

# Professional Issues in IT

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# Organizations Overview

- All around us:  
School, College,  
University, Hospitals,  
Professional Bodies,  
Bank Account, ...
- Must have legal  
existence !!!
- Types of Organizations
  - Commercial
  - Public
  - Non-Profit
- Commercial
  - Sole Trader
  - Partnership or Association
  - Cooperation
  - Limited Company
    - Public Limited
    - Private Limited
- Non-Profit
  - Trust
  - Foundation
  - NGO
  - Charity
- Public Sector Organizations
- Universities
- Schools
- Banks
- Software Houses

# Commercial Organizations: Sole Trader

- Single individual
- Registered with Income Tax, Excise and Customs
- Personal **Liability** for all debts of business
  - If suffers losses, risks his own assets, possibly his home and other “real estate”.

# Commercial Organization: Partnerships

- Group of People contribute to business.
- Each partner has “shares” in the company
- Partnership “Terms” as defined under the **Partnership Act of 1932**.
- What about **Liabilities**?

[http://www.sja.gos.pk/Statutes/Civil Major Laws/Partnership Act, 1932.html](http://www.sja.gos.pk/Statutes/Civil%20Major%20Laws/Partnership%20Act,%201932.html)

# Commercial Organization:

## Partnership Liabilities: Scenario

- **You** and a **friend** are working together to write software for a local company.
- Your friend is doing most of the work and you have agreed that he will get most of the money.
- Unfortunately, his software doesn't work
- The company decides to claim damages for the harm it has suffered because of the defective software.
- You own a house and a car and have money in the bank; your friend doesn't.
- The company sues **you** for the entire amount of the damages, despite the fact that it was your friend's software that didn't work.

**Can he legally do that?**

# Commercial Organization: Partnership Liabilities

So yes ...  
That can  
happen

- Partners are **jointly** and **severally** responsible for partnership liabilities
  - **25. Liability of a partner for acts of the firm:** Every partner is liable, jointly with all the other partners and also severally, for all acts of the firm done while he is a partner.
- Wrongful Acts of a Partner
  - **26. Liability of the firm for wrongful acts of a partner:** by the wrongful act of a partner acting in the ordinary course of the business of a firm, loss or injury is caused to any third party, the firm is liable therefore to the same extent as the partner.

# Commercial Organization:

## Partnership Liabilities: Other Factors

- One partner wishes to leave partnership (retiring)
  - How much money is he/she entitled to have?
  - How are the liabilities going to be distributed?
- Rules (Clause. 32):
  - Retirement only by consent (or by giving notice)
  - Retiree will STILL be liable to claims along with former partners
  - Retiree may be discharged from 3rd party liability claims by signing an agreement with 3rd party as well as new partners.
- Partner is Expelled?
  - Partner cannot be expelled unless expulsion clauses are clearly mentioned in partnership agreement. If so, public notice must be given.

Maybe retiring person committed wrong act and now partnership is facing liability claims

# Commercial Organization: Partnership Liabilities

All the Members of [REDACTED]

SUBJECT : **NOTICE**

This is to Inform you that Mr. [REDACTED] (Manager Marketing & Collection ) is Fired from [REDACTED]

So If some one dial or pay any amount to Mr. [REDACTED] the Management of [REDACTED] is/are not Responsible for that, so be carefull.

Director

ضروری اطلاع

تمام ممبران [REDACTED] کو بزرگے نوٹس اطلاع دی جاتی ہے کہ ادارہ ہڈانے  
(مارکیٹنگ مینجر وریکوری مینجر) کو اور ارہ سے فارغ کر دیا ہے۔  
اگر کوئی بھی ممبر اس سے کسی قسم کا لین دین کرے گا تو ادارہ ہڈا اس کا ذمہ دار نا ہوگا۔

ڈائریکٹر  
[REDACTED]

Office Manager

Pa [REDACTED]

03 [REDACTED]

