UNIT-X
CHAPTER 26

COMPANIES ACT 2013

INTRODUCTION

The companies act 1956 has been enacted with the object to consolidate and amend the law relating to the companies and the act has been force for about 55 years and it has been amended for several times. It is the basic statute that is responsible for the incorporation, regulation, privileges, and restrictions applicable to the corporate sector. This act has been the growth engine of the country's economy. The Companies Act 2013 is an act of the Parliament of India which regulates incorporation of a company, it explains clearly the responsibilities of the company and its directors. This act also explains the format of dissolution of the companies. This chapter clearly defines the act of company law and the changes made with regard to the incorporation procedure of this law and also the capital structure of the company.

I. Choose the Correct Answers

1. The company will have to issue the notice of situation of Registered Office to the Register of Companies within ___________ days from the date of incorporation.

a) 14 days　b) 21 days
c) 30 days　d) 60 days

2. How does a person who envisages the idea to form a company called?

a) Director　b) Company Secretary
c) Registrar　d) Promoter

3. For which type of capital a company pays the prescribed fees at the time of registration?

a) Subscribed Capital
b) Authorised Capital
c) Paid-up capital
d) Issued Capital

4. Which of the following types of shares are issued by a company to raise capital from the existing shareholders?

a) Equity Shares　b) Right Shares
c) Preference Shares　d) Bonus Shares

5. Specify the type of resolution to be passed to choose the location of Registered Office of the company within the town or village or city.

a) Ordinary　b) Special
c) Either Ordinary or Special　d) Board

6. Who can issue stock?

a) Public　b) Private
c) One Person　d) small

7. Specify the document which comes under the Negotiable Instrument Act.

a) Share Certificate　b) Share
c) Share Warrant　d) Stock

8. The shares which are offered to the existing shareholder at free of cost is known as _____.

a) Bonus Share　b) Equity Share
c) Right Share　d) Preference Share

9. The shares which are offered first to the existing shareholder at reduced price is known as ____.

a) Bonus Share　b) Equity Share
c) Right Share　d) Preference Share

10. The Companies Act 2013 prohibits the issue of shares at _________ to the public.

a) Premium　b) Par
c) Discount　d) Both at par and Premium

ANSWERS									
1	c)	2	d)	3	b)	4	b)	5	d)
6	a)	7	c)	8	a)	9	c)	10	c)

II. Very Short Answer Questions:

1. Who is called as Promoters?

Promoter means a person

- ❖ Who has been named as such in a prospectus or is identified by the company in the annual return referred to in section 92; or
- ❖ Who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or
- ❖ In accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act.

2. What is Share?

- ❖ The fraction or portion of total capital of the company which have equal denomination is known as share.
- ❖ In simple, the total capital of the company is shared by many person and each share is having equal value.
- ❖ According to section 2(84) of the Companies Act, 2013, share means in the "share Capital of a company and includes stock except where a distinction between stock and share is expressed or implied"

3. What do you mean by Equity Share?

- ❖ The share of a company which do not have any preferential rights with regard to dividend any repayment of share capital at the time of liquidation of a company, is also called as Equity Share.
- ❖ The rate of dividend is not a fixed one, in all the years.
- ❖ When a company earned loss no dividend is payable to any share holders in that year.

4. What do you understand by Preference Share?

According to Section 42 of the Companies Act, 2013 the term 'Preference shares' mean that part of the share capital the holders of which have a preferential right over payment of dividend (fixed amount or rate) and repayment of share capital in the event of winding up of the company'.

5. What is Sweat Equity Shares?

Sweat Equity shares means issue of shares to employees or directors at lower price for cash or other than Cash, in lieu of providing know- how or making available rights in the nature of intellectual property rights or any value additions.

6. What is Bonus Shares?

- ❖ A company may, if its Articles provide, capitalize its profits by issuing fully-paid bonus shares.
- ❖ To utilize the company's reserves and surpluses, issue of shares to existing shareholders without taking any consideration is known as Bonus Shares.
- ❖ It can be issued by:
  - Making partly paid up shares as fully paid
  - Issuing new shares

7. What is Right shares?

- ❖ Right shares are the shares which are issued by the company, with the aim of increasing the subscribed share capital of the company by further issue, if it is authorized by its Articles.
- ❖ The right shares are primarily issued to the existing equity shareholders through a letter of an issue, on pro rata basis.

