<u>Question No 1:</u>

***What is business?* What are the objectives and functions of business?**

<u>OR</u> *What is business?* How a business works, what is the purpose of business?

<u>OR</u> *What is business?* Describe briefly, how a business gets a success?

<u>OR</u> *What is business?* What is the importance of business in the present world?

<u>Answer:</u>

<u>BUSINESS:</u>

<u>INTRODUCTION:</u>

In the literary sense, the word Business is related with the "English word Busy".

So, *business means the state of being involved in doing something.*

Business ——————► Busy

Islam also guides us towards business as a businessman and prohibited us to try for job in any other business as a slave. Generally the term business includes all human activities concerned with earning money. So, business refers to all those activities which are related to the purchasing or production of goods and services with the object of selling them at a profit. There are different kinds of business:

❖ *Manufacturing Business*

- *Trading Business*
- *Service Business*

But the goods & services produced or purchased for personal use are not included in the term of business".

DEFINITIONS:

According to STEPHENSON:-
"Every human activity is engaged in for the sake of earning profit, may be called business."

According to L.H.HONEY:-
"Human activities directed towards providing or acquiring wealth through buying and selling of goods."

Simply & briefly we can say that:-
"Business is an institution organized by a person or a group of persons to produce or distribute goods or services with an motive of earning profit through the satisfaction of human wants with the element of risk of loss is also included it."

OBJECTIVES OF BUSINESS:

DEFINITION:

According to Urwick:

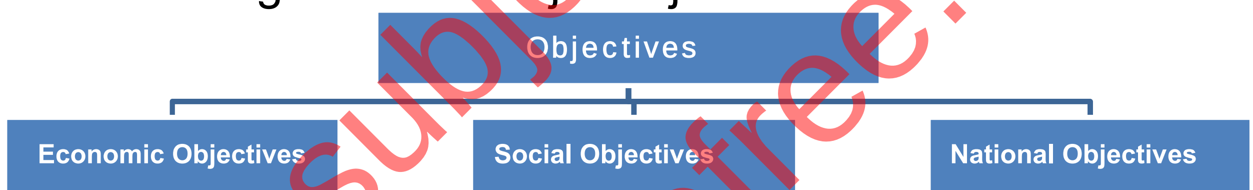
"Earning of profit is not sole objective of a business anymore than eating is the objective of living".

<u>In Simple Words:</u>

"The goals/targets for which the business is started are called Objectives."

The business which only done for the sake profit and neglect other objectives is called business contributing to the country.

The followings are the major objectives of the business:



A. <u>Economic Objectives:</u>

<u>1. Profit Earning:</u>

The main purpose of business is earning profit. Without profit a business cannot survive for the long period. Profit earning is compulsory to meet the expenses of the business.

<u>2. Creation of Customers:</u>

Customers keep the business in existence, because without customer there is no business. The customers give the money to cover up the expenses of the business and extra amount in the form of profit.

3. Modernization:

A business must have ability to create new things which provide benefit to the humans and society.

Modern technology helps the customers in getting better and new goods and services. The progress of the business also depends upon the new innovations in the business i.e. improving, devising, and finding new methods.

4. Industrial Productivity:

The profit of the business can be increased by increasing its production. Productivity can be increased by decreasing unit cost of product.

B. Social Objectives:

5. Employment Opportunities:

A good business may be able to provide benefit to the human by the way of providing employment and giving them reasonable salary packages.

6. Investment Opportunities:

Business makes a heavy investment in a society. They help the human in the way of finance and providing them returns on their investments.

7. Benefits For Employees:

A business provides benefit to the employees as well as to the consumer because they provide job facility to the people e as well.

8. Training Opportunities:

A training trend of the business provides capital formation. Training provides informational data to the human, and makes complete personalities.

9. Improve Living Standard:

The area in which business can run, the life standard of the people of that area improves the living standard.

10. Use of Resources (natural + human):

A business is a source of utilization of the resources in the form of natural and human. It is important to use the natural resources for the benefit of the society.

11. Public Services:

A businessman or a business must for the benefit for the society. A business has ability to make benefit to the society. If a business can't give benefit to the human of the society, then that may be not good.

12. Quality Goods:

the business provides goods and services of high quality and standard to its customers at lower possible cost, so that maximum customers can be attained to get maximum benefits in the form of profit.

13. Reasonable Prices:

The price of goods should be reasonable so that the goods of the business are in the range of greater number of customers. If quality is good and prices are affordable then there will large number of customers.

14. Public Appreciation: it is an important tool to grow the business that mostly people speaks good for the business. Because due to it goodwill of the business increases at greater extant.

15. Customer Satisfaction: the main target of the businessman is to get maximum number of customers by providing maximum satisfaction to its customers. ***"NO BUSINESS CAN EXIST WITHOUT CUSTOMERS."***

C. National Objectives:

16. NATIONAL INTERSTS:

To think for the betterment of the country is called National Interest. A business have main objective to provide benefit to the national income of the country.

17. ECONOMIC DEVELOPMENT:

A business must play an important role in the economy of the country, or economic situation of the country highly depend on the business of that country. Business development means economic development of the country, life style of people, living or selecting standard also be improves by the development of businessman.

18. Foreign Exchange Reserve:

The strong countries or nations have large Foreign Exchange Reserves and it's only due to expansion in the businesses to contribute in it to a greater extant.

19. Research and Development:
Due to greater expansion in the business results in greater research and greater development of the country. Due to research new ways are found which decreases the cost of production.

FUNCTIONS OF BUSINESS:

Definition:

"The ways by which the objectives of the business can be achieved easily are called functions."

Or

"A business process is a set of coordinated tasks and activities conducted by both persons and machinery that will lead to the accomplishment a specific organizational goal."

The followings are the functions of the business:

20. Production/Purchase;
Business has two basic conditions that deal in production or purchase of goods and then sale them or it deals in purchasing the final goods and resell in same conditions. It is done only to earn profit for the business.

21. Sales Function:
A business has main objective to performing sales, due to his sales a consumer get things available in the marketing.

22. Advertising/Promotion:

In modern age advertising is very important tool in promotion of sales of goods. Basically advertising means to introduce the name of goods, importance and benefits of goods to the general public.

23. Storage:

If goods are produced at large scale, then there is need for ware-houses in order to store the manufactured goods.

24. Transportation:

The goods which are manufactured are not used at that place. So transport play very important role in distribution of goods at that place where it is needed.

25. Banking:

Capital is very important for any kind of business. Banking play very important role in providing financial aids and other daily performances.

26. Insurance:

The business is not free from the risk of loss. Due to accident, fire and theft the loss is bear by the owner. But in case of insurance, this risk is transfer to the insurance company.

27. Financing:

More disastrous aspect of financial risk is revealed to the owner when owner find his or her savings, useless and liabilities of the business have so exceeded its assets that there is no owner but of course after paying the liabilities.

28. MANAGING:
Management is the important feature of business. Without management a business can not run for a long time.

29. PLANING:
Planning is the major need of the business, without planning a business can't think in future for a long time, because all other factor affecting on it, or business it must be understated.

30. ORGANISING:
A business must be organized by the specific person, or the group of persons, that duties distribution among them is the part of organizing.

31. STAFFING:
A business cannot run without the staff members, so for the proper or technical run of the business the staff members must be qualified.

32. DIRECTING:
A board of directors is held in a business for the development of the business. These directors choose the new way of business and also the employment. In simply they called thinking machine.

33. CONTROLLING:
A control of the company is the important part for the activation of the business.

34. MARKETING:

A business may be fully or partially depends on the marketing skills of the business man or the person who perform their duties on this field.

35. Job Distribution:

The distribution of goods and the other authority may be distribute duties or make parts of the related team.

36. STOCK MANAGEMENT:

The control of stock is the basic necessary of the business. In business the control of stock by calculate or by physical checking very important.

37. OPERATION MANAGEMENT:

All the operation held in a business must be operated by the authority selected by the business man. They control all the internal activity of the business. So, they called operation management authority.

CONCLUSION:

In the end it is concluded that business is a legal activity which provides benefit for the businessman as well as the public of that area. So, business play important role for the benefit of all the members related directly or indirectly to it and economy of the country by increasing its national income.

Question No 2: ***Discuss the qualities of good businessman?***

OR

How a person can become a good businessman?

Answer:

Qualities of Good Businessman:

What is Business?

"The process of earning profit through buying & selling goods or proving services under legal activities."

Who is Businessman?

"A person who invests efforts or money to carry on some legal or lawful activities in order to earn money and profit."

Qualities of Good Businessman:

The modern business is very complex. The basic personal and professional skills or qualities which a good businessman must possess are as under:

Qualities Of Good Businessman

A) Personal Qualities

B) Professional Qualities

A) Personal Qualities:

1. Know About Responsibilities:
A businessman has authority over the workers. He is responsible for various activities of his employees. He can't shift his responsibilities on the head of other people in case of any problem.

2. To Keep Discipline:
The business leader should follow certain principles to perform his duties. He should be punctual and dutiful. A sense of duty is describable for discipline. The absence of discipline is the end of any business.

3. Leadership Ability:
A businessman has a quality of leadership. He is the leader of his employees. He can inspire the employees. In this way, he can get his work done by other and should be able to guide the work.

4. Efficient and Hard worker:

A good businessman must be hard worker and capable of working for long hours. A lazy and inefficient businessman can't complete the market.

5. Good Personality:

Good personality is a symbol of success in business. The winning personality creates good impression and makes friendly relationship with customer. This quality may helpful for development of sales.

6. Foresight:

A good businessman should be careful about the future expectations. If he fails to estimate the future demand of public then he will suffer a loss.

7. Consistency:

A businessman performs his duty on daily bases, and he must do his business on regularity and punctuality.

8. Flexibility:

A good businessman must be flexible. So that according to circumstances he can change his decisions.

9. Confident:

A good businessman must be confident. So that according to circumstances he can work with greater determination and change his decisions in difficult circumstances.

10. Punctuality:
Punctuality is the symbol of success in every field of life. So, a good businessman must be punctual in his job. He should come to work and perform all the duties well in time.

11. Ability of innovation:
In the modern age new product attracts the customer easily. So a good businessman should have an ability to produce new goods according to new ideas.

12. Courageous:
A businessman must have the courage ability. He has to deal with many problems relating to his work. He must have physical and nervous energy to solve the various difficult problems.

13. Honesty:
A businessman has a quality of honesty that he should be honest and sincere in public dealing. There should be no fraud and commercial bribery in business.

14. Sympathetic Attitude:
A good businessman always loves his workers. He should be aware of the feeling, problems and limitations of his workers and try to solve them.

15. Good Reputation:
In business dealings good reputation is an asset for the good businessman. A good person always improves his good will and expands the business.

B) Professional Qualities:

16. Technical Skills:

A business man should have a specialized knowledge and technical skill for understanding and completing the process of production.

17. Knowledge of Business:

The businessman should have a thoroughly knowledge of his business. It should be supplemented by the knowledge of trade, finance, marketing income tax law, etc.

18. Financial Management:

An entrepreneur tries to meet the financial needs from internal and external sources. A good businessman manages the finance in such a way that it gives him maximum profit.

19. Ability of Panning:

It is a basic quality of a businessman that he should possess the ability to plan his business, in such a way that every decision gives much profit to the proprietor.

20. Research on Business:

A good businessman always pays proper attention to research work. He also uses his experience to minimize the cost of production and maximize the profit.

21. Cooperation:

A business is in the grip of so many difficult problems. He should cooperate with employees for better production.

His cooperation with customers may increase sales volume.

22. Marketing Skills:

A good businessman must have a marketing skill in order to promote his business. He must know the best target market for his product.

23. Knowledge of Laws:

He must be well versed with the laws relating to business such as tax law, business, commercial laws, etc.

24. Up-to Date Knowledge:

It is the age of competition. A good businessman must aware of up to date knowledge. Thus ho could make better decisions for making maximum profit.

25. Team Spirit:

The entrepreneur must build up a team spirit among the group members. He should be aware of the temperament, aptitude and belief of the staff working with him.

26. Conceptual Skills:

The entrepreneur should be able to coordinate and integrate the conceptual skills of organization. The executives should be involved for the achievement of common objective.

27. Knowledge about Computer:

This is the age of computer. Thus, a good businessman must have knowledge that how to use computer's essential applications like MS Word, MS Excel, MS Power point, Internet, etc.

28. Having large Capital:

A good businessman must have large capital. So that according to circumstances he can change his business and can provide all possible
sources.

Conclusion:

In nut shell, a good businessman must be confident, experienced, courageous, good planner, hardworking, good coordinator, high capital, business knowledge, So that according to circumstances he can work with greater determination and change his decisions in difficult circumstances.

"GOOD BUSINESSMAN OPERATES BUSINESS WELL."

Question No 3: **Discuss the nature and scope of business? OR**
What are the different components/divisions of business? OR
Explain the following terms: Industry, Trade and Commerce?

Answer:

COMPONENTS OF BUSINESS:

Business:

"Business is a form of human activities directed towards earning profit."

Basically there are two components of business.

A. Industry

B. Commerce

The business involves production (Industry), distribution of goods (Commerce). The manufacturers, importers, bankers, etc. are engaged in business activities. So, business refers to these factors which help a man to earn profit by satisfying material, spiritual and intellectual needs of human beings.

A. INDUSTRY:

"Industry means those activities which are connected with the production and manufacturing of goods & services."

Industry required all the factors of production i.e. land, labour, capital & organization. Industry may produce finished goods or semi-finished goods. Finished goods have ability to satisfy human wants directly. But semi-finished goods are used by another manufacturing industry. So, industry is divided into two main categories:

1. Primary Industry
2. Secondary Industry

1. Primary Industry:

Primary industry means such industry which produces second shape raw material or semi-finished goods and these raw materials is used in secondary industry. Primary industry is further classified into two parts:

a) Extractive Industry
b) Genetic Industry

a) Extractive Industry:

The extractive industry extracts or takes out their goods from natural sources. The industry supplies raw material which is drawn from the earth i.e. forestry, mining, fishing, hunting, gathering, agriculture, water, etc.

b) <u>Genetic Industry:</u>

The genetic industry is concerned with the breeding of animals and plants. The Cattle Breeding, Poultry Farming, Fish Farming, Seeds and Plant Nurseries are included it.

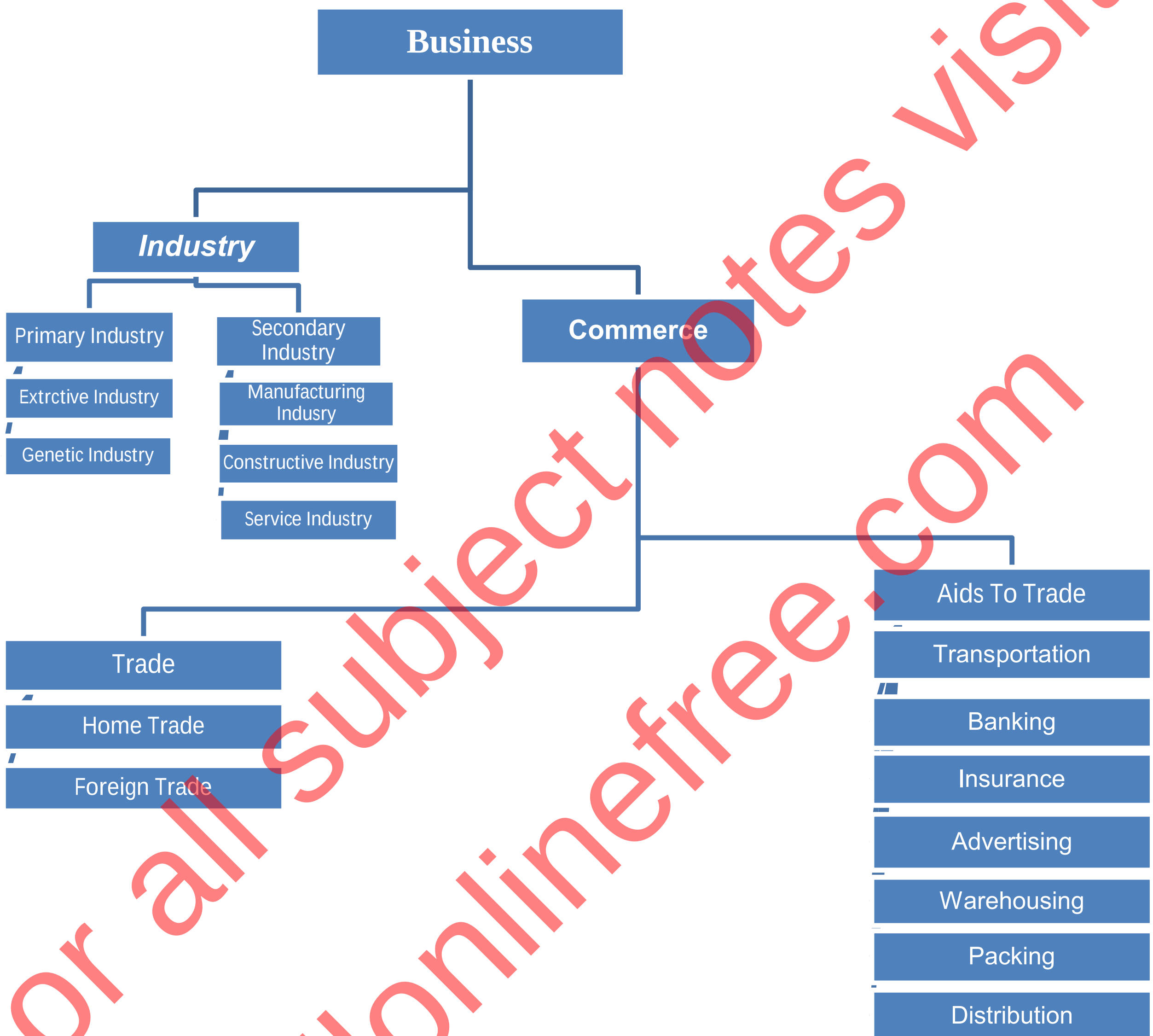
<u>2. Secondary Industry</u>

These industries used semi-finished goods and produced finished goods or finally unstable goods. Secondary industry also divided into three parts.

a) Manufacturing industry

b) Constructive industry

c) Services industry


Business
Industry
Primary Industry
Extrctive Industry
Genetic Industry
Secondary Industry
Manufacturing Indusry
Constructive Industry
Service Industry
Commerce
Trade
Home Trade
Foreign Trade
Aids To Trade
Transportation
Banking
Insurance
Advertising
Warehousing
Packing
Distribution

a) Manufacturing industry:
The manufacturing industry manufactures the goods or convert the raw material in finished goods i.e. Textile Mills, Sugar Mills, Banaspati Mills, Cement Factories, Leather Factories, Surgical Factories, etc.

b) Constructive Industry:
The constructive industry includes the all types of constructions i.e. Road Constructions, Bridges, Dams, Buildings, Canals, Houses, Ships, Aircrafts, etc.

c) Services Industry:
These industries include those industries which are engaged in providing services of professionals i.e. Lawyers, Doctor, Teachers, etc. These can be direct as well as indirect.
Direct services means the services which are directly related in performance of business activities or the exchange, sale, distribution of goods and services are possible through the direct services.
These are as under:

a. Administration:
The administration services include civil and local government services. The establishment of industry and trade and other services depends upon registration, license and other legal formalities. So, the role of administration can't be ignored in Industry and Commerce.

b. Protection:

Protection services are also very important for the aspects of business running. Protection services include services of health, security guard and police, etc.

c. Professional:

The professional services are included law of finance and education. The services of advocate are available for preparing various legal documents. Similarly services of auditors and accountants are also acquired by the producer.

B. COMMERCE:

The term 'commerce' is very wide. It includes the process of buying, selling and all those activities which facilitate trade, such as storing, grading, packing, financing, insuring which are helpful in transferring goods from the place of production to ultimate consumer.

According to Stephen:

"Commerce includes those activities that remove the hindrances of time, person and places in the exchange of goods".

According to Thomas:

"Commercial occupations deal with the buying and selling of goods, the exchange of commodities and distribution of the finished goods".

There are two main components of trade:

1***. Trade***

2. Aids to Trade

1. Trade:

Trade is an important part of commerce. The process of buying and selling of goods.

There are two types of trade:

a) Local Trade or Home Trade or Internal Trade

b) Foreign Trade or External Trade

a) Local Trade or Home Trade:

The purchase and sale of goods inside the country is called local trade or home trade or internal trade. There are two types of local trade:

i. Wholesale Trade:

If goods are sold and purchased on large scale it is called whole sale trade. Generally goods are sold to retailer and then resale to the ultimate consumer by the retailer.

ii. Retail Trade:

The person who purchased large scale goods from the wholesaler and then resale to the consumer is called retailer

b) Foreign Trade or External Trade:

If goods are exchanged between two or more independent countries for their mutual benefit is called foreign trade. Foreign Trade also divided into two further types:

i. Import Trade:

When goods or services are purchased from the other country, this type of trade is called Imports of Goods, Import Trade or simply Import.

ii. Export Trade:
When goods are sold to the other independent country, it is called export trade.

iii. Enterport Trade:
When goods are bought from one country and sell them to another country is called Enterport Trade.
OR. When goods import from one country and export to another country is called Enterport Trade.

2. Aids to Trade:
Aids to trade mean all those activities which facilitate the goods and services or from activities which create easiness elements of trade are called Aids to Trade:
a) Transportation:
The goods which are manufactured are not used at that place. So transport play very important role in distribution of goods at that place where it is needed.

b) Banking:
Capital is very important for any kind of business. Banking play very important role in providing financial aids and other daily performances.

c) Insurance:
The business is not free from the risk of loss. Due to accident, fire and theft the loss is bear by the owner. But in

case of insurance, this risk is transfer to the insurance company.

d) Advertising:

In modern age advertising is very important tool in promotion of sales of goods. Basically advertising means to introduce the name of goods, importance and benefits of goods to the general public.

e) Ware housing:

If goods are produced at large scale, then there is need for ware-houses in order to store the manufactured goods.

f) Packing:

Packing is also very important for increasing the sales of any production. Because it perform its function in shape of ad advertising, protecting the goods and increase the goodwill of the manufacturing company.

g) Distribution:

The distributors provide their services to the producers and customers. Because the producers do not know the customers and on the other hand customer are also not know that where goods are produced.

CONCLUSION:

It is concluded that business' major components are Industry, commerce and direct services, which are helpful for goods and services and due to business as well as country grows.

<u>Question No 4:</u> Define Sole Proprietorship and explain its advantages/Merits/Pros and disadvantages/Demerits/Cons?

<u>Answer:</u>

<u>**Sole Proprietorship:**</u>

<u>Introduction:</u>

The simplest and oldest form of business organization is Sole Proprietorship.

Sole ————► *Single/One/ individual*

Proprietorship ————► *Ownership of business*

It is the business organization which is owned and controlled by a single person. In this organization a person invests his capital and devotes full time to his business for the betterment of the business. He takes all the profit and bear the total loss. Examples: Bakery, hardware stores, doctor's clinic, beauty parlors, farmers and retailers etc.

<u>Definitions:</u>

<u>According to D.W.T Stafford:</u>

"It is the simplest form of business which is owned and controlled by one man."

<u>According to Martin:</u>

"Sole proprietorship is a type of business organization, in which one person owns and operates business."

<u>According to G. Baker:</u>

"Sole proprietorship is operated by one person to earn profit."

Simply we can say that:

"Sole proprietorship means the business in which one person is the owner who solely responsible for all the losses and enjoys all the profit."

