

# JOINT STOCK COMPANY

These Companies are formed and registered under the Indian companies act 1956

- A Joint Stock Company is a **voluntary association** of **individuals** for **profit**, having its capital divided into transferable shares, the ownership of which is the condition of membership.
- A company is an incorporated association of persons formed usually for the pursuit of some commercial purpose.
- **Section 3(1) of Indian Companies Act, 1956**-Company means a company formed and registered under this Act or an existing company

# Definition

A Company is an artificial person having an independent legal entity and a perpetual succession with a distinctive name and a common seal having a common capital divided into shares of fixed value which are transferable and carry limited liability.

# Key Features of JSC

- ▶ A voluntary association of persons who generally contribute capital to carry on a particular type of business.
- ▶ Persons who contribute capital become members of the company.
- ▶ Company has a legal existence separate from its members, which means even if its members die, the company remains in existence.
- ▶ This type of company needs huge capital investment.
- ▶ The total capital of a JSC is called **share capital** and it is divided into a number of units called **shares**.
- ▶ Members are also called shareholders.

# Characteristics of JSC

- ▶ It's a separate legal entity, distinct from the people engaged in it.
- ▶ It involves three sets of economic actors:
  1. **shareholders** - provide financial capital in return for a share in the profits,
  2. **directors** – Their role is to:
    - ✓ protect the interest of the share holders,
    - ✓ to ensure the company is working within the law
    - ✓ it does not trade in cases of bankruptcy.
  3. **employees** - who work but, are legally not a part of the company

# Characteristics of JSC (Contd.)

## ▶ Compulsory Incorporation

a voluntary association of persons formed and incorporated under the existing law.

## ▶ Artificial person

created by legal process and not by natural birth. Even though it has no natural personality, it has legal personality

## ▶ Common Seal

every company by law must have a common seal on which its name is engraved. The common seal can serve as its **signature**.

# Characteristics of JSC (Contd.)


- ▶ Perpetual succession

men may come and men may go but a company remains forever. It can be wound up only under the provisions of the act.

- ▶ Limited liability

usually the liability of members of a company is limited to the extent of uncalled or unpaid value of shares held by them.

- ▶ Share capital

1. The capital required by the company is raised by issuing shares.
  2. The member who holds the shares of a company can transfer its ownership any other person, without the company's permission.
- 



# Characteristics of JSC (Contd.)

## ▶ Separation of ownership and management

1. The shareholders do not take active part in the everyday affairs of the company.
2. Elected representatives known as Directors, who with the help of managers and employees manage the company.

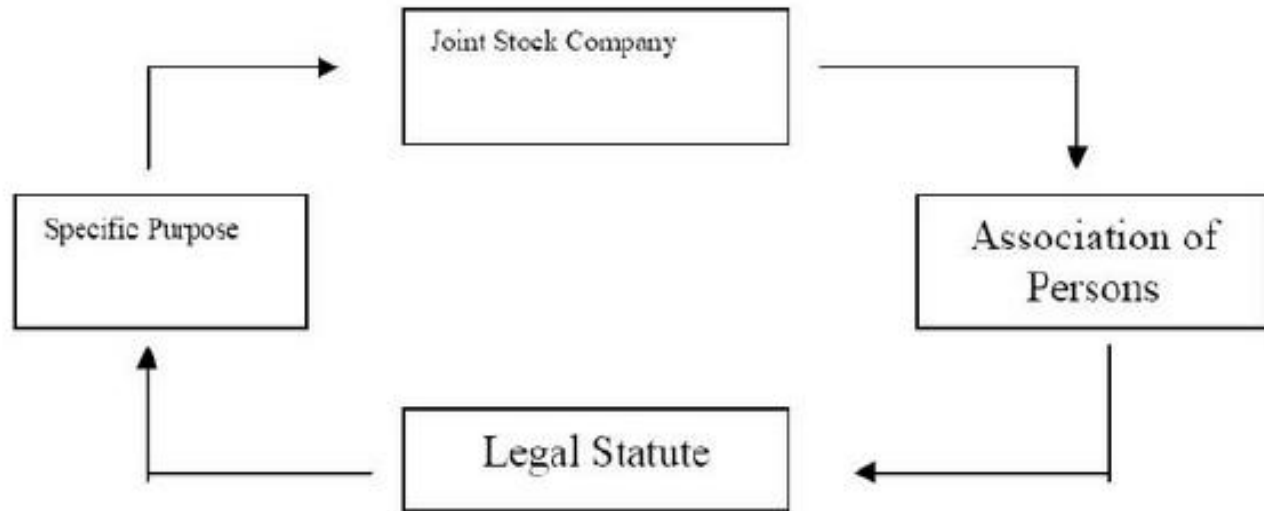
## ▶ Legal Entity

1. It has separate legal existence compared to its members.
2. The members cannot be personally held responsible for the acts of the company.