8. What is Private Placement?

- ❖ Private placement means offer of securities or invitation to subscribe to securities to a select group of persons through private placement offer letter.
- ❖ But, companies going for private placement should fulfill certain condition mentioned in Companies Act 2013 in this regard.
- ❖ Then only they can collect capital through private placement.

9. Define Share Warrant?

- ❖ A share warrant is a negotiable instrument, issued by the public limited company only against fully paid up shares.
- ❖ It is also termed as a document of title because the holder of the share warrant is entitled to the number of shares mentioned in it.
- ❖ Prior approval of the Central Government (CG) is required.
- ❖ Further the issue of a share warrant must be authorized in the articles of association of the company.

10. What is Debentures?

- ❖ When a company needs fund it can borrow from general public by issuing certificate for a fixed period of time and at a fixed rate of interest.
- ❖ This loan certificate is known as debenture.
- ❖ Debentures are offered to the public for subscription in the same way as for issue of equity shares.
- ❖ Debentures is issued under the common seal of the company acknowledging the receipt of money.

III. Short Answer Questions:

1. Distinguish between shares and stocks?

Sl.No	Basis of Comparison	Shares	Stock
1.	Meaning	The capital of a company, is divided into small units, which are commonly known as shares	The conversion of fully paid up shares of a member into a single fund is known as stock
2.	Nature of Original issue	It is possible for a company to make original issue	It is not possible for a company to make orginal issue
3.	Paid up value	It can be partly or fully paid up	It can only be fully paid up
4.	Definite Number	A share have a definite number known as distinctive number	A stock does not have such number
5.	Denomination	It will be on equal numbers	It will be on unequal number

2. What do you understand by Issue of Securities at Premium?

- ❖ When shares are issued at a price above the face or nominal value, they are said to be issued at a premium.
- ❖ For example, a share having the face value of Rs 10 is issued at Rs.12. Here, Rs.2 is the premium.
- ❖ The amount of share premium has be transferred to an account called the 'Securities Premium Account'.
- ❖ This account is capital in nature and can only be utilized for the purposes specified by the Act under Section 78.
- ❖ Issue of fully paid bonus shares to members of the company for the following reasons:
  - To write off preliminary expenses.
  - To write off the expenses of issue, or commission paid, or discount allowed, on issue of shares or debentures of the company.
  - To provide for the payment of premium on the redemption of any redeemable preference shares or debentures of the company.
- ❖ Thus, the Securities Premium Account cannot be treated as a revenue reserve for distributing dividends.
- ❖ It can only be used for the above mentioned purposes and also for buying back of securities (section 77A).
- ❖ It must be noted that Security premium is not available for distribution of dividend.

3. What is issue of shares at discount? What conditions should be fulfilled?

- ❖ When the shares are issued at a price below the face value they are said to be issued at a discount.
- ❖ For example, a share having the face value of Rs 10 is issued at Rs 8.
- ❖ The companies act 2013, prohibits the issue of shares at discount (section 53) except sweat Equity share.

4. State condition stipulated for capital subscription at the time of promotion?

The following are the conditions stipulated for capital subscription at the time of promotion.

(i) The fulfilling formalities to raise necessary capital

(ii) Adhering to SEBI guidelines in this regard

(iii) Observing guidelines for Disclosure and investor protection issued by SEBI

(iv) Issuing prospectus
(v) Appointing official banker of the company for receiving application from the investors
(vi) Fulfilling the condition for valid allotment by director
(vii) Passing resolution for making allotment by director
(viii) Despatch allotment letters to allottees
(ix) Filing allotment return with the Registrar
(x) Issuing share certificates in exchange for their allotment letter
(xi) Ensuring collection of minimum subscription

5. Explain different Kinds of preference shares?

Meaning: Section 42 of the Companies Act, 2013 the term 'preference shares' mean that part of the share capital the holders of which have a preferential right over payment of dividend (fixed amount or rate) and repayment of share capital in the event of winding up of the company.