ADVANTAGES/MERITS of Sole Proprietorship:

The main advantages which the sole trader enjoys are as under:

1.Freedom of Actions:

The Sole trader enjoys the business freedom. He is not bound to take suggestions from other, so all the decisions are free from others restrictions and order. He is all in all in his doings.

2. Easy Formation:

Its formation is very easy because there is no any legal restriction like registration. So it can he started without wasting of time.

3. Independence:

It is independent form of business and there is no interference of any other person. He is the supreme authority of his business and to take decisions what he wants.

4. Quick Decisions:

Sole trader business is the best to take quick decisions. As there is no need to consult any other person, so the sole trader can take prompt decisions on all important issues of the business and save the time because it is the precious thing in the world.

5. Personal Interest:

Sole trader takes keen interest in the business because he knows that he is responsible for all profits & losses in the business. He has to pay full concentration in all the affairs of the business to avoid losses and to maximize profits.

6. Management & Control:

The control and supervision of a business remains in the hands of one person. He can do whatever he likes. He himself has the overall control of the business because he is the king of his business.

7. Credit Facilities:

Mostly the sole trader collects capital from his relatives without interests, so he reduces the cost of production. With greater capital he can do anything to promote the business and to earn maximum profits.

8. Employment opportunities:

The sole trader gets job first as an owner of the business and gets many money to feed himself and his family. The sole trading business provides careers prospects to a large number of persons according to their capabilities.

9. Entire Profit:

The owner has entire control on this type of business. He can enjoy all the profits of the business but in partnership and Joint Stock Company profit is distributed among the partners.

10. Direct Relations with Workers:
The sole trader has direct relationship with the workers. He can understand their problems and tries to solve them. Due to close relations the problems of the workers can be solved at the right time.

11. Direct Contact with Customers:
Sole trader has direct contracts with the customers and keeps in view the likings and disliking of the customers. So he produces the goods according to their demands trends. Because the profits of the business depend upon the number of customers.

12. Goodwill of Business:
Sole trader can easily raise the goodwill of the business by running the business according to customer's satisfaction, because greater the customers' satisfaction greater will be the Goodwill.

13. Saving in Taxes:
Sole trader pays the low taxes to Govt. which is levied on his individual income not on the income of the business, but the joint stock companies paid tax twice.

14. Low Cost of Advertisement:
In sole tradership, there is low cost of advertisement because he provides the less quantity of goods as compared to partnership and joint stock companies. Also

the sole trader has direct contacts with the customers in his area.

15. Business Secrets:

An important factor for the development of business is that secrets remain secret. A sole trader only can maintain the secrecy in the techniques of production and profit. In the business world every businessman has his own way to operate the business.

16. Less Chances of Fraud:

In sole proprietorship there are less chances of fraud because no other person involved in business matter except sole trader and he has direct inspection over the workers due to small scale.

17. More Flexibility:

A sole proprietor can change the business policy at any time according to the market situation. He can introduce new techniques of production to reduce the cost of production and improve quality of the goods.

18. Easy Transfer of Ownership:

In sole proprietorship business the owner can be easily transferred his business to any other person without any legal restriction.

19. Social Benefits:

Sole proprietorship is very beneficial for society and provides the opportunities of jobs to jobless persons. Sole trader provides daily necessities of life to homes. It helps to reduce concentration of wealth in few hands so that proper distribution of wealth can be possible.

20. Easy dissolution:
Sale proprietorship can be easily dissolved. There are no formalities required to be fulfilled for the dissolution of business.

21. Equal distribution of wealth:
There are less chances of concentration of money in few hands because of personal interest.

22. Less Formation Expenses:
Sale proprietorship can be easily started with low capital and formation of it is not complicated and so less formation expenses incurred.

23. Deed of Small Capital:
In sole tradership there is comparatively less capital required to start the business. Persons who have small capital but high qualities of enterprise can easily start the business.

24. Easy Access:
In sole tradership the trader starts the activities where there are lots of customers so that maximum number of customers can be attained.

25. Less Labour Disputes:
In sole tradership, there is less number of workers and direct contact with each other so problems can be solved

at their right time. So that labour disputes cannot be happened.

26. No Need of Agreement:

In sole tradership, agreements are not required because in this sort of business single person operates all the activities of the business on his behalf. So there is no need to make agreements with other persons.

27. Courtesy & Honesty:

In sole tradership, the attitude of the sole trader should be courteous so that greater numbers of customers are attracted. Moreover he should be honest in his dealings because one man is the master who performs his duties honestly and effectively which makes the business successful.

DISADVANTAGES/ DEMERITS of Sole Tradership:

There are certain serious disadvantages which a sole trader has to face in running this form of business. These are as follows:

1. Shortage of Capital:

In sole tradership, financial resources of one man are generally limited. A sole proprietor always can't produce in large scale due to limited capital. So benefits of large scale cannot be obtained.

2. Unlimited Liabilities:

In sole tradership, due to continuous loss a proprietor faces the risk of unlimited liability. The personal property of the proprietor can be sold to satisfy the claims of the business.

3. Less Managerial Abilities:

In sole tradership, one man cannot perform all types of duties effectively. If he is a good accountant he may not be a good administrator or manager. Because Jack of all traits master of none.

4. Difficulty in Expansion:

In sole tradership business a person can't expand the business. It remains limited due to limited life and limited capital, and also due limited capabilities.

5. Not Durable/Lack of Continuity:

Sole tradership organization is purely temporary and in case of proprietor's death or heavy loss it removes. It may be stopped due to personal reasons. Or it may be come to an end on the disability, insolvency, of the trader.

6. Lack of Specializations:

In sole tradership, one man cannot hire the services of qualified and experienced persons because he has limited sources of capital and cannot afford heavy salaries of specialists.

7. Lack of Innovation:

In sole tradership, a single man is responsible for loss, so he fears to use new methods of production. So there is no invention and innovations in this business, due to which cost does not reduce and quality of goods also does not improve.

8. Wong Decisions:

In sole tradership, sole trader's decisions are based on individual judgment and skills. As a result, he takes wrong decisions because he is not master in every field of the business to take right decisions.

9. Lack of Permanent Existence:

In this business there is a need of permanent existence of business man. In case of absence from business for few days may become the cause of loss.

10. Chances of Fraud:

In sole proprietorship generally proper records of the business in not maintained due to lacks of recordings. It increases the chances of fraud for the dishonest worker, and the owner has to face many problems.

11. Lack of Inspection & Audit:

In the sole proprietorship there is no need of audit and inspection. Sometimes business man is found in illegal activities like black marketing and smuggling, due to which supply of goods decreases and demand increase so prices also increases.

12. Less of Advertisement:

In the present age advertisement plays very important role in increasing the rate of sales. But a single man cannot enjoy the facility because of limited resources.

13. Less of Public Confidence:

In sole tradership, Public show less confidence because there are no legal regulations to control and wind up the business. So the less number of customers are attracted towards sole trader.

14. Market Control:

A sole trader in a weak position for purchase and sale of goods. Its area of working is small. He is not in a position to influence the market due to have no bargaining capacity and receiving trade discount due to bulk purchases.

15. Insolvency:

When the debts of the business are greater than assets of the business, this state is called Insolvency. When there is a regular loss or the business fails due to any reason the owner becomes insolvent and He fails to pay off the business.

16. Entire Loss:

In sole tradership, the Sole trader has to bear entire loss of the business himself because there is no other partner to share the losses of the business. That's why he has to think a lot before taking any step in the business.

17. Cost of Production:

In sole tradership, the Sole trader has to bear high costs of production because a sole trader cannot get incentives of trade due to limited capital, and he cannot receive trade discount which is due to bulk purchases.

18. Dependent on owner Abilities:

The Sole proprietorship business is totally dependent on the owner of the business because it is managed and controlled by single person. The sole trader feels handicapped in looking after all the affairs of the business so he has to depend on the personal qualities and abilities.

19. Difficulty of Credit:

In sole tradership, the Sole proprietor has to face credit difficulties due to less reputation and trust in the market, because the banks or other financial institutions hesitate in providing advance loan to a single person due to less credit worthiness.

20. Lack of Benefits:

In sole tradership, the Sole proprietor gets fewer benefits from Govt. as well as suppliers due to less capital and small scale of business. A sole trader cannot have favourable terms of purchase and sale of goods and services due to its small size; as a result, it cannot get benefits of large scale trading.

21. Lack of Employees' Promotion:

In sole tradership, the Sole proprietor provides less chances of promotion to its employees due to less capital and small scale of business. So he loses the confidence and sincerity of the employees which leads to destruction of business of this kind.

Conclusion:

In Short, the Sole proprietorship business plays an important role in the developing countries like Pakistan. It is helpful in equalizing the unequal distribution of wealth and unemployment, and it can be considered the best form of business due to full control, easy formation, secrecy, entire profits, quick decisions, direct contact with customers, freedom of actions etc… It is considered the best for small scale business.

Question: *On what points would you like Sole-trader ship to other form of business organization?* *OR*

Sole Proprietorship is the oldest form of business house yet it is to be

found till today. Why? *OR*

"One man control is regard best in the World, if that man is big enough to manage everything". Do you agree or give justifications?

Answer:

Definitions+Merits+Conclusion.

<u>Question No. 5:</u> ***What is partnership & explain its advantages/merits/pros & disadvantages/demerits/cons?***

<u>Answer:</u>

<u>"PARTNERSHIP"</u>

<u>Introduction:</u>

In the present world of business, one man is not big enough to control everything due to limited managerial abilities and limited capital. For this there is need of more persons for controlling the business. Partnership is the 2nd stage in the evolution of forms of Business Organization. The partner is the contraction of two words:

Partner ----------------------➔ *Part + Owner*

The persons who join hands to form the partnership business are u\individually called partner and collectively called Firm. The partnership form of organization was developed to overcome the drawbacks of sole trading organization. The formation of partnership is easy and simple and it is formed to meet the need for:

a) *More capital*

b) Effective supervision and control
c) More specialization
d) Division of work between partners
e) *Spreading of risk*

Definitions:

According to Partnership Act 1932:

"Partnership is the relation between persons who have agreed to share the profit of business carried on by all or any of them acting for all."

According to L.H. HANEY:

"Partnership is the relations between persons who agree to carry on a business in common with a view to private gain."

In Simlpe Words:

"Partnership is a voluntary association of two or more than two persons, who contribute money, property, time, skills etc... to carry on business for profit and to share the losses of the business."

ELEMENTS of PARTNERSHIP:

The essential elements of partnership, as a form of business organization, are as follow:

1. Sharing of Profit:

Each partner has the share in profits of the firm. Profit and loss sharing ratio depends upon the agreement made between the partners. Partner who is sharing profits only will not share loss.

2. Association of At least Two Persons:
In partnership, minimum numbers of partners are two and maximum numbers of partners are:
a) 10 in banking sector
b) 20 in other sectors

3. Agreement:
Relation of partners in partnership arises from agreement. There must be an agreement between persons forming a partnership.

4. Mutual Agency:
Every partner is the agent as well as principal of the firm. The business must be carried on by all or any of persons concerned acting for all.

5. Existence of Business:
A partnership is formed only to carry on some legal business
Examples: Shopkeepers, production timber, association of labour.

ADVANTAGES / MERITS of Partnership:

Partnership is preferred to other forms of business due to following reasons:
1. Easy Formation:
The registration of partnership is not compulsory. It can be easily organized under legal formalities. Two or more persons may start the business at any time; its registration

is also very easy. So less formation expenses are incurred.

2. More Capital:

In the sole proprietorship the capital remains limited to personal and borrowing capacity of one man, but this problem does not arise in the partnership because there are many partners who contribute for capital with higher amount.

3. High Credit Standing:

Partnership firm enjoys the highest credit facilities. Because the liabilities of partners are unlimited, therefore creditors easily agree to give loan to Partnership Firm. It means in case of loss personal properties of all the partners are available to pay the debts of the creditors.

4. Division of Work:

All the partners work soundly to improve the businesses. The firm distributes the work among the partners according to their abilities and experience. So better supervision is possible due to division of work, which increase the efficiency of the firm. *It is a bid age saying "two heads are better than one head".*

5. Better Decisions:

In partnership business, the partners can take better decisions because there are many minds in the business to finalize the things. Each partner has the right to participate in the management of the firm. The decisions taken are right and in the best interest of the firm, so that maximum profits can be achieved and there is less chance of reckless & hasty decisions.

6. Use of Modern Technology:
In partnership business, due to availability of sufficient amount of capital, the use of modern machines can be increased. It leads to the low cost of production, greater volume and save the time.

7. Direct Supervision:
In partnership business, the partners directly supervise the business affairs. They take the decisions and try to implement for better output, and to ensure efficiency and increase the profit.

8. Business Secrecy:
In this form of business there is no need to publish its accounts and not required by Law. So the business secrecy remains confined within the partners. Because in each business the owner has its own secrets with whom he handles the business to get maximum profits.

9. Minority Protection:
In partnership business, all the policy matters are decided with the consent of each and every partner. So there is a protection to the minority partners. In ordinary affairs, a dissatisfied partner can withdraw and dissolve the firm. So the minority has the right of veto in partnership business. Even law gives the right to each partner to be heard and consulted.

10. Tax Facility:

In partnership business every partner pays tax individually on the share received from the profit of the firm and the firm does not pay tax on its income. So the firm is in a better position as compared to Joint Stock Company, because in Joint Stock Companies double tax is levied.

11. Public Confidence:

In partnership business, Public shows more confidence as compared to the sole proprietorship. If the firm registered, people feel no risk in creating relation with such business, so greater the public interest in the firm.

12. Business Flexibility:

It is a flexible organization and partners can change their business policy with the mutual consultation at any time. But it is compulsory to satisfy all the partners in the partnership so that partnership would not be dissolved.

13. Expansion in Business:

In partnership business, the business volume can be expanded easily because there is large number of partners and large amount of capital and loss is shared by each partner, so there are more chances of expansion of partnership business. The partners try to get maximum benefits from 4Ms (Man, Money, Machinery and Material)

14. Services of Experts

In partnership a firm can easily hire the services of qualified and competent persons due to strong financial position. Due to which there is increase in the firm's profit.

15. Sense of Responsibility:

In partnership business, the liability of the partners is unlimited. So every partner performs his duties honestly. So that chances of frauds can be minimized and also reduces the risks.

16. Sharing of Losses:

In partnership business, unfortunately, if a firm suffers a loss it is distributed among all the partners. So any single person does not bear all the loss, so that burden of loss distributed among the partners except only profits partners.

17. Personal Interest:

The fact that profits and losses are shared by partners with unlimited liability induces them to take more and keen interest in the partnership business, since the liabilities of the partner are unlimited.

18. Rare Chances of Fraud:

In partnership business the accounts can be checked and inspected by all the partners at any time so there are less chances of fraud in such business. Two methods are used in techniques:

a) Periodic checking System: *(in which accounts are inspected after a specific period of time)*

b) Perpetual Checking System: *(in which accounts are inspected on a regular basis)*

19. Easy to Depart or Admit:
In partnership business, it is easy for any partner to leave the partnership and is also easy to join the partnership business with the consent of all the partners, because consent of all the partners is compulsory. And in partnership business there is no rule of *"majority is the authority".*

20. Direct contact with Customers:
In partnership business, the partners are the managers and they deal with the customers directly. The liking and disliking of the customers make the partners careful about productions, because greater the number of customers greater will be the sales volume and greater the sales volume greater will be the profit.

21. Elimination of Competition:
In partnership business, Partners are combined to run a business with their combine efforts. So competition among partners is eliminated, and prices of goods are increased in such business due to monopoly in the market so partners gain high profits.

22. Simple Dissolution:
There is no complicated process for dissolution of partnership firm. Partners may dissolve the business very easily at any time by mutual consent or after completion of work or time period if they do not want to continue it more.

23. Minimum Legal Formalities:
In partnership business, there is no legal formalities

specially prescribed for partnership to be complied with the course of their business operations i.e. annual audit, submission of annual report to Security Exchange Commission(SEC), maintenance of records, statutory meetings etc…

24. Increase in the Spirit of Cooperation:

The success of the business depends upon the mutual trust and cooperation of the partners. The partners are fully aware that a slight difference can cause the end of partnership. This increases them the spirit of working hard together.

25. Availability of Large Resources:

In partnership there are two or more than two partners' joining hands to start this business, it may be possible to pool more resources as compared to soletardership. The partners can contribute more capital, more efforts, more knowledge and more time for the business.

DISADVANTAGES / DEMERITS of Partnership:

The partnership form of organization suffers from certain disadvantages also:

1. Unlimited Liabilities:

In the partnership, one of the basic defect is the partners are personally and jointly responsible for all the debts of the firm. Partners feel risk in the partnership due to unlimited liabilities because some time a personal property of the partners can be sold for the clearance of the debts under Court Order.

2. Delay in Decisions:

In case of difference decisions from the partners may become a cause of delay in decision making and firm may suffer loss.

3. Legal Defect:

There are no effective rules and regulations to control the partnership activities. So it cannot handle the large scale production so the partners cannot enjoy the benefits of large scale business.

4. Limited Life of Business:

The duration of partnership is always uncertain. The life of this business limited, if any partner dies, injured, withdraws, sells his interest or new enters in to the business, or there arises difference, the old partnership may come to end. There are every possibilities of the dissolution of the firm due to internal differences.

5. Disagreement between Partners:

Generally there is a chance of misunderstanding and dispute among the partners. It becomes the cause of business failure.

6. Frozen Investment:

It is easy for the partners to invest capital or fund in partnership but it is very difficult to withdraw it from the business. A partner who is wishing to withdraw the investment has to consult his partners, find a substitute with equal business ability. Unless the above conditions are fulfilled the funds remain difficult to transfer and as much remain a frozen investment which creates lack of interest.

7. Shortage of Capital:

No doubt partnership capital is generally greater than the sole proprietorship. But according to modern innovations it can't fulfill the requirement of expanding business i.e. innovations, skilled persons, bulk of material etc…

8. Carelessness in Using Resources of Firm:

In this business the responsibilities of the partners are common. So sometimes one partner become careless about his responsibility and creates problem for the firm and misuses the resources of the firm.

9. Lack of Public Confidence:

Partnership firm does not enjoy public confidence due to lack of its activities, publicity, absence of regulations and limited sphere. Its accounts need not be published. As a result, people do not have confidence in firms.

10. Implied Authority:

the authority vested in the partner to bind the firm with any of his acts done in connection with the business of the firm is called implied authority. Even partner has implied authority to act as agent o the business. Any unwilling and dishonest partner can misuse his implied authority and can bind the others for his follies.

11. Hesitation in Investing Money:

In partnership business due to greater risk of losses the rich and wealthy persons feel hesitation to invest in partnership due to unlimited liability and poor management.

12. Poor Management:

In partnership the work of the business is divided into partners according to their ability, choice and taste. Divided control and responsibility sometimes creates confusion. Generally incapable relatives and friend of the partners are employed. So the efficiency of the firm is affected badly.

13. No Transferability of Rights:

In partnership business, a partner cannot transfer his shares to others without the consent of all the partners, transfer of shares is very difficult for the partners. This creates inconvenience for the partner who wants to leave the firm or sell his share to others.

14. Leakage of Secrets:

All partners know the business secrets. When a partner retires from the business he can start the same business or give its secrets to other firms which may become a cause of loss for other partners.

15 Disputes Among the Partners:
The partners should be light minded, have a common objective, be large hearted, have a cool temperament, should not be unnecessary cause friction and confusion among the partners. The future of partnership business is uncertain. Due to misunderstanding or death of partner, the business will be end.

CONCLUSION:
In the end one can say that Partnership business plays an important role in under developing countries like Pakistan. Partnership form of ownership is suitable where business is of medium size. The partners are of equal status, ability and resources.

Question:
Do you prefer partnership to other forms of organization, why?
OR
Why do you not like partnership more than other forms of business houses, give justifications?
Answer:
Introduction + Definitions + Merits + Conclusion
Question:
Why do you not dislike partnership more than other forms of business houses, give justifications and Suggestions to improve it?
OR
What are problems faced by partners in partnership business and how these problems can be resolved?
Answer:

Introduction + Definitions + Demerits + Suggestion from Merits + Conclusion

Extra Information:

CHARACTERISTICS/FEATURES OF PARTNERSHIP:

Followings are the major characteristics of partnership business:

1. Agreement:

Without agreement partnership can't be formed. The agreement may be written or oral. But it must be written to settle the disputes. Moreover the agreement under which the partnership has come into existence contains:

a) The amount of capital contributed by each partner

b) Profit or loss ratio

c) Salary or commission payable to the partner, if any

d) Duration of business, if any

e) Names and addresses of all the partners

f) Rights, duties and liabilities of partners

g) Nature and place of business

h) Other terms and condition to run the business.

2. Voluntary Registration:

It is not necessary that a partnership must be registered. But it may be registered under Partnership Act 1932. The effects of non registration:

a) Firm cannot take any action in a court of law against any other parties for settlement of claims.
b) In case there is any dispute among partners, it is not possible to settle the disputes through a court of law.
c) Firm cannot claim adjustments for amount payable to or receivable from any other parties.

3. Number of Partners:

In a partnership there should ho at least two partners and not exceed the twenty, In the strength cannot be more than ten.

4. Profit & Loss Distribution:

The basic aim of partnership is to earn profit. The profit or loss occurred in business is disturbed among the partners according to their agreement.

5. Legal Entity:

There are no effective rules and regulations to control the partnership activities. So it can not handle the large scale production.

6. Unlimited Liability:

Partners feel risk in the partnership to unlimited liabilities because some time a personal property of the partner can be sold for the clearance of the debts.

7. Relationship:

The partnership business can be can on by all partners or any of them can do the business for all.

8. Nature of Business:

The man object of the partnership is to carry on the business. It may be production or trading.

9. Balanced Decisions:

The decisions are made in this business according to the mutual consent of all the partners. So the decisions are quite balanced.

10. Contribution of Services

It is not necessary that all the partners should contribute equally. Some people provide only skill and ability to become partner.

11. Payment of Tax:

In partnership every partner pays tax individually. So the firm is in a better position as compared to Joint Stock Co.

12. Management:

All the partners work soundly to improve the business. The firm distributes the work among the partners according to their ability and experience.

13. Co-operation:

For the successful partnership mutual co-operation and mutual confidence is an important factor.

14. Partners are Agent:

Every partner stands as an agent and principal to one another. In the position of an agent one can do contact with other parties on behalf of the firm.

15. Audit of Books:

It is not necessary for a partnership firm to audit its accounts.

16. Transferability of Shares:

A partner in a partnership business is not allowed to transfer his share to any other person without getting the approval of other partners.

17. Authority:

Every partner has implied authority to act as agent of the business. Any unwilling and dishonest partner can misuse his implied authority.

15. Dissolution:

Partnership may be dissolved on the happening of certain events. The death, insolvency or any other unhappy incident may cut short the life of partnership.

19. Protection:

Although the registration of partnership is not compulsory, but if a firm is registered then the law also protect it.

Conclusion:

In the end we can say that partnership form of business is best for those who have the ability to work with one another and jointly they achieve:

a) *Common goal*
b) *Capital adequacy*
c) *Team Management*
d) *And all above their common vision*

Question No. 6: How many kinds of partners in a firm? OR
Describe the classification of partners. OR
What are the kinds of partners in a partnership business?

Answer:

Kinds of Partners:

INTRODUCTION:

As there is difficult task to manage and control the business of a firm, so different types of partners perform the different function in the business. *The persons enters into partnership through agreement are known as partners.* They are classified in several ways, depending upon their extent of liabilities, participation in management, share of profit and other factors.

