

**FOCUS AREA BASED ON PREVIOUS AND EXPECTED QUESTIONS ,**  
**ANSWERS OF PLUS ONE BUSINESS STUDIES 2020-2021**

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**Chapter.6**

**Formation of a Company**

1. If a company limited by shares is NOT preparing the Articles of Association , it can adopt----  
a. Table F. b. Table B. c. Table C. d. Table D.

Ans: **Table F.**

2. ----- document shows the relationship of the company with outsiders.

a. Articles of Association b. Memorandum of Association c. Prospectus d. Certificate of Incorporation.

Ans: **b. Memorandum of Association.**

3. The two main documents required for the formation of a company are Memorandum of Association and Articles of Association. What are the difference between them?

Ans:

Basis of Difference	Memorandum of Association	Articles of Association
Objectives	Memorandum of Association defines the objects for which the company is formed.	Articles of Association are rules of internal management of the company. They indicate how the objectives of the company are to be achieved.
Position	This is the main document of the company and is subordinate to the Companies Act.	This is a subsidiary document and is subordinate to both the Memorandum of Association and the Companies Act.
Relationship	Memorandum of Association defines the relationship of the company with outsiders.	Articles define the relationship of the members and the company
Validity	Acts beyond the MoA are invalid	Acts which are beyond AoA can be ratified by the members without violating MoA
Necessity	Every company has to file a MoA	It is not necessary for a public ltd. company to file Articles, but it can adopt Table F of the Companies Act 2013

4. Identify the document issued by public companies to invite public to subscribe its shares.

a. Prospectus b. Memorandum of Association c. Table A d. Articles of association.

Ans: **a. Prospectus.**

5. There are persons who assemble resources and undertake the necessary steps to form a company. Name such persons.?

Ans: **Promoters.**

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6. What is meant by memorandum of association? Explain any 4 clauses?

Ans: Memorandum of Association is the most important document as it defines the objectives of the company. It establishes the relation between company and the outside world. While preparing the Memorandum of Association, great care should be taken, because the company cannot go beyond the limits laid down in it as it is the charter or magna carta of the company.

**(i) The name clause:** This clause contains the name of the company with which the company will be known, which has already been approved by the Registrar of Companies. A company can have any name subject to the following conditions: -

a. The name must not be identical to the name of an existing company.

b. The name should not give an impression that the company has a connection with the government or national heroes.

c. The name should end with the word "Limited" or "Pvt. Limited" as the case may be.

**(ii) Registered office clause:** This clause contains the name of the state, in which the registered office of the company is proposed to be situated. The exact address of the registered office is not required at this stage but the same must be notified to the Registrar within thirty days of the incorporation of the company.

**(iii) Objects clause :** This is probably the most important clause of the memorandum. It defines the purpose for which the company is formed. A company is not legally entitled to undertake an activity, which is beyond the objects stated in this clause. The main objects for which the company is formed are listed in this sub-clause.

**(iv) Liability clause:** This clause limits the liability of the members to the amount unpaid on the shares owned by them.

**(v) Capital clause:** This clause specifies the maximum capital which the company will be authorised to raise through the issue of shares.

The Memorandum of Association must be signed by at least **seven persons** in case of a public company and by **two persons** in case of a private company.

7. The promoter of a public Ltd company did not submit Articles of Association for its registration of application. Is the application can be accepted? Why?

Ans: **No. It is an important second document of the company.**

8. Explain any five Clause of Memorandum of Association?

Ans: **Explain the clauses of Memorandum of Association.**

9. Who is a promoter? Describe any two of his functions in relation with the formation of a company?

Ans: **The persons who perform the work of promotion and bring an enterprise into existence are known as promoters. A promoter is an entrepreneur or businessman who gives birth to a business concern and a promoter may be an individual, a firm or a company.**

### **Functions of a Promoter**

**(i) Identification of business opportunity:** The first and foremost activity of a promoter is to identify a business opportunity. It may be about a new line of business or the expansion of an existing business.

**(ii) Feasibility studies:** The promoters undertake detailed feasibility studies to investigate all aspects of the business they intend to start. Promoters may conduct the following types of feasibility studies:

**(a). Technical feasibility:** Here the promoters have to ensure the project is technically possible such as availability of raw materials, infrastructure, adequate technology etc.

**(b) Financial feasibility:** Every business activity requires funds. The promoters have to estimate the fund requirements for the identified business opportunity.

**(c) Economic feasibility:** Even if the project is technically and financially viable, it may have poor profitability, so that the promoters have to take expert advice.

**(iii) Name approval:**the promoters have to select a name for it and submit, an application to the registrar of companies of the state in which the registered office of the company is to be situated, for its approval.