Kinds of Preference shares:

There are eight types of preference shares. In case of dissolution of the company, any of the eight types would be paid out before other types of equity.

(i) Cumulative Preference Shares:

- As the word indicates, all dividends are carried forward until specified, and paid out only at the end of the specified period.

(ii) Non-cumulative Preference Shares:

- The opposite of cumulative, obviously.
- Dividends are paid out of profits for every year.
- There are no arrears carried over a time period to be paid at the end of the term.

(iii) Redeemable Preference Shares:

- Such preference shares can be claimed after a fixed period or after giving due notice

(iv) Non-Redeemable Preference Shares:

- Such shares cannot be redeemed during the lifetime of the company, but can only be obtained at the time of winding up (liquidation) of assets.

(v) Convertible Preference shares:

- The shares can be converted into equity shares after a time period or as per the conditions laid down in the terms.

(vi) Non-convertible Preference shares:

- Non-convertible preference shares cannot be, at any time , converted into equity shares.

(vii) Participating Preference Shares:

- Such shares have the right to participate in any additional profits, after paying the equity shareholders.
- The surplus of profit is apart from the fixed dividend paid up for preference shares.
- Non-Participating Preference shares:
- Non-participating preference shares do not possess any right to participate in surplus profits or any surplus gained at the time of liquidation of the company.

IV. Long Answer Questions:

1. Write the difference between Debentures and Shares?

S.No	Debentures	Shares
1.	Debentures constitute a loan.	Shares are part of the capital of a company.
2.	Middle and Lower Level.	Top level.
3.	Debentures holder gets fixed rate of Interest which carries a priorities over dividend.	Shareholders gets dividends with a varying rate.
4.	Debentures generally have a charge on the assets of the company.	Shares do not carry any such charge.
5.	Debentures can be issued at a discount without restrictions.	Shares cannot be issued at a discount.

6.	The rate of interest is fixed in the case of debentures.	Whereas on the equity shares, the dividend varies from year to year depending upon the profit of the company and the Board of directors decision to declare dividends or not.
7.	Debentures holders do not have any voting right.	Shareholders enjoy voting right.
8.	Interest on debentures is payable even if there are no profits i.e. even out of capital.	Dividend can be paid to shareholders only out of the profits of the company and not otherwise.
9.	Interest paid on debentures is a business expenditure and allowable deduction from profits.	Dividend is not allowable deduction as business expenditure.
10.	Return of allotment is not required for allotment of debentures.	Return of allotment in e-Form No.2 is to be filed for allotment of shares.

2. Brief different stages in Formation of a Company?

Formation/Incorporation of a company:

'Formation of a company' has been divided into four stages:

1. Promotion
2. Registration
3. Capital subscription and
4. Commencement of business

1. Promotion: First Stage

- Promotion stage begins when the idea to form a company comes in the minds of a company comes in the mind of a person.
- The person who envisage the idea is called a 'promoter', Section 2 (69) of the companies act, 2013 defines the term 'promoter' as under:-

  "Promoter" means a person—

  - Who has been named as such in a prospectus or is identified by the company in the annual return referred to in section 92; or
  - Who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or
  - In accordance with whose advice, directions or instructions the board of directors of the company is accustomed to act.
  - The stage of promotion starts when a promoter conceives the idea to form a company and ends when the company is formed and is handed over to the directors.

2. Registration or Incorporation: Second stage:

The second stage in the formation of the company is incorporation or registration. In this stage the promoter does the following:

- Application for availability of name of company
- Preparation of memorandum and articles of association
- Declaration from the professional
- Preparation of affidavit from the subscribers to the memorandum
- Furnishing verification of registered office
- Preparation of particulars of subscribers
- Preparation of particulars of first directors along with their consent to act as directors
- Power of attorney

3. Capital subscription: Third Stage

- Both private company and public company not having share capital can commence its business after the completion of the above stages.
- But a public limited company having its share capital has to pass through two more stages.
- One of them is capital subscription, steps to be taken at this stage are listed below.
- The fulfilling formalities to raise necessary capital
- Adhering to SEBI guidelines in this regard
- Observing guidelines or disclosure and investor protection issued by SEBI