KINDS OF PARTNERS

AGE	EXPERIENCE	LIABILITY	MANAGEMENT	OTHER PARTNERS
1.Minor	1.Senior	1.Limited	1.Nominal	1.Quasi
2.Major	2.Junior	2.Unlimited	2.Sleeping	2.Holding out
			3.Active	3.Salaried

4.Secret

5.Silent

4.Insolvent
5.Partner in Profit only
6.Deceased
7.Retired
8.Income
9.Sub partner
10.Partner at Will

ACCORDING TO AGE:

1. Minor/Immature Partner:

Definition:

Minor partner means a partner whose age is less than 18 years.

=➔A minor partner enjoys the profit of firm but does not bear the losses. He can't be a full fledged member. On attaining the age of majority, he has to choose in six months whether he has to continue as a partner or not.

2. Major/Mature/Adult Partner:

Definition:

Major partner means a partner whose age is 18 years or more. A major partner enjoys the profit and bears the losses. He can also make agreement with other parties. He is the regular member of the firm.

ACCORDING TO EXPERIENCE:

3. Senior Partner:

Definition:

Senior partner means a partner who invests a large capital and who has much experience. His share in profit or loss of the business is more than other partners of the firm.

4. Junior Partner:
Definition:
A partner who invests small capital and who has less experience his share in profit or losses is less than the other partners of the firm.

ACCORDING TO LIABILITY:
5. Limited Partner:
Definition:
A limited partner is one whose liability is limited up to the amount invested in business. He is no allowed to manage or interfere in the business activities.

6. Unlimited Partner:
Definition:
When the liability of the partner is unlimited he is called unlimited partner. The debts of the firm can be paid even by the personal property of the partner. He can take part in the management of the business.

ACCORDING TO MANAGEMENT:
7. Nominal Partner:
Definition:
Nominal partner means a partner who does not invest his capital and does not take part in the affairs of business. In reality he is not a partner but his name is used as a partner. He is liable for all debts.

8. Sleeping/Dormant Partner:

Definition:

A sleeping partner means a partner who does not take part in management of firm. He provides his share of capital to the partnership firm. He takes his share profit and loss as per profit & loss sharing ratio.

9. Active/Working/Managing partner:

Definition:

Active partner means a partner who takes active part in the management of firm. He contributes hr capital and has share in profit & loss. He is also called the managing partner. The development of business depends upon the active partner.

10. Secret/ Silent Partner:

Definition:

He takes active part in the business but public does not know him as a partner of the firm. He contributes capital and share profit & loss and also liable to pay all the debts.

OTHER KINDS OF PARTNERS:

11. Quasi partner:

Definition:

Quasi partner means a partner who has retired from business but has not withdrawn his capital. His capital is considered as loan and he receives interest on it varying with the amount of profit. Strictly speaking he is not a partner; he is only a deferred creditor.

12. Holding out partner or [Estoppels Partner]:
Definition:
A person who declares himself as partner of firm but in reality he is not a partner. He does not receive any profit but he is liable for debts which he received.

13. Salaried Partner:
Definition:
A partner who does not invest in business but has a right to receive salary or profit or both is known as salaried partner. He is liable for all acts of firm like other partners. He is also known to the general public as a partner.

14. Insolvent Partner:
Definition:
A partner who is unable to pay the debts and his share of debt is paid by other partners is known a insolvent partner.

15. Partner in Profit only:
Definition:
A partner who has share in profit but has not concern with losses or liabilities is called a partner in profit only. He does not take part in the management of business.

16. Deceased Partner:
Definition:
A partner who has died and his share of capital and profit is pad to his heirs (relatives) is known a deceased partner.

17. Outgoing/Retired Partner:
Definition:

A partner who has retired from business is known as retired partner. He is not liable for those acts which are incurred after the date of his retirement.

18. New/Incoming Partner:
Definition:
A person who is newly admitted to the firm with the consent of all the parties is called incoming partner. He is not liable for any act of the firm done before he becomes a partner unless he agrees.

19. Sub Partner:
Definition:
Sub partner who receives the share of profit from regular partner of firm. He is not responsible for any debts of firm.

20. Partner at Will:
Definition:
This type of partner will continue so long the partners have mutual faith, trust and confidence among them.

21. Partner without Capital:
Definition:
Sometimes partners are created in the business due to particular skills or business ability of such person, so they don't invest capital. To have benefits from his business ability the partners with capital make him also a partner in their business. The partner without capital is also given the agreed share out of profit.
Conclusion:

In Partnership business partners play an important role because they provide funds, services, experiences, useful advices, skills etc… to enhance business.

Question No. 7: **How can a Partnership Firm be registered? Explain the advantages of registration and effects of non-registration.** OR
How a firm is registered? Discuss the special attraction of registrations. Write also the effects of non-registration. OR
What is the process of registration? Discuss the advantages and importance of registration. Write also the effects of non-registration.

Answer:

REGITRATION OF PARTNERSHIP FIRM:

Definition:

"The Registration means to record the name of the firm with registrar of Partnership Firms according to Partnership Act 1932. The registration is the evidence of existence of the firm."

Is Registration of PARTNERSHIP FIRM Compulsory?

The Registration of Partnership Firm is not compulsory by law. The partnership Act 1932 does not compel the partners for registration of their firm. But the registered firm has certain benefits over the unregistered firm. But it does not provide any separate legal entity to the firm. Registration is very helpful in the progress of business. A registered firm is preferred and government provides many facilities to the registered firms.

PROCEDURE FOR REGISTRATION:

Following steps are included in the registration of Partnership Firm:

Application for Registration:

Application for registration of the firm is submitted to the registrar of Partnership Firm on the prescribed form. Following documents must be submitted to registrar with application form:

Basic information

Partnership Deed

Registration fee & filling of challan form

Submission of application in printed form to the Registrar

Registration Certificate

Changes in Application of Registration

<u>Details of Registration:</u>

<u>1. Basic information:</u>

Following information should be provided to registrar:

> *The Name of the firm*
> *The Principal Office of the firm*
> *The Name of sub offices, if any*
> *The names of the partners*
> *The Permanent address of partners*
> *Date of joining of each partner*
> *The Nature of business*
> *The duration or Purpose of the firm, if any*
> *Signature of the partners*

<u>2. Partnership deed:</u>

Partnership deed means a partnership agreement made between the partners of the firm, and the copy of this agreement must be submitted to the registrar of the Firms.

3. Registration Fee by Filling Challan Form:
Required registration fees are deposited with the help of challan form. After Filling and depositing the fees one copy of challan form must be submitted to the registrar of the Firms.

4. Submission of Application in Printed Form:
An application form will be submitted to registrar for the registration which possesses the above all information and challan forms one copy.

5. Certificate of Registration:
After receiving the application form, registrar will examine the information and documents which provided along with the application. If he is satisfied then he will record the name of the firms in the Register of Firms, and he issued a certificate of registration to the firm.

Note*:* *A person who provides false information to the registrar shall be punished with imprisonment which may extend to 3 months or with fine or with both [Sec. 70]*

6. Changes in Application of Registration:
If a firm wants to make changes in the registration form, the registrar will make the changes in the record according to the new statement, if he satisfied and if all the partners are agree with the changes made in the deed.

ADVANTAGES OR IMPORTANCE OF REGISTRATION:

A registered firm enjoys the following benefits:

- ✓ ***Advantages for the Firm***
- ✓ ***Advantages for the Partners***
- ✓ ***Advantages for the Creditors***

A) Advantages for the Firm:

1. Increase in Goodwill:

The goodwill of business of registered firm is more than unregistered firms. So due to this factor the registered firms earn the higher profit.

2. Greater Public Confidence:

The people have more confidence on the registered firm because they think that it is working under the supervision of the Government and there are no chances of frauds.

3. Greater Loan Facilities:

A registered firm can easily obtain loan from financial institutions because financial institutes easily trust on registered firm.

4. Increase in Business Reputation:

Registered firm enjoys the good business reputation as compared to unregistered firms. Any other business cannot copy of its product, which makes it more profitable.

5. Use Business Trademark:

Registered firms use their trade mark to advertise their product. It makes their business profitable; any other firm cannot use trade mark of the registered firm.

6. Greater Government Protections:

Registered firms work according to the rules and regulation of the government so the firm works without any fear.

7. Greater Tax Facility:

Tax is charged on profit of partners of firm individually. But in unregistered firm the tax is charged on the whole of its income.

8. Right of Suit against Third Pay:

Registered firm has a right to file suit against third party for recovery of his duos. But this facility is not available to an unregistered firm.

B) Advantages for the Partners:

9. Settlement of Disputes:

If any dispute arises among the partners registration is basic legal document for settlements. An unregistered firm may come to an end if any dispute arises.

10. Right of Suit for Incoming Partners:
The rights of new partner are safe by law. He can file a suit against his co-partners for his dues.

11. Protection to New Partner:
The rights of new partner are also protected in registered firm. If a new partner fails to register himself then he may suffer a loss.

12. Clear Terms of Agreement:
The term of agreement is clear to each partner in writing due to registration of a firm.

13. Protection to Retired Partner:
When a partner is retired in registered firm then he sends a notice of retirement to registrar and after the notice he is free from liabilities.

C) Advantages for the Creditors:

14. Protection to Creditors:
The partners of a registered firm cannot deny the creditors from getting membership of the firm.

15. Full Recovery:
The creditors of the firm can hold all the partners liable for the payments of their debts due by the firm.

EFFECTS OF NON-REGISTRATION:

The effects if non registrations are follows:

1. Suit by Firm:
The unregistered firm can't file a suit against the third party for the recovery of dues which is the main drawback of the unregistered firm.

2. Suit by Partners:
Partners of unregistered firm can't file a suit against his co-partner for the recovery of their dues.

3. Suit against Firm:
The third party has full right to file a suit for the recovery of their dues against the unregistered firm.

4. Suit against Partners:
The third party has full right to file a suit for the recovery of their dues against the unregistered partners.

5. No Claim for Adjustments:
A firm cannot claim adjustment of the amount exceeding Rs. 100 payable and receivable by the firm. For Example a firm has to pay Rs. 500 to Mr. Jawad who owes Rs. 900 to firm, the firm cannot claim for adjustment and enforce in the court.

CONCLUSION:
It is concluded that the partnership firm should be registered because a registered firm can get many benefits. Registered firm has long life due to fewer chances of disputes and misunderstanding among the partners. Registered firm also

earns more profit due to low income tax and any other firm cannot make copy of its product.

Question No. 8: **What is Partnership Agreement? Discuss important points of this document. OR Define Partnership Deed. Describe its contents.**
OR
Discuss those provisions which should be covered in the agreement.

Answer:

PARTNESHIP DEED / AGREEMENT:

Introduction:

The commitment of the partners to run the business is deed for partnership business. A partnership can be formed either by oral or written or written & registered agreement. While oral agreement may not ho helpful in solving problems which may arise between the partners with the passage of time, it is therefore better to have a written agreement. Partnership deed is written on judicial paper of Rs.50 in Pakistan. Each partner should have a copy of the deed. It must be signed by all the partners at the time of registration of the firm a copy of deed should be filed with the registrar of the firm.

Definitions:

"Partnership Deed Means Partnership Agreement it is the most important document in which all condition is clearly written. Such contract is also called The Articles of Co-ownership" or "Articles of Partnership."

OR

"Partnership Deed is a document which contains all the necessary rules and regulations required to run the partnership business."

OR

"Partnership Deed is a document which determines the rights, duties and liabilities of the partners in partnership business."

<u>Forms of Partnership Deed:</u>

It may be of following forms:

<u>Note:</u> ***The best of partnership deed is written and registered and signed by all the partners, so that all the partners can know their rights, duties & liabilities and in any dispute or misunderstanding among the partners may be resolved in the of deed.***

<u>Need & Importance of Partnership Deed:</u>

Followings are helpful for determining the need and to show the importance of partnership deed:

- ***It forms the basis of formation of the partnership.***
- ***It determines the mutual rights, duties and liabilities of all the partners.***
- ***It helps in minimizing the areas of disputes among the partners of partnership firm.***

- ***It provides guidelines for the conduct of partnership business.***

<u>ESSENTIAL ELEMENTS / CONTENTS OF PARTNERSHIP DEED / AGREEMENT:</u>

The contents of the Partnership Deed Will vary with the requirements of a particular firm. Every partnership contract however should contain the following provisions:

<u>1. Starting Date:</u>

Date of starting the business should be written.

<u>2. Name of Firm:</u>

Name of firm under which firm is to be conducted is written in this document. The name may be personal or impersonal.

<u>3. Existence/Location of Business:</u>

Location of the business should be also written that where it is going to start. Allotment of the p1ace for head office and branches should be mentioned.

<u>4. Duration of Firm:</u>

The duration means that for how long the partnership business is to be conducted. Partnership may he formed for a fixed or for undefined period.

5. Nature of Business:

Nature of business to be conducted by the partners is also written in this document. The nature of business may be manufacturing, trading, service, etc

6. Amount of Capital:

The amount of capital to be contributed by each partner should be written in Partnership deed the amount provided by each might be different.

7. Interest on Capital:

If interest on capital is charged to the firm then it will be mentioned in the partnership deed.

8. Amount of Drawings:

The amount of drawing which a partner can withdraw per month or per year from firm should also be written on this document.

9. Interest on Capital:

If interest on drawings is charged to the partners then it will be mentioned in the partnership deed.

10. Salary of Partners:

The amount of any salary payable to partners should be mentioned in it.

11. Further/Fresh/New Capital / Deficiency in Capital:
How further capital, if necessary, to be introduced; and deficiency in capital will be fulfilled, should be written in this document.

12. Accounting Time Period:
The Period for the preparation of final account should be mentioned in this deed.

- ***From 1January to 31 December***
- ***From 1 April to 31 March***
- ***From 1July to 30 June***
- ***From 1January to 31 December etc…..***

13. Share of Profit or Losses:
It should mention the ratio in which profits or losses of the concerns are to be divided between the partners. The ratio may be equal or different as per consent of the partners.

14. Rights, Duties & Liabilities of Partners:
The Rights, Duties & Liabilities of each partner should also be written in this document.

15. Rules of Admission of New Partners:
The Procedure about the admission of a new should be written in partnership agreement.

16. Retirement Procedure:
A statement regarding the procedure to partners adopted

on the retirement of an existing partner should be attached.

17. The Name of Dealing Bank:
Name of dealing bank in which the account is to be opened should be written in the partnership 1agreement.

18. Audit of Account:
Audit and accounts preparation provisions are also available in it.

19. Witness:
The date and witness of agreement should also be written in partnership deed.

20. Valuation of Goodwill:
The method of valuation of good will on admission retirement or death of a partner.

21. Arbitration:
In case of disputes provisions for arbitration is also available to solve the disputes.

22. Name and Addresses of Partners:
List of names & addresses of partners and their respective investment are also written in this document.

23. Settlement of Accounts:

The methods of settlement of accounts at the dissolution of the firm should be mentioned in this document.

24. Changes in Partnership Deed:

The procedure must be stated for bringing changes in the existing terms and conditions or adding more items in the deed.

25. Dissolution case:

The manners under which firm may be dissolves should be written in this document.

26. Insolvency of Partner:

It is clarified in the partnership deed that if any partner becomes insolvent, then what will be the effects on partnership.

27. Minor Partner:

The procedure and provision regarding the admission of minor partner is mentioned in the deed.

28. Loan & Interest:

The procedure and provision regarding the loaned amount and interest on loan is mentioned in the deed.

29. Revaluation of Assets & Liabilities:

The procedure and provision regarding revaluation of the assets and liabilities is mentioned in the deed.

30. Division of Work:

The division of work among the partners for the management of the firm should be finalized, it is mentioned in the deed.

Note:-

By the mutual consent of the partners any other cause may be included in it at any time.

Conclusion:

In short partnership deed defines the important information about the partnership business so that it can work smoothly and successfully in day to day operations as well as long term operations.

<u>Question No 9:</u> Explain the Duties, Rights and Liabilities of each partner in Partnership.

<u>Answer:</u>

<u>RIGHTS, DUTIES & LIABILITIES OF PARTNERS:</u>

The duties, rights and liabilities of partners in the management of affairs of the partnership are contained in its partnership deed. However, if on any point, the deed is silent then the relevant rule of the partnership Act 1932 will apply as follows:

<u>A) DUTIES OF A PARTNER:</u>

The Fundamental duties of the partners are mentioned in the Section 9 of Partnership act 1932 which reads:

"Every partner is bound to carry on the business of the firm to the greatest common advantage, to be just and faithful the other partners, to render true accounts and full information of all things affecting the firm to any partner on his legal representative and indemnify the firm for any loss caused to it by his fraud in the conduct of the business of the firm."

All the duties of partners arise from the principle of good faith which is to be all and all of a partnership. These duties as described Section 9, 10, 12 & 13 of Partnership Act are described as follows:

1. Duty to Common Advantages:

Every partner should perform his duties for the common advantages of the partners. (Sec. 9)

2. Duty to Sincere end Faithful:

Every partner should be fair and faithful in dealing to other partners.

3. Business Secrecy:

Every partner should perform his duties keep the secrecy of the business from outsides.

4. Duty to Maintenance of Accounts:

Even partner should prepare the true account of the firm for the other partners.

5. Duty to No Personal Interest:

It is the duty of the partner that he may not use the property of the firm for his personal interest.

6. Duty to Provide necessary Information:

It is the duty of the partner that he must provide all the necessary information about the business to other partners.

7. Duty to Avoid other business

It is the duty of the partner that it should not carry on any other business except the partnership.

8. Duty to Indemnity firm any Loss:
Every partner is about to indemnify the firm for any loss caused by his fraud in conduct of the business of firm. (Sec. 10)

9. Duty of Payment of Profit to Firm:
If a partner earns profit from any sources of the firm it should be paid to the management of the firm.

10. Duty to Compensation for Loss:
If a partner commits a fraud to his co-partner, he must compensate it.

11. Duty to Distribution of Loss:
In the absence of agreement each partner will pay the loss equally.

12. Duty to Use of Power:
It is the duty of the partner to use his powers within the limits delegated by the firm.

13. Duty to Abide by the Decisions:
A partner should abide by the decision taken by the majority of the partners.

14. Duty to Use of Firm Property:
It is the duty of partners that they must not use the property of the firm for their personal use.

15. Duty to Liable Individually & Jointly:
Every partner is liable individually & jointly for all the debts of the business created while he is a partner.

16. Duty not To Transfer the right:

A partner cannot transfer his rights and interest in the firm to an outsider to make him partner in the firm without the consent of the other partners.

B) RIGHTS OF A PARTNER:

According to Sec. 12, 13 of the Partnership Act 1932, the rights of a partner are as follow:

1. Rights of Opinion:

Every partner has right to express his opinion relating to business activities. But the nature of business can't be changed by a single partner.

2. Management Rights:

Every partner has right to take part in the management of the business of the firm.

3. Right of Inspection:

Every partner has a right to check the account of the business.

4. Right of Demand for Salary:

A partner has a right to demand the salary for performing his duties in the management o business.

5. Right to use his Power:

To protect the firm form loss, every partner has a right to use his powers.

6. Retirement Right:
Every partner has a right to retire from firm as per agreement or by giving the notice to all other partners.
7. Right of Existence:
A partner can't be expelled by any other partner from the business. Every partner has a right to live in the business.

8. New Partner:
New partner cannot be admitted without the consent of all the present partners in business.

9. Right of Interest on Loan advances:
If a partner has provided extra capital than his share, he can also receive interest on it at a rate of 6% per annum.

10. Right To Become Agent of Firm:
Every partner has a right to act as an agent on behalf of remaining partners.

11. Interest on Capital:
If in partnership deed the interest on capital is mentioned then there will be no interest on capital.

12. Right to Change Nature of the Business:
No partner has the right to change the nature of the business without the consent of the other partners.

13. Right to Starts New / Competing Business:
Any retired partner or outgoing partner has the right to establish the same business like old partnership business.

14. Right to Receive Amount:
Every partner has the right to receive the amount incurred by him to save the firm from loss.

15. Right to Act in Emergency:
A partner has the right to act in the emergency to protect the firm from loss. He can bind the firm by any act done in emergency provided that he acts as a reasonable person.

16. Right to Enforce:
Every partner has the right to see that property of the firm is used only for the purpose of the partnership.

A) LIABILITIES OF A PARTNER

According to Section 13(c): of the Partnership Act, subject to contract between the partners. The obligations of a partner are as follows:

1. Liability of a new partner:
A newly admitted partner is not responsible for any debts or transactions happened before ho; date of admission.

2. Joint liability:
All the partners of the firm are jointly responsible for all the actions done for the partnership firm.

3. Liability at Retirement
A retiring partner is liable for the debts incurred before the date of his retirement.

4. Liability of Deceased Partner:
The property of deceased partner can't be held liable for any obligation incurred by firm after his death.

5. Liability of Insolvent:
The estate of insolvent partner is not liable for any obligations of the firm after the date on which order of insolvent is issued.

6. Liability of Losses:
In the absence of agreement each partner will contribute all losses equally.

7. Liability of Expelled Partner:
An expelled partner is not liable for the debts and losses of the firm arising after his expulsion.

8. Liability for Fraud:
Every partner is bound to be liable for wrong full act.

CONCLUSION:
Briefly speaking, in partnership business all the partners have their rights, Duties & liabilities through which every partner performs honestly and precisely for the growth of the business.


E.COMMERCE
BUSINESS TO CONSUMER
BUSINESS TO BUSINESS
CONSUMER TO CONSUMER

<u>Question No 10:</u> What is difference between Dissolution of Partnership Firm and Dissolution of Partnership? Explain the different ways/ circumstances of Dissolution of Partnership Firm?

<u>Answer:</u>

DISSOLUTION OF PARTNERSHIP / FIRM:

<u>Meaning:</u>

Dissolution means the end of Life of the business.

DISSOLUTION OF PARTNERSHIP:

"Where one partner dies, retires or become insolvent but the remaining partners continue the business, it is called dissolution of partnership but the firm is not dissolved."

Simply we can say:

"If a partnership is dissolved without dissolving the firm is known the dissolution of partnership."

DISSOLUTION OF FIRM:

According to [Sec. 39] of Partnership Act 1932

"If there is dissolution of partnership among the partners of the firm it is called dissolution of partnership firm."

Differentiation between Dissolution of Partnership & Partnership Firm:

The dissolution of partnership does not mean the dissolution of Firm whereas the dissolution of Firm means dissolution of partnership as well. Any change in the agreement among the partners dissolves the partnership but does not the firm. In this situation, the firm may continue its business activities under the same name and style according to new agreement. When firm is dissolved, its assets are sold and liabilities are paid. If any balance is left then that is distributed among the members of the firm.

For example:

If there are Five partners A,B,C,D & E, One of them dies or retires or become insolvent, the partnership firm would come to end. But if the remaining partners decide to carry on business, the firm can work under the same name it is called Dissolution of Partnership.

WAYS OF DISSOLUTION OF Partnership firm:

Dissolution

-

By Agreement By Order By Breach
of Compulsory By Notice

Of Court Partnership Act Dissolution

- **Insolvency**
- **Unlawful business**
- **Expiry of Period**
- **Completion of Work**
- **Death of Partner**
- **Retirement of Partner**
- **Business with enemy country**

- **Insanity**

- **Incapability**
- **Mis-Conduct**
- **Breach of Contract**
- **Continuous Loss**
- **Transfer of Shares**
- **Mis-Use of Powers**
- **Exploitation**

A) <u>BY NOTICE:</u>

Partnership Act says:

i) If the partnership is at will, the firm may be dissolved by any partner sending the notice to all existing partners of his intention to dissolve the firm.

ii) The firm is dissolved as from the date mentioned in the notice as the date of dissolution or if no date is so mentioned as from the date if communication of the notice.

