of the votes have been cast in favour of the resolution.

ii). Special Resolution:

- Special resolution is one which is required for transacting any special business. It has to be passed by a three-fourths majority.
- Notice must be given at least 21 days before the date of the meeting.

iii). Resolution requiring special notice:

- This type of resolution does not belong to a separate category. It can be either an ordinary resolution or a special resolution.
On receipt of this resolution, the company in turn has to give notice to the members at least 7 days before the date of the meeting.

**Items requiring special notice:**
- Appointing an auditor other than a retiring auditor.
- Passing a resolution that a retiring auditor should not be appointed.
- Removing a director before the expiry of his term.
- Appointing a director in place of the removed director.

8. Write explanatory notes on a) Proxy b) Quorum c) Minutes.

   **a. Proxies**
   The term ‘proxy’ may refer to a person who is authorised by a member for the purpose of attending a meeting. It also means the instrument by which the proxy is authorised.
   - Proxy need not be a member of the company.
   - Proxy can attend a meeting but he has no right to speak.
   - Proxy cannot vote except on a poll.
   - A member can appoint more than one proxy.

   **b. Quorum**
   The word ‘quorum’ means the minimum number of members required to be personally present at a meeting for validly transacting any business. Usually the quorum is fixed by the Articles.

   **c. Agenda**
   - Agenda means the list of business to be transacted at the meeting.
   - It is generally prepared by the secretary in consultation with the chairman.

   "TEACHERS WHO INSPIRE REALIZE THERE WILL ALWAYS BE ROCKS IN THE ROAD AHEAD OF US. THEY WILL BE STUMBLING BLOCKS OR STEPPING STONES IT ALL DEPENDS ON HOW WE USE THEM"
CHAPTER 6

STOCK EXCHANGE

“Old is Gold-New is Platinum”

“GIVE A MAN A FISH AND YOU FEED FOR A DAY.
TEACH A MAN TO FISH AND YOU FEED HIM FOR A LIFETIME"
I. CHOOSE THE CORRECT ANSWER:

1. The first issues are floated in
   a) Primary market       b) Secondary market
   c) Commodity market     d) Regulated market

2. The popular method of sale of new shares in India is
   a) Public issue         b) Offer for sale
   c) Managing brokers     d) Underwriting

3. Stock exchanges deal in
   a) Goods                b) Services
   c) Financial securities d) Country’s currency

4. Number of recognized stock exchange in India
   a) 2                    b) 21                 c) 22     d) 24

5. Stock exchange allow trading in
   a) All types of shares of any company
   b) Bonds issued by the Government
   c) Listed securities      d) Unlisted securities

6. Jobbers transact in a stock exchange
   a) For their clients
   b) For their own transactions
   c) For other brokers     d) For other members

7. A pessimistic speculator is
   a) Stag                 b) Bear
   c) Bull                 d) Lame duck

8. An optimistic speculator is
   a) Bull                 b) Bear
   c) Stag                 d) Lame duck

9. Securities Contract Regulation Act was passed in
   a) 1952                 b) 1956
   c) 1964                d) 1966

10. SEBI is formed as per
    a) Securities contract Act
    b) Securities and Exchange Board of India Act
    c) Companies Act
    d) Indian constitution

11. A bull operator believes in
    a) Increase in prices
    b) Decrease in prices
    c) Stability in prices
    d) No change in prices

12. Stock exchange ................. speculation in shares
    a) Does not allow
    b) discourage
    c) encourage
    d) prohibits

13. A cautious speculator is known as
    a) Stag                 b) Bull
    c) Lame duck            d) Bear

14. A stock exchange is a place to
    a) Exchange one security for another
    b) Buy and sell financial securities
    c) Float new shares
    d) Buy and sell stock of goods.

15. SEBI has the following number of members including chairman.
    a) 5
    b) 7
    c) 6
    d) 8
16. Large scale undertakings are organized in the form of _______.
   a). Joint Stock Companies    b). Cooperative Societies
   c). Government Companies    d). Partnership

17. Joint stock companies require _______.
   a). Small Capital    b). Large Capital
   c). Enormous Capital    d). None

18. The long term capital required by the company is divided into small units of fixed amount called _______.

19. Shares represent __________ interest.

20. Debentures denote __________ interest.
    a). Debentures    b). Creditorship    c). Ownership    d). None

21. _______ is an acknowledgement for raising loan from the public.

22. Primary market is concerned with _______.
    a). Issue of New Share    b). Old Securities
    c). Both a & b    d). None

23. Secondary market deals with _______ traded in primary market.
    a). Resale of Securities   b). Issue of New Share
    c). Both a & b   d). None

24. Companies are assisted by _____________ to make new issues.
    a). Broker (or) Underwriter    b). Jobber
    c). Owner    d). Agents

25. ___________ is a commonly used method of issuing shares.
    a). Public Issue    b). Underwriting
    c). Offer for sale    d). Intermediaries

26. ___________ act as intermediary to float new shares.
    c). Underwriting    d). Issue Houses

27. _______ is an invitation to the public to subscribe for the shares.
    a). Prospectus    b). Application
    c). Listing of Securities    d). None

28. After allotment of shares, allottees become the _______ of the company.
    a). Register    b). Director
    c). Shareholder    d). Owner

29. Application money should not be less than _______ percent of the value of a share.
    a). 3    b). 4
    c). 5    d). 6

30. Minimum subscription is fixed at _______ of the issued capital.
    a). 90%    b). 75%
    c). 30%    d). 80%

31. The volume of business in secondary market depends on _______.
    a). Secondary market    b). Primary market
    c). Company    d). None

32. Secondhand securities are traded in _____________
    a). Primary market    b). Secondary market
    c). Company    d). None
33. There are _______ regional stock exchanges in India.
34. Inclusion of securities in the official list of stock exchange is called ________
35. Listing is ____________ for public companies.
   a). Compulsory b). Optional c). Important d). None
36. Cleared securities are also called ____________
   a). Securities on forward list b). Application
c). Listing d). Documents
37. ___________ order gives a freehand to the brokers of a client to buy or sell a
   particular security for any price.
   a). Open order b). Stop loss order
c). Discretionary order d). Executing the order
38. Ready delivery contracts are also called as ________
40. ____are the employees of the members of a stock exchange.
41. Stag is called ____________
42. ____________ is the supervisory body established to regulate Indian stock market.
43. ____________ enables small investors to participate in the investment on share
   capital of large companies.
44. ____________ act as a substitute for initial public offering.
45. BOLT is the online trading system in use at ____________ stock exchange.