- Issuing prospectus
- Appointing official banker of the company for receiving application from the investors
- Fulfilling the condition for valid allotment by director
- Passing resolution for making allotment by director
- Dispatch allotment letters to allotters
- Filing allotment return with the registrar
- Issuing share certificates in exchange for their allotment letter
- Ensuring collection of minimum subscription

Commencement of Business: Fourth stage:

As per section 11 of the act, a company having share capital should file with the registrar, declaration stating that

(i) Every subscriber to the memorandum has paid the value of shares agreed to be taken by him

(ii) Paid up capital is not less than Rs. 5 lakhs in the case of public limited company and Rs. 1 lakh in the case of private limited company.

(iii) It has filed the registrar the verification of the registered office.

These restrictions in section 11 are applicable to companies having share capital. It can commence business only after fulfilling all the formalities mentioned above and exercise borrowing powers immediately after incorporation.

3. What are the various kinds of Debentures?

The following are the various kinds of debentures:

Kinds of Debentures:

Debentures are generally classified into different categories on the basis of:

- Convertibility of the Instrument
- Security of the Instrument
- Redemption ability
- Registration of Instrument

I. On the basis of convertibility:

Debentures may be classified into following categories:

1. Non Convertible Debentures (NCD):

- These instruments retain the debt character and cannot be converted into equity shares.

2. Partly Convertible Debentures (PCD):

- A part of these instruments are converted into equity shares in the futher at notice of the issuer.
- The issuer decides the ratio for conversion.
- This is normally decided at the time of subscription.

3. Fully convertible Debentures (FCD):

- These are fully convertible into Equity shares at the issuer's notice.
- The ratio of conversion is decided by the issuer.
- Upon conversion the investors enjoy the same status as ordinary shareholders of the company.

4. Optionally Convertible Debentures (OCD):

- The investor has the option to either convert these debentures into shares at a price decided by the issuer/agreed upon at the time of issue.

II. On the basis of Security, debentures are classified into:

A. Secured Debentures:

- These instruments are secured by a charge on the fixed assets of the issuer company.
- So if the issuer fails on payment of either the principal or interest amount, such fixed assets can be sold to repay the liability to the investors.

B. Unsecured Debentures:

- These instrument are unsecured in the sense that if the issuer defaults on payment of the interest or principal amount, the investor has to be included as unsecured creditors of the company.

III. On the basis of Redeemability,

Debentures are classified into:

A. Redeemable Debentures:

- It refers to the debentures which are issued with a condition that the debentures will be redeemed at a fixed date or upon demand, or after notice, or under a system of periodical drawings.
- Debentures are generally redeemable and on redemption these can be reissued or cancelled.

B. Perpetual or Irredeemable Debentures:

- A Debentures, in which no specific time is specified by the companies to pay back the money, is called an irredeemable debentures.
- The debentures holder cannot demand repayment as long as the company is a going concern.
- Issuing company has to pay interest periodically.
- But all debentures, whether redeemable or irredeemable become payable on the company going in to liquidation.
- However, after the commencement of the Companies Act,2013, now a company cannot issue perpetual or irredeemable debentures.

IV. On the basis of Registration,

Debentures may be classified as

A. A Registered Debentures:

- Registered debentures are issued in the name of a particular person, whose name appears on the debentures certificate and who is registered by the company as holder on the Register of debentures holders.

B. Bearer debentures:

- Bearer debentures on the other hand, are issued to bearer, and are negotiable instruments, and so transferable by mere delivery like share warrents.

5. What formalities need to be fulfilled for a company's having share capital to commence business?

As per section 11 of the act, a company having share capital should file with the registrar, declaration stating that

(i) Every subscriber to the memorandum has paid the value of shares agreed to be taken by him

(ii) Paid up capital is not less than Rs. 5 lakhs in the case of public limited company and Rs. 1 lakh in the case of private limited company.

(iii) It has filed the registrar the verification of the registered office.