91



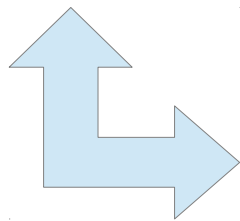
# Commercial Organizations: Partnerships

- Who enters partnerships?
  - **Small businesses**
  - **Startups**
- Professional bodies recommend partnership company for both small businesses and start-ups
  - Liability laws discourages recklessness
- Usually found in organizations practicing Law, Medicine

# Commercial Organizations: Cooperations

- Common in areas such as banking, agriculture sector.
- Association of people who voluntarily cooperate for mutual social, economic, and cultural benefit. (**Business Interests placed before Profit. If interest is served, profit will follow.**)
- Community organizations:
  - Consumer Cooperation: Company owned/managed by people who use it's services
  - Worker Cooperation: Owneed/managed by people who work there
  - Housing Cooperation: Owned/Managed by people who live there
- Pakistan Cooperative Societies Act, 1925  
<http://punjablaws.gov.pk/laws/32.html>
- Same Thing as Unions ?

K.O Moene, M. Wallerstein,  
**Unions vs Cooperatives**,  
Markets and Democracy  
Participation, Cambridge  
University Press



A plausible explanation of the success of union organizing relative to the formation of cooperatives is that organizing unions was easier. Establishing worker-owned firms requires capital to invest. Establishing unions requires militants. Given the scarcity of capital relative to activists within the early labor movement, the relative success of unions is easy to predict from economic principles. But the situation is different today. Unions now have substantial financial resources as well as access to capital markets. Indeed, in some countries the unions have their own bank. Over the course of an average worker's working

# Trust/Foundations/NGO/Charities

## Shared Principle: Non-Profit Organizations

### Charity

Established for Humanitarian Purposes

Profit used for furthering charitable causes

Tax Exemption

### NGO

*(Vague Term)*

Can be used for Social Welfare

Can also be interest group for protecting and furthering religious, political causes

Can be a welfare trust, foundation, charity

Human rights, Prisoner rights, Kidnapping, human trafficking

### Trust

A transfers assets to B (B = trustee)

B will manage assets in favor of beneficiary and/or A



### Foundation

Donate funds or provide support to other organizations

Arrange source of funding for it's own charitable purposes

E.g., **Fauji Foundation**  
Commercial revenue directed to social welfare of ex-army officers



# Limited Company

- Most common (and suitable) commercial organization type.
- 3 defining Aspects
  - Has a **legal identity** through **legal person**
  - **Ownership of company** is divided into a number of shares (shares can be bought and sold, people buying shares are members of company and **share-holders**).
  - If company faces **debt and/or Legal liabilities**, **owners have no obligation** to pay. At most they lose the financial worth of their shares only.

Recall Civil Law  
topic on settling  
disputes b/w people

# Limited Company

- Limited Company Types: **Public / Private** Limited Company
- Public Limited Company offers its shares to the general public.
  - Listed/Unlisted. (If Listed, shares traded on Stock Exchange Markets @ Karachi, Lahore, Islamabad)
- Registered under **Companies Ordinance, 1984**
- Naming Convention:

	Public	Private
Pakistan	Ltd.	Pvt. Ltd.
UK	plc	Ltd

# Liability

- Examples, I am **Liable** to Pay XYZ an amount of 100 Rupees
  - Bank Loan, liable to pay back (+ interest)
  - Taxes, liable to pay to government every year
- Liability is Limited to **what members invest (shares)**, or what members **guarantee to pay** if company is **liquidated** (2nd option usually done by charities)

# Limited Company

- Terminology may vary: United States calls a large limited company a “corporation”
- In return for privilege (of limited liability), Ltd. Company has some obligations:
  - Provide it's working details to registration authority
  - Produce annual account reports
  - Produce annual Audit Reports

