

Company Formation

Date: .....

Page: .....

1. What do you mean by Company?

Ans:- A company is an association of persons having common economic objectives. It has separate legal existence and a common seal. It collects capital by issuing transferable shares.

2. Explain the features of Company/Joinstock company.

Ans: A company is an association of persons having common economic objectives. It has separate legal existence and a common seal. It collects capital by issuing transferable shares.

The features of Company/Joinstock company are as follows:-

i) Artificial person:

Company is an artificial person created by law. It can be put to an end only through the legal process. It enjoys the facility of the ~~ratio~~ natural person in certain aspects. It can buy, hold and sell the property on its own.

ii) Separate legal existence:

Company has a separate legal entity independent from its shareholders. It can borrow debts, can carry on business, and enter into a contract in its name. It can sue others and can be sued by others.



iii) Perpetual existence:

Company is a corporate body. It acquires a separate legal entity distinct from its members with a common seal. It is not affected by the death, retirement, or insolvency of its shareholder's. Similarly, it performs business without any interruption.

iv) Limited liability:

Company is an artificial person and as such its members are not liable for the entire debts of the company. The liability of shareholders of the company is limited up to their capital investment. The company can borrow a loan for expansion of business.

v) Formation:

For the formation of a company, promoters group of shareholders have played a major role, and later on its membership increases by the sale of shares. The information of a company requires more time and capital.

vi) Management of representatives:

All the shareholders are the real owners of the company. But in practice, not all the shareholders may involve in the management of the company. The management of the company is done by the representative of shareholders, known as the members of the board of directors.



### vii) Transferability of shares:

The shares of the joint-stock company, especially of a public limited company, are easily transferable from one person to another without prior permission from company management. The shareholders may come and shareholders may go, but the company remains as it is.

### viii) Common Seal:

As an artificial person, a company cannot act or sign itself in official documents. Thus, it has a common seal which is the engraved name emblem of the company. It is affixed on all important documents of their official validity.

### 3. What do you mean by Private Company?

Ans:- Private Company is one of the registered company incorporated according to the company act.

According to the company Act 2063 (Amended, 2074), the minimum number of a shareholder may be one and maximum shareholders should not be exceeded one hundred and one.

### 4. What do you mean by Public Company?

Ans:- Company other than Private Ltd. comes under public Ltd. company. According to section 2 of the company act 2063 (Amended, 2074), a public company means any company incorporated according to this act. The minimum number of shareholders are



seven(7) and the maximum is unlimited.

5. What are the advantages of Public Limited Company?

Ans:- According to section 2 of the company act 2063 (Amended, 2074), a public company means any company incorporated according to this act. The advantages of Public Limited Company are as follows:-

i) Limited Liability:

The liability of the shareholders of the company is limited up to their capital investment. The company can borrow loans for expansion and diversification of business or purchase goods on credit during the regular business but in its own name.

ii) Adequate Capital:

Comparatively, capital investment in a company is more than that of a partnership firm, sole trading concern, and private company because it can collect capital required by issuing shares or debentures among unlimited people for a ~~sub~~ subscription.

iii) Perpetual existence:

Company is an artificial person created by a law. As a corporate body, its existence is perpetual. The death, retirement, lunacy of shareholders or promoters do not affect in regular function of the company.



iv) Transferability of shares:

Shares of a public limited company are easily transferable from one person to another. Such transfer of shares do not affect the regular function of the company and prior permission from management is not required to transfer shares.

v) Effective Management:

We know that management is the backbone of an institution and its success depends upon its management system. In a company for the function of management, members of the board of directors are elected.

6. Differentiate between Private and Public Company.  
Ans: The differences between Private and Public Company are as follows:-

Private Limited Company	Public Limited Company
i) According to company act 2063 (Amended, 2074), in the private limited company, the minimum number of members is one (1) and the maximum is not exceeded hundred one (101)	i) In company act 2063 (Amended, 2074), for the public limited company, the minimum number of members is fixed to seven (7) and maximum members are unlimited.



- |  |   |
|--|---|
| <p>ii) A private limited company can start its business immediately after getting the certificate of incorporation from the concerned department of the government of Nepal.</p> | <p>ii) A public limited company can start its business only after getting the certificate of commencement from the concerned department of the government of Nepal.</p> |
| <p>iii) In it, the minimum number of directors should be two (2) and their terms of office will be as prescribed in articles of association of company.</p>                      | <p>iii) In it, the minimum number of directors should be three (3) and the maximum not exceeded to eleven (11).</p>   |
| <p>iv) It is not bound to publish prospectus at the time of issue of shares <del>at the time of</del> for a subscription.</p>  | <p>iv) It is bounded to publish its prospectus at the time of issue of shares for <del>but</del> public subscription.</p>   |
| <p>v) It cannot issue shares and debentures to the general public for the collection of capital. It can issue shares among a limited number of members.</p>                      | <p>v) It can issue shares and debentures to the unlimited general public for the collection of capital and another fund.</p>  |



Date: \_\_\_\_\_  
Page: \_\_\_\_\_

7. What do you mean by Memorandum of Association (MOA)?

Ans: Memorandum of Association (MOA) is the charter or constitution of the company. It contains all the contents necessary for company formation and operation. It is the foundation of company structure.

8. What do you mean by Articles of Association (AOA)?

Ans: Articles of Association (AOA) are the document of internal management of the company. It contains rules, regulations, and by-laws of the company which is essential to maintain hierarchy in the management system.

9. What do you mean by Prospectus?

Ans: Prospectus is any document, including any notice, circular, advertisement, or other document, inviting offers from the public to subscribe for or purchase any shares or debentures of a body/corporate.

10. What are the content of MOA?

Ans: MOA is the charter or constitution of the company. It contains all the contents necessary for company formation and operation.

The content of MOA are as follows:-

i) Name of the company

ii) The address of the registered office of the company.



11. What are the content of AOA?

Ans: AOA are the document of internal management of the company. It contains rules, regulations, and bye-laws of the company which is essential to maintain hierarchy in the management system. The content of AOA are as follows:-

i) Procedures of convening the general meeting of the company and notice to be given for such meeting,

ii) Proceedings of general meeting,

12. What are the content of Prospectus?

Ans: Prospectus is any document, including any notice, circular, advertisement, or other document, inviting offers from the public to subscribe for or purchase any shares or debentures of a body. The content of Prospectus are as follows:-

i) Arrangement relating to bonus shares.

ii) A biographical introduction of directors.

13. What do you mean by registered Company?

Ans: A company registered according to the provision of the company act is known as registered company. The procedures of establishment, right, duties, working area, etc. of such company are specified at the time of incorporation.