II. SHORT QUESTIONS:

1. What is a security?

   A ‘security’ means a certificate or document indicating either ownership interest
   (share) or creditorship interest (debenture).
2. How can we classify securities market?

Securities market may be classified into two categories.

1. Primary market.
2. Secondary market.

**SEcurities Market**

- Industrial Securities Market
  - (Company securities)
- Gilt–edged Securities Market
  - (Government Securities)

New Issues         Old Securities market
Market (Stock Exchange)

3. What do you mean by public issues?

- This is a commonly used method. It involves direct sale of securities to the public for fixed price.
- The company gives a notice or advertisement inviting the public to subscribe for the shares.
- The circular or notice or advertisement is a legal document called ‘prospectus’.

4. What is ‘private placement’?

- Sometimes intermediaries may not buy the shares in their name. In selling the shares, they act as agents of the company.
- The shares are sold to clients. Such sales are called ‘private placement’.

5. What is ‘underwriting’?

- Large issues are made through ‘underwriting’.
- Under this method the underwriters give a guarantee to the companies making new issues.
- They guarantee the shares offered to the public, which will be fully subscribed.

6. What is prospectus?

- The company gives a notice or advertisement inviting the public to subscribe or the shares.
- The circular or notice or advertisement is a legal document called ‘prospectus’.

7. What is share application?

- When a company issues the prospectus, the investors/public may apply for the shares offered by the company.
- These application forms may be obtained from the brokers, bankers or lead managers, who assist the company in the issue of new shares.
- One application is enough to apply for any number of shares.
8. What is share allotment?

- The prospectus will mention the period for which the company will receive application for shares.
- It is called ‘keeping the subscription list open’.

9. What is minimum subscription?

- It is the minimum amount required by a company to meet its fixed capital needs.
- It is fixed at 90 percent of the issued capital to the public.
- The allotment should be made by the company only when it has received ‘minimum subscription’.

10. What is a secondary market?

- The secondary market refers to the market where the securities issued in the primary market are traded.
- The secondary market depends on the primary market.

11. Define a stock exchange.

According to Hastings “stock exchange or securities market comprises all the places where buyers and sellers of stock and bonds or their representatives, undertake transactions involving the sales of securities”.

12. What is listing?

- The inclusion of the name of a company in the official trade list of a stock exchange is called ‘listing’.
- Earlier, listing was optional.
- Listing is now made compulsory for all public companies.

13. What are the advantages of listing?

- Company to enjoy the confidence of the investing public.
- By widening the market for the securities it helps the company to raise the future finance easily. It provides price continuity for securities.
- It facilitates the correct evaluation of securities in terms of their real worth.

14. Classify the listed securities

Listed securities may be classified into two categories:
- Cleared Securities
- Non-cleared Securities

15. What do you mean by ready delivery contracts?

- A ready delivery contract involves the actual payment of the amount by the buyer in cash and the delivery of securities by the seller.
- A ready delivery contract is to be settled on the same day or within the period fixed by the stock exchange authorities.
16. **What are forward delivery contracts?**
   - Such contracts are entered into without any intention of taking and giving delivery of the securities.
   - The traders in forward delivery securities are interested in profits out of share price movements in the future. [www.nammakalvi.org](http://www.nammakalvi.org)

17. **What are the limitations of stock exchange?**
   - Such contracts are entered into without any intention of taking and giving delivery of the securities.
   - The traders in forward delivery securities are interested in profits out of share price movements in the future.

18. **Who is a speculator?**
   - The speculators buy securities with a hope to sell them at a profit, in future.
   - They do not retain their holdings for a longer period.
   - They buy the securities with the object of selling them and not to retain them

19. **Who is an investor?**
   - The investors buy the securities with a view to invest their savings in profitable income earning securities.
   - They generally retain the securities for a considerable length of time.

20. **What is speculation?**
   - Speculation refers to the buying and selling of securities in the hope of making a profit expected change is the price of securities.

21. **What is the difference between speculation and Gambling?**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Speculation</th>
<th>Gambling</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>It is based on knowledge and foresight</td>
<td>It is based on chance of events happening</td>
</tr>
<tr>
<td>2</td>
<td>It is a lawful activity</td>
<td>It is an illegal activity</td>
</tr>
<tr>
<td>3</td>
<td>It performs economic functions.</td>
<td>It has no benefits to offer to the economy.</td>
</tr>
</tbody>
</table>

22. **Who is a jobber?**
   - Jobbers are security merchants dealing in shares, debentures as independent operators.
   - Jobbers cannot deal on behalf of public and are barred from taking commission.
   - In India, they are called Taravaniwalas.

23. **Who is a broker?**
   - Brokers are commission agents, who act as intermediaries between buyers and sellers of securities.
   - Brokers charge a commission from both the parties for their service.
24. Which non-members can act in stock exchange?

Some non-members with limited rights are allowed to enter the house and to act on behalf of members. There are two types of such agents.

- Remiser
- Authorized Clerk

25. Who is called a ‘Lame duck’?

- When a bear finds it difficult to fulfill his commitment, he is said to be struggling like a lame duck.
- A bear speculator contracts to sell securities at a later date.

26. What is SEBI?

- For proper development of Indian stock market, the functioning of stock exchanges must be brought under the control and supervision of an independent regulatory agency.
- The SEBI was set up as an administrative body in April 1988.

27. What is OTCEI?

OTCEI (Over the Counter Exchange) was set up to address the problems of both investors and small and medium sized companies whose shares could not be listed on any stock exchange.

28. Define mutual funds

“A fund established in the form of a trust by a sponsor, to raise monies by the trustees through the sale of units to the public, under one or more schemes for investing in securities in accordance with these regulations.”

29. What is BOLT?

- BOLT is the online trading system in use at the stock exchange, Mumbai since March 1995.
- It is one of the few stock trading systems in the world that handles hybrid/mixed models of trading; both order-driven and quote-driven.
- It supports the normal segment and continuous net settlement.