# Registration of a Limited Company

- Registration = Incorporation
- Law governing incorporation:
  - Companies Ordinance, 1984
- Authority performing incorporation:  
Security & Exchange Commission of Pakistan
  - Established 1997
  - Regulates Corporate Sector Companies, Insurance Sector & stock markets
  - Registers Limited Companies  
(by Issuing Incorporation Certificate)






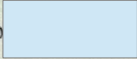
# Incorporation Certificate

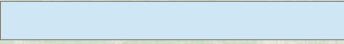
- Notice:

- Incorporation
- (Private) Limited
- Limited by Shares
- Fee

 SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
COMPANY REGISTRATION OFFICE  
(PESHAWAR)


CERTIFICATE OF INCORPORATION  
[Under section 32 of the Companies Ordinance, 1984 (XLVII of 1984)]


Corporate Universal Identification No 

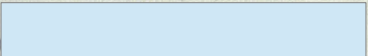
I hereby certify that  COMPANY  
(PRIVATE) LIMITED is this day incorporated under the Companies  
Ordinance, 1984 (XLVII of 1984) and that the company is limited by shares.

Given under my hand at Peshawar this 06<sup>th</sup> day of November  
Two Thousand and Twelve.

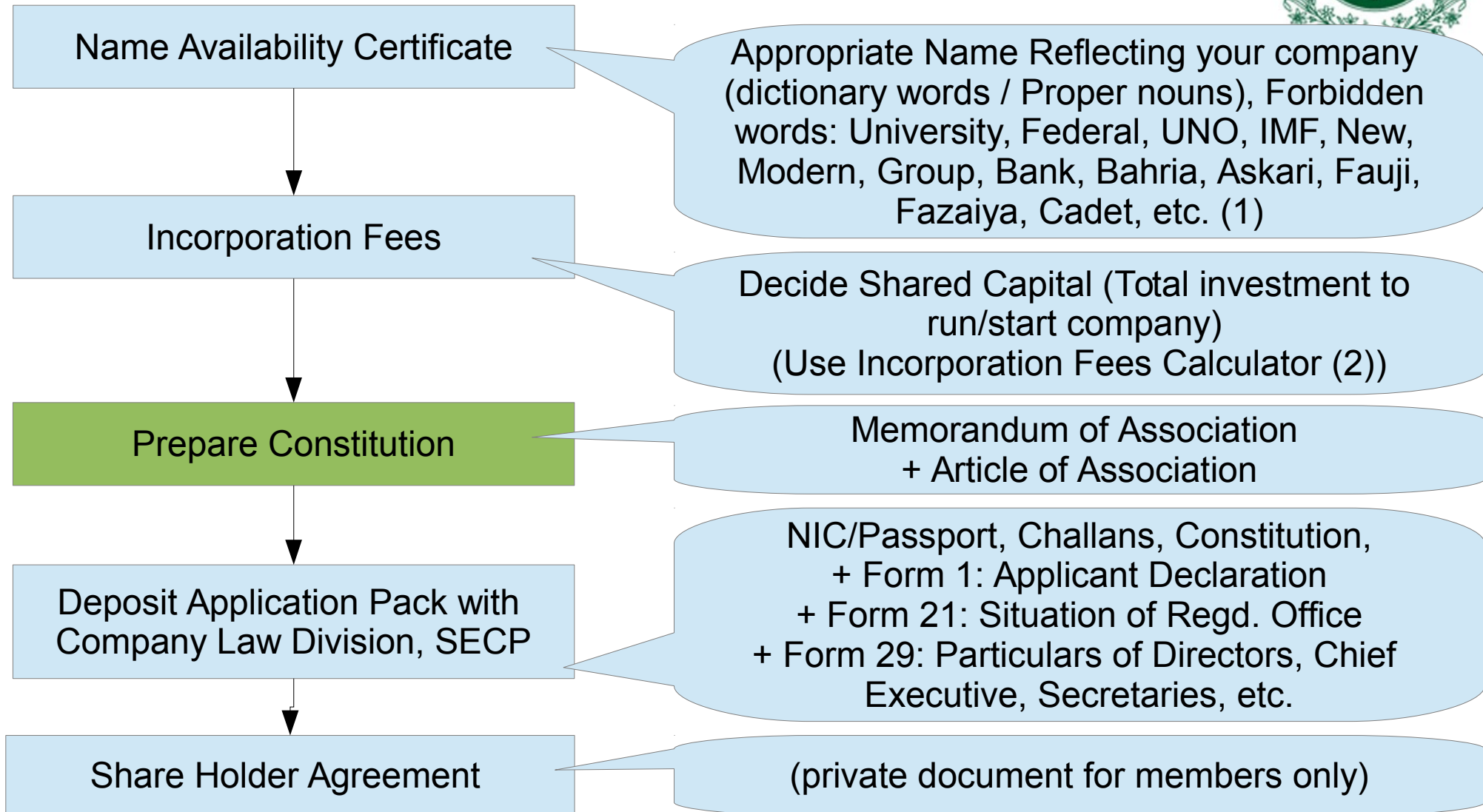
Fee Rs. 14,000/-



  
(Saeedullah Khan)  
Joint Registrar of Companies  
Peshawar

No 

# Registration of a Limited Company



1 Prohibited Word List: [http://www.secp.gov.pk/ns/pdf/Prohibited\\_words.pdf](http://www.secp.gov.pk/ns/pdf/Prohibited_words.pdf)

Check name availability: <https://eservices.secp.gov.pk/eServices/NameSearch.jsp>

2 Incorporation Fees Calculator <http://www.secp.gov.pk/ns/CalculatorCS.asp>

# Incorporation Fees

• Share Capital	Rs 1	Fees	Rs 5,000
	Rs 1,00,000		Rs 5,000
	Rs 10,00,000		Rs 14,000
	Rs 20,00,000		Rs 24,000
	Rs 40,00,000		Rs 44,000
	Rs 1,00,00,000		Rs 1,04,000
	Rs 10,00,00,000		Rs 7,79,000