B) <u>BY AGREEMENT:</u>

A Partnership Firm can be dissolved by an agreement and same agreement provides the way to dissolve it. A partnership firm can be dissolved with the consent of all the partners. This type of dissolution is also called VOLENTRY DISSOLUTIONS.

C) <u>COMPULSORY DISSOLUTION:</u>

A partnership firm can be dissolved by bowing reasons under compulsory dissolution:

<u>1. Un-lawful Business:</u>

A firm is dissolved when the business of the Partnership

Firm is declared unlawful on the happening of any event. For instance government may ban the import and export of gold. The partnership firm dealing in gold is bound to close their business as per new law.

2. EXPIRY OF Period:
A firm may be set up for a fix period on the completion of time period the partnership may be dissolved in the absence of new agreement.

3. Completion of Work
A firm may be formed to be complete of particular work, on the completion of work there is end o the firm. If a firm is created to build a house, on the completion of the house the partnership dissolved

4.Insolvency of Partner
The Partnership Firm is dissolved when a partner becomes insolvent and order of insolvency is issued by court.

5. Insolvency of Partnership
If all the partners or the entire firm may be declared insolvent by the court then partnership becomes dissolved.

6. Death of Partner
The death of a partner means the death of firm, if the new agreement is silent about the future.

7. Retirement of partner

In case of retirement of any partner the firm may be dissolved if new agreement remains silent.

D) BY COURT:

The partners can apply to the court for dissolution of a partnership firm is the following reasons

1. Insanity / Unsound Mind

When a partner has become unsound mind, any partner can go to the court of law for the dissolution of partnership firm. The court may issue the order of dissolution of partnership firm.

2. Misconduct

If a partner is found guilty of misconduct in carry on the business. Due to misconduct of any partner partnership firm can be dissolved by the court of law

3. Unable to Perform Duties

When a partner becomes unable to perform his duties. The other partners can move to the court. The court may order the dissolution of partnership due to disability of partner.

4. Breach of Agreement

When a partner willfully commits a breach of agreement the partnership can dissolved by the court.

5. Regular loss

If a firm is suffering a regular loss and there is no chance of profit in future then a firm is dissolved by the court.

6. Transfer of Shares

If any partner transfers his shares to other persons without the consent of other partners other partners got to the court for dissolution.

7. Other Reasons

There may be any other reasons when court saw that now partnership should be dissolved.

E) BY Breach of Partnership Act:

If the partners breach the Partnership Act 1932, or run the business on the lines against the provisions of Partnership act then Court may dissolve the firm.

Distribution of Firm's Assets & Settlement of Liabilities:

When the legal entity of partnership business comes to an end then all the assets including intangible assets of the firm are sold out and realize amount is distributed according to following method:

Step I. *The debts of the outsiders are paid first.*

Step II. *Then debts of the partners are paid.*

Step III. *The excess amount is paid to every partner for his contributed capital in the firm.*

Step IV. *If any amount left then it will be divided among the partners according to the profit or loss ratio.*

NOTE: *It is necessary that if the realized amount is less than the debts of the business then personal property of the partners will be liable to compensate the loss.*

CONCLUSION:

It can therefore say that dissolution of partnership may or may not result in dissolution of partnership firm but dissolution of partnership firm is always dissolution of partnership. It can be dissolved due to by agreement, by notice, breach of Partnership Act, insolvency, unlawful business, expiry of period, misuse of powers etc…

<u>Question No. 11:</u> Differentiate between Partnership and Co-Ownership.

<u>Answer:</u>

<u>DIFFERENTIATION BETWEEN PARTNERSHIP & CO-OWNWRSHIP:</u>

1. **<u>Definition:</u>**

<u>Partnership:</u>

<u>According to L.H. HANEY:</u>

"Partnership is the relations between persons who agree to carry on a business in common with a view to private gain."

<u>According to S.E.THOMAS:</u>

"Partnership is an association from two to twenty people who carry on business together for the purpose of making profits."

<u>Co-ownership:</u>

"It means there is ownership of joint property but there is no common business to carry on by the partners."

CO-OWNERSHIP AGREEMENT	PARTNERSHIP

<u>Agreement:</u> It is not necessarily the result of an agreement.	Partnership is the result of an agreement.
<u>Transfer of right.</u> A co-owner can transfer the other partners his interest to a stranger.	A partner cannot transfer the right to the other without the consent of the other partner, his interest to a stranger.
<u>Agent.</u> A co-owner is not as such the agent of anther.	A partner is the agent of another partner.
<u>Lien.</u> One co-owner has no lien on the thing owned in common, for expenses.	A partner has a lien on the thing owned by the firm, for expenses.
<u>Profit or loss sharing.</u> It does not necessarily involve community of profit or loss.	It involves community or profit or loss.
<u>Division of property.</u> A co-owner has a right of division in specie.	No partner can seek division of the partnership properties in species.
<u>Gain.</u> A co-owner does not necessarily exist for gain.	Partnership business is to earn profit.
<u>Limit for numbers.</u> In the co-ownership there is	In the partnership there is restriction for maximum number of partner i.e., twenty in case of other forms of

no restriction for the maximum number of co-owner.	**business and in banking not more than ten.**
<u>Legal claim.</u> A co-owner has no legal claim on the joint property.	**A partner has a legal claim on the property of partnership property.**
0 <u>Dissolution Risk.</u> Co-ownership cannot be dissolve due to the death, insolvency or retirement of any partner.	**0 Partnership is affected by the death or insolvency or retirement of any partner.**
1 <u>Minor case.</u> A minor can become a regular co-owner.	**1 A minor cannot become a regular partner in partnership.**

<u>Question No 12:</u> What is Joint Stock Company? Give the merits / advantages / pros and demerits / disadvantages / cons. Explain the main features of JSC.

<u>Answer:</u>

<u>JOINT STOCK COMPANY:</u>

<u>Introduction:</u>

A joint Stock Company is a voluntary association formed by people to carry on a certain business for profit. People contribute their capital in the form of shares in the company. Company works in its own name and seal and it has separate entity from its members. The business owners and managers try to increase the size of the business for obtaining the huge amount of profit. Because, now the automatic machinery is replacing the labour force. Therefore, people try to increase the production by using modern methods and techniques, thus the Company is able to overcome the difficulties of small-scale business, which they faces many problems like as: Limited capital, unlimited liabilities etc. *A JSC is formed and controlled under the Companies Ordinance 1984, which came into force on January 1st, 1985 in Pakistan it is managed by group of persons known as board of directors.*

Example:

PSO Ltd Co, SBP, BOP Ltd Co, NIB Bank Ltd Co, Allied Bank Ltd Co, Grace Of Cambridge Ltd. Tapal (Pvt) Ltd, Hilbro (Pvt) Ltd, Sublime(Pvt) Ltd, K.M Ashraf (Pvt) Ltd, etc....

Definitions:

According to L.H. Haney:

"Company is an artificial person created by law having separate entity with a perpetual succession and common seal."

OR

"A company is voluntary association of individuals for profit having a capital divided into transferable share. The ownership of which is the condition of membership."

According to Lord Justice Lindley:

"A company is an association of many persons who contribute money or money's worth to a common stock and employ it for common purpose."

According to Company Ordinance 1984 (sec-2. (1). (7)):

"Company means a company formed and registered under company ordinance 1894 or an existing company."

A Comprehensive Definition of Company is as:

"A JSC is an artificial person recognized by law with a distinctive name, a common seal, a common capital comprising transferable shares carrying limited liabilities and having a perpetual succession."

Important Points of Definitions:

A company is:

- ✓ ***Voluntary Association***
- ✓ ***Artificial person***
- ✓ ***Created by law***
- ✓ ***Having limited liabilities***
- ✓ ***Perpetual succession***
- ✓ ***Capital divided into transferable shares***
- ✓ ***Using Common Seal***
- ✓ ***Profit motive***

ADVANTAGES/MERITS Joint Stock Company:

Joint stock Company has following advantageous factors:

1. Limited Liability:

The liabilities of shareholders are Limited. The shareholders are responsible only the debt of Company in accordance to the value of shares which they held or the guarantee given by shareholders. In case of loss the personal property of the shareholder is not liable to compensate the loss.

2. Attraction of Greater Capital:

A JSC divides its capital into small parts each small part is called share, because there is no limit for maximum numbers of members in public Company. In this way it can attract huge capital from thousands of persons of varying incomes.

3. Specialist / Expert Management / Brave Management:

A JSC is managed by the elected directors. These are generally experienced and qualified people, so efficiency of the company improves. If the management doesn't show interest in business affairs, these can be changed by the shareholders.

4. Greater Permanency / Long Life:

This type of or origination is more stable and durable, because the life Company is not affected by the death or insolvency of any member but if the business remains well managed. The shareholders, may go and come, the life of the company like an artificial person is least affected by these changes.

5. Increase in Investment:

The Company can divide its ownership into small shares; it is possible for all groups of society to invest their amount in JSC, and can get benefits according to value of shares purchased of the joint stock company.

6. Greater Public Confidence:

JSC is created by law and is supervised by legal authority, so this form of business can easily win the public confidence and faith. Because, JSC has to submit various documents returns, resolution and reports to the Registrar.

7. More Possibilities of Heavy Industry:

Heavy and risky industry may be started only under this organization because the liability of its members is Limited and it has large amount of capital to take different risks in the business. ***"Greater the risk greater will be the reward of risk."***

8. Easy of Transfer of Shares:

The share of the public ltd. Company can be easily transferred or disposed of without the permission of other shareholders. There is no restriction on it from the directors and shareholders for transfer of shares.

9. Expansion of Business:

As the JSC can attract huge amount of capital from issue of shares, debentures and bonds, it is possible to increase its business activity for productive purpose. So there will be greater chances for expansion of the business.

10. Minimum Risk of Loss:

There are minimum chances of loss under JSC. In case of Company suffers losses, it is shared among all the members. The risk is therefore reduced and every shareholder will share only that amount of debts for which he has shares or as per guarantee.

11. Higher Profit:

In Joint Stock Company due to the availability of large capital and technical skills cost of production reduces. It increases the rate of profit. ***"Lesser the cost of the production, greater will be the numbers of customers and greater the numbers of customers, greater will the profit."***

12. Greater New Innovations:

The board of directors of JSC is in a position to bring the new changes in the business according to changes in circumstances and fashion and trends, so that greater numbers of customers can be attracted to get maximum profits.

13. Greater Employment Opportunities:

Joint Stock Company provides the greater number of job opportunities to millions of people working there in various industrial units to fulfill their needs by getting amounts in the form of salaries. Moreover, due to it unemployment can be reduced.

14. Greater Experts Skills:

Due to sound financial resources a joint stock company can hire the services of qualified, technical, experts.

15. Economies of Large Scale:

The Joint Stock Company can enjoy the benefits and economy of large-scale production, management and distribution. Due to better methods of production they try to save or reduce many unnecessary expenditures.

16. Risk Sharing:

The business is not free from risk. But there is large number of shareholders in a Joint Stock Company. The loss can be distributed among all the shareholders. One can diversify his risk by purchasing the shares of different companies.

17. Separate Existence / Recognized Legal Entity:
It is created by law or by the Companies Ordinance. It possesses separate legal existence apart from its members. So it can accept loans, hold property make contract and open bank accounts in its own name.

18. Social Benefits:
The joint Stock Companies contribute to social activities by making donations, developing rural and backward areas, running hospitals, schools, clubs etc….

19. Democratic Style:
The joint Stock Companies are managed by board of directors which is elected by shareholders through the democratic style of casting votes. The shareholders can change the directors if they are dissatisfied by their performance.

20. Least Chances of Corruption:
The Government audits(inspects) the various statements of The joint Stock Companies from time to time so the managing authorities of the companies get less chances of corruption.

21. Audit of Books:
The process of examining the accounts of the business is called Audit. The Govt. auditors audit the balance sheets of the companies. The joint Stock Companies are well protected against the fraudulent of the directors, if any, so shareholders are safe in this sort of business.

22. Greater Research & Experiments:

The joint Stock Companies have large capital to expand its business as well as for research and development and experiments. Research and experiments lead to inventions and innovations. It greatly improves and revolutionalizes the methods of production.

23. Easy to Join / Exit:

In Joint Stock Companies the shareholders can enter and leave the company by purchasing and selling of shares of the joint Stock Companies. There are no restrictions for joining and exiting the company.

24. Benefits of Small Savings:

In Joint Stock Companies, one can invest his small savings of even Rs 500 by purchasing the shares. In this way, small savings can be utilized in the large scale production which built the strong base of the economy.

25. More Innovations and Usage of Modern Technology:

The Joint Stock Companies are of large scale, so they need more and more innovations and latest technology to operate the business. By using modern technology:

- ✓ Cost of production reduces
- ✓ Time saved
- ✓ Quality of goods improved etc…

26. Division of Work:

The Joint Stock Companies spread over several shareholders who free of risk, the company can start can divide the duties of the business among the large number of workers. The division of work done so that quality of goods can be maximized due to which profit can be maximized.

27. Usage of Natural Resources:

The Joint Stock Companies can arrange management and funds for the growth of the business. The Joint Stock Companies use natural resources by using modern technology and new methods of production. The Joint Stock Companies provide these resources to general public.

28. Source of Govt. Income:

The Joint Stock Companies is the source of Govt. income. These pays income tax, sales tax, excise duty, and other taxes to the Govt. the collection of various taxes, is the main source of income of Govt. this money is used for the betterment of the country and people.

29. Sound Credibility:

The Joint Stock Companies can get huge amount of loan from banks and other financial institutions to expand the business due Govt. support and valuable assets and greater public confidence.

30. Other Benefits:

The Joint Stock Companies can organize funds and extra funds can be used by the companies. Moreover, the Joint Stock Companies produces different goods and services at large scale to provide goods and services at lower costs to the people. Other benefits are:

- ✓ ***Long Term projects***
- ✓ ***Kinds of shares***
- ✓ ***Fully covered by Law***
- ✓ ***Transfer of shares etc….***

DISADVANTAGES/ DEMERITS of Joint Stock Company:

The following are the major disadvantages of the JSC:

1. Complex Process of Formation:

The formation of JSC is a very difficult process. Many legal formalities are observed by the promoters or founder. A lot of time and money is wasted to start the business like this.

2. Lack of Responsibility:

In Joint Stock Companies the Directors generally employ their friends and relatives on important jobs. But these persons are incompetent to conduct business affairs. So they cannot perform their duties with responsibility, due which business suffer loses.

3. Lack of Secrecy:

In Joint Stock Companies the secrecy is not possible because the management has to make annual reports regarding sales, interim report, annual report, audit report, net profit, etc… so secrets of Joint Stock Companies cannot remain secrets.

4. Difference in Opinion:

In Joint Stock Companies sometimes difference of opinion takes place on some important issues among the directors and officers of the company. It becomes the cause of loss, because then they pay less attention in the affairs of the business.

5. Nepotism:

In Joint Stock Companies General Directors of Company employ their incapable relative and friends on key jobs. Due to this cost of production increases arid Company suffers losses. It is common in Joint Stock Companies.

6. Monopoly Control:

Due to large size and resources a joint stock Company is in a position to create monopoly, which is against the public interest. Because they dominate the market and fix prices of goods and services according to their wish, which results in inflation in the country.

7. Lack of Interest and Team Spirit:

In Joint Stock Companies everyone keeps in view his own interest not the group interest. When there is a risk of loss, shareholders begin to sell their shares.

8. Corruption:

In Joint Stock Companies sometimes directors do not show the true picture of the Company to the public and they deceive them by giving fake and false reports of the business to the general public.

9. Lack of Freedom:

In Joint Stock Companies various Governments Authorities interference during the operational activities of the business. So this organization cannot perform its function freely. So the Joint Stock Companies are always under thread of these Govt. authorities.

10. Double Taxation:

In Joint Stock Companies have to pay double taxes to the Govt.

- First of all company pays the taxes on whole profit.
- Secondly every shareholder will pay tax on his individual income.

11. Economic Powers:

In Joint Stock Companies the rich becomes richer and poor become poorer. The economic power and control over wealth is gathered in few hands which creates instability in the country and reduces trust.

12. Speculation:

In Joint Stock Companies due to easy transfer of shares and limited liabilities speculation in the stock market takes place and the economy of the country is adversely affected.

13. Bogus Report:

In Joint Stock Companies Directors know the internal affairs of the company but they don't present true position of the company before the shareholders in their respective meetings. So the interested parties may not know the actual performance as well as position of their business.

14. Social Drawback:

There are many social drawbacks of Joint Stock Companies such as human status is injured and an unhealthy atmosphere within the industry as well as in the country has affected the health of employees.

15. Small Profit:

In Joint Stock Companies a profit earned by the company is distributed among the shareholders. But the management performs its duties as a routine and they have no interest in profit maximization. So They low profit.

16. Further Drawbacks:

the followings are the further drawbacks of the JSC:

- ✓ ***Separation of Organization***
- ✓ ***Inequalities***
- ✓ ***Initial difficulties***
- ✓ ***Labour Disputes***

- ✓ ***Exploitation of Shareholders***
- ✓ ***Favourtism***
- ✓ ***Inefficient Direction***
- ✓ ***Drawbacks of Large Scale Production***
- ✓ ***Delayed Decision***
- ✓ ***Huge Expenditures***
- ✓ ***Centralization of powers etc…***

CONCLUSION:

In short, the merits of the company are far superior than the demerits of it. Weaknesses of JSC mainly arise due to mis-management or misuse of powers. It means if management of company is good then it is considered as best suited. The formation of a company is need of the day. The innovation is possible through this form of organization.

FEATURES OR CHARACTERISTICS OR PROPERTIES OF JOINTSTOCK COMPANY:

1. Large scale Business:, 2. Long Life: 3. Incorporated Association: 4. Limited Liabilities: 5. Separate Legal Entity: 6. Number of Members: 7. Common Seal: 8. Capital: 9. Separate Management: 10. Change in Business: 11. Objectives: 12. Transfer of Shares: 13. Separate Property: 14. Formation: 15. Audit of Accounts:

16. Double Taxes:
17. Trade Agreement:
18. Govt. Control:
19. Voting Rights:
20. Winding up:

Question No 13:

Discuss in detail the kinds / types / forms of Joint Stock Company.

Answer:

KINDS OF JOINT STOCK COMPANY:

A Joint Stock Company has been classified into different kinds depending upon its Registration, liability, capital, and many other features. Various companies along with their details are given below:

-

Incorporation **Ownership & Liability**
Nationality **Other Kinds**

A) ACCORDING TO INCORPORATION:

Followings are the kinds according to this:

A. Chartered Companies
B. Statutory Companies
C. Registered Companies

1. Chartered Companies:

Definition: These companies come into existence through grant of Royal Charter by the Royal Order.

Features:

I. It is not liked by the people and in present age it has not been formed or existence.

II. The word “Limited” is not used with the name of company.

III. The management of the company, number of members and objects are decided according to the provisions of the charter / order.

IV. The members are not liable for the debts of the company.

V. Order may be by a King or a Queen.

Examples:

Chartered bank of England (CBE), The east India Company (EICO), Chartered mercantile bank of India. Royal Society of Arts (RSA) England, British Broadcasting Corporation (BBC) England etc……

2. Statutory Companies:

Definition: These companies are formed by the order of governor general, president, or by act of legislation.

Features:

I. The rights, duties and liabilities of members are decided by special Act or Ordinance.

II. These companies are organized for the social welfare business.

III. Govt. provides full protection to this company.

IV. Their purpose may or may not to earn profit.

V. It is essential for these companies to use word “Limited” with their name.

VI. These companies have monopoly in their respective fields.

VII. Shareholders liabilities are limited to the value of shares purchased.

Examples:

State bank of Pakistan (SBP), State Life Insurance Corporation, Pakistan Insurance Corporation, ZTBL, NIB Bank etc…...

3. Registered companies:

Definition: Those companies which are formed under the companies ordinance 1984 under section 2(15) are called registered companies.

Features:

I. The law provides the rules for the creation, management and winding up of such companies.
II. The rights, duties and liabilities of members are decided by Companies Ordinance 1984.
III. Their purpose is to earn profit.
IV. These companies allowed to operate various industrial, agricultural, trading and service businesses.
V. This is the most popular form of incorporating a company.

Examples:

Silver Star (Pvt) Ltd, Sublime (Pvt) Ltd, Adamjee industries Ltd, Kohinor industries Ltd, Habib Oil Ltd.
HABIB sugar mills Ltd, Colony textile mills Ltd. etc……

B) ACCORDING TO OWNERSHIP & Liability:

Followings are the kinds according to this:

A) Unlimited Company

B) Limited Companies

a. Limited by Share Company

i. Private Limited Company

a) Multi Member Companies

b) Single Member Companies

ii. Public Limited Company

a) Listed Company

b) Un-listed Company

b. Limited by Guarantee Company

i. Companies Having Share Capital

ii. Companies Having No Share Capital

C) Govt. Company

D) Holding Companies

E) Subsidiary Companies

F) Association Not For Profit

5). Unlimited Companies:

Definition: Unlimited companies means the liability of each member is unlimited. In case of insolvency of the firm, the personal property of the members can be called for compensation.

6). Limited Companies:

Definition: Those companies in which Liabilities of Members are Limited are called Limited Companies.

7). Kinds Of Limited Companies:

a. Limited by Shares Companies:

Definition: Companies Limited by share means the liability of each shareholder is limited up to the unpaid value of shares.

Features:

I. A person who buys the one or more than one share becomes a shareholder of Company.

II. These can easily be transferable.

III. It may be Public Or Private Limited.

IV. The word “Limited” is written at the end of name of company.

V. If shareholders Paid full amount for shares, they purchased then their liability is comes to an end.

Examples

National Bank of Pakistan Ltd, Pakistan International Airline, NIB Bank, Habib Oil Ltd, PSO Ltd, HABIB sugar mills Ltd etc…….

8). Private Companies:

Private companies are of following types:

a) Multi Members Company

b) Single Member Company

a) Multi Members Company:

Features:

I. It is formed by at least 2 members and maximum number of members should not be acceded from 50.

II. These cannot be transfer shares.

III. The shareholders liability is limited.

IV. Audit is also not compulsory for these companies.

V. Members cannot transfer shares.

VI. The word “Private” is used with its name.

VII. It is not compulsory for the company to issue prospectus.
VIII. The company can start its business after getting the certificate of incorporation.
IX. There is no restriction on the company to call statutory meeting.
X. Minimum number of promoters is two.
XI. It cannot be listed with Stock Exchange.

Examples:
Silver Star (Pvt) Ltd, Sublime (Pvt) Ltd, Tapal (Pvt) Ltd, Forward Sports (Pvt) Ltd, Capital Sports (Pvt) Ltd. Tradewell International (Pvt) Ltd, Hilbro (Pvt) Ltd etc…..

b) <u>Single Member Private Company:</u>
Introduction: the SECP introduces a new concept of single member company by amending in Companies (Amended) Ordinance 2002, to admit the single businessman in the corporate sector as a company having limited liability.
<u>Features:</u>
I. It has only one member.
II. It uses word (S.M.C. Private Ltd) after its name.
III. Single person is responsible for its management.
IV. Its shares are non-transferable.
V. Liability of the owner is limited.
VI. Issuance of Prospectus is not compulsory.
VII. Company has separate legal entity.
VIII. Life of company is long.
IX. Promoter is single person.
X. It cannot be listed with Stock Exchange.
XI. Audit is also not compulsory for this company.