30. What are the achievements of BOLT?

- An average response time of less than two seconds.
- On an average 3.4 million market queries are handled daily.
- The system can support more than 10,000 users.
III. PARAGRAPH QUESTIONS:

1. Describe securities market.

SECURITIES

A ‘security’ means a certificate or document indicating either ownership interest (share) or creditorship interest (debenture).

Securities may include

- Company securities – shares, stocks, bonds, debentures.
- Government securities.

SECURITIES MARKET

 ↔ Securities market refers to both the place and the persons who deal with securities.
 ↔ It includes buyers and sellers of securities and agencies/institutions.

Securities market may be classified into two categories.

- Primary market.
- Secondary market.

2. What are the methods of new issue of shares?

a) Public Issues:

- This is a commonly used method.
- The company gives a notice or advertisement inviting the public to subscribe for the shares.
- The circular or notice or advertisement is a legal document called ‘prospectus’.
- This method is expensive.

b) Offer for sale

- Under this method, shares are floated through an intermediary such as ‘Issue house’.
- The company allots or agrees to allot shares to ‘Issue houses’ for a fixed price.
- When investors buy the shares, it becomes direct allotment from the company.
C) Underwriting

 Large issues are made through ‘underwriting’.
 Under this method the underwriters give a guarantee to the companies making new issues.
 In the event of less subscription, the balance of shares will be taken over by underwriters.

3. Explain the procedure for listing of securities.

 Particulars regarding its capital structure.
 Specimen copies of shares and debenture certificates, letter of allotment, common form of share transfer, etc.
 A statement showing the distribution of shares.
 The company must have offered at least 49 percent of its issued capital for public subscription.
 The allotment of shares to applicants should be fair and unconditional.
 A declaration that it will abide by the rules and regulations of the stock exchange.

4. Differentiate between Investors and speculators.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Investors</th>
<th>Speculators</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Interested in safety of his investment</td>
<td>Interested in earning profits quickly</td>
</tr>
<tr>
<td>2</td>
<td>Seeks income from his investment</td>
<td>Seeks profit from trading of securities</td>
</tr>
<tr>
<td>3</td>
<td>Risk is low</td>
<td>Risk is high</td>
</tr>
<tr>
<td>4</td>
<td>Income is stable</td>
<td>Profit is uncertain</td>
</tr>
<tr>
<td>5</td>
<td>Commitment is for a long term</td>
<td>Commitment is for a short term</td>
</tr>
</tbody>
</table>

5. Who are the operators at a stock exchange?

a) Jobbers

 Jobbers are security merchants dealing in shares, debentures as independent operators.
 Jobbers cannot deal on behalf of public and are barred from taking commission.
 In India, they are called Taravaniwalas.

b) Brokers

 Brokers are commission agents, who act as intermediaries between buyers and sellers of securities.
 Brokers charge a commission from both the parties for their service.
c. Remiser

⇔ He acts as an agent of a member of a stock exchange.
⇔ He obtains business for his principal.

d. Authorised clerk

♥ The authorised clerks are mere employees of the members, appointed by the member of stock exchange.
♥ They are paid a salary, plus a commission.

6. Explain the different kinds of speculators.

Bull

➢ Expects rise in prices of securities
➢ Optimistic speculator

Bear

♦ Expects fall in prices of securities.
♦ Pessimistic speculator.

Stag

✓ He is a cautious speculator
✓ Expects to sell the securities at premium
✓ He is a premium hunter

Lame Duck

★ A bear struggling to carry over the transaction
★ Not able to get securities in time.

7. Explain how BOLT works and the strengths of BOLT.

BOLT—Meaning:

• BOLT is the online trading system in use at the stock exchange, Mumbai since March 1995.
• Brokers send their quotes, orders, negotiated deals and in house deals from their offices to the Central Trading Engine from their broker’s workstation.

Strength of BOLT:

★ Increases the trading capacity of the stock exchange.
★ Improves transparency, eliminates unmatched trades.
★ No delay in reporting.
★ Smooth market operations using the latest technology.
★ Provides analytical data to the stock exchange.
IV. ESSAY TYPE:
1. How are new issues floated in the primary market? Also explain the procedure for the new issues?

PRIMARY MARKET
- ‘Primary market’ denotes the market for new issues. It has no physical existence.
- It is concerned with the floatation and issue of new shares and debentures by new or existing companies.

Methods of new issues
- Public issue
- Offer for sale
- Through intermediaries
- Underwriting
- Rights issue

PROCEDURE REGARDING NEW ISSUES:
1. Issue of Prospectus
- A company, which intends to raise finance from the public through new issues, must be familiar to them.
- The company should have gained public interest.
- The existing financial position and future prospects must be made known to the public.

2. Application
- When a company issues the prospectus, the investors/public may apply for the shares offered by the company.
- These application forms may be obtained from the brokers, bankers or lead managers, who assist the company in the issue of new shares.

3. Allotment of shares
- On closing the subscription list, the company can allot shares to the applicants. After allotment of shares, the allottees become the shareholders of the company.
- The allotment should be made by the company only when it has received ‘minimum subscription’.

4. Allotment / Regret letter
- After the allotment of shares, the allotment letters or share certificates be sent to the allottees within a reasonable time, say, two months from the date of closing of subscription list.
- Letters of regret along with refund orders must be sent to non-allottees.

Definition:

“Stock exchange or securities market comprises all the places where buyers and sellers of stock and bonds or their representatives, undertake transactions involving the sales of securities.”

- Hastings

Characteristics of Stock Exchange

- It is a place where securities are purchased and sold.
- A stock exchange is a voluntary association of persons whether incorporated or not.
- The trading in a stock exchange is strictly regulated.
- Rules and regulations are prescribed for various transactions.
- Each stock exchange formulates its own rules and regulations.
- The members of the exchange elect a governing body.
- Any person who has completed 18 years can become a member.

Functions of Stock Exchange:

i. Ready Market:

- Stock exchange ensures increased liquidity and ready market for the securities.
- This enables it to attract people who have surplus money even for a short period of time.

ii. Mobilisation of Savings:

- Stock exchange helps in mobilisation of surplus funds of individuals, business firms and cooperatives for investment in popular securities.

iii. Evaluation of Securities:

- Stock exchange helps in determining the price of various securities.

iv. Capital Formation:

- Stock exchange not only mobilises the existing savings but also induces the public to save money.
- This facilitates capital formation in the country.

v. Proper Channelization of Capital:

- Stock exchange directs the flow of savings into the most productive channels.
- When an existing company issues securities to raise more capital, it will be successful.
3. Describe the procedure for trading in a stock exchange.