	Rs 1,00,00,00,000		Rs 75,29,000



# Constitution of a Limited Company

## Doc 1: Memorandum of Association

THE COMPANIES ORDINANCE, 1984 (XLVII of 1984)

(COMPANY LIMITED BY SHARES)

Memorandum of Association

of

**XYZ .....I. T. Consultancy Services.....LIMITED**

- I. The name of the Company is "XYZ I. T. Consultancy Services..... LIMITED".
- II. The Registered Office of the Company will be situated in the Province of \_\_\_\_/.
- III. The objects for which the Company is established are all or any of the following:-
  1. To carry on business of consultancy in the field of information technology and software developers in all its forms and perspectives and to undertake all such activities as are connected, linked or associated with software development, marketing, installation, operation, data communication and related services, electronic shopping, electronic mail, satellite communication and their solutions and all other means, techniques, systems and procedures as may be feasible and developed in future and own or acquire all requisite

Example Document for  
Starting IT Consultancy Company (1)

Name of the Company

Area of Operation

Obectives of the Company

Blah Blah Blah

(1) [http://www.secp.gov.pk/MemoAndArticle/docs/IT\\_Consultancy.doc](http://www.secp.gov.pk/MemoAndArticle/docs/IT_Consultancy.doc)  
Other Templates @ [http://www.secp.gov.pk/CLD/cld\\_memo\\_article.asp](http://www.secp.gov.pk/CLD/cld_memo_article.asp)

# Constitution of a Limited Company

## Doc 1: Memorandum of Association

6. To undertake and execute feasibility studies for computerization, setting up all kinds of computer systems and digital / electronic equipments and selection, acquisition and installation whether for the company or its customers or other users.