These restrictions in section 11 are applicable to companies having share capital. It can commence business only after fulfilling all the formalities mentioned above and exercise borrowing powers immediately after incorporation.

6. Write the difference between share Certificate between and Share Warrant?

Sl.No	Basis of Difference	Share Certificate	Share Warrant
1.	Meaning	It is a legal document indicates the possession of the shareholder on the specified number of shares.	It is a document which indicates the bearer of the share warrant is entitled to the specified number of shares is share warrant
2.	Compulsion of certificate	It is a compulsory certificate	It is not a compulsory certificate
3.	Issued by	It is issued by all the companies limited by shares irrespective of public or private	It is issued by only public limited companies
4.	Transfer of Certificate	The transfer of share certificate can be done by executing a valid transfer deed	The transfer of share warrant can be done by mere hand delivery
5.	Time limit	It is issued within 3 months of the allotment of shares	There is no time limit for share warrant
6	Title	It is a registered evidence of title	It is a bearer document of title
7.	Issue of shares	It is issued in respect of partly or fully paid up shares	It is issued in respect of only fully paid up shares

Additional Questions:

I. Choose the Correct Answers:

1. The companies act,2013 has __________ sections/clause.
a) 420 b) 490
c) 470 d) 560

2. A company is not a citizen but it has _____.
a) Nationality b) Domicile
c) both a & b d) None

3. The Company bill, received the assent of the Resident of India on ___________.
a) 29.08.2013 b) 1.1.2018
c) 08.12.2018 d) None

4. Associate Company is defined in section __________ of the companies act 2013.
a) 5(2) b) 2(6)
c) 6(2) d) None

5. A private company has a maximum number of _________ members, as per companies act, 2013.
a) 400 b) 200
c) 600 d) Unlimited

6. In a Government company the government shareholding must not be less than ____________.
a) 50 % b) 40%
c) 51% d) None of the above

7. Which of the following is a Statutory Company?
a) RBI b) NABARD
c) SBI d) All the above

8. Companies Act 2013, has how many chapters?
a) 32 b) 23
c) 29 d) 46

9. There are __________ schedules in Companies act 2013.
a) 5 b) 7
c) 43 d) 10

10. Which of the following section deals with Incorporation of Companies Act 1956?
a) 12 b) 34
c) 21 d) None

11. The number of documents to be submitted by a public limited company to the registrar while applying for incorporation of the company is ________.
a) 3 b) 2
c) 7 d) 50

12. A person who envisage the idea to form a company is known as ________.
a) Promoter b) Owner
c) Director d) None

13. The person who take the procedural steps to set up a company and who make business preparations for the company are called as ____________.
a) Promoter b) Owner
c) Director d) None

14. If a person wants to form a new company, which of the following documents must be acknowledged with the Registrar of Companies?
a) Memorandum of Associations
b) Application form for registration
c) Statement of Compliance
d) All of the above

15. Shares issues without any special rights attached to them are known as ______.
a) Preferrence Shares b) Capital Shares
c) Ordinary Shares d) None

16. The preference shares which can be claimed after a fixed period is known as _______.
a) Redeemable Preference Shares
b) Convertible Preference Shares
c) Cumulative Preference Shares
d) Participating Preference Shares

17. ___________ shares are primarily issued to the existing equity shareholders through a letter of an issue, on pro rata basis.
a) Equity Shares b) Share Warrant
c) Right Shares d) Bonus Shares

18. Which of the following are included in the concept of debenture?

a) Debenture Stock
b) Bonds
c) other instruments evidencing a debt
d) All of the above

19. In general cases Bonus shall be paid with in _______.

a) 6 months b) 7 months
c) 8 months d) None of these

20. The companies which are formed under Companies Act 1956. They will be called as _________.

a) Chartered Companies
b) Statutory Companies
c) Registered Companies
d) None

21. Assertion (A): Issue of shares to employees or directors at lower price for cash or other than cash is known as sweat equity shares.
Reason(R) : Sweat equity is an input to a project or enterprise in form of effort and labour.