(i) Selection of a Broker:

☆ A non member of a stock exchange is not authorised to do any business on the floor of a stock exchange.

☆ He can transact through a broker while selecting a broker, a person can either talk directly to authorised brokers.

(ii) Placing the order:

☆ Before placing an order, he can consult his friends and the broker. The order can be communicated to the broker through wire, or telephone or by meeting personally to avoid delay.

(iii) Executing the Order:

◆ After receiving the order, the broker will note it down in his diary from which it will be transferred to the ‘order book’.

◆ A copy of the contract note is sent to the client.

(iv) Settlement:

★ The mode of settlement depends upon the nature of the contract.

★ It may be classified into two categories, namely, ready delivery contracts and forward delivery contracts.

(v). Ready Delivery Contracts

◆ A ready delivery contract is to be settled on the same day or within the period fixed by the stock exchange authorities.

(vi). Forward Delivery Contracts

♥ The traders in forward delivery securities are interested in profits out of share price movements in the future.

4. What are the benefits and limitation of a stock exchange?

i). BENEFITS:

a). Benefits to companies:

◆ A company whose shares are dealt in on a stock exchange enjoys great reputation in the capital market.

◆ The marketability of shares is ensured and in consequence, the company enjoys a wide market for its shares.

b). Benefits to Investors:

◆ Stock exchange safeguards the interests of the investors.

◆ They are assured of a ready and continuous market for the securities held by them.

◆ The brokers can't cheat the investors.
Securities can be used as collateral security for loans.

c). Benefits to the Community or Society:
- The stock exchange helps in the economic development by encouraging investors to invest their savings in securities of corporate sector.
- It encourages capital formation in the country.
- It facilitates a well managed enterprise to raise further funds easily.
- It helps the Government to borrow from the public and thus enables it to undertake development projects of national importance.

II). LIMITATIONS OF STOCK EXCHANGE:
- There is lack of uniformity in organization and control of stock exchanges.
- There is no restriction in the membership of the stock exchanges.
- Many times, stock exchanges have failed to control unhealthy speculation.
- There is no proper regulation of listing of securities in the stock exchange.
- There is no margin requirement in the stock exchange as in the case of commodity exchange.
- More than one stock exchange is allowed to function in some cities or towns.

5. Explain the objectives, features, functions and powers of SEBI.

SEBI:
- The SEBI was set up as an administrative body in April 1988.
- It was given statutory status on 30.1.92 by promulgation of SEBI ordinance.
- The ordinance is considered to be an Act of parliament.

Objectives:
- The basic purpose of establishing SEBI is to protect the interest of the investors in securities.
- To promote, develop and regulate the securities market and deal with the matters connected therewith or incident thereto.

Features of SEBI
- The SEBI shall be a body corporate established under SEBI ACT, with perpetual succession and common seal.
- The head office of the board shall be at Mumbai. SEBI can have branch offices at other places in India.
- The board shall consist of the following members.
  - A chairman
  - Two members from amongst the officials of the Ministries of the Central Government dealing with finance and law.
  - One member from amongst the officials of the Reserve Bank of India.
Two other members

Chairman and other members of the Board are appointed by the central Government.

Functions

► Regulating the business in stock exchanges.
► Promoting and regulating self-regulatory organizations.
► Prohibiting fraudulent and unfair trade practice relating to securities market.
► Promoting investor’s education and training of intermediaries of securities market.
► Prohibiting insider trading in securities.
► Performing such functions as may be delegated to it by the central government.

“EDUCATION MEANS INSPIRING SOMEONE’S MIND, NOT JUST FILLING THEIR HEAD”
CHAPTER 7

CO-OPERATIVES

“All for One And One for All”

EDUCATION IS NOT PREPARATION FOR LIFE; EDUCATION IS LIFE ITSELF
I. CHOOSE THE CORRECT ANSWER:

1. Co-operative society can be started
   a. Only at villages        b. In towns and Villages
   c. Only in cities          d. Only in urban areas

2. The minimum number of members required to from a co-operative society is
   a) 2    b) 7    c) 10    d) 25

3. Dividend is declared in a co-operative store to its members.
   a. Share capital           b. Number of shares purchased
   c. Amount of patronage given d. None of the above

4. The basic objective of a co-operative society is.
   a. Earn profit
   b. Organize some essential service for the benefit of its member
   c. Organize essential services to the community.
   d. Arrange for enough of quality goods for the community

5. In a co-operative society, the shares of a member
   a. Can be transferred      b. Can be repaid
   c. Cannot be transferred   d. None of the above

6. Maximum membership in a co-operative society is
   a. 50       b. 60       c. 100       d. Unlimited

7. A co-operative super market supplies
   a. Credit          b. service    c. Goods    d. Cash

8. Consumers co-operation was first successful in
   a. England        b. USA         c. Swiss     d. India

9. Minority interest can be protected in

10. Central Co-operative bank is established at

11. The Latin word co-operari means ________________
    a). To work with    b). Voluntary organization
    c). Mutual help     d). Sprit and Control

12. The father of the co-operative movement was ____________
    a). H.C. Calvert    b). Sir Horace Plunket
    c). Prof. Lambert   d). Robert Owen

13. Only __________ of the profits to be distributed as dividend
    a). 7%     b). 8%     c). 9%     d). 10%

14. The liability of the members of a Co-operative Society is ______
    a). Limited    b). Unlimited    c). Optional    d). None of these
15. Transfer of shares are possible in __________ and not possible in __________
   a). Partnership, Co-operative societies       b). Sole Trading, Partnership
   c). Joint stock company, Co-operative societies
   d). Co-operative societies, Joint stock company

16. Management of a Co-operative Society is fully __________

17. Service is the main objective of ________

18. Agriculture credit societies are classified into
   a). Rural credit society
   b). __________
   a). Primary Credit Society        b). Urban Credit Society
   c). Employee Credit Society       d). Workers Credit Society

19. An industrial co-operative is organized by __________
   a). Large Scale Producers    b). Small Scale Producers
   c). Only members           d). Directors

20. Super market refers to large scale _________

II. SHORT QUESTIONS

1. Define Co-operation?
   “Co-operation is self-help rendered effective by organisation. It is better farming, better business, better living”.
   - Sir Horace Plunkett

2. Who are Rochdale pioneers?
   • ROBERT OWEN started the first ever co-operative movement in the year 1844 with 28 members called as ROCH DALE society of equitable pioneers.
   • It was a consumer’s cooperative society.
   • The father of this movement was ROBERT OWEN.