7. For the purposes of achieving the above objects, the company is authorized:-

- |    |   |
|----|---|
| 1) | To borrow or raise money by means of local and foreign currency loans from scheduled banks, industrial banks and financial institutions including HBFC and other specialized institutions or non-bank finance companies for the purpose of purchase, manufacture, market, supply, repair and renovations of buildings, warehouses, factories, sheds, offices, entertainment and recreation areas, or for any other purposes of the company. |
|----|---|

More Blah Blah Blah

More Blah Blah Blah

9. Notwithstanding anything stated in any object clause, the company shall obtain such other approval or license from Competent Authority, as may be required under any law or the time being in force, to undertake a particular business.

Liability Type (Limited by Share/Guarantee)

IV. The liability of the members is limited.

V. The authorized capital of the company is Rs. \_\_\_\_\_/- (Rupees \_\_\_\_\_ only) divided into \_\_\_\_\_ ordinary shares of Rs. \_\_\_\_\_ each with power to enhance, reduce or consolidate the share capital and to divide the shares of the company into different classes and kinds subject to the provisions of the Companies Ordinance, 1984.

Maximum Share Capital +  
Total Shares + Cost/Share

# Constitution of a Limited Company

## Doc 1: Memorandum of Association

We the several persons, whose names and addresses are subscribed below are desirous of being formed into a Company in pursuance of the Memorandum of Association and we respectively agree to take the number of shares in the capital of the Company set opposite to our respective names:-

### Declaration of Association

:-) Exact Text of Book :-)

Name and surname (present & former) in full (in Block Letters)	NIC No. (in case of foreigner, Passport No)	Father's/ Husband's Name in full	Nationality with any former Nationality	Occupation	Residential Address in full	Number of shares taken by each subscriber	Signatures
			Total number of shares to be taken				

### Share Distribution and Particulars

Dated: the.....day of.....20 .....

Witness to above signatures:

Signatures: \_\_\_\_\_

Name: \_\_\_\_\_

Father's name: \_\_\_\_\_

CNIC No. : \_\_\_\_\_

Occupation: \_\_\_\_\_

### Witnesses

# Constitution of a Limited Company

## Doc 2: Article of Association

THE COMPANIES ORDINANCE, 1984

(Private Company Limited by Shares)

### ARTICLES OF ASSOCIATION

OF

ABC (PRIVATE) LIMITED

1. The Regulations contained in Table 'A' to the First Schedule to the Companies Ordinance, 1984 (the "Ordinance") shall be the regulations of **ABC (Private) Limited** (the "Company") so far as these are applicable to a private company.

#### PRIVATE COMPANY

2. The Company is a "Private Company" within the meaning of Section 2(1)(28) of the Ordinance and accordingly:

- (1) No invitation shall be made to the public to subscribe for the shares or debentures of the Company.
- (2) The number of the members of the Company (exclusive of persons in the employment of the Company), shall be limited to fifty, provided that for the purpose of this provision, where two or more persons hold one or more shares in the company jointly, they shall be treated as single member; and
- (3) The right to transfer shares of the Company is restricted in the manner and to the extent herein appearing.

#### TRANSFER OF SHARES

3. A member desirous to transfer any of his shares shall first offer such shares for sale or gift to the existing members and in case of their refusal to accept the offer, such shares may be transferred to any other person, as proposed by the transferor member with the approval of the Board of Directors.

Blah Blah Blah

What to do when new shares are issued

# Constitution of a Limited Company

## Doc 2: Article of Association

### DIRECTORS

4. The number of directors shall not be less than two or a higher number as fixed under the provisions of Section 178 of the Ordinance. The following persons shall be the first directors of the Company and shall hold the office upto the date of First Annual General Meeting:

1. ....
2. ....
3. ....

No. of Directors

We, the several persons whose names and addresses are subscribed, are desirous of being formed into a company, in pursuance of these articles of association, and we respectively agree to take the number of shares in the capital of the company set opposite our respective names.

Share Allocation

S. No.	Name and Surname (present & former) in full (in Block Letters)	NIC No. (in case of foreigner, Passport No.)	Father's/ Husband's Name in full	Nationality (ies) with any former Nationality	Occupation	Residential address in full	Number of shares taken by each subscriber	Signatures

### Other Information (Optional)

How directors are appointed/removed,  
What are director powers,  
Steps for Modification of constitution  
Etc.