Codes:
(A) Both (A) and (R) are correct and (R) is correct explanation of (A).
(B) Both (A) and (R) are correct, but (R) is not a correct explanation of (A).
(C) (A) is correct, but (R) is incorrect.
(D) (A) is incorrect, but (R) is correct

22. Statement (I): Right shares are the shares which are issued by the company to the existing shareholders on pro-rate basis.
Reason(R): Right issues must be authorized by Articles of Association

Codes:
(A) Both (A) and (R) are correct.
(B) Only (A) is correct, but (R) is wrong.
(C) Only (R) is correct, but (A) is wrong.
(D) Both (A) and (R) are wrong

23. Statement (A): A share warrant is also known as a document of title
Statement (R): Prior approval of the CG is required for Share Warrant.

Codes:
(A) Both (A) and (R) are correct.
(B) Only (A) is correct, but (R) is wrong.
(C) Only (R) is correct, but (A) is wrong.
(D) Both (A) and (R) are wrong

24. Assertion(A): It is not possible for a company to make original issue of stock.
Reason(R): The conversion of fully paid up shares of a member into a single fund is known as stock

Codes:
(A) Both (A) and (R) are correct and (R) is correct explanation of (A).
(B) Both (A) and (R) are correct, but (R) is not a correct explanation of (A).
(C) (A) is correct, but (R) is incorrect.
(D) (A) is incorrect, but (R) is correct

25. Assertion(A): The securities premium account cannot be treated as a revenue reserve for distributing dividends.
Reason(R) : As per the act under section 78 Securities Premium account is in capital nature and can only be utilised for the purposes specified.

Codes:
(A) Both (A) and (R) are correct and (R) is correct explanation of (A).
(B) Both (A) and (R) are correct, but (R) is not a correct explanation of (A).
(C) (A) is correct, but (R) is incorrect.
(D) (A) is incorrect, but (R) is correct

26. Match the following:

List I	List II
Share	i.Pro rata basis
Equity Shares	ii.Shares issued to employees or directors
Sweat Equity shares	iii. Which are not preferential
Right Shares	iv. Portion of Capital

	a)	b)	c)	d)
a)	4	3	1	2
b)	3	4	1	2
c)	3	2	1	4
d)	4	3	2	1

27. Match the following

List I	List II
Royal Charter	i. Registration in India
Joint Stock Company Act	ii. England
English Joint Stock Companies Act	iii. East India
Indian Companies act	iv Protect and preserve the rights of shareholders

	a)	b)	c)	d)
a)	4	3	1	2
b)	3	4	1	2
c)	3	2	1	4
d)	4	3	2	1

28. Match the Following

List I	List II
Royal Charter	i.2013
English Joint Stock Company	ii.1913
Indian Companies act	iii.1850
d. New Companies Act	iv. 1844

	a)	b)	c)	d)
a)	4	3	1	2
b)	3	4	1	2
c)	3	2	1	4
d)	4	3	2	1

29. Find the odd one out:

a) Promotion
b) Registration
c) Capital Subscription
d) Amalgamation

Reason: Except amalgamation all the above three are the stages in the formation of a company.

30. Find the odd one out:

a) Memorandum of Association
b) Articles of Association
c) Certificate of Incorporation
d) Power of attorney

Reason: Power of attorney is a document which is prepared to carry out the instructions stipulated by the registrar.

ANSWERS

1.	c	2.	c	3.	a	4.	b	5.	b
6.	c	7.	a	8.	c	9.	b	10.	a
11.	c	12.	a	13.	a	14.	d	15.	c
16.	a	17.	c	18.	d	19.	c	20.	c
21.	a	22.	a	23.	a	24.	a	25.	a
26.	d	27.	c	28.	d	29.	d	30.	d

II. Very Short Answer Questions:

1. What is meant by Sweat Equity Shares?

- Under section 54 of the Companies Act 2013, Sweat Equity Shares can be issued at Discount.
- Sweat Equity shares means issue of shares to employees or directors at lower price for cash or other than Cash, in lieu of providing know how or making available rights in the nature of intellectual property rights or any value additions.