**(iv) Fixing up Signatories to the Memorandum of Association:** Promoters have to decide about the members who will be signing the Memorandum of Association of the proposed company. Their written consent to act as Directors and to take up the qualification shares in the company is necessary.

**(v) Appointment of professionals:** Certain professionals such as mercantile bankers, auditors etc., are appointed by the promoters to assist them in the preparation of necessary documents which are required to be with the Registrar of Companies.

**(vi) Preparation of necessary documents:** The promoter takes up steps to prepare certain legal documents, which have to be submitted under the law, to the Registrar of the Companies for getting the company registered.

10. “ This document is called as the **Charter or Magnacarta** of a Joint Stock Company.

a. Identify the document ? b. Explain its contents?

Ans: a. **Memorandum of Association**

b. **Explain the clause of Memorandum of Association.**

11.Match the following.

	A	B
1	Prospectus	Transferability of shares
2	Public company	Primary Document
3	Articles of Association	Invitation to public
4.	Memorandum of Association	Internal Document

Ans: **Prospectus -Invitation to public.**  
**Public company -Transferability of shares.**  
**Articles of Association-Internal Document**  
**Memorandum of Association-Primary Document.**

12. The document which defines the objectives of the company is-----

a. Memorandum of Association b. Articles of Association c. Prospectus d. Minimum subscription.

Ans:a. **Memorandum of Association.**

13.” Promoters perform various functions to bring a company into existence.” Explain any 3 such functions.

Ans: **Explain any 3 functions of promotion.**

14.Which clause of Memorandum of Association defines the purpose of company is formed.

a. Object clause b. Capital clause c. Liability clause d. Name clause.

Ans: a. **Object clause.**

15.’Memorandum is the major document of a company’. Briefly explain the different clause of it.

Ans: **Meaning and clause of MoA.**

16. A prospectus is issued by ----- company.

Ans: **Public company.**

17.List the documents required for the incorporations of a company .?

Ans:**1. Promotion. 2. Incorporation. 3. Subscription of Capital.**

18. A) It is the magnacarta of the company. Identify it and explain its content.

B) Explain the steps in the formation of a company.

Ans: **A: Memorandum of Association .** Explain the contents.

**B) 1. Promotion. 2. Incorporation. 3. Subscription of Capital.**

19. Mention the name of a person who conceives the idea of starting a company. Explain the functions performed by him.

Ans: **Promoter . Explain its functions.**

20. Mention the name of the most important document to be filed for the formation of a company. Explain its contents.

Ans: **Memorandum of Association and explain its clauses.**

21. Name the document that can be used by a company limited by shares in place of Articles of association.?

Ans: **Table F.**

22. Various stages in the formation of a public company is listed below:

- a. Incorporation
- b. Capital subscription
- c. Promotion.

i) Write the correct order

ii). Explain in detail the first step.

Ans: i) **Promotion, Incorporation , Capital subscription.**

ii). **Explain the term promotion.**

23.----- is the first stage in the formation of a company.

Ans: **Promotion.**

24. -----clause states that the registered office of the company.

Ans: **Registered Office Clause.**

25. ----- is the birth certificate of the company.

Ans: **Certificate of Incorporation.**

26.-----establishes the internal management of the company.

Ans: **Articles of association.**

27. Name that part of the Memorandum of Association of a company in which the following details are mentioned.

- a) The purpose for which the company is formed.
- b) Name of the company
- c) Nominal capital of the company

Ans: a . **Object Clause.**

**b. Name Clause**

**c. Capital Clause.**

28. Mr. Nasar, a Gulf returnee, intends to start a business in the form of a private limited company. But he has no idea about the formalities to be followed in the formation of a company.

a) As commerce student, can you suggest a specialised person who would undertake all activities for the formation of a company?

b) Explain the functions of those specialised persons.

Ans: a. **Promoter**

b. explain the **functions of promotion.**

29. Memorandum of Association and Articles of Association are the two important documents of a company. As a commerce student, can you differentiate between these two documents?

Ans: Difference between **MoA and AoA.**

30. "I am the birth certificate of a company"- who am I?

Ans: **Certificate of Incorporation.**

31. Explain prospectus?

Ans: **It is an invitation to the public to apply for securities (shares, debentures etc.) of the company or to make deposits in the company.**

**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 securities of, a body corporate'.**

32. "I can start business after getting the certificate of incorporation"- who am I?

Ans: **Private company.**

33. find the odd one

a. Promotion b. Incorporation c. Capital subscription d. Memorandum of association.

Ans: **d. Memorandum of association**

34. Expand the term CIN ?

Ans: **Corporate Identity Number.**

35. The memorandum of association of a public company is signed by at least ----members.

Ans: **Seven.**