Total number of shares taken 35  
(Thirty Five)

Dated the \_\_\_\_ day of \_\_\_\_\_ 2009

Witness to above signatures.

Witnesses



# Homework 1

- Pick any limited company operating in Pakistan (e.g. p@sha, Philips, etc.) and answer the questions:
  1. What is the incorporation name of the company?
  2. Where is the registered office of the company?
  3. When was the company incorporated?
  4. What is the type of liability associated with the company?
  5. What is the starting share capital, the total number of shares, and the cost per share?
  6. What is the current share capital, the total number of shares, and the cost per share?
  7. What are the terms defined for working of the directors?

# Other Documentation/Things to do

- Get Own Letter-Head, Business Cards, Stamp, and Embossing Stamp.
- Registration with Income Tax Department (to obtain National Tax Number NTN)
- If Software house, register with Pakistan Software Export Board (PSEB)



# NTN Certificate



Revenue Division  
Federal Board of Revenue  
Government of Pakistan

## TAXPAYER REGISTRATION CERTIFICATE

ORIGINAL

NTN

Category

COMPANY-(PRIVATE LTD.)

Status

RESIDENT

Reg. / Inc No.

Reg. / Inc Date: 06-NOV-2012

Name

Address

Principal Activity

OTHER SPECIALIZED CONSTRUCTION ACTIVITIES

Registered for

Income Tax

w.e.f

11-DEC-2012

Representative's

( SERVICES )

CNIC/ NTN

Name

Email Address

Tax Office

RTO PESHAWAR

Business Name

This Certificate Shall be prominently displayed at a conspicuous place of the premises in which business or work for gain is carried on. NTN number is also required to be indicated on the signboard.

**NOTE:-** The NTN must be written on all returns, payment challans, invoices, letter heads, advertisements, etc. and all correspondence made with the tax departments.



RGCRT-122012-28558458-10

Date of Printing: 12-DEC-2012



PARTNER IN PROGRESS ▶▶

[www.fbr.gov.pk](http://www.fbr.gov.pk)

[helpline@fbr.gov.pk](mailto:helpline@fbr.gov.pk)

0800 00 227, 051 111 227 227

# Benefits of Registration with PSEB

- Tax exemption on export of IT services (till 2016, but will be extended further)
- VoIP traffic legalized for PSEB registered companies
- Credibility in international market
- Subsidized international certification such as CMMI and ISO
- Incubation Programs
- Visa facilitation for software related visits

# What do you need to register with PSEB

- Their registration form
- Company profile on company letter-head
- NTN Certificate of Company
- CNIC of directors, shareholders, partners, proprietor (whichever is necessary) (or passport if foreign)
- Attested copies of
  - 1) Memorandum of Association
  - 2) Article of Association
  - 3) Incorporation Certificate
- 6 months bank statement
- Rs 10,000 (Karachi/Lahore/Islamabad)





*PAKISTAN SOFTWARE EXPORT BOARD (G) LTD.*  
*Ministry of Information Technology*  
*Government of Pakistan*



*CERTIFICATE OF REGISTRATION*

*This is to certify that M/s. [REDACTED]*

*is registered with Pakistan Software Export Board vide Registration No. [REDACTED]*

*This registration is valid from August, 2012 to July, 2013*



*[Signature]*  
*Issuing Authority*

*2nd Floor, Evacuee Trust Complex, F-5, Agia Khan Road, Islamabad-44000, Pakistan*  
*Tel: +92-51-9204074, Fax: +92-51-9204075*

# Exercise:

- What type of company would you need for the following scenarios:
  - You are just two people, you and your friend. You want to setup a company which will provide software solutions to a hospital. You want to be free to go for higher education after 2 years, but your friend wants to stay for a longer period because he has already secured higher education.