



Short Answer Questions

1. Name the stages in the formation of a company.

Answer:

The different stages in the formation of company are:

- Promotion
- Incorporation
- Subscription of capital
- Commencement of Business

2. List the documents required for the incorporation of a company.

Answer:

The documents which are required for the incorporation of a company are:

- The Memorandum of Association duly stamped, signed and witnessed.
- The Articles of Association duly stamped and witnessed.
- Written approval of the proposed directors to function as directors and an undertaking to buy the qualification shares.
- An agreement naming the proposed managing director or a manager or a full-time director, if any.
- A copy of the letter obtained from the registrar concerned approving the company name proposed.
- A legal confirmation by the law stating the submission of all documents and requirements for registration.
- The exact address of the registered office.
- Documentary evidence of payment of the registration fee.

3. What is a prospectus? Is it necessary for every company to file a prospectus?

Answer:

A prospectus is 'any document described or issued as a prospectus including any notice, circular, advertisement or other document inviting deposits from the public or inviting offers from the public for the subscription or purchase of any shares or debentures of, a body corporate'. In other words, it is an invitation to the public to apply for shares or debentures of the company or to make deposits in the company.

A prospectus is only required by a Company which wants to invite public to buy its shares or to invest in it. Prospectus is not required when the company opts for private investment.

4. Explain the term 'Minimum Subscription'.

Answer:

When shares are issued to the general public, the minimum amount that must be subscribed by the public so that the company can allot shares to the applicants is termed 'minimum subscription'. The limit of minimum subscription is 90 per cent of the size of the issue. If the 'Minimum Subscription' is not achieved then allotment cannot be made and the Company will have to refund the application money to prospective subscribers.

5. Briefly explain the term 'Return of Allotment'.

Answer:

Return of Allotment is a statement submitted to the Registrar which contains the names and addresses of shareholders and the number of shares allotted to each shareholder. It is signed by a director or secretary and is filed with the Registrar of Companies within 30 days of allotment. Return of allotment shows that the company has received the minimum subscription.

6. At which stage in the formation of a company does it interact with SEBI?

Answer:

A company interacts with SEBI (Securities and Exchange Board of India) in the third stage of formation that is, in the stage of capital subscription because company is required to raise its funds from the general public through the medium of issue of shares and debentures. To do so, the company is required to follow the rules and guidelines prescribed by SEBI in order to protect the investors' interests. Thus, it is necessary for the company to get SEBI's approval before proceeding with capital subscription.

7. Distinguish between 'preliminary contracts' and 'provisional contracts'.

Answer:

The contracts are signed by the promoters of a company with the third parties during the promotion of the company are called preliminary contracts or pre-incorporation contracts. These are not legally binding on the company. Therefore, these contracts are not enforceable unless fresh contracts are created on the same terms and conditions after the company comes into existence.

The contracts which are signed after incorporation but before the commencement of business are called provisional contracts. These become enforceable only after the company gets the Certificate of Commencement of Business.

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