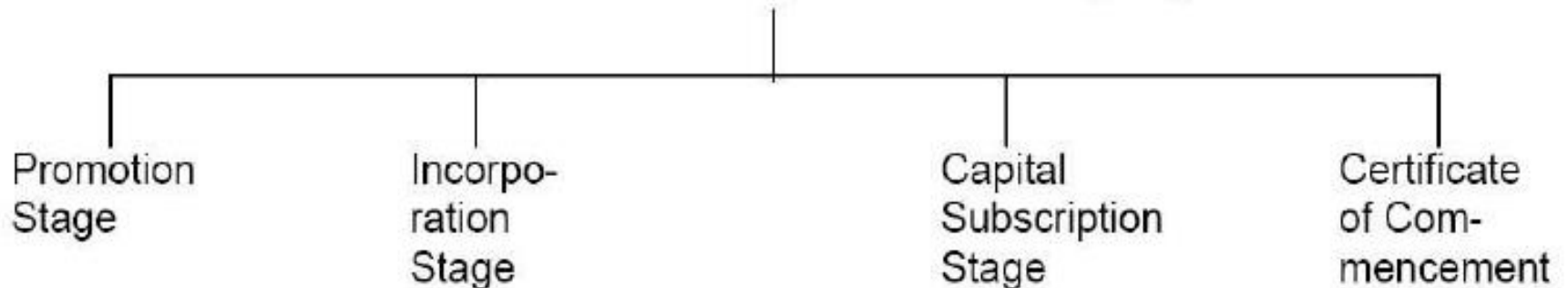
## ▶ Large membership

Owned by a larger number of members.

# Formation of Joint Stock Company



## Formation of joint Stock Company





# Promotion Stage

Promotion is the discovery of ideas and organization of funds, property and skill to run the business for the purpose of earning income.

Steps involved

- 1) Idea about Business
- 2) Investigation- make out plans as regards to the availability of resources like capital, means of transportation, labour, electricity, gas ,water, etc.
- 3) Assembling various Factors- like arrangement of licences, copyrights, employment of necessary employees, etc.

# Promotion Stage (Contd.)

4) Financial Sources

5) Preparation of Essential Documents like Memorandum, Articles and Prospectus of company.

The promoters carryout these various activities to give the company its physical shape in the form of

- Giving a name to the company
- Sanctioning of Capital Issue

# Incorporation Stage

The second stage for establishment

1) Filing of Document: Following documents are to be submitted by the promoters in the Registrar's office

a) Memorandum of Association – indicates name, address, authorized capital etc.

b) Articles of Association – contains laws and rules for internal control and management of a company.

c) List of Directors - list of the names, occupations, addresses, along with the declaration of director.

## Incorporation Stage (Contd.)

d) Written Consent of Directors

e) Declaration of Qualifying Shares-

A declaration certificate showing that the directors have taken up qualifying shares and have paid up the money or pay it in near future to the registrar.

f) Prospectus

g) Statutory Declaration – stating that all legal formalities have been completed.

# Incorporation Stage (Contd.)

## 2) Payment of Registration Fee -

the registration fee is paid to the Registrar for

- Application and documents filing fee
- Registration fee
- Stamp fee on Memorandum and Articles

## 3) Certificate of Incorporation -

If the registrar finds all the documents right, he issues the certificate of incorporation to promoters.

# Capital Subscription Stage

After getting certificate of incorporation, the next stage is to make arrangement for raising capital by issuing

i) Shares

ii) Debentures

iii) Savings CERTIFICATE OF COMMENCEMENT – requires the fulfilment of following conditions

a) Issue of Prospectus:

A company has to issue prospectus for selling shares and debentures to public.

- ▶ b) Allotment of Shares
- ▶ c) Minimum Subscription -  
certified that the shares have been allotted up to an amount, not less than the minimum subscription.

#### ❖ The Fourth and Final Stage

After verifying the foregoing documents, the registrar issues the certificate of commencement of business



# Types of Joint stock companies

- Private limited company
- Public limited company

# Comparision between Private and Public Limited Company

Private Limited Company	Public Limited Company
<b>1. Membership:</b> Minimum membership 2, Maximum membership 50	Minimum membership 7, Maximum membership unlimited
<b>2. Formation</b> Comparatively simple, certificate of incorporation is adequate	Comparatively difficult as the procedure is lengthy.
<b>3. Number of Directors:</b> It must have at least two directors	It must have at least three directors
<b>4. Transfer of Shares:</b> The shares are not freely transferable	Shares are freely transferable.

<b>5. Issue of Prospectus:</b> It is allowed to issue prospectus	It can issue prospectus
<b>6. Commencement of Business:</b> It can start the business after the receipt of certificate of incorporation.	It requires trading certificate for starting business
<b>7. Suitability:</b> Suitable for business on a small scale	Suitable for large – scale business.
<b>8. Invitation:</b> It cannot invite public to subscribe for securities of the company	It invites public to purchase securities of the company.

<p><b>9. Allotment:</b></p> <p>It can allot shares immediately after incorporation</p>	<p>Shares cannot be allotted unless minimum subscription is collected.</p>
<p><b>10. Qualification shares:</b></p> <p>The directors need not hold qualification shares</p>	<p>The directors have to purchase some qualification shares to become the director.</p>
<p><b>11. Directorship:</b></p> <p>There is no restriction on the number of directorship</p>	<p>A director cannot be a director of more than 20 companies</p>
<p><b>12. Quorum:</b></p> <p>Two members present in the meeting is a quorum at general meeting</p>	<p>Five members present in the meetings is a quorum at general meeting.</p>

# Advantages

- Limited liability
- Huge capital
- Share transferable
- Economies Administration
- Democratic
- Permanent Existence
- Legal control
- Risk spread out
- Accelerated economic growth of the country is possible through industrialization
- It creates huge employment possibilities

# Disadvantages

- Dishonest directors may exploit the shareholders
- Legal Complexities
- It is democratic in theory only
- Delay in decisions
- Favourisms
- Difficult labour relations
- Liquidation