3. What is meant by one man one vote?
   Every member has only one vote irrespective of the number of shares held by him. The society is formed on the principle of democracy which means “One vote for one member”.

4. What is the significance of ‘self help and mutual help’?
   ★ The main principle of co-operative organisation is the mutual help.
   ★ Every member of the society is expected to help himself and also help every other member.
5. What are the aims of credit co-operative society?
   - They are voluntary association of people with moderate means. They are formed with the object of giving short-term finance to members.
   - In this way, the co-operative society protects its members from the clutches of the moneylenders.

6. Explain the meaning of ‘Consumer Co-operatives’?
   A co-operative society organized by consumers of a locality for supplying essential goods at a reasonable price. This is called a consumer co-operative society.

7. Give example of Co-operative super markets in Tamil Nadu?
   ☼ Kamadhenu Super Market - Chennai.
   ☼ Chinthamani Super Market - Trichy Coimbatore.
   ☼ Karpagam Super Market - Vellore and Vilupuram districts,
   ☼ Ponni co-operative Super Market - Salem.

8. What are the aims of Co-operative societies?
   - Service is primary motto.
   - Its objectives for promotion of the interest of its members in accordance.
   - The society is directly intended to serve both its own members.

9. What do you understand by marketing co-operative?
   - Its help the members to secure fair price for their products.
   - They may purchase the produce from the members and sell in bulk.
   - Marketing co-operatives advance loans to the members.
   - These societies eliminate middlemen and help the members.

10. What is agricultural credit society?
    ↔ It is the credit society, organised mostly by agriculturists of a village.
    ↔ They provide loans to its members for various productive and unproductive purposes relating to Agriculture.

11. What is a co-operative warehouse?
    - These are mostly found in rural areas.
    - It helps the members to get the facility of storing agricultural inputs.
    - They will keep the finished goods, till they are despatched for sale through marketing co-operatives.

12. Mention any four features of co-operative society?
    - It is a voluntary association of persons.
    - It’s managed on democratic lines.
13. What is a non-agricultural non-credit society?

- They are formed in order to assist the middle and lower income groups of people.
- Their main aim is for rendering different types of service to their members.
- **The different types are**
  - i. Consumer’s co-operatives
  - ii. Manufacturer’s co-operatives
  - iii. Housing co-operatives

14. What is Patronage Dividend?

- In the case of credit societies members are given bonus or rebate on sales effected by them.
- This known as Patronage Dividend.

15. Define Co-operative super market?

“A departmentalized retail establishment having four basic departments i.e., self-service grocery, meat, and dairy products, plus other household departments, and doing a maximum business. It may lease departments on a concession basis.

- M.M. Zimmerman

III. PARAGRAPH QUESTION:

1. Explain the types of agricultural credit societies;

i). **Agricultural credit societies**

- It is the credit society, organised mostly by agriculturists of a village.
- They provide loans to its members for various productive and unproductive purposes relating to Agriculture.
- Agriculture credit societies are also called as rural credit societies or primary societies.

ii). **Rural credit Societies**

- It is located in rural areas.
- It secures funds by way of selling shares and by accepting deposits from members and non-members.
- They are formed at villages.
- Its aim is to help their members in developing the habit of savings and banking habit.
- The liability of the members is unlimited.
2. Briefly explain the demerits of co-operative societies.

i). Inefficient management
- Members of a co-operative society do not generally possess the ability and experience to manage the business efficiently.
- They do not take proper interest in the management.
- It cannot afford to employ persons with necessary ability, knowledge and experience.

ii). Limited capital
- A co-operative society is formed usually by people with limited means.
- The principle of ‘one man one vote’ discourages the members to invest large amount.
- It is not able to mobilise adequate capital for large scale operation.

iii). Lack of motivation
- Absence of profit motive and minimum 9% rate of dividend suppress the zeal and responsibility on the part of the management.
- The employee the employees also do not have interest to work hard as they get low salaries.

3. What are the steps involved in forming a co-operative society?
- It must be registered under the Cooperative Societies Act, 1912 or any other state Co-operative law.
- It can be started with a minimum of 25 persons, having a common interest.
- The application form is known as Memorandum of Association.
- It should contain the name and address of the society.
- Its objectives, the capital and liability of the members.

4. State the meaning of super market and explain its features.

**Meaning:**
- Super Market refers to a type of large scale retailing.
- They are usually located only in cities and big towns.
- In India the first supermarket was started in New Delhi
- Super markets have a dominant provision section, with more varieties.
- The prices are fixed. There is no bargaining
- Door delivery of goods is also given. Sales are made only for cash.

**Features:**
- It is a form of large scale retailing
- There are wide variety of goods available
The system of self-service is used
Sales are on cash basis
No adulteration is practiced.
Scarce commodities are also supplied.

**IV. ESSAY TYPE QUESTIONS:**

1. **Explain clearly the important features of co-operative organisation.**

   **i). Voluntary organization:**
   - A co-operative society is a voluntary association of persons.
   - A person can join a co-operative society whenever he likes and leaves it whenever he wants.

   **ii). Equality:**
   - In a co-operative society all persons are equal.
   - Its members have equal rights and more capital does not provide more rights to an individual.

   **iii). Democratic Management:**
   - Co-operative societies are managed on democratic lines.
   - Every member has only one vote irrespective of the number of shares held by him.

   **iv). Spirit of service:**
   - The objective of co-operative organisation is that the service is primary and profit is secondary.

   **v). Plural Membership:**
   - A minimum of 25 persons are required to form a co-operative society. There is no limit on the maximum membership.

2. **Write the merits and demerits of a co-operative society;**

   **MERITS:**

   **i). Easy formation:**
   - It is easy and less costly to form a co-operative society.
   - Procedure for registration is very simple.