2. What is meant by Right Shares?

- Right shares are the shares which are issued by the company, with the aim of increasing the subscribed share capital of the company by further issue, if it is authorized by its Articles.
- The right shares are primarily issued to the existing equity shareholders through a letter of an issue, on pro rata basis.

3. What are the four stages of formation of a company?

- Promotion
- Registration
- Capital Subscription
- Commencement of Business.

III. Short Answer Questions:

1. What is meant by Bonus Shares?

- To utilize the company's reserves and surpluses, issue of shares to existing shareholders without taking any consideration is known as Bonus Shares.
- It can be issued by:
  - Making partly paid up shares as fully paid
  - Issuing new shares
- A company may, if its Articles provide, capitalize its profits by issuing fully-paid bonus shares.
- The issue of bonus shares by a company is a common feature.

2. What is meant by Private Placement?

- ❖ Private placement means offer of securities or invitation to subscribe to securities to a select group of persons through private placement offer letter.
- ❖ The number of subscribers under private placement should not exceed 50 members or such numbers prescribed.
- ❖ Qualified institutional buyers and employees holding shares under stock option plans should be excluded in country the maximum members mentioned above.
- ❖ But, companies going for private placement should fulfill certain condition mentioned in Companies Act 2013 in this regard.
- ❖ Then only they can collect capital through private placement.

3. Explain the scope of the formation of a company.

Section 3(1) of the Act states that a company may be formed for any lawful purpose by-

(a) seven or more persons, where the company to be formed is to be a public company;

(b) two or more persons, where the company to be formed is to be a private company; or

(c) one person, where the company to be formed is to be One Person Company that is to say, a private company by subscribing their names or his name to a memorandum and complying with the requirements of this Act in respect of registration.

4. Write a note on Capital Subscription:

Both private company and public company not having share capital can commence its business after the completion of the above stages. But a public limited company having its share capital has to pass through two more stages. One of them is capital subscription;

Steps to be taken at this stage are listed below.

(i) The fulfilling formalities to raise necessary capital

(ii) Adhering to SEBI guidelines in this regard

(iii) Observing guidelines for Disclosure and investor protection issued by SEBI

(iv) Issuing prospectus

(v) Appointing official banker of the company for receiving application from the investors

(vi) Fulfilling the condition for valid allotment by director

(vii) Passing resolution for making allotment by director

(viii) Despatch allotment letters to allottees

(ix) Filing allotment return with the Registrar

(x) Issuing share certificates in exchange for their allotment letter

(xi) Ensuring collection of minimum subscription

IV. Long Answer Questions:

1. Explain the features of Debentures.

The following are the important features of debentures:

1. It is issued by the Company in the form of a certificate under the common seal.
2. It is a movable property
3. Debenture holders are the creditors of the company
4. Debentures carry a fixed rate of interest.
5. Debenture is redeemed after a fixed period of time.
6. Debentures may be either secured or unsecured.
7. Interest payable on a debenture is a charge against profit and hence it is a tax deductible expenditure.
8. Debenture holders do not enjoy any voting right.
9. Interest on debenture is payable even if there is a loss.

2. What are all the changes in existing company is not allowed in the proposal of a name for a company?

- ❖ Changes in Type, Letter Case, Spacing or Punctuation marks.
- ❖ Joining words or separating words before or after the company name.
- ❖ Different tense or number of the same word
- ❖ Different phonetic spellings or spelling variations
- ❖ Intentionally misspelled words
- ❖ Addition of internet related designation
- ❖ Addition of common names or titles
- ❖ Addition of name of place
- ❖ Different combination of the same words
- ❖ Translation of a word

3. Define preference shares and explain its types?

Meaning of Preference Share

❖ Section 42 of the Companies Act, 2013 the term 'preference shares' mean that part of the share capital the holders of which have a preferential right over payment of dividend (fixed amount or rate) and repayment of share capital in the event of winding up of the company.

Kinds of Preference shares

❖ There are eight types of preference shares. In case of dissolution of the company, any of the eight types would be paid out before other types of equity.

❖ **Cumulative Preference shares:** As the word indicates, all dividends are carried forward until specified, and paid out only at the end of the specified period.