Example:
Peal Consultancy (SMC Pvt) Ltd, Islamabad.

9). Public Companies:

Features:

I. It can be formed by minimum 7 and maximum no limit of number of members according to ordinance.
II. The shares can easily be transferable to one another.
III. Audit is compulsory.
IV. Word "Limited" is used.
V. Minimum numbers of directors are 7.
VI. Shares are transferable.
VII. Can be listed with Stock Exchange.
VIII. Liability of shareholders is limited to value of shares purchased.
IX. Issuance of prospectus is compulsory.
X. Statutory Meeting is compulsory within 6 months of its commencement.
XI. Minimum numbers of promoters are 7.
XII. It can raise capital by general public.

Examples:
Grace Of Cambridge Ltd, National Bank of Pakistan Ltd, Pakistan International Airline Ltd, NIB Bank Ltd. Habib Oil Ltd, PSO Ltd, HABIB sugar mills Ltd etc….

10). Limited by Guarantee Companies:

Definition: Where the liability of each shareholder is limited or up to the guarantee or up to a fixed amount.

Features:

I. The main purpose of this type is not to earn profit.
II. But promote social, cultural and scientific activities.
III. The members will pay their fixed amounts at the time of winding up.
IV. It may be formed with or without capital.

Examples

Club, chambers of commerce, KSE, LSE, ISE etc…….

11). Govt. Company:

Definition: These are formed and owned by federal, provincial or local Govt. at least 51% shares are held by the Govt.

Features:

I. Management and Control of these remains in the hands of Govt.
II. These may be registered like public and private companies.
III. The Govt. is responsible for profit or Loss of the company.

Examples:

Habib Metropolitan Bank, Al-Faisal Bank, PSO for PICIC growth Fund, National Bank for NIT
Dar-ul-Mal Al-Islamic Geneva, BOP, FWBPL, PSO, etc……..

12). Holding Company:

Definition: Those companies which hold more than 50% of the shares of the other companies.

Features:

I. These have the power to appoint more than 50% directors of the company.

II. These have the control over the board of directors of the company.

Examples:

Dal-ul-Mal-al-Islami of Geneva is holding of Al-Faisal Bank of Bahrain, PSO is holding of PICIC growth fund of Pakistan, etc……

13). Subsidiary Companies:

Definition: Those shares more than 50% are held and owned by another Company is called subsidiary Company.

Features:

I. Holding company has right to appoint 50% directors of subsidiary Company.

II. These are the controlled by the board of directors of the holding company.

Note: It is important that a holding and subsidiary company are separate companies having separate legal entity.

Example

Faisal Islamic bank of Pakistan, NIT, PICIC Growth Fund, AG Zurich Bank, Faisal Islamic bank of Bahrain etc...

14). Association Not For Profit (U/S 42):

Definition: Association no for profit can be registered under Sec-42 of Companies Ordinance 1984.

Features:

I. These associations get all the benefits of limited companies without using the word private Limited, or Limited.

II. These companies are helped in promoting the Religious, Arts, Commerce, Charitable activities in the country.

III. License for formation is required from Federal Govt.

IV. Its profit is used to attain its objects not to the members.

V. Conditions are written in document made by the members for operating.

Examples:

Institute of Corporate Governance in Pakistan, Khushal Pakistan Fund etc…..

D) ACCORDING TO NATIONALITY:

Followings are the kinds according to this:

A. **Pakistani Companies**
B. **Foreign Companies**

15). Pakistani Companies:

Definition: These companies are formed in Pakistan under Pakistani law.

Features:

I. The registered office of these companies may be in any province of Pakistan.
II. But may open branches in foreign countries.
III. It may be private or public limited.
IV. The people of Pakistan have the right to receive all the benefits of the company.

Examples:

National Bank of Pakistan Ltd, Pakistan International Airline Ltd, NIB Bank Ltd, Habib Oil Ltd, PSO Ltd, HABIB sugar mills Ltd etc.……

16). Foreign Companies:

Definition: These companies are formed and registered outside the Pakistan.

Features:

I. The registered office of these companies is outside the Pakistan.
II. It may open branches in Pakistan.
III. The foreign owners of company receive all the profits.
IV. It is compulsory to submit its accounts and repots to Pakistani registrar.

Examples:

PEPSI, Coca Cola, Citi Bank, Nestle, KFC, McDonald, Pizza Hut, etc.

E) OTHERS Types:

17). Modaraba Companies:

Definition: These companies are formed under Modaraba Ordinance 1980 (Applicable w.e.f 26-06-1980).

Features:

I. In a Modaraba Company one person participate with his capital and other with their efforts.
II. The certificates issued by Modaraba companies are transferable.
III. Capital Contributor is called “Rab-ul-Mal”.
IV. Skills Contributor is called “Modarib”.
V. Certificates are transferable.
VI. It may be for definite period or indefinite period.
VII. It may be Multipurpose or Specific purpose.

Examples:
Punjab Modaraba, Allied Bank Modaraba, ABL Modaraba, NBP Modaraba etc……

18). Associated Companies:

Definition: If two or more companies are undertakings inter connected with each other, is called associated Company or Associated Undertaking.

Examples:
Walls and Polka, Standard Chartered Bank & Union Bank, etc…..

Conclusion:
In short different companies operate different functions, but an important role is their great contribution in the development of the countries as well as societies in different ways. JSC are fit for large scale business.

Question No 14:

Differentiate between

i. **Sole tradership, Partnership & Joint Stock Company.**

ii. **Public & Private Limited Company.**

iii. **Article Of Association & Memorandum Of Association.**

iv. **Shareholder & Debentureholder.**

Answer:

i. Differentiation Between Sole Tradership, Partnership & Joint Stock Company:

1. Definition:

SOLE TRADERSHIP:

"Sole proprietorship means the business in which one person is the owner who solely responsible for all the losses and enjoys all the profit."

PARTNERSHIP:

"Partnership is the relationship between persons who have agreed to share profit of business, carried on by all or any of them acting for all"

JOINT STOCK COMPANY OR (Public Limited Company):

"Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership"

Other Points of Difference:

The other points of difference between Sole tradership, Partnership and Public Limited Company (JSC)are mentioned below.

POINTS	***SOLE PROPRIETORSHIP***	***PARTNERSHIP***	***PUBLIC LIMITED COMPANY (JSC)***
2.Formation	There are no complicated formalities for the formation of sole-tradership.	There is a simple process for the formation of the partnership. No legal documents are required.	There is a long and complicated process for the formation of public limited co.
3.Legislation or Act	There is no legal Act of sole-	Activities of partnership controlled	The activities of the PLCo. Are controlled by

	tradership.	by the Partnership ACT 1932.	Companies Ordinance 1984.
4.Number of Members	There must be only one owner in sole tradership.	There must be minimum (2) members and not more than (20).	There must be minimum (7) members and there is no restriction on maximum.
5.Capital	The capital is increased or decreased according to the circumstances or according to the owner wish.	Its capital is described in the agreement. It may be changed by mutual consent of the partners.	Its authorized capital is mentioned in the MOA. It is very complicated process to change the amount of capital.
6. Registration	The registration of sole tradership is not required by the law.	Registration is optional according to Partnership Act 1932.	Registration of PLCo. is compulsory and there is special Ordinance 1984 for its

			registration.
7.Management	All business affairs are managed by the owner himself.	All the partners can take part in the management of the business.	All the shareholders can't take part in the management. So, management depends upon directors of the company.
8.Liabilities	The liability of the owner is unlimited. The personal property of the owner can be sold to pay debts.	The Liability of the partner is unlimited. The personal property of the partner is liable to pay debt.	The Liability of shareholder is limited to the value of shares they held.
9.Title	There is no need to use any specific word with its name.	There is no need to use any specific word with	It is necessary to use the specific word "**Public Limited"** with

		its name.	its name.
10.Legal Documents	There is no need of preparation any other legal documents.	There is no need of preparation any other legal documents except registration, which is also on your option.	The Public limited company can't start any work whether the certificate of commencement of business is not received.
11.Working Life	The life of sole tradership is too short. Because on death of an owner it can cause of the end of business.	The life of partnership is short. Because on death of a partner is a cause of the end of business.	Public Ltd enjoys long life. The death of shareholder can't affect the life of the business.
12.Submission of Reports	There is no need to prepare and submit any report.	There is no need to prepare and submit any report to	There is compulsory to submit report to the registrar.

		the registrar.	
13.Changes	The owner can change anything according to his mind.	The partners can make any change in the agreement as and when they feel.	The changes in MOA and AOA can be made to limited extent as provided by the law.
14.Audit	The audit of books of accounts is not compulsory by law.	The audit of books of accounts is not compulsory by law. It is optional and use simple method.	The audit is very compulsory. For this purpose, legal methods are used by the ***Chartered Accountants*** under the requirement of Company Ordinance 1984.
15.Tax	The rates of taxes are very low	Each partner pays	Double tax is paid by the company. Tax

	because of the single income of the owner.	individual and single tax on his income.	is paid in whole profit of the company and on the shareholder.
16.Profit Distribution	Sole tradership is an only in which businessman enjoys 100% profit and also have to bear all the loss.	Profit & loss is distributed among the partners according to partnership deed.	Some amount is distributed among the shareholders according to the number of share they held, and other amount is kept in reserve.
17.Books of Accounts	The owner can keep and maintain the books of accounts. It is not compulsory.	The partners can keep and maintain the books of accounts. It is not compulsory by Act 1932.	The books of accounts to be kept under the law are compulsory.

18.Prospectus	There is no need and requirement to issue prospectus.	There is no need and requirement to issue prospectus of firm.	In Public Ltd Co. it is necessary to issue prospectus to general public.
19.Promoters	The owner himself is the promoter of the business.	Minimum 2 and maximum 20 partners are promoters.	There must be at least 7 promoters.
20.Size of Business	It is suitable for small scale of business.	It is suitable for small and medium size of business.	It is suitable for large size business.
21.Meeting	There is no need to call any meeting because of single owner.	There is no need to call any meeting of partners of the partnership.	Statutory and Annual General meeting are compulsory by law.

22.Transfer of Shares	Sole tradership can sell or transfer his business without any restriction.	NO partner can transfer or sale his share without the consent of all other partners.	Shares of Public Ltd Co. are easily transferable to any person.
23.Dissolution	The dissolution of sole tradership does not require any legal formality or restriction.	Dissolution of partnership is very easy. There are no rules and regulations for this purpose.	Dissolution of Public Ltd Co. is a very complicated process.
24.Withdrawal of capital	The sole tradership can get his capital only at the time of liquidation of the business.	Any partner can withdraw his share of capital by transferring the rights to another person by	The members of the company can receive their money back by selling the shares in stock exchange.

		the consent of other partners.	
25. Expenses of Formation	Sole tradership bears less formation expenses as compared to other forms of business.	Partnership bears less formation expenses as compared to a JSC.	The formation expenses are much more than the formation of a partnership or sole tradership.
26.Payments of Debt	The sole tradership is liable to pay the debts of the business.	All the partners are liable to pay the obligations of the business.	The share holder is not responsible to pay the debts of the company.
27.Listed in Stock Exchange	Sole tradership cannot be listed in stock exchange.	Partnership also cannot be listed in stock exchange.	Only Public limited company can be listed in stock exchange.

Conclusion:

Sole proprietorship business plays an important role in under developing countries like Pakistan. It is helpful in equalizing the unequal distribution of wealth and unemployment, and it can be considered the best form of business due to full control. It is considered the best for small scale business. Partnership business plays an important role in under developing countries like Pakistan. The partners are of equal status, ability and resources. In JSC, it means if management of company is good then it is considered as best suited. The formation of a company is need of the day. JSC are fit for large scale business due to country grows.

ii). Differentiation between Public & Private Limited Company:

1. DEFINITION:

Public Limited Company:

"Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

Private Limited Company:

"Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into non transferable shares, the ownership of which is the condition of membership."

The other points of difference between Partnership, Public Limited Company (JSC) and Private Limited Company are mentioned below.

Other Points of DIFFERENCES:

POINTS	PUBLIC LIMITED COMPANY	PRIVATE LIMITED COMPANY
2.Formation	There is a long and	There is a complicated

	complicated process for the formation of public limited co.	process but easy as compared to Public Limited Company.
3.Legislation	The activities of the PLCo. are controlled by Companies Ordinance 1984.	It is govern by Companies Ordinance 1984.
4.Number of Members	There must be minimum (7) members and there is no restriction on maximum.	Minimum number of members is (2) and maximum limit is (50).
5.Capital	Its capital is so large.	Private limited Co.'s capital is less than Public limited Co.
6. Sale Of Shares	Public limited company can sale its shares to general public.	Private Company cannot sale its shares to general public.
7.Management	All the shareholders can't take part in the management. So, management depends upon directors of the	The management of Private limited company depends upon owners of the company.

	company.	
8.Liabilities	The Liability of shareholder is limited to the value of shares they held.	The Liability of shareholder is limited upto the value of shares, which they held with them.
9.Title	It is necessary to use the specific word "Public Limited" with its name.	It is has to use the specific word "Private Limited" with its name.
10.Legal Documents	The Public limited company can't start any work whether the certificate of commencement of business is not received.	The Private Ltd Co. required only incorporation certificate and there is no need of commencement of business.
11.Working Life	Public Ltd enjoys long life. The death of shareholder can't affect the life of the business.	Private Ltd also enjoys long life but less than Public Ltd Co.
12.Submission of Reports	There is compulsory to submit report to the registrar.	There is no strict rule for the submission of reports to the registrar.

13.Changes	The changes in MOA and AOA can be made to limited extent as provided by the law.	The changes in MOA and AOA are very complicated procedure.
14.Audit	The audit is very compulsory. For this purpose, legal methods are used by the Chartered Accountants under the requirement of Ordinance 1984.	Audit of books of accounts may or may not be compulsory. It is optional case.
15.Tax Rebate	The Govt. gives rebate for investing in public Ltd Co.	The Govt. does not gives rebate for investing in Private Ltd Co.
16.Profit Distribution	Some amount is distributed among the shareholders according to the number of share they held, and other amount is kept in reserve.	All profit is distributed according to the value of shares, and no reserve is made by a private limited company.
17.Books of Accounts	The books of accounts are to be	It is compulsory to keep the books of

	kept under the law are compulsory.	accounts under Companies Ordinance 1984 but to a little bit.
18.Prospectus	In Public Ltd Co. it is necessary to issue prospectus to general public.	There is no need and requirement to issue prospectus.
19.Promoters	There must be at least 7 promoters.	There must be at least 2 promoters.
20. Directors	There must be at least 7 directors.	There must be at least 2 directors.
21.Size of Business	It is suitable for large size business.	It is suitable for medium business.
22.Meeting	Statutory and Annual General meeting are compulsory by law.	There is no need to call statutory meeting.
23.Transfer of Shares	Shares of Public Ltd Co. are easily transferable to any person.	The shares of Private Ltd Co. are not transferable to any persons.
24. Dissolution	Dissolution of Public Ltd Co. is a very complicated process.	The Dissolution of Private Ltd Co. is a complicated procedure but less difficult as compare to Public Ltd.

		Co.
25. Allotment of Shares	There is restriction for minimum subscription.	There is no restriction for minimum subscription.
26. Written Consent of Directors	The directors' written consent is required.	The directors' written consent is not required.
27. Listed With Stock Exchange	Public Ltd Co can be listed with stock exchange.	Private Ltd Co cannot be listed with stock exchange.
28. Quorum	In directors meeting minimum number of directors is four or 1/3rd whichever is greater.	In directors meeting minimum number of members is 2.
29. Publication	Public Ltd Co must publish its annual performance report.	There is no restriction for Private Ltd Co is to publish its annual performance report.
30. Loans	A public Ltd Co cannot get loan after its incorporation but can after its	A private Ltd Co can get loan after its incorporation.

	commencement.	
31. Secrecy	Public Ltd Co has less secrecy.	Private Ltd Co has more secrecy.
32. Powers of Directors	The powers of directors are not so wide but depending upon article of association.	The powers of directors are so wide.
33. Legal Restrictions	Public Ltd Co has to face strict legal restrictions.	Private Ltd Co has to face more but less strict legal restrictions.
34. Area of Ownership	Area of ownership in a Public Ltd Co is wide. It is not restricted to one family.	Area of ownership in a Private Ltd Co is restricted to one family.
35.Memorandum Signatures	There must be at least 7 signatures to form memorandum.	There must be at least 2 signatures to form memorandum.

CONCLUSION:

It is concluded that Public Ltd. Joint Stock Company is better than Private Ltd Joint Stock Company due to Large Capital, free Issuance & Transference of Shares & debentures, Listed with Stock Exchange, Less Chances of frauds, large numbers of Directors to operate the company, Govt. Incentives, etc……

iii). Differentiation Between Article Of Association & Memorandum Of Association.

1. Definition:

Memorandum Of Association (MOA):

"The MOA is the most important document of the company. It defines the relationship between the company and the public. It depicts the character of a JSC as it includes all the objects of formation of JSC."

Article Of Association (AOA):

"The AOA are the rules of the company. These rules are used to manage the Internal affairs of the company and to achieve the objects stated in MOA. A set of 85 articles are given in Table A of Companies Ordinance 1984."

Other DIFFERENCES BETWEEN MOA & AOA:

POINTS	Memorandum Of	Article Of Association

	Association (MOA)	(AOA)
2.Usage	MOA is an official document setting out the details of the company existence.	The AOA are the regulations by laws which govern the internal origination and conduct of a company.
3.Scope	MOA states the work a company can do.	AOA contains the set of rules and regulations to complete the objects stated in MOA.
4.Status	A MOA is subordinate to Companies Ordinance 1984.	An AOA is subordinate to Companies Ordinance 1984 and MOA.
5.Approval	If a company violates the MOA it cannot be approved by the shareholders.	If a company violates the MOA it cannot be approved by the shareholders.
6.Filing	It is necessary to file the MOA with registrar.	It is not necessary to file the AOA with registrar as per Table A of Companies Ordinance 1984.
7.Preparation	It is prepared under the provision of Companies Ordinance 1984.	It is prepared under the provision of Companies Ordinance 1984 and MOA.
8.Main Object	Main object is to give information to the	Main object is to control and regulate

	outsiders about the company.	the Internal affairs of the company.
9.Importance	It has a primary importance in the formation of the company.	It has a secondary importance in the formation of the company.
10.Nature	It is a constitution of the company.	It contains the rules, which govern the administration of the company.
11.Objects	MOA only lays down the objects of the company.	AOA contains the procedure for achieving the objects of the company.
12.Alteration	It is not alterable but can be altered only be special resolution of the court.	The provision can be changed by special resolution easily.
13.Relation- ship	It is the relationship between the company and the outside public.	It is the relationship between the members and the management.
14.Registration Purpose	It is necessary for the registration of the company.	It is not necessary for the registration of the company.
15.Legal Effect	A company cannot go beyond the scope of MOA. Otherwise	A company can go beyond the scope of AOA. The activities

	consider illegal and cannot rectified.	cannot become illegal.
16.Clauses	The MOA has usually six clauses. According to Companies Ordinance 1984.	The AOA has many clauses. It is not limited to six clauses. Table (A) has (85) clauses for operating the company.

CONCLUSION:
In short, AOA is used only by the management of company because it the secrets container and secrets should not be unfold. MOA is used by management as well as outsider to information related to company.

iv). Differentiation Between Shareholder & Debentureholder:

1. **Definition:**

Shareholder:
The total capital of the company is divided into small parts / units, each small part is called share. The person who purchased the shares of the company is called shareholder.

Debentureholder:
The certificate issued to as a receipt by borrower to lender for the settlement of the debts in future as by borrower (JSC) is called debenture and the holder of debenture is called Debentureholder.

Other DIFFERENCES BETWEEN Shareholder & Debentureholders:

Points	Shareholder	Debentureholder
2.Nature	The amount paid by the shareholder is kind of an equity instrument.	The amount given by the debentureholder is kind of an equity instrument.
3.Liquidity	These are considered as liquid instrument.	These are considered less liquid instrument as compared to Shareholders.
4.Return	These get return in the form of dividend.	These get return in the form of Interest.
5.Risk Sharing	Shareholders share the risk of the company.	Debentureholders do not share the risk of the company because they get fix interest.
6.Time Period	The life of shareholders is short as they can be sold and bought any time in stock exchange.	Debentureholders are considered to be long term instruments. Usually there are issued for the period of 3, 5 & 7 years.
7.Position	Shareholders are the owners of the company.	Debentureholders are the creditors of the company.
8.Share in Profit & Loss	Shareholders have the right to share the profit & loss of the company.	Debentureholders have no concern with the profit & loss of the company.
9.Withdrawn of Capital	These can withdraw capital by selling shares in the stock	These cannot withdraw capital before the maturity date.

	exchange.	
10.Legality or Justification	These are legal as expressed in terms of Islam.	There is as such no concept of interest in Islam because the debentures contain the element of interest.
11.Prefrence	Shareholders have the secondary right to share the value of assets at the time of liquidation.	Debentureholders have the primary right to claim for debts at the time of liquidation.
12.Security	Shareholders are considered to be Insecure.	Debentureholders are considered to be secured.
13.Liability	Shareholders may be considered as responsible for the company's liability.	Debentureholders are not considered as responsible for the company's liability.
14.Rights & Powers	The rights and powers of shareholders are written in AOA.	The rights and powers of debentureholders are written on the certificate issued to them.
15.Bonus	Sometimes shareholders receive bonus in addition to their dividend.	No bonus is paid to the debentureholders.
16.Convertab-ility	The shares of shareholders can be converted into the stock.	The debentures of debentureholders may be converted into shares.
17.Listings	The shareholders' shares are listed in stock Exchange.	The debentureholders' debentures are not listed in stock

		Exchange.
18.Participation	Shareholders can participate in the management of the company.	Debentureholders cannot participate in the management of the company.
19.Nature of Amount	The amount contributed by the shareholders is called company's capital.	The amount contributed by the debentureholders is called loan to the company.
20.Existance	Shareholders can exist both in private & public Ltd company.	Debentureholders can exist only in public Ltd company.

Conclusion:

In the end we can say that the shareholders are the owners of the company for the value of shares purchased by them and they receive dividend whereas debentureholders are creditors of the company for the value of debentures acquired by them and they receive a fixed rate of interest. But both provide funds to the JSC.

Question No 14: **Explain with detail the three basic legal documents of Joint Stock Company.** OR
Give the details of the followings:

i. Memorandum of Association (MOA)
ii. Article of Association (AOA)
iii. Prospectus.

Answer:

Basic Legal Documents of Joint Stock Companies:

The main documents of joints stock companies are the followings:

Note: The Public Limited Companies must have these three basic Legal documents.

i) Memorandum of Association (MOA) [Sec. 16, 17 & 18]:

Definition:

According to Lord Cairns:

"The MOA of a company is its charter and defines the limitations and powers of the company established under the Act."

Simply we can Say:

"Memorandum of Association is an official document setting out the details of the company existence."

Characteristics of MOA:

Followings are the features of MOA:

I. Constitution/Charter of the company.
II. Essential for all kinds of companies.
III. Defines objects of the company.
IV. Public document.
V. Evidence of registration.
VI. A Contract between company ant the third party.
VII. Signed by the promoters.

Contents / Clauses Of Memorandum of Association (MOA) :

Followings are the main contents or clauses of Memorandum of Association.

1. Name Clause:

It is the legal requirement of the company that the promoters must proposed the name of the company.

a) The name of the company should he different from the name of existing companies.

b) It should also not contain the words like king, queen, emperor, government bodies, UNO, WHO etc…. and the name should not be objectionable in the opinion of Govt.

c) The word “**Limited**” is written at the end of name, in such case, if liabilities are limited and there is compulsion for Private Company that it must use word “**Pvt Ltd**” at the end of name.

d) The name doesn’t hurt the religious feelings of the people.