   **ii). Unlimited membership:**
   - There is no restriction in respect of maximum number of members.
   - Every person is at liberty either to enter or to leave the organisation as and when he likes.
iii). Democratic management:
- Management of a co-operative society is fully democratic.
- Every member has an equal vote irrespective of his capital contribution.

iv). Cheaper service:
- It offers better service at cheaper costs.
- Service is the primary objective, while profit is secondary.

v). Tax concession:
- Income tax is not levied on the income of the co-operative enterprises.
- It is exempted from payment of income tax, stamp duty, registration fee etc.,

For example, the government has established several sugars and spinning mills

DEMERITS:

i). Inefficient management:
- Members of co-operative society do not generally possess the ability and experience to manage the business efficiently.
- They do not take proper interest in the management.
- It cannot afford to employ persons with necessary ability, knowledge and experience.

ii). Lack of co-operation:
- Sometimes the members may not have unity among themselves. It might affect the business of co-operatives.

iii). Non-transferability of interest:
- The shares of a co-operative society are not transferable.
- A member who wants to quit the society has to surrender his shares to the society to get his money back.

iv). Lack of secrecy:
- The business affairs of co-operative society are openly discussed in the meetings.
- Every member is free to inspect the books and records of the society.
- Therefore, it becomes difficult to keep the secrets of business.

v). No credit facility:
- Since credit facilities are not usually offered to members, they may not be interested in buying goods for cash.
3. Distinguish between the Joint Stock Company and co-operative society.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Differences</th>
<th>Joint stock company</th>
<th>Co-Operatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Meaning</td>
<td>Association of an Artificial person created by Law.</td>
<td>Voluntary Weaker section or the people.</td>
</tr>
<tr>
<td>2</td>
<td>Objective</td>
<td>Profit is primary objective</td>
<td>Service is primary objective.</td>
</tr>
<tr>
<td>3</td>
<td>Minimum</td>
<td>Private Limited - 2; Public Limited – 7 Private Limited – 50 Public Limited - Un limited</td>
<td>Minimum: 25 members Maximum: No limit</td>
</tr>
<tr>
<td></td>
<td>Maximum</td>
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<tr>
<td></td>
<td>Members</td>
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<tr>
<td>4</td>
<td>Local</td>
<td>Different Parts of the Country Different Countries of the World</td>
<td>Members are Same Locality</td>
</tr>
<tr>
<td></td>
<td>Membership</td>
<td></td>
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<tr>
<td>5</td>
<td>Transfer of</td>
<td>Free Transferable in Public Limited Company</td>
<td>Restricted Cannot Transfer of Shares</td>
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<td></td>
<td>Shares</td>
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</tr>
</tbody>
</table>

4. Explain any eight types of co-operative societies in detail.

i). Agricultural credit society:

↔ It is the credit society, organised mostly by agriculturists of a village.
↔ They provide loans to its members for various productive and unproductive purposes relating to Agriculture.
↔ They are two types
  • Rural Credit societies
  • Primary Societies

ii). Agricultural Non-credit societies

➢ These societies have helped members of limited means to secure loans at low rate of interest.
➢ They are assisting the members in marketing, farming and industrial services.
➢ The following are its types.
  ▶ Co-operative marketing societies
  ▶ Co-operative farming societies
  ▶ Industrial co-operatives

iii). Non-agricultural non-credit society:

★ They are formed in order to assist the middle and lower income groups of people.
★ Their main aim is for rendering different types of service to their members.
★ The different types are
  i. Consumer’s co-operatives
  ii. Manufacturer’s co-operatives
  iii. Housing co-operatives and
  iv. Co-operative warehouses.
iv). Consumer Co-operatives:
- A co-operative society organized by consumers of a locality for supplying essential goods at a reasonable price.
- This is called a consumer co-operative society.
- It eliminates the middle men.

v). Co-operative warehouse:
- These are mostly found in rural areas.
- It helps the members to get the facility of storing agricultural inputs.
- They will keep the finished goods, till they are despatched for sale through marketing co-operatives.

“IF YOU’RE NOT WILLING TO LEARN NO ONE CAN HELP YOU. IF YOU’RE DETERMINED TO LEARN, NO ONE CAN STOP YOU”
CHAPTER 8

GOVERNMENT IN BUSINESS

“The means of production should be socially owned and controlled for the benefit of society as a whole”
I. CHOOSE THE CORRECT ANSWER:

1. Government companies are registered under
   a) Special statute of Government   b) Companies Act, 1956
   d) Royal charter       d) Order of the Government
2. In a public corporation the management has
   a) Limited freedom   b) No freedom of action
   c) Controlled freedom d) Unrestricted freedom of action.
3. For the efficient working of state enterprise the form of organisation generally considered suitable is
   a) Departmental organisation   b) Public corporation
   c) Government company   d) None of these
4. Public can also subscribe to the share capital of
   a) Public corporation
   b) Departmental undertaking
   c) Government company
   d) None of these
5. In a government company the share capital of the government must not be less than
   a) 51%   b) 60%   c) 75%   d) 90%
6. _________ is an undertaking owned and controlled by Government.
   a) Departmental   b) State Enterprises   c) Co-operative   d) Private
7. The primary aim of state enterprises is ___________
   a) Public welfare
   b) Service
   c) Earn Profit
   d) None
8. Public corporations are created by _______ of central or state Government.
   a) Special Statute   b) Members
   c) Directors
   d) None
9. In a Government company atleast ___________ shares are owned by the Government.
   a) 25%
   b) 30%
   c) 35%
   d) 51%
10. The oldest from of public enterprise is ___________
    a) Sole trading
    b) Partnership
    c) Departmental
    d) Board Organization
11. When the Government takes over an existing private concern it is called ___________
    a) Nationalization
    b) Privatization
    c) Globalization
    d) None
12. The most suitable form of organisation for manufacturing defense goods is
    a) Sole trading
    b) Partnership
    c) Departmental
    d) Board Organization
13. ____________ checks concentration of economic power in the hands of few.
    a) Private Sector
    b) Public Sector
    c) Co-operative
    d) Partnership
14. Exploitation of consumers and employees is a feature of _____
    a) Private Sector
    b) Public Sector
    c) Co-operative
    d) Partnership
15. Public corporations are managed by a __________ nominated by the Government.
    a) Directors
    b) Members
    c) Board of directors
    d) None
II. SHORT ANSWERS:

1. What was the role of Government in the past?
   - In the past, the role government was limited only to the maintenance of law and order.
   - The development of industries was left to the judgement of private enterprises.
   - State Enterprise, as a form of business organisation gained economic importance in most of the countries of the world in recent years.