❖ **Non-cumulative Preference shares:** The opposite of cumulative, obviously. Dividends are paid out of profits for every year. There are no arrears carried over a time period to be paid at the end of the term

❖ **Redeemable Preference shares:** Such preference shares can be claimed after a fixed period or after giving due notice.

❖ **Non-Redeemable Preference shares:** Such shares cannot be redeemed during the lifetime of the company, but can only be obtained at the time of winding up (liquidation) of assets.

❖ **Convertible Preference shares:** The shares can be converted into equity shares after a time period or as per the conditions laid down in the terms.

❖ **Non-convertible Preference shares:** Non-convertible preference shares cannot be, at any time, converted into equity shares.

❖ **Participating Preference shares:** Such shares have the right to participate in any additional profits, after paying the equity shareholders. The surplus of profit is apart from the fixed dividend paid up for preference shares.

❖ **Non-Participating Preference shares:** Non-participating preference shares do not possess any right to participate in surplus profits or any surplus gained at the time of liquidation of the company.

4. Explain the difference Between Equity Shares and Preference Shares?

❖ Equity Shares are the shares that carry voting rights and the rate of dividend also fluctuate every year as it depends on the amount of profit available to the company.

❖ On the other hand, Preference Shares are the shares that do not carry voting rights in the company as well as the amount of dividend is also fixed.

BASIS FOR COMPARISON	EQUITY SHARES	PREFERENCE SHARES
Meaning	Equity shares are the ordinary shares of the company representing the part ownership of the shareholder in the company.	Preference shares are the shares that carry preferential rights on the matters of payment of dividend and repayment of capital.
Payment of dividend	The dividend is paid after the payment of all liabilities.	Priority in payment of dividend over equity shareholders.
Repayment of capital	In the event of winding up of the company, equity shares are repaid at the end.	In the event of winding up of the company, preference shares are repaid before equity shares.
Rate of dividend	Fluctuating	Fixed
Redemption	No	Yes
Voting rights	Equity shares carry voting rights.	Normally, preference shares do not carry voting rights. However, in special circumstances, they get voting rights.
Convertibility	Equity shares can never be converted.	Preference shares can be converted into equity shares.

Arrears of Dividend	Equity shareholders have no rights to get arrears of the dividend for the previous years.	Preference shareholders generally get the arrears of dividend along with the present year's dividend, if not paid in the last previous year, except in the case of non-cumulative preference shares

5. Explain the difference Between Right Shares and Bonus Shares

Definition of Right Shares

Right shares are the shares which are issued by the company, with the aim of increasing the subscribed share capital of the company, by further issue. The right shares are primarily issued to the current equity shareholders through a letter of an issue, on pro rata basis.

Definition of Bonus Shares

Bonus Shares denotes free share of stock issued to the existing shareholders of the company, depending on the number of shares held by the shareholder. The bonus issue only raises the total number of shares issued, but it does not make any change in the entity's net worth. Nevertheless, the total number of shares issued by the companies as bonus issue increases, but the ratio of shares owned by the shareholder remains same.

Bonus shares do not inject fresh capital into the company, as they are issued to the shareholders without any consideration. As per Section 63 of the Companies Act 2013, the company can issue fully paid up bonus shares, out of any of the following reserves/account:

- Free reserves
- Securities premium account
- Capital redemption reserve account

However, bonus shares cannot be issued by capitalising reserves created out of revaluation of assets.

BASIS FOR COMPARISON	RIGHT SHARES	BONUS SHARES
Meaning	Right shares are the one available to the existing shareholders equivalent to their holdings, that can be bought at a fixed price, for a definite period of time.	Bonus shares refers to the shares issued by the company free of cost to the existing shareholders in the proportion of their holdings, out of accumulated profits and reserves.
Price	Issued at discounted prices	Issued free of cost
Objective	To raise fresh capital for the firm.	To bring the market price per share, within a more popular range.
Renunciation	Shareholders may fully or partly renounce their rights.	No such renunciation
Paid up value	Either fully or partly paid up.	Always fully paid up.
Minimum subscription	Mandatory	Not required