2. Situation Clause:

Every company has a registered office. The company must show the name of province, in which the registered office of company is situated. The registered office address can be provided to the Registrar within 28 days of incorporation or from the date when it commences business whichever is earlier.

This clause gives following advantages:

- ✓ A person can know the jurisdiction (control) of the court under which the company operates.
- ✓ It indicates the place of annual meeting of the company.
- ✓ Creditors, customers, Govt, can know about the company’s place.
- ✓ All correspondence is done at the office address of the company.

3. Objectives Clause:

The objects of the company are also expressed in details.

- ✓ A company cannot start any work, which is beyond the scope of objects.
- ✓ It defines sphere of the company.

- ✓ It shows series of objects for which company is started if the company go beyond its objects then it will be declared Ultra Vires and Void.
- ✓ It should be written carefully.
- ✓ It provides protection to shareholders by ensuring them that the amount collected for business is not risked in any other business.

4. Area of Activities Clause:

The Company must show the name of province, division or district, in which the
companies perform its functions or Activities. It is optional clause.

5. Rights and Powers Clause:

The rights and powers of the company's shareholder and directors are also clearly mentioned in the memorandum of association. They cannot go beyond their limits assigned in MOA.

6. Liability Clause:

It is mentioned in MOA that the liability of shareholders is limited or unlimited. If liability is mentioned then in case of loss they pay the amount up to face value of shares, which they hold and which they have not yet paid (unpaid up capital) or to the value of unpaid guarantee. But in case of unlimited, their private property is also liable for the recoveries of the debts.

7. Capital Clause:

The companies have to mention the authorized or registered capital. The capital is divided into small units, each unit is called shares of fixed amount. Generally in Pakistan the value of each share is Rs.10/- each. But every company has different motives for share's prices. It is not compulsion for the companies that the price per share must be Rs. 10/-, it can be vary.

8. Association & Subscription Clause:

Promoters or subscribers declare that they want to form the company and they are agreeing to purchase the shares written against their name. This clause also contains the names, addresses and signature of promoters. Each sign is supported by the signature of witness with his address. The promoters is required to take at least one share each.

Printing, Signature etc… of the MOA:

The MOA shall be:

I. Printed
II. Divided into paragraphs numbered consecutively.
III. Signed by each subscriber in the presence of at least one witness who shall attest the signature.
IV. Date.

ALTERATION OF MEMORANDUM:

Generally this document is considered non-alterable. But anyhow few necessary clauses can be changed with the special resolution and with the sanction of the court. The changes are made in

- Name
- Office
- Objects
- Liability
- Capital
- Association

ii) ARTICLES OF ASSOCIATON (AOA) [Sec. 28]:

Definition:

According to L.H. HONY:

"The AOA are the regulations or by laws which govern the internal organization and conduct of a company."

In simple words:

"AOA is concerned with the procedural matters in the routine conduct of the internal affairs of the company."

Characteristics of ARTICLES OF ASSOCIATON (AOA):

Followings are the features of AOA:

- *Subordinates/Controlled by the MOA.*
- *Defines duties, rights and powers of the company & its members.*
- *Regulates internal Management.*
- *Can be altered within the provisions of the MOA.*
- *Governs the way in which the objects of the company are achieved.*

CLAUSES / CONTENTS OF ARTICLES OF ASSOCIATON (AOA):

The articles usually state the rules and regulations about the following matters:

1. Share Capital & Shares Clause:

I. Share capital and its division into different classes.
II. Procedure for making the call on shares.
III. Price of each share.
IV. Rights of shareholders.
V. Transfer of shares from sellers to buyers.
VI. Methods of increase or decrease in share capital.
VII. Rules regarding issue of shares and debentures.
VIII. Rules regarding to dividend & its payment.

2. Meetings Clause:

I. Statutory Meeting of the company.
II. General meetings of the company.
III. Notice and proceeding of general meeting.
IV. Proceedings of directors meeting.
V. Special / urgent Meetings.

3. Management & Directors Clause:

I. Number of directors.
II. Remuneration of directors.
III. Appointment of directors.
IV. Qualification of directors.
V. Powers, rights and duties of directors.

4. Miscellaneous Clauses:

I. Rights and liabilities of auditors.
II. Rules relating to depreciation and creation of reserves.

III. Methods of securing loans.
IV. Rules for common Seal of the company.
V. Rules regarding to Arbitration, if any.
VI. Methods related to underwriting commission and brokerage.
VII. Indemnity to be paid to company officer or agent.
VIII. Voting powers of the members.
IX. Winding up of a company. Etc.....

Printing & Signing etc… of AOA:

The AOA should be printed, divided into paragraphs and serially numbered. All the persons who have put their signature on the memorandum are required to put their signature, names addresses, etc. *the new changes should be added in all copies, which are not yet issue to the other people.*

ALTERATION OF AOA:

According to section 28 of the Companies Ordinance, a company may alter or add to its articles by special resolution. *The changes should be:*

- *Not against MOA.*
- *Not against Companies Ordinance 1984.*
- *Not illegal.*
- *Beneficial.*
- *Not increase the liability of the members unless they agree.*
- *Not break the contract with outsiders.*

➢ *Not against interests of the minority shareholders.*

ALTERATION Procedure OF AOA:

A JSC can change its AOA by following procedure:

I. Special Resolution.
II. Information to Registrar of JSC.
III. Information to Stock Exchange.
IV. Amendments.

iii). PROSPECTUS [Sec. 2(29)]:

finition:

According to English Companies Act:

"Any prospectus, notice, circular, advertisement, or other invitation, offering to the public for subscription or purchase any shares or debentures of the company is called prospectus."

In simple words:

"The document which is used to invite public to purchase shares and debentures of the company is called Prospectus."

Objectives of PROSPECTUS:

Followings are the objectives of the Prospectus:

❖ *Invite public for purchase of shares.*
❖ *Convince to those persons who have large savings.*
❖ *Declare that directors are responsible for issue of shares.*
❖ *Inform the public that a company has been formed.*
❖ *Inform the public that directors are honest and hardworking.*
❖ *Present true and certified records about the issuance of shares.*

CLAUSES / CONTENTS OF THE PROSPECTUS:

Following are the important particulars of prospectus:

1. **Basic Information:**

I. Short history of the company.
II. Location of plant & machinery.
III. Major objects of the company.
IV. Information about projects and plant and machinery and raw material etc….
V. Economic justifications of goods produced.
VI. Marketability of goods produced.

2. **Capital Structure:**

I. Share capital
a) Authorized capital.
b) Issued, subscribed, called-up and paid-up capital.
c) Unissued, unsubscribed, uncalled-up and unpaid-up capital.
d) Present issues offered for subscription.

II. Basis for allotment of shares.

III. The date and time of the opening and closing of the subscription list.

IV. The name of the bank, the dates and time for submitting application for sale of shares should be stated in it.

V. The application money receivable from each shareholder is stated. Whether, the value of each share is receivable in full at the time of application or not.

VI. The amount of minimum subscription if the shares are offered to the public for subscription.

VII. Benefits present for non-resident Pakistanis for purchase of shares.

3. Company Management:

I. Complete information about history, objects, and current business of the company.

II. The experiments and backgrounds of the promoters.

III. Full addresses of managers, managing directors and other directors of the company.

4. Board of Directors:

I. Names, addresses and occupation of the board of directors are mentioned.

5. Interest of Directors:

Interest of directors in dividend and other benefits.

Remuneration to be paid to the chief Executive, directors and the secretary.

6. Projects of the Company:

I. Complete details of the project

- Cost.
- Financing.
- Location.
- Utilities like water, power, nature of the products etc….

7. **Financial Information:**

I. Auditor's report.
II. Shareholders Equity & Liabilities.
III. Auditors certificate on share capital.
IV. Estimated cost of project and sources of finance.

8. **General Information:**

I. Quorum of general meetings.
II. Elections of directors.
III. Powers of directors.
IV. Appointment of chief executive.
V. Borrowing powers of directors.
VI. Voting rights.
VII. Transfer of shares.

9. **Commission, Brokerage and Tax Information:**

I. Brokerage.
II. Commission to be paid to the bankers for the issuance of shares and debentures.
III. Tax exemptions on investments on the shares of the company.
IV. Exemptions from custom duty and sales tax on the plant and machinery, if any.

10. **Miscellaneous Information:**

I. Bankers of the company for transactions.
II. Place of registered office.
III. Places of sub branches.

IV. Bankers to issue both local and foreigner.

V. Legal advisors, consultants, lawyers to issue shares and debentures, etc….

11. Memorandum:

I. The contents of MOA along with the name address and occupation of persons who have signed it must be stated in the prospectus.

12. Reports:

I. By the auditor, If the company has already been carrying on business prior to the issue of prospectus the report must contain:

a) Profit or loss account.

b) Balance sheet

c) Cash Flow Statements

d) Statement of changes in Equity, etc…..

II. By experts. About future prospects of the company on past experiences.

CONCLUSION:

Joint Stock Companies deal with three important documents i.e. MOA, AOA, and Prospectus. MOA is used by management as well as public whereas AOA is only used by internal Management and Prospectus is used to invite general public for purchasing shares of the company.

Question No 15:

Describe the Procedure of Formation of JSC. And also drive the specimen o f Incorporation.

Answer:

Procedure of Formation of Joint Stock Company:

Introduction:

JSC is a form of a business which is usually involved in large scale business. Such businesses play vital rule in the development of the country. Moreover, establishment of such organizations requires a very long procedure and compulsions. However, steps involved in formation of a JSC are given below:

Steps for the Formation of JSC:

Followings are main steps for the formation of a JSC:

Promotion Stage Incorporation Stage Capital Raising Stage Commencement Stage

<>Idea Generation <>Selection of Name <>Contact with Underwriters
<>Min. Subscription
<>Analysis
<>License <>Contact with Bankers <>Payment of Shares
<> Seeking Opinion <>Submission of Documents <>Issue of Prospectus
<>Statutory Declaration
<> Planning for Resources <>payment of Fees <>Issue of Shares <> Commencement Certificate
<>Preliminary Expenses <> Verification <>Issue of Debentures <> Submission of Prospectus
<> Preparation of <> Certificate of Incorporation
Documents <> Address of Company

A) PROMOTION STAGE:

It is the first stage of formation of JSC.

Definition:

"Promotion starts with the conception of idea for the business to be involved and continue down to the point at which the business fully ready to begin operation as a going concern. Those people who take initiative in the formation of JSC are called promoters."

Note: Promotion is the discovery of ideas and or organization of funds, property and shill, to run the business for the purpose of earning income, There must be minimum (7) promoters in case of public and (2) promoters in case of private company.

Steps involved in promotion stage:

Following important steps are involved in promotion stage.

1. Idea Generation:

It all starts from an idea, the promoters discover the idea of the company and hopes that there is possibility of the existence of the idea they have thought of. The idea is always based on the experience of the expert.

2. Analysis / Investigation:

After the idea generation the promoters take an deep analysis regarding the following things:

- Cost of Land & Building.
- Estimation of labour.
- Estimation of raw material.
- Sources of financial fulfillment.
- Cost Vs Benefits analysis (Feasibility Report).

Note: The success and growth of the business depends upon the correct analysis. And then these results are verified by experts.

3. Seeking Opinion:

The view of the consultants and experts must be taken while preparing the final draft of the idea. The success of the business can be linked with the exact calculations of programs.

4. Planning for Resources:

The promoters can assemble the business resources and factors of production, the promoters arrange sources of capital, raw material, and other factors of production. They make contact with the suppliers for raw material and machinery and they also arrange for license, copyrights, employment of necessary employees etc…..

5. Preliminary Expenses:

The initial expenses of the company are paid by the promoters. The preparation of:

- MOA. (A document indicating name, address, objects, authorized capital etc.)
- AOA. (A document containing laws and rules for internal control and management of a company.)
- Prospectus. (Promoters also have to file a prospectus with the registrar, used to invite the public.)
- Registration Fees etc… are called initial or preliminary expenses.

6. Preparation of Documents:

Followings are the various legal documents prepared by the promoters:

- Memorandum of Association (MOA)
- Articles of Association (AOA)

Other Documents:

- Documents related to Registered Office.
- List of Directors.
- Written consent of directors.
- Authorized / Nominal / Registered Capital.
- Qualification of Shares.
- Declaration.

B) INCORPORATION OR REGISTRATION STAGE:

It is the second stage of formation of JSC.

Definition:

"To register the company with the registrar and it is done promoters under the Companies Ordinance 1984 is called Incorporation/ Registration."

However, this stage includes the following steps:

1. **Selection of Name:**

The name of the JSC is proposed by the promoters. The name should be different from other existing companies. The name must not state the patronage (aid) of any head of the state.

2. **License:**

The application for the license is submitted to the Federal Government before registration of the company. The license is usually required to get started the company.

3. **Submission of Documents:**

The various documents prepared by the promoters of JSC are filed to the registrar for the verification and registration of JSC.

4. **Payments of Fees:**

Both the public and private limited companies will pay the amount of fees to registrar as prescribed depending upon the scale of the business and in particular the amount of share capital. The amount are transferred to the Govt Treasury.

.

5. **<u>Verification:</u>**

The registrar of companies verifies the all the documents to ensure the legality and viability to insure proper registration.

6. **<u>Certificate of Incorporation:</u>**

After verification of legal documents the registrar issues the certificate of incorporation or registration which means that now the company is registered and hence become an artificial and legal entity.

7. **<u>Address of the company:</u>**

After incorporation the management must inform the registrar in writing about the registered office of the JSC within 28 days.

NOTE: after getting certificate of incorporation the private limited companies can start its activities but not public limited companies.

<u>C. CAPITAL RAISING STAGE:</u>

After receiving the certificate of incorporation, the next step is to make arrangement for raising capital. It is the third stage of formation of JSC. Followings are the steps taken in order to raise the share capital of JSC:

1. **<u>Contact with underwriters:</u>**

The promoters make contact with underwriters for the sale of the company's shares. The underwriters provide guarantee for the sale of company's shares within the specified time period as agreed.

<u>NOTE</u>: Usually the underwriters are the Bankers.

2. **Contact with Bankers:**
The promoters make contact with bankers for the sale of the shares of the company.

3. **Issue of Prospectus:**
The public limited company issues prospectus for inviting investors to purchase shares and become shareholders of the company. Prospectus is an advertisement or an invitation to general public for purchasing the shares.

4. **Issue of Shares:**
On the receipt of shares applications the company issues the shares to the applicants at the agreed price.

5. **Issue of Debentures:**
The public limited company also collects capital by issuance of debentures which are the debt proof, at the agreed price.

D. COMMENCEMENT STAGE:
It is the fourth and last stage of formation of JSC. Following steps are taken in this stage:

1. **Minimum Subscription (Shares):**
A declaration regarding to the allotment of shares is fulfilled by the public limited company.

2. **Payment of Shares:**
The directors have to obtain the qualifying share and to have made the payment against them.
NOTE: Minimum limit of qualifying shares is one.

3. **Submission of Prospectus:**

Now the company files the prospectus to the registrar of the companies.

4. **Statutory Declaration:**

The declaration relevant to the company condition under the companies Ordinance1984 is made by the Secretary of company. The secretary or a chartered accountant can give declaration that all the provisions of the Companies Ordinance with regard to registration have been fulfilled.

5. **Certificate of Commencement of the Business:**

After checking all the documents the registrar issues a certificate of commencement of the business to the public limited company. From the date of issuance of this a company can start the business a public limited company can starts its business activities.

CONCLUSION:

It is concluded that Joint Stock Company formed passing through promotion stage, incorporation stage, capital raising stage and commencement stage. After completing the procedure a Public limited company can operate its activities, but a private limited company cab start its business after getting certificate of incorporation.

Question No 16:
Define the term "Company Meeting". Explain the different types of meetings in a JSC?

Answer:

COMPANY MEETINGS:

Definitions:

"When two or more persons sit together in order to solve any problem or to discuss any matter by a pervious notice, such gathering is termed as meeting."

OR

"Gathering of two or more people by an agreement or by mutual arrangement for the discussion or for any kind of transaction relevant to the business is known as meeting."

Kinds / Types of Company Meetings:

Broadly speaking form the company prospectus there are two main kinds of meetings commonly known as:

A. Board of Directors' Meeting
B. Shareholders' Meeting

A. <u>BOARD OF DIRECTORS' (BOD) MEETINGS:</u>

Directors are those persons who are appointed by the shareholders in order to run the day to day business affairs. Hence the directors are responsible for all business activities. Hence ***"The meetings in which the directors decide the business matters or company matters are called board meetings."***

<u>Occasion:</u>

The BOD meeting should be held at least one in every three months and at least one for every financial year.

<u>Notice:</u>

The notice of BOD meetings such be send sewed to the directors of the company in writing within due time.

<u>Duty:</u>

It is the duty of the company's sectary to make the arrangements related to the directors meeting. The sectary prepares the agenda for the meeting.

Quorum:
The quorum of BOD meeting is four or 1/3rd of the directors whichever is more. In case of no quorum the meeting must be postponed.

Special Features:

I. The chairman of Board can call the meeting.
II. Usually such meeting is held at the Head Office.
III. A notice in writing must be sewed the directors
IV. The decisions related to meeting are made with simple majority of shares.
V. The company sectary writes the minutes of meeting.

Objects of BOD Meetings:
Usually a BOD of directors meeting is held in order to achieve any of the following objectives:

I. To issue the shares of company.
II. To invest companies meeting.
III. To make loans of a company.
IV. To allocate company's profit.
V. To make call for the company's meetings.
VI. To declare the profit of a company.(Interim dividend)
VII. To check and approve the company's Accounts.

B. SHAREHOLDERS' MEETINGS:

According to the Companies Ordinance 1984.There usually three kinds of company meetings also termed as shareholder meetings.

a) ***Statutory Meeting***
b) ***Annual General Meeting***
c) ***Extra Ordinary General Meeting***

a) Statutory Meeting [Sec.157]:

Meaning:

Statutory meeting is the first meeting of the members of a public limited company. It is held only once in the life of a public limited company. It can be commanded by the directors only.

By whom it is held:

Every Registered Company is required to hold such kind of meeting. Usually Registered Companies are categorized in to the following categories:

- Company Limited by Shares
- Company Limited by Guarantee
- Every private limited company converted into public limited company

Occasion:

Such meeting must be held not less than 3months and not more than 6months from the date of Commencement of Business.

Notice:

At least 21days before the notice of such meeting in writing must be send to the relevant parties.

Objects of Meeting:

Such kind of meeting is understand to achieve the following objectives:

I. To discuss the statutory report.
II. To give the idea about the working of a company.
III. To give the detail of agreements made by the company..
IV. To introduce directors to shareholders.
V. To discuss the working of a company.
VI. To give the detail of use of company capital.

Default in Holding Meeting:

A company may be dissolved if it fails to hold such kind of meeting.

b) Annual General Meeting[Sec.158]:

Meaning:

Annual general meeting is the open meeting of shareholders in which annual performance of the company is discussed. Shareholders are allowed to criticize the performance of directors in such meeting.

Occasion:

For the very first time it is to be held within 18months from the date of Incorporation and than once every financial year.

Notice:
At least 21days before the notice of such meeting must be sewed in writing to every shareholder.

Objectives which promote trade:
Following are the main objects of Annual general meeting:

I. Appointment of Auditors.
II. Election of Directors.
III. To declare Dividend (Final).
IV. To check the Remuneration of Directors, Auditors and Managing Directors.

Default:
According to Companies Ordinance a company may be dissolved if it to held an annual general meeting.

c) Extra Ordinary General Meeting [Sec.159]:
Meaning:
This kind of meeting is held for some special or any urgent kind of work. All the meetings other than the general and statutory meeting can be termed as extra ordinary general meetings.

Occasion:
Such kind of meeting can be held from time to time as provided in the articles of the company.

Notice:

At least 14 days before the meeting date notice must be sewed to the shareholder, if an extra ordinary resolution is to be passed than in this case 21 days before in notice writing should be sewed.

Objectives which promote trade:

Such kinds of meetings are conducted for some special kind of changes like:

I. For issuing debentures.
II. To alter any clause in memorandum and article of association.
III. For reorganization the share capital of a company.
IV. For the voluntary wind up of a company.
V. To make the liability of directors unlimited.
VI. To confirm the past and remuneration of directors.
VII. To investigate the company affairs.
VIII. To sanction additional remuneration of agents.
IX. To remove the managing agents for its carelessness.
X. To invest the company affairs.

Extra Ordinary Resolution:

An extra ordinary resolution is passed by 3/4th majority of shareholder. For such kinds of resolution a 14 days' notice must be held and sewed to each member

Objectives which promote trade:

Following are the main objects:

I. To remove directors
II. To appoint new directors in replace of removed directors
III. To voluntary wind up the company due to heavy liability
IV. To make settlement between company's creditors
V. To change article and memorandum of company

Note:

For the quorum of all kinds of meetings and resolution of company, a pewee is also considered or accounted for the present members if article permits.

Conclusion:

In short statuary meeting conduct once in the life of company, director's meeting 4 times in a year, annual general meeting once in a year but deals all important matters related to company, extra ordinary meeting call once in a while to settle those matters which cannot be delayed till annual general meeting. Mostly directors call these meetings.

<u>Question No 17:</u> Define winding up or Liquidation of a Joint Stock Company and discuss in brief the difference modes of winding up or liquidation of JSC.
OR
Describe the member's voluntary winding up and creditor's voluntary winding up of JSC.

<u>Answer:</u>

WINDING UP OR LIQUIDATION OF JOINT STOCK COMPANY:

INTRODUCTION:
Basically JSC is a separate legal Entity, which is formed and created under the law. It is no doubt that company enjoyed long life, but some legal or personal reasons affected the life of the company and also

- A company may he formed for a specific objective and at the completion the company automatically closed.
- A company may he formed for a specific time and at maturity the company automatically closed.

LIQUIDATION:

Definitions:

"If company is in a position to pay its debts and wants to close its activities due to any reason (legal or personal). The

company is said to be liquidated or winding up."

OR

"The winding up of the company is a legal procedure in which all the affairs of the company are wound up. The assets and liabilities are determined and debts are met out of the balance of assts sold".

DIFFERENC BETWEEN INSOLVENCY AND LIQUIDATION:

INSOLVENCY:

"If the company is not in a position to meet its full obligations (account payable / debts / liabilities) the company said to be insolvent."

LIQUIDATION:

"If the debts or outstanding debts are met by the company and wishes to stop the activities, it is called liquidly or winding up."

NOTE: So, it is noted that liquidation or winding up is different from the company become insolvent.

(A) Compulsory Winding Up (B) Voluntary Winding Up (C) Winding Up By Court

i. Special Resolution i. Members' Winding Up i. Resolution ii. Statutory Meetings ii. Creditors' Winding Up ii. Liquidators not fair iii. Failure to Commence Business
iii. Avoid from Rules iv. Reduction in Membership iv. Powers of Court v. Court's Decision v. Dissolution vi. Unable to Pay the Debts
vii. Unlawful and

Unauthorized

viii. Just &

Equitable

A: - COMPULSORY WINDING UP:

There are the following reasons for the compulsory winding up of the Joint Stock company:

1. Special Resolution:

The company has decided through special resolution that it should be wound up under the special activities of the court, if it finds that this would be against the public interest or the interest of the company as a whole.

2. Statutory Requirements:

A company may be wound up:

I. If a company fails to hold statutory meeting or does not file the statutory report in compliance with the companies Ordinance 1984.

II. If the company fails to hold two consecutive annual general meetings.

3. Failure to Commence the Business:

If a company fails to start its business within one year of the date of incorporation of the company or suspends or postpones its business for a whole year then it may be ordered to be wound up.

4. Reduction in Membership:

If the number of members falls below a seven in case of Public Limited Company and less than two in case of

Private Limited Company then it may be ordered to be wound up.

5. Court's Decisions:
If the court is not satisfied with the working, management and business affairs of the company then the company must be wound up by the order of the court.
6. Unable to pay its Debts:
If the company is fail to pay its debts due to following reasons:
a) ***Statutory Notice*** ► if the company's creditors owes a sum exceeding 1% of its paid up capital or Rs. 50000 whichever is less, has served on the company a demand for the payment and the company has for 30 days neglected to pay or enter into a compromise to satisfy creditors, then it may be ordered to be wound up.
b) ***Decreed Debt*** ►The degree of court against the company is returned unsatisfied in whole or in part etc.
c) ***Commercial Insolvency*** ► Unable to pay debt-exceeding Rs.5, 000 to the creditors.

7. Unlawful and Unauthorized:
A company may be wound up:
a) ***If it operates fraudulent activities.***
b) ***If the business is unauthorized.***
c) ***If any director found guilty of oppression towards any member or minor shareholder.***
d) ***Do not maintain proper & true accounts.***
e) ***Avoidance of law & directions.***

8. Just and Equitable:

In following ways the court's opinion may be to wind up the company:

a) ***Go against the objective.***
b) ***Deadlock in Management.***
c) ***Company having no property.***
d) ***Continuous Losses etc…..***

B:-VOLUNTARY WINDING Up:

The voluntary winding up of JSC without tire supervision of court is divided in tow categories as:

a) Voluntary Winding up By Members
b) Voluntary Winding up By Creditors

a) VOLUNTARY WINDING UP BY MEMBERS: (Sec. 362, 371)

In case of members' voluntary winding up the directors declare in the meeting of shareholders that the company is fit for liquidation. The following circumstances are laid down by the members:

1. Expiry of Period:

A company may be wound up voluntarily by the members, after the expiry of period, by passing a special resolution in the annual general meeting.

2. Special Resolution:

If the company resolves by special resolution that the company be wound up voluntarily or this resolution three must be three fourth of the total votes in favor of it.

3. Solvency Declaration:

If a majority of directors makes a statutory declaration to registrar that the company will able to pay its debts in full within one year. If the company resolves by special resolution that the company be wound up voluntarily or this resolution three must be three fourth of the total votes in favor of it.

4. Appointment of Liquidator:

In general meeting, the shareholders of the company appointment the liquidator to wind up the affairs of the company. Assets of the company are also distributed by liquidator. The notice regarding the appointment must be sent to registrar. After the appointment of liquidator, all the powers of the directors are ceased and transferred to liquidators.

5. Meeting with Creditors:

The Liquidators must call a meeting of the creditors on the same day or one the followings
day after their appointment to know the exact value of debts of the company. A notice must be sent in writing to each creditor for this purpose.

6. Annual Meeting:

After each year end, the liquidator calls the general meeting of the shareholders. In this meeting, the liquidator must submit completed work of the company's winding up to the members.

7. Final Meeting:

After winding up the affairs of the company, the liquidator calls the general meeting of the shareholders. In this meeting, the liquidator must submit the final accounts of the company's affairs to the member.

8. Dissolution of the Company:

After go through the above procedure and when it complete, the registrar registers the documents, which sent by the company. And after (3) months from the date of registration, the company will be dissolved.

b) VOLUNTARY WINDING Up BY CREDITORS: (Sec. 373, 382)

A winding up in the case of which a declaration of solvency has not been delivered to the registrar is known as creditors' voluntary winding up. A company can be dissolved by adopting the following methods.

1. Declaration of Solvency:

In case of creditor's voluntary winding up, it is not necessary for the company to make a statutory declaration regarding its solvency.

2. Special Resolution:

A general meeting of the company's shareholders is called to pass an extra ordinary resolution for the dissolution of the company, because it cannot continue its business due to heavy liabilities.

3. Creditor's Meeting:

The Company must call a meeting of the creditors on the same day or one the followings day after the general meeting of the company. A notice must be sent in writing to each creditor for this purpose.

4. Appointment of Liquidators:
The creditors and the company at their respective meeting may appoint persons to act as liquidators. If different persons are nominated by creditors and company respectively the opinion of the creditors shall hold good.

5. Intimation to Registrar & Final Meeting:
The information regarding the notice of passed resolution must be sent to registrar within (10) days after the date of creditor's meeting. In the final meeting, the liquidators place before then the full accounts of the company's affairs and a copy of these accounts is also sent to registrar within (7) days.

6. Dissolution:
After go through the above procedure and when it complete, the registrar registers the documents, which sent by the company. And after (3) months from the date of registration, the company will be dissolved.

C: - VOLUNTAY WINDING UP BY COURT: (Section 396)
When shareholder or creditors voluntarily give the application to the court for the purpose of winding up the affairs of the company, then winding up process is conducted under the supervision of court. The

liquidation under the supervision of court takes place due to following circumstances:

1. Grounds for Issuing Supervision Order:

Followings are the main reasons:

i) Fraud in Resolution:

The court can accept the petition for supervision winding up if the resolution for winding up has been obtained by fraud. The purpose may be to deceive the creditors.

ii) Liquidators Not Fair:

The liquidator may not fair in his duties. The working in the particular manner can compel the others to go to the court of law for making justice.

iii) Avoid from Rules:

Basically the liquidator is bound to follow the rules of winding up. If he fails to comply with the requirement of the law any entitled person can apply to the court for supervision order.

2. Power of the Court:

The court has the power to appoint an additional liquidator, or to remove any liquidator.

3. Dissolution:

After the supervision order is made, the liquidator may exercise his powers in winding up of a company. On completion of winding up, the court will make an order that the company is dissolved.

CONLUSION:

It is concluded that a Joint Stock Company has been wound up by Compulsory winding up, by Shareholders, by Creditors and under the Supervision of the Court. Elected Liquidators perform the function to settle the Assets and Liabilities of the Company and also provide reports to shareholders, creditors and Company's Registrar.

<u>Question No.18:</u> Define Co-operative Society. Explain the merits and Demerits of Co-operative Society?

<u>Answer:</u>

<u>Co-Operative Society:</u>

<u>Introduction:</u>

A Co-operative Society is a voluntary association of financial weak persons who join together voluntary for the common objective. It is formed on the basis of democracy, freedom and joint performance to improve the financial and moral position of its members. In 1844 the movement of Co- operative Society was started. A common concept of Co-operative society is *"ALL FOR EACH AND EACH FOR ALL".* In our country it is set up under co-operative societies act 1925.

<u>Definitions:</u>

<u>According to PLUNKET:</u>

"The Co-operation is self-help made effective by organization".

<u>According to CALVERT:</u>

"A Co-operative Society is a form of organization where a person voluntary associate together as human beings on basis

of equality for the promotion of economic interest of themselves."

Simply we can say that:

"It is an association of individuals who voluntary pool their resources for carrying on a certain business for the mutual welfare of the members themselves".

Merits of Co-operative Society:

A Co-operative Society has the following merits:

1. Easy Formation:

The formation of cooperative society is very easy. There is a need 10 adult persons to form a Co-operative Society and it has no maximum limit of partners. The formation expenses are normal,

2. Registration:

The registration of Co-operative Society is not compulsory but it is desirable to have its registration. As compared to limited company the registration procedure of a society is simple. These societies are registered under Cooperative Society act 1925.

3. Require Less Capital to Start:

The formation of cooperative society is very easy because Persons or workers with small capital can start business under Co-operative Enterprise.

4. Open Membership:

Those persons who are willing to join the society can become the members of the society and can leave it when they want by returning their shares.

5. Democratic Management:

A Co-operative Society is called as friend of democracy, because it is managed on democratic principles. There is a rule of one man one vote.

6. Limited Liabilities:

The liability of members is usually limited up to the amount of investment made in the society. But imitation depends upon the members to decide about it.

7. Social Services:
The cooperative society increases the fellow feelings among the members and imparts moral and educative values which are essential foe better living.

8. Increase in Confidence:
The cooperative society protects the financially weak persons of the society from cheaters and makes them mentally strong.

9. Long Life:
A Co-operative Society has long life because a society has a legal status. The life of members does not affect the life of the Co-operative Society. It is an artificial person created under the law.

10. Government Protection:
The Govt. looks after the Co-operative Society. The purpose of the society is not to earn profit but to help the poor members of the society. Therefore the govt. takes no fee in registration.

11. Low Prices Commodities:
A Co-operative Society purchases goods form producers at low prices. The profit of the wholesalers and retailers are saved by the society.

12. Employment opportunities:
A Co-operative Society plays a vital role to fight against unemployment. The members of the society seek

employment in the society according to their ability and get the salaries.

13. Economic Development:

A Co-operative Society can contribute towards the economic development of a country like other business units. It increases the output, and provides opportunities of employments to the society. The development of villages is possible through such societies.

14. Saving Expenditures:

The members generally carry on a Co-operative Society, so there is no heavy expenditure on management. It reduces the Co-operative Society of production.

15. Equal Rights:

Alt the members of the society have equal rights and each member has one vote. Each member has right of management and auditing of accounts.

16. Improve the Standard of Living:

The Co-operative Society provides the goods to the members on low price. So the purchasing power of the people and their standard of living also improve.

17. Elimination of Middleman:

The Co-operative Society eliminates the profit of the middleman because it purchases goods directly from the producers and provides it on whole sale price to its members.

18. Financial Assistance:
The Co-operative Society provides financial assistance to its members. For instance in case of house building for the purchase of inputs these provides loans.

19. Control over Monopoly:
The Co-operative Society is formed of the welfare of people. So these societies eliminate the monopoly in the country. It is said that the start of society is the end of monopoly.

20. Less Chances of Loss:
A Co-operative Society store knows the requirement of the members and as such there is no risk of loss on speculative.

Demerits of Co-operative Society:

Followings are the demerits of Co-operative societies:

1. Lack of Capital:
A Co-operative Society has limited capital. The members of the society are actually poor and the borrowing powers are also limited up to the assets of the society. So society is in a weak position to arrange the further fund for running itself.

2. Poor Management:
Basically the members of the society are the managers. Due to untrained staff they have to fail to manage the Co-operative Society according to proper rules and requirements.

3. Absence of Profit:

The absence of profit is a handicap in the progress of a Co-operative Society. The members have no keen interest due to this reason.

4. Lack of Secrecy:

The secrecy is not possible in Co-operative Societies. All members of society live in same area and daily discuss the problems of society. All members know all the secrets.

5. Delay in Decision:

The management committee makes decision in Co-operative Society. Thus control and authority passes too marry persons. So it cannot act with promptness.

6. Non Applicable:

Co-operative Society principles can't be applicable in those industries in which highly skilled persons are required and in which goods are usually sold on credit basis.

7. Lack of Public Confidence:

It is not required for Co-operative Society to publish annual accounts and the accounts are not audited. So people do not rely on such societies.

8. Lack at Spirit:

There is lack of spirit of mutual cooperation among the members of society. They don't know the principles of cooperation the result of which is not better.

9. Lack of Skilled Persons:
The Co-operative Society can't hire the service of skilled and educated persons due to shortage of amount of capital.

10. Government Control:
The cooperative department of provincial govt. supervises the work of all Co-operative Societies. So the govt. interference in the affairs of the Co-operative Society lowers the pace of performance.

11. No Innovation:
A Co-operative Society can't introduce innovation and the technology due to small capital and non-professional management.

12. No Leadership:
The leaders are not born but they are made the training in necessary for making the leaders. While business depends upon competition. Only the able management competes in all circumstances.

13. No Legal Pressure:
The Co-operative Society Act 1925 is not comprehensive and contracts are not legal enforceable.

14. Instability:
Frequent chances takes place daily in the members of the society, it makes the business instable.

15. Lack of Basic Knowledge:
Generally the members don't know the principles and rules of co-operative society so they create problem for it.

CONCLUTION:
We concluded that Co-operative Societies are the need of developing countries like Pakistan and the main aim in Co-operative Societies is to improve the economic conditions of low-income groups. It can be operated successfully under effective control, sincerity and honesty is the base of its success.

<u>Question No.19:</u> Describe the various types of Co-operative Society. And also explain their role in promotion of trade?

<u>Answer:</u>

Types of Cooperative Societies:

The Co-operative Society can e classified on the basis of their activities as below:

1. Producer Co-operative Society
2. Consumer Co-operative Society
3. Marketing Co-operative Society
4. Insurance Co-operative Society
5. Housing Co-operative Society
6. Agricultural or Farming Co-operative Society
7. Credit Co-operative Society
8. Labour Cooperative Society
9. Dairy Co-operative Society
10. Transport Co-operative Society
11. Storage Co-operative Society
12. Women Co-operative Society
13. Miscellaneous Co-operative Societies

<u>1. Producer Co-operative Society:</u>

The Industrial or Producer or Craftsmen Co-operative Societies are set up for small industrialists. They have to face many difficulties to collect the factors of production (i.e. land, labour, capital, organization) and to sell their output at whole sale rate. So the members of this society produce the goods and manage the business themselves.

Basically Co-operative Society is formed to eliminate the middlemen and capitalist groups from the industrial production. So these societies sold the goods to its members at low price. Its members get dividend on the basis of capital invested by them.
Usually such kind of cooperative societies are successful where:

- *Business is on small scale.*
- *Availability of special skills for doing work.*
- *Labour is intensive.*
- *Management is honest and efficient.*

Objectives which promote Trade:

• To purchase raw materials and other factors at most economical prices.
• To supervise the production most efficiently & effectively.
• To produce the goods at most economical level.
• To dispose of the surplus production to non members at maximum price.
• To eliminate the middlemen and capitalists.
• To remove the workers disputes in respect of working conditions, wages. etc...
• To arrange for the democratic control of the industrial unit.

2. Consumer Co-operative Society:

The consumer cooperative society purchases the goods of daily needs from the whole sellers or producers and sells to its members on cheaper rates. Profit is distributed to the members in proportion to the purchases made by a member in a particular year and other is spent for the development of business and on the welfare of the members.

Note: The consumer Co-operative Society is functioning very effectively in advance countries like Germany, England, Holland, Belgium, Denmark, etc. but in developing countries like Pakistan, however is unsatisfactory due to some reasons which are:

- Having less capital.
- Lack of spirit.
- Non continuous supply of goods.
- Goods are substandard and lack variety.
- Customers are not properly treated.
- Charging Wrong billing etc...

Kinds:

Generally there are two types of Co-operative Society:
►Whole Sales Co-operative Society
►Retails Co-operative Society

Objectives which promote Trade:

• To eliminate the middleman.
• To promote the welfare of the members.
• To supply the daily necessities of life.
• To supply the goods at cheaper rate.
• To increase the purchasing powers and standard of living of the members.

3. Marketing Co-operative Society:
The marketing cooperative societies are the voluntary association of producers formed for the object of arranging the disposal of their outputs. It pools together the output of the individual members and arranges to supply the product at highest possible price. Profit is distributed among the members. It is useful for small producers and agriculturists.
It can be formed in two organizations like:
1.Single Purpose Society
2.Multi Purpose Society

Objectives which promote Trade:
- *To eliminate middlemen.*
- *To pool together the output of individual members.*
- *To grade & process of the pooling products of members.*
- *To dispose of product at maximum price.*
- *To adjust supply according to demand.*
- *To provide storage facilities to its members.*
- *To provide financial facilities to its members.*

4. Insurance Co-operative Society:
The insurance cooperative societies are formed to provide the group insurance to its members. It may contracts with sound insurance company collectively for lower premium. The cooperative insurance society can also be organized for issuing the policies of small amount.
Types:

a) **Mutual Office:**

In mutual office policy holders are the owners and the profit of the insurance company is utilized for the members.

b) **Self Concern:**

Self concern policy is formed to provide insurance facility to private insurance company.

Objectives which promote Trade:

- *To provide insurance facilities to its members.*
- *To charge low premium.*
- *To encourage habit of savings and investment.*

Note:

The performance of these societies has been proved satisfactory because Funds are wisely invested, Capital of the society is looked alter carefully & claims are made promptly, etc...

5. Housing Co-operative Society;

The Housing Co-operative Society is an association of middle and low-income groups of people and generally formed in urban areas, The main purpose of this form of society is to protect its members against exploitation by landlords. The liability of the members is limited to his capital contribution. It provides not only financial assistance but also the economies purchase of building material.

Types:

So, Building Society may be divided into three types which are as follow:

1. Housing building society

2. Land Society

3. Finance society

Objectives which promote Trade:

- *To receive deposits from its members.*
- *To make loans to its members for the construction of house at low rate of interest.*
- *To render technical services for its members.*
- *To purchase building material at economical rate.*
- *To perform the welfare activities as water supply, roads, sewerage, electricity, etc...*

6. Agricultural or Farming Co-operative Society:

The Farming Co-operative Societies enable the small farmers to employ improved methods of cultivation. Farmers can't use tractors, tube-well and fertilizers due to shortage of capital. These societies provide the improved seeds, irrigation facilities and machines to the farmers to increase the production. The liability of its members is unlimited.

Objectives which promote Trade:

- *To introduce new technique of cultivation.*
- *To improve the irrigation system.*
- *To provides improved seeds.*
- *To increase the production per acre.*
- *To dispose of agricultural output.*
- *To improve the standard of living of the members.*

7. Credit Co-operative Society:

The Credit Co-operative Society means the societies which give credit facilities to its members at low interest than the money lenders.

Co-operative credit societies are classified into two parts:

— ***Urban***

— ***Rural***

The major object of these societies is to provide the short term and long term loan to its members at low rate of interest than lenders. It collects the funds from its members and also borrows the loan from the Govt.

The liability of members is unlimited.

Credit Co-operative Society may be dividing into two types:

>Agricultural credit society

>Non agricultural credit society.

Sources of Credit:

1. Deposits of members.
2. Membership fee.
3. Govt loans.

Objectives which promote Trade:

• To provide the financial facilities for short term to its members.

• To keep the minimum rate of interest on loan.

• To develop the habit of saving among the members.

• To encourage the habit of mutual aid.

8. Labour Co-operative Society:

A labour Co-operative Society is set up by the unskilled labour. The poor workers sell their services jointly on various projects. This labour force is used for the construction of buildings, roads, dams, etc. An individual labour is poor and has no bargaining power. These societies protect the rights of poor labours.

Objectives which promote Trade:

- *To promote welfare of the members.*
- *To provide credit facilities.*
- *To provide job opportunities.*

9. Dairy Co-operative Society:

Dairy Co-operative Societies formed for the sale of milk and its product. These societies also provide the transportation services for the distribution of production to the consumers. The packing of products can be made through machines. A Co-operative Society can seek help from the live stock and dairy development board of the government.

Objectives which promote Trade:

- *To promote welfare of the members.*
- *To provide credit facilities.*
- *To provide goods according to dairy.*

10. Transport Co-operative Society:

The transport Co-operative Society provides transport services to the public at reasonable rates. The members contribute capital. The members who don't have their own car can travel on such transport at concessions. A pass can be issued by the society to regular travelers on monthly basis.

Objectives which promote Trade:

- *To promote welfare of the members.*
- *To provide facilities to members.*
- *To provide job opportunities.*
- *To remove disputes.*

11. Storage Cooperative Society:

The society provides storage facility to its members for perishable goods and non perishable goods. Grading and distribution services are also improved.

Objectives which promote Trade:

- *To promote welfare of the members.*
- *To provide storage facilities to members at low rates.*
- *To provide job opportunities.*
- *To avoid losses in perishable goods.*

12. Women Cooperative Society:

These societies are working to protect the rights of women in the society.

Objectives which promote Trade:

- *To promote welfare of the members.*
- *To protect women rights.*
- *To provide job opportunities.*
- *To improve standard of living of women.*

CONCLUSION:

In short different Co-operative Societies perform different functions but all the societies have same object that the welfare of their members. These play an important role in developing countries like Pakistan. Due to these societies increase in living standard, savings, National income etc……..

Question No.20: A) What is the difference between Joint Stock Company and Co-operative society?

B) Write the procedure of formation of a COOPERATIVE SOCIETY.

Answer:

A) Difference Between Joint Stock Company and Co-operative Society:

1. Definitions

JOINT STOCK COMPANY:

"Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership"

CO-OPERATIVE SOCIETY:

"A cooperative is a form of organization, where in persons voluntary associate together as human beings, on the basis of equality, for the promotion of the economic interest themselves"

Other Differences between JOINT STOCK COMPANY & CO-OPERATIVE:

POINTS	JOINT STOCK COMPANY	CO-OPERATIVE

2.Legislation or Act	Company is controlled and governed under the Companies Ordinance 1984.	While Cooperative society is controlled and governed under the Society Act 1925.
3.Formation	Its formation is complicated and depends upon long process.	The formation of society is very easy and short process.
4. Profit	The profits are divided into shareholders in their proportion of shares.	The 90% profit is utilized for promotion of society and 10% to members. If required.
5.Registration Fee	The registration fee is paid to the government i.e. income tax, super tax, stamp duty etc...	The registration fee is not paid. Government can exempt income tax, super tax, stamp duty etc...
6.Objectives	The basic purpose or object of the company is to earn profit.	It is formed for the promotion of self-help, social & economic welfare of its members.
7.No of Members	Minimum 2 and max 50 members in Pvt. Ltd Co. but in Pub	Min no of members are 10 which should be

	Ltd Co. min 7 and max No limit.	above 18 years of age.
8.Liabilities	The liabilities of the members are limited upto the value of shares which they keep with them.	The liabilities of the members may be limited or may be unlimited.
9.Debentures	Joint stock company may issues debentures to borrow required amount of money.	Cooperative society cannot issue debentures for the purpose of borrowing money.
10.Management	It is managed and controlled by the board of directors.	In the cooperative society every member has an equal right in the management (Executive Committee, Secretary).
11.Role of middleman	In joint stock company middleman plays very effective and important role.	In the cooperative society middleman has no any effective role.
12.Public confidence	The people show much confidence on JSC. Because it is legally required for companies to publish their annual	People show less confidence on cooperative society because it is not legally required for

	accounts.	societies its accounts.
13.Audit	The audit of accounts is made by an auditor appointed in the annual general meeting.	The audit of accounts is made by the registrar or by a person authorized in writing by the registrar.
14.Consumers	The owners and consumers are different people.	The members may be producers and consumers.
15.No of shares holding	A share holder can purchase the shares upto any value. There is no ban on max purchase of shares.	A member can purchase 1/5 of share capital or Rs.10,000. But in case of housing cooperative society the limit is Rs.20,000.
16.Transferability	In JSC the shares are easily transferred to any other person without any legal restriction.	The shares of cooperative society cannot be transfer to the non-members but can be transferred to members after 1 year.

17.Working areas & Attending Meetings	It operates in a vast area so it is not possible for its share holder to attend the meeting.	It operates within a limited area so its member can easily attend the meeting.
18.Division of Control	The directors control the company affairs in their respective areas.	The managing committee controls the business affairs.
19.Price of commodities	The company charge more profit in this way the selling prices of goods are very high.	The society basically acts as nonprofit activities. So there is nominal profit is charged on the daily necessities of life
20.Value of share	The face value of share may e different from its market value due to limited numbers shares.	The face value of the shares remains the same due to unlimited supply of shares.
21. purchase of shares	Shareholders can buy shares at market value from stock exchange.	Shareholders can buy shares at par value from society.
22.New Capital	If new capital is required then new	If new capital is increased only by

	shares will be issued.	admission of new members.
23.Tax Exemption	No income tax is exemption is available.	Agriculture income is tax exempted and other concessions are also available.
14.Withdrawal rights	It is convenient for its shareholders to withdraw their capital from the company by stock exchange.	A member of the co-operative society can withdrawal his capital on giving his short notice but after 1 year.
25.Dissolution	There is complicated and long procedure from the winding up of JSC	The process of dissolution of cooperative society is very simple

CONCUSION:

It is concluded that both types of organizations are performing their duties and functions according to their rules and regulations. Co-operative societies benefits to their members which is the result of savings, growth and economic development. Whereas, joint stock companies earn maximum profits and provide to people new innovations & also different choices.

B) FORMATION OF A COOPERAIVE SOCIETY:

Definition:

The process by which a cooperative society come into existence by filling prescribed form to get registration form Registrar of cooperative society under COOPERATIVE SOCIETY ACT 1925.

Formation of a cooperative society:

Cooperative society are formed and registered under the cooperative societies Act 1925. Provision of the Act as to formation of cooperative societies is explained below:

1. Conditions of registration:

The registrar of cooperative societies may grant registration to a cooperative society, if the society fulfills the following conditions:

(i) Objects:

A society which has its objects the promotion of economic interest of its members in accordance with cooperative principles may apply registration.

(ii) Liability:

The liability of members of a society may be limited or unlimited. How, ever liability of a society of which a member is a society shall be limited; and the liability of the society of which the primary object is the creation of funds to be lent to its members shall be unlimited. The word limited shall be the last word in the name of every society with limited society.

(iii) Members:

No society shall be registered unless it has its members at least ten persons above the age of 18years. No such limit is prescribed for a society of which a member is a society. It is further provided that where the object of the society is creation of funds to be lent to its members. It is necessary that all of the members should be residents of the same locality.

(iv) Restrictions on Share of Members:

Where the liability of members if the society is limited by shares no member, other than a member which is a society, shall hold more than 1/5th (one-fifth) of the share capital or the shares exceeding Ten thousand rupees (10,000 Rs.) and in case of a housing society share exceeding Twenty thousand rupees (20,000 Rs.)

(v) Application for registration:

For the purpose of registration an application shall be made to the registrar n the prescribed form in the application following information are provided to the registrar.

a. *Name of proposed society.*
b. *Address to be registered.*
c. *Liability limited or unlimited.*
d. *Area of operations.*
e. *Objects of the society.*
f. *If the capital is to be raised by shares, what is the number and value of shares which is to be proposed to issue?*

g. If capital is to be raised by loans and deposits, what is the amount of capital?
h. Language in which books and accounts will be kept.

The application shall be signed by at least ten prospective members in case where a prospective member is a society; the application must be signed by a duly authorized representative of that society and by at least ten other members or by all other members if the numbers of such other members is less than ten.

The application for registration shall be accompanied by three copies of proposed bye-laws of the society signed by the applicants

2. Registration:

The registrar may be registering a society if he is satisfied that the society has complied with the legal provisions as to the registrations and its bye-laws are not contrary to the law.

Registration of a cooperative society is discretion of the Registrar and not obligatory for him, even if the society has complied with all the legal requirements. In this respect the Cooperative Societies Act 1925. is different from Companies Ordinance 1984. The registrar of companies has no such discretion.

3. Evidence of Registration:

On registration, a certificate of registration signed by the registrar shall be issued to the society. The certificate shall be the conclusive evidence that the society mentioned there in is duly registered.

4. Effective of registration:

As soon as a society becomes registered it becomes a distinct legal person it becomes entitled to commence its business and to admit new members.

QUESTION No 21: **Define advertising & discuss its merits & demerits?**

ANSWER:

ADVERTISING:

INTRODUCTION:

In modern world of today advertisement has become a major tool for large organization as well as small organization to survive in the competitive environment. Advertisement is considered to be much more effective, widespread & less costly method of establishing contact with the customers. It has now become an essential part of enterprise system.

MEANING:

Advertising means ***bringing the product in to the notice of general public & helps in increasing the sales***. *The word advertisement has been derived from Latin words.*

.

AD ***VERTO***

(TOWARDS) ***(TURN)***

ATTRACTING CUSTOMERS

TOWARDS THE PRODUCT

The term advertising has been denied in different ways some of the common definitions are:

DEFINITIONS:

ACCORDIND TO AMERICAN MARKETING ASSOCIATION:

"ADVERTISING INCLUDES ALL PAID OF NONPERSONAL PRESENTATIONS FOR THE PROMOTION OF IDEAS, GOODS & SERVICES BY AN IDENTICAL SPONSOR."

ACCORDING TO JONES:

"ADVERTISING IS A ROOT OF MACHINE MADE MASS PRODUCTION METHOD OF SELLING WHICH SUPPLEMENT THE VOICE &THE PERSONALITY OF THE INDIVIUAL SELLER."

MERITSOF ADVERTISING:

Followings are the merits of advertising:

1. 3R'S OF ADVERTISING:

Advertising is a very effective method of presenting information about the product both internally & extremely. It helps in

- ***Retaining loyal customers***
- ***Reducing lost customers***
- ***Recurring new customers***

2. REDUCTION IN PER UNIT COST:

It enables a businessman to increase the scale of his product. Because through advertisement the rise in demand is made which results in large scales production & the reduce cost per unit.

3. EMPLOYMENT OPPORTUNITIES:

The advertisement of the product is available & possible through advertising agencies, advertising agencies hire signors, painters, cartoonists who enhance the employment opportunities for all the people relevant to this held.

4. ELEMINIATION OF MIDDLEMAN:

Advertisement helps to create awareness about the product among people which helps the producer in the scale of its product because with creation of awareness the retailers directly contacts manufacturer & there is no need traveling salesman & other middleman.

5. INSTITUTIONAL IMAGE:

Advertising helps in building up a favorable image of a company. Through advertisement a company can easily portray its reputation, policies all above the product attributes.

6. CONSUMER BENEFITS:

Consumer watches different ads of different products & remain informed about their qualities .So advertisement is helpful to select the best one in time.

7. SOCIAL BENEFITS:

The social benefits of advertisement are that it:

- ***Maintain contact between producer & consumer***
- ***Has educational value***
- ***Provide information to consumer at cheaper cost foreign through paper media.***

8. REGULAR DEMAND:

The advertising creates a regular demand or maintains the demand of a product in the product in the market because the producer remains busy in making the products & they cannot maintain a regular with all customers.

9. SALE OF ENTIRE LINE OF PREODUCT:

Advertising helps in promoting the whole family of products manufactured by the firm. Foreign company manufacturing TV may precede VCD, CD players also. A single advertisement can promote the sale of whole range of products.

10. ENCOURAGE COMPETITION:

Advertisement encourages competition among the competing firms. It leads to the better production of goods .The consumers are able to get quality goods at competitive rates.

11. EXPANSION OF MARKET:

Advertisement helps in expanding the market of old products. The advertisements deliver the message to the customer for the product available in the market which makes the comparison & decision possible. As a result market expands.

12. PROMOTING ART & CULTURE:

Advertisement being seen all over the world promotes the art & culture of a nation in other countries. Moreover it helps in exchange of ideas which express new horizon.

DEMERITS OF ADVERTISING:

Advertising is not an unmissed blessing. It has certain demerits which are given as below:

1. ECONOMIC WASTE:

One of the greatest arguments against advertisement is that is causes a huge investments by the companies which is ultimately is charged to consumers in the form of high selling price.

2. MONOPLY:
Heavy investments by the large firms create dominances of those firms on market which causes problems for small firms & which leads to the exploitation of customers.

3. CAUSES UNHAPPINESS:
Advertising cause's unhappiness & disappointment to those people who cannot buy the new product introduced which may lead to unfair means of earning income for achievement of those goods.

4. TRUTH IN ADVISING:
The advertising sometimes gives misleading pictures of their product. This misrepresentation creates cheating of innocent customers.

5. MISUSE:
Sometimes advertisement is misused by putting it enables in the form of poster, Moreover road side hoarding play their part to catch the eye of readers which may cause accidents.

6. PROMOTION OF SOCIAL EVILS:
Sometimes crime strikes below standard words & pictures are used in advertisement which promotes social evil.

7. SOVERIGHTY OF CONSUMER:

The sovereignty of consumer is greatly decayed by the various media of advertising. The consumer purchases the goods what manipulate hence produced for them. They cannot get the goods made to order by the big firms.

CONCLUSION:

It is concluded that advertising is an important tool to flourish and enhance the business in developing countries like Pakistan. "To show of is a common practice now-a-days." Advertising has merits as well as demerits. Its main object is to create awareness among the consumers.

Question No. 22: Define Channels of Distribution? What are the major types?
Answer:

CHANNELS OF DISTRIBUTION:

INTRODUCTION:

The channel of Distribution means the Path or Rout, which products follow from the point of production to the point of consumption. It includes wholesalers, retailers, agents and distributors. Actually channel is divided into two categories.

DEFINITIONS:

According to DOUGLAS FOSTER:

"A channel of distribution is the path, which products take from the producer to ultimate consumer or industrial user."

According to E.J.MECCARTHY:

"Channel of distribution is any series of firm or individuals from producer to final user or consumer."

TYPES OF CHANNEL OF DISTRIBUTION:

DIRECT CHANNEL:

If producer sells the goods directly to consumer, it is called direct channel.

INDIRECT CHANNEL:

If producer sells the goods to consumer through middlemen, it is called indirect channel. **Kinds**

of goods: ______________________________ There are two main kinds of goods:

(A) Consumer Goods

(B) Industrial Goods

A- CONSUMER GOODS:

Consumer goods mean that form of goods, which are wanted by the consumers i.e. Food, Manufactured goods. The purchasing power of the consumer further divided into three kinds.

- ***Convenience goods:***
- ***Shopping goods:***
- ***Specially goods:***

B- INDUSTRIAL GOODS:

Industrial goods mean those goods, which are purchased for producing the other goods. These goods satisfy consumer wants indirectly. These goods are:

- ***Raw material:***
- ***Semi manufactured goods:***
- ***Capital goods:***

COMMON POINTS OF CONSUMER AND INDUSTRIAL GOODS:

Producer to Consumer / User:

Some producers adopt the direct channel of distribution and they supply the goods directly to the consumers without any middlemen. The nature of these types of goods small-scale production

Producer to Retailer to Consumer/ User:

Some times a producer adopts this channel and supplies the goods directly to the retailer. And retailer supplies goods directly to the consumer. In this way the profit of the wholesaler is saved.

CONSUMER

RETAILER

WHOLESELLER

PRODUCER

Producer to Wholesaler to Retailer to Consumer/ User:

In this type of channel there are two middlemen involved such as wholesaler and retailer this strategy is adopted is in the large-scale business. The Wholesaler sells the goods to retailer.

Producer to Agents to Retailer to Consumer/ User:

Many producers prefer to agents instead of whole sellers they give the commission to the agent who reach them to the large-scale retailers and from retailers to consumer.

Producer to Agents to Wholesaler to Retailer to Consumer/ User:

According to this channel, producer hires some agents to sell the product through them and paid some amount of commission. The agents sell to whole sell from wholesaler to retailer and from retailer to final consumer.

NOTE:

For Industrial Goods:

If we consider the industrial goods instead of consumer then we will be User.

CONCLUSION:

In short, channels are the blood for the business because without these channels the life of business would be stopped. In different kinds of business there are different kinds of channels which play their role in the promotion of business.

QUSETION No. 23. **Define stock exchange. Explain its functions & benefits. Also state that how does a stock exchange transaction take place? OR**

Define stock exchange. Explain its functions & benefits. Does it really promote economic growth?
ANSWER:

STOCK EXCHANGE:

INTRODUCTION:

Economic development & prosperity is the ultimate target of every country. But where the country's economic position lies does & how to measure it is the bigger task to be done. That is the reason that stock exchange in any country is considered to be the economic barometer. Stock exchange index is a tool for of stock price along with it the economic performance of stock prices along with it the economic performance of a country.

DEFINITIONS:

ACCORDING TO S.E.THOMAS:

"A stock exchange is a market for the purchase of issued stocks & shares."

ACCORDING TO DICTIONARY OF ECONOMICS:

"A market in which securities is issued by central government, local government bodies & public company other than bills & similar short term instruments are traded."

ACCORDING TO HARTLEY:

"Stock exchange is a warehouse where all securities are listed there on, are kept & traded on specified prices."

FUNCTIONS OF STOCK EXCHANGE:

STOCK EXCHANGE PLAYS A VERY IMPORTANT ROLE IN THE CAPITAL MARKET OF A COUNTRY. THE

MAIN FUNCTION & IMPORTANCE OF STOCK EXCHANGE ARE GIVEN AS BELOW:

1. READY MARKET:

It provides a continuous market for resale of the existing securities. It is a center where buyers & sellers are always available to deal in securities at any time during business hours.

2. DETERMINATION OF SHARE PRICE:

The most important function of stock exchange is the determination of share prices for everyday trading. The prices are affected by the forces of demand & supply.

3. TURNING INVESTMENT INTO CASH:

When a person purchases shares he want assurances that in time of need his investments will be turned in to cash at a short notice. The stock exchange provides this facility to the security holder.

4. EVALUATION OF SECURITIES:

The prices of shares are determined by the market forces of demand & supply. The function of stock exchange is to exhibit daily the prices of securities for the information & guidance of buyer & seller.

5. PROPER CANALIZATION OF CAPITAL:

The stock exchange is the central source of information on market activity & trend in securities. The penal under of share prices motivate the investors to purchase securities in order to earn regular incomes from their savings.

6. STRENGTHENING INDUSTRIAL BASE:
Stock exchange strengthens the industrial base .As the industry needs a huge amount of capital this need is mainly fulfilled by stock exchange. It provides an easy medium by which investments of any amount can be made.

7. LOAN OPPORTUNITY:
The securities purchased through stock exchange can be used as securities for taking loans from commercial bank.

8. SPECULATION:
Stock exchange enables genuine speculators to speculate & earn profit through price fluctuation.

9. TRUE ECONOMIC INDICATOR:
Stock exchange plays a vital role in the financial stability as it acts as a true economic indicator. Trends in stock exchange enable the Govt to design & implement effective policies in order to control major sectors of economy.

10. REGULATION OF COMPANIES:
The shares of a company cannot be traded in the stock exchange unless they are listed. Forgetting themselves listed the companies have to observe certain rules & regulations of stock exchange. In this way stock exchange indirectly controls the management of a company.

BENEFITS OF STOCK EXCHANGE:

Stock exchange as termed a true barometer of economic program of any country gives benefits in different ways to different parts of the economy such as:

1. TO COMMUNITY:

- *It enables the diversion of funds from unprofitable channels to profitable channels through investments.*
- *It encourages capital formation by extending facilities for production investments of surplus funds available with people.*
- *It helps the government to borrow funds from public & to utilize the same on project of national importance.*
- *It encourages the small investors to buy & sell securities who don't want to take risk.*

2. TO COMPANY:

- *With listing of shares in a stock exchange enhances goodwill of a company.*
- *Due to easiness in buying & selling of securities it has become more easier for Companies to raise funds from the securities like bonds & debentures.*
- *Due to improve market ability & attractiveness. The prices of listed securities tend to be higher in relation to their earnings & dividends.*

3. TO INVESTORS:

- *Provides facility to investor to transfer ownership, as ready market for the purchase & sale of security is available.*
- *Increase liquidity of the investments*
- *Stock exchange provides safe dealings to the investor & reduces degree of risk.*
- *Securities of stock exchange are readily accepted by banks as a coverage for advances.*

Procedure adopted at STOCK EXCHANGE for Dealing:

Transaction at stock exchange takes place in the following manner:

-

-

-

-

EXPLANATIONS:

1. ***CHOOSING OF BROKER:***

Trading in the stock exchange is done by the brokers who are the registered member of stock exchange. He is the person who buys & sells shares of clients by charging nominal commission to them. The first thing the investor do is select the broker through whom sale & purchase of share is done. If the broker is intended with the integrity of investor he will open an account with him.

2. PLACING AN ORDER:

The investor places the order of buying & selling the shares with broker either on phone or by visiting personally.

3. MAKING THE CONTRACT:

The prices of different shares are quoted on the trading systems. The order for the number of shares & their offer price are recorded on computer. Both the parties make a respective brief note in their note books & such as number of shares at agreed price.

4. SHARE POSITION:

When the sale or purchase of the share is settled the broker prepares a complete customer ledger which contains the following information:

- ***Name of the customer***
- ***Quantity of share purchased***
- ***Amount received or to be received***
- ***Total purchases with amount***

5. SETTLEMENTS:

The purchase or sale of shares is made either on cash or on account bases. In case of spot transaction cash is paid .In credit from the payment is made with the specified period of time.

STOCK EXCHANGE & ECONOMIC DEVELOPMENT:

Yes, it is quite evident that stock exchange plays a vital role in economic development of a country as it serves as

- *Economic barometer to forecast economic trends.*
- *Major tools for security analysis.*
- *Easy mode of investment for small & big investors.*
- *Mobilization of funds from surplus units to depict units.*
- *Riba free mode of investment.*
- *Base for the industrial development.*
- *Channel for capital formation.*

- *Injection to financial sector as banks can make heavy investments & cooperatives can receive loans.*

CONCLUSION:

It is decided that stock exchange is the backbone of the country and without it no country can grow because it strengthens the country financially. It helps community, companies and investors as well. It is considered as the barometer to forecast future trends. Without stock exchanges countries collapse.

QUESTION No.24. ***What do you mean by Foreign Trade? Discuss the problems a trader has to face in foreign trade?***

ANSWER:

FOREIGN TRADE:

INTRODUCTION:

Trade is one of the important part of commerce .It implies to exchange of goods & receives money for other goods. The trade which is being conducted now a day is totally changes from the trade few decades ago. The goods are produced & sold in the local market without any problem. But now a day competition has increases & firms are exposing new market in order to resist or to expand their trade activities. The act on behalf of firm to explore new market outside boundaries of the country is known as foreign trade/external trade.

DEFINITIONS:

"FOREIGN TRADE" implies the buying & selling of goods & services b/w the nations of different countries. It consist of expand of goods and impact of goods from abroad."

OR

"Foreign trade refers to exchange of goods & services b/w the citizen of two or more countries it is foreign trade."

OR

"When there is any dealing in good & services b/w two or more countries it is foreign trade."

CAUSES OF FORIEGN TRADE:

The main causes due to which countries indulge is foreign trade are:

- ***Every country is not self sufficient it lacks in certain things due to which it has to make impacts.***
- ***It creates better relationship among the different countries.***
- ***With the help of international trade, a country can have advantage in the production of some goods over other goods, which can be exported to other countries to earn high profits.***
- ***It helps in getting the advantage of decision of labor.***
- ***It broader the market for producer cultivates of other countries can be acquainted.***

DIFFICULITIES/PROBLEMS Faced in FOREIGN TRADE:

NO doubt foreign trade increases the pace of economic development of a country. It helps a country achieving different goods including market expansion accumulation of foreign exchange employment, increase in living standard & many other means of objective, but on the other hand there are problems which are faced in foreign trade. The main difficulties which are faced by the parties involved in foreign trade are as under:

1. ***DISTANCE:***

Distance is the foreign trade varies from country to country. Usually, it carries long distance. Even with the development of fast means of communication & transport. It is normally difficult to establish close relationship b/w importer & exporter.

2. *PAYMENT:*

All payments in foreign trade are made in the currency of exporter country. Attainment of exchange rate may create problem for fluctuating and calculation of prices. Existence of the efficient banking system is essential to avoid these kinds of problems.

3. *PREPARATION OF DOCUMENTS:*

In foreign trade the importer as well as the exporter has to prepare large number of documents which are not required in home trade. For example letter of credit, bill of exchange, importer exporter license etc.

4. *CREDIT RISK:*

The exporters often sell their products on credit. They have to incur credit risk arising from importers default i.e. bankrupt.

5. *GOVT POLICY:*

Sometimes government of any country implies certain restrictions on the import and export of goods and services. Moreover Govt license and permission is necessary for foreign trade.

6. ***STUDY OF FOREIGN TRADE:***

In foreign trade both buyer and seller of goods have to secure full information about the customer traditions, marketing methods etc of the other market of each other. If the trader is not well aware of foreign market then he is beard to face difficulties & suffer loss.

7. ***DIVERSITY OF LANGUAGE:***

Different languages are spoken & written in different countries. The trader wishing to establish trade relations with foreigners must have to adequate skill of foreign language is order to conduct trade.

8. ***PRICE DESCRIMINATION:***

Some countries are indulged in price discrimination & dumping of goods. This creates tension b/w the nations which is harmful for the smooth functioning of international trade.

9. ***POLITICAL CONDITION:***

The government of the countries may restrict traders or business man to conduct foreign trade due to their embittered reduction.

10. ***DEALING THROUGH AGENTS:***

In foreign trade most of the functions are performed through agents for e.g. import & export agent, formatting agent, clearing agent etc. Although they facilitate the trader but dealing with agent s is a difficult task. Sometimes agent may cause delayed transactions.

11. LONG PERIOD INVESTMENT:

Foreign trade requires investments of funds for longer period of time. The dispatch of goods through shipment and their receipts by buyer take time so the capital of exporter may blocked for considerable period of time.

12. ***AVAILABILITY OF FUNDS:***

In foreign trade it is difficult to obtain information among barrier standings, financial position & credit worthiness of trader due to this banker may feel hesitation to grant loans which may act as hurdle to trader indulged in foreign trade.

13. RISK IN TRANSIT:

In foreign trade goods are usually shipped which may sink, spoiled or stolen during voyage. Through insurance we can cover the risk but this cause increase in cost of goods.

14. CUSTOM DUTIES:

Now days every country lies custom duties on importer and exporter in order to protect home. Industry or for public revenue. High traffic restricts the entry & exit of goods.

15. RISK OF FREQUENT PRICE:

Foreign trade is subject to frequent price changes either due to international competition or due to fluctuation in exchange rate. The par paints in foreign trade have to bear losses due to exchange price.

CONCLUSION:

No doubt due to the fast means of communication , transport & widespread education & internet facilitates the problems involved in foreign trade are gradually deuced but still foreign trade is quite complicated as compare to home trade.

<u>Question No.25:</u> What is the Market and Marketing? What are the functions of Marketing?

OR Discuss the services rendered by Market.

<u>Answer:</u>

<u>MARKET AND MARKETING:</u>

<u>INTRODUCTION:</u>

Marketing is really a 20th Century Concept and with expansion of trade related activities the need of marketing is also increasing day by day. The word market is derived from the *Latin word "MERCATUS" which means a place where business is done.* In fact market is a concept and not a specific term. This concept is based on three fundamental beliefs i.e. marketing orientation, profitable sales volume.

DEFINITIONS:

MARKET:

According to LISPEY:

"A market is an area over which buyers and sellers negotiate for the exchange of a well-defined commodity."

MARKETING:

Traditional Definition:

"Marketing is a performance of business activities that direct the flow of goods and services from producer to consumer."

According to MODREN APPROACH:

"A process of getting goods to the right consumer at a right place and time and at the right price."

According to MR.KOTLER:

"A social and managerial process by which t*he individual or group obtain what they need and want through creating and exchanging products and value with others."*

FUNCTIONS OF MARKETING:

Marketing functions are as follow:

i. Buying *i. Financing* *i. Pricing*

ii. Assembling *ii. Risk Taking* *ii. Selling*

iii