2. What necessitated Governments to intervene in industrial sector?
   - Industrial revolution helped all round growth of industries.
   - Private entrepreneurs worked only for profit motive.
   - The exploitation consumers and workers by private entrepreneurs became very common.

3. Define state enterprises?
   A.H. Hansen says “Public enterprise means state ownership and operation of industrial, agricultural, financial and commercial undertaking”

4. How can we establish state enterprises?
   - By starting a new unit.
   - By taking over an existing industrial or commercial unit owned by private persons.

5. How does the state enterprise bring in balanced economic growth?
   - The aim of industrialisation is to develop all industries, essential for the country. Private sector may not establish industries in certain regions, where they do not find opportunities to earn more profit.
   - They cannot be compelled to start their undertakings in backward regions. So government can start industries in backward areas.

6. What factors govern the choice of a particular form of organisation for an industry?
   - Department of the Government
   - Separate Corporation.
   - Joint Stock Company.

7. Why departmental organisation is suitable for defence industries?
   - The departmental organizations are managed, financed and controlled by the government.
   - Departmental undertakings are under direct government control and can maintain secrecy in their working.
8. Explain the management of public corporation?

- It is administrated by a Board appointed by public authority to which it is answerable.
- It is managed by a Board of Directors.
- Generally, the board is nominated by the government of the basis of their experience and skill.


According to Indian Companies Act 1956, “Government company means any company in which not less than 51% of the paid-up share capital is held by the central government or state governments partly by the central government and partly by one or more state government.

III. PARAGRAPH ANSWERS:

1. State the features of the departmental form of state enterprises.

- Departmental undertakings are wholly dependent on government for finance.
- He is responsible to answer to the parliament for the operations of the undertaking.
- It is financed through annual budget appropriations made by the legislature.
- The affairs of the business are subjected to strict government budgeting, accounting and auditing.
- The departmental undertakings enjoy legal immunity i.e., it is part of the government.

2. What are the features of a public corporation?

   i). Separate Legal Entity

       ↔ A public corporation is established by a separate legislative Act passed by government.

   ii). Perpetual Existence

       ↔ It has perpetual existence and common seal.

   iii). Government Investments

       ↔ These corporations are fully financed by the government.

   iv). Financial Autonomy

       ↔ For day-to-day finance requirements, these corporations are not dependent on the government.
v). Employees

⇔ Its employees are not government servants. The public corporations recruit their own employees.

3. Explain the features of a Government companies.

i). Participation of Public:
- Public can also subscribe to the share capital of these companies, if offered to them.

ii). Management:
- Government companies are managed by Board of Directors. The members of this Board are nominated by the government which holds the majority of the shares.

iii). Autonomy:
- It is an autonomous unit with full freedom of action in financial and administrative matters.

iv). Employees:
- The employees, except the officers deputed by the government, are not civil servants.

v). Auditor:
- The Auditor of a Government company is always appointed by the central Government.

4. What are the differences between public and private sector?

<table>
<thead>
<tr>
<th>S.No</th>
<th>Public sectors</th>
<th>Private sectors</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Service motive</td>
<td>Profit motive</td>
</tr>
<tr>
<td>2</td>
<td>Unlimited resources</td>
<td>Limited resources</td>
</tr>
<tr>
<td>3</td>
<td>Deserves nation wealth</td>
<td>Exploitation of natural resources</td>
</tr>
<tr>
<td>4</td>
<td>Consumer welfare is protected</td>
<td>Consumers are exploited</td>
</tr>
<tr>
<td>5</td>
<td>Model employer</td>
<td>Exploitation of employees</td>
</tr>
</tbody>
</table>

IV. ESSAY QUESTIONS:

1. Explain the objectives of state enterprises.

i). Helping all-round Industrialisation
- Private entrepreneurs will invest only in those industries where profit earning chances are more.
- State enterprises are necessary for those lines where private sector is hesitant to invest.
• It helps in all-round industrialization of the country.

ii). Developing Basic Industries

• Certain basic industries like iron and steel, chemicals are the most essential for economic growth.
• They must be developed only as state managed units.

iii). For Balanced Economic Growth

• The aim of industrialisation is to develop all industries, essential for the country.
• Private sector may not establish industries in certain regions.
• They cannot be compelled to start their undertakings in backward regions.
• So government can start industries in backward areas.

iv). For Exploitation of Natural Resources

• Private sector will not like to risk capital in exploitation of natural resources.
• Oil and natural Gas commission in India spends huge amount for finding out new sources of oil and gas.
• A private sector unit cannot spend such amounts on exploratory stages.

v). Making for full Employment

• Fullest employment is possible only under socialised production.
• No country has solved its ‘unemployment problem’ where the private sector is in full swing.
• The State, by proper centralised planning of industrial development, can aim at not only full employment of labour but also employment of all other available resources.

2. Discuss the features, merits and demerits of the Departmental organisations.

Features

• Departmental undertakings are wholly dependent on government for finance.
• He is responsible to answer to the parliament for the operations of the undertaking.
• It is financed through annual budget appropriations made by the legislature.
• The affairs of the business are subjected to strict government budgeting, accounting and auditing.
• The departmental undertakings enjoy legal immunity.

MERITS:

i). Management

• The Civil Servants manage departmental organisations.
• These government officials will work sincerely and efficiently for the success of the unit.

ii). Source of income for Government

• These enterprises are run on commercial lines.
iii). Helps in implementing Government Policies

- Government policies and programmes are better implemented by these enterprises under direct government control.

iv). Proper use of Funds

- Since these undertakings are subject to strict control, chances of misuse of funds are remote.

Legislative Control

- These undertakings are under the control of legislatures
- Legislative control acts as a check on functions of these undertakings.

DEMERITS

i). Centralisation of Powers

- All policies are decided at ministerial level ignoring business consideration.
- Since a Ministry is responsible for full control over the departmental organisations, there may not be continuity in policy

ii). Delay and Red-tapism

- There is too much of procedures which results in delay.
- Commercial organisation cannot afford delay in taking decisions.

iii). Inefficiency

- There is no competition to this business.
- Hence there is no economic compulsion to improve efficiency.
- Also, efficiency standards are not set for these undertakings.
- Losses in departmental undertaking are not taken seriously because they are run as government departments.

iv). Political Changes

- Since a ministry has control over the department, there may be no continuity in policy i.e., the change in government involves shift in policies of departmental undertaking.

v). Tax Burden to public

- Losses suffered by these undertakings will mean additional tax burden to the public.
- Tax revenue can only make up such losses.
### ONE MARK ANSWER KEYS

#### CHAPTER 1

<p>| | |</p>
<table>
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<tr>
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<tbody>
<tr>
<td>1. Non flexibility</td>
<td>7. One man one vote is principle is followed</td>
</tr>
<tr>
<td>2. Limited Capital</td>
<td>8. In towns and Villages</td>
</tr>
<tr>
<td>3. Must be writing in the stamp paper</td>
<td>9. Departmental Organization</td>
</tr>
<tr>
<td>4. By an express agreement</td>
<td>10. 51%</td>
</tr>
<tr>
<td>5. The board Directors</td>
<td>11. Global giant</td>
</tr>
<tr>
<td>13. Departmentation</td>
<td>19. Person by law</td>
</tr>
<tr>
<td>14. Entrustment</td>
<td>20. Departmental</td>
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<td>15. Unlimited</td>
<td>21. Statutory</td>
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<td>16. In an agreed ratio</td>
<td>22. Board organization</td>
</tr>
<tr>
<td>17. Optional</td>
<td>23. Multinationals</td>
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<tbody>
<tr>
<td>1. Any one person</td>
<td>6. Unlimited</td>
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<tr>
<td>2. Unlimited</td>
<td>7. Sole Trading</td>
</tr>
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<td>3. Small scale concerns</td>
<td>8. Sole Trading</td>
</tr>
<tr>
<td>4. Quick</td>
<td>9. Sole Trading</td>
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<tr>
<td>5. Can keep his business secrets</td>
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#### CHAPTER 3

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<tr>
<td>1. Agreement</td>
<td>6. Agreed Ratio</td>
</tr>
<tr>
<td>2. Utmost good faith</td>
<td>7. Unlimited</td>
</tr>
<tr>
<td>3. 1932 Act</td>
<td>8. 20</td>
</tr>
<tr>
<td>4. Optional</td>
<td>9. Sleeping</td>
</tr>
<tr>
<td>5. Principal and Agent</td>
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#### CHAPTER 4

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<tbody>
<tr>
<td>1. Compulsory</td>
<td>15. all the above</td>
</tr>
<tr>
<td>2. 7</td>
<td>16. Seven</td>
</tr>
<tr>
<td>3. Amount remaining unpaid on the shares</td>
<td>17. Limited</td>
</tr>
<tr>
<td>4. Immediately on receiving the certificate of incorporation</td>
<td>18. Two.</td>
</tr>
<tr>
<td>5. None of these</td>
<td>19. Government.</td>
</tr>
<tr>
<td>8. Statutory company</td>
<td>22. Prospectus</td>
</tr>
<tr>
<td>9. a public limited company which has made arrangement for racing</td>
<td>23. Cumulative preference share</td>
</tr>
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<tr>
<td><strong>its capital from directors and their relatives</strong></td>
<td></td>
</tr>
<tr>
<td>10. 90 days</td>
<td>24. Participating preference</td>
</tr>
<tr>
<td>11. both dividend and return of capital on winding up</td>
<td>25. Two.</td>
</tr>
<tr>
<td>12. for non-payment of call money</td>
<td>26. 5000</td>
</tr>
<tr>
<td>13. Rs. 10</td>
<td>27. One</td>
</tr>
<tr>
<td>14. Creditors</td>
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**CHAPTER 5**

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<tr>
<td>1. by being named in the Articles of Association</td>
<td>12. Agents</td>
</tr>
<tr>
<td>2. all of these</td>
<td>13. Owners</td>
</tr>
<tr>
<td>3. 15</td>
<td>14. Articles of association</td>
</tr>
<tr>
<td>4. Rs.5000</td>
<td>15. 6 months, 1 month</td>
</tr>
<tr>
<td>5. 11% of net profits</td>
<td>16. 21</td>
</tr>
<tr>
<td>6. The Board of Directors</td>
<td>17. 15</td>
</tr>
<tr>
<td>7. Rs.50 Lakh</td>
<td>18. Special</td>
</tr>
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<td>8. Public Limited Companies</td>
<td>19. Proxy</td>
</tr>
<tr>
<td>9. 15 months</td>
<td>20. Five</td>
</tr>
<tr>
<td>10. issue of debentures</td>
<td>21. Quorum</td>
</tr>
<tr>
<td>11. all of these</td>
<td>22. Annual General Meeting</td>
</tr>
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<td>23. 21</td>
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**CHAPTER 6**

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<td>1. Primary market</td>
<td>24. Brokers/under writers</td>
</tr>
<tr>
<td>4. 21</td>
<td>27. Prospectus.</td>
</tr>
<tr>
<td>5. Listed securities</td>
<td>28. Shareholder/member</td>
</tr>
<tr>
<td>6. For their own transactions</td>
<td>29. 5.</td>
</tr>
<tr>
<td>7. Bear</td>
<td>30. 90%</td>
</tr>
<tr>
<td>8. Bull</td>
<td>31. Primary market</td>
</tr>
<tr>
<td>9. 1956</td>
<td>32. Secondary market</td>
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<td>10. Securities Exchange Board of India Act</td>
<td>33. 21</td>
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<td>11. Increase in Price</td>
<td>34. Listing</td>
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<td>13. Stage</td>
<td>36. Securities on forward list</td>
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<td>15. 6</td>
<td>38. Spot Contracts</td>
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<td>17. Enormous capital</td>
<td>40. Authorized clerks</td>
</tr>
<tr>
<td>19. Ownership.</td>
<td>42. SEBI</td>
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</tbody>
</table>
20. Creditor ship
22. Issues of new shares
23. Resale of securities

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2. 25
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4. Organize some essential service for the benefit of its member
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8. England
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3. Public corporation
4. Government company
5. 51%
7. Public welfare
8. Special statute.
9. 51%
10. Departmental organisation
11. Nationalization.
12. Departmental organisation
13. Public sector.
15. Board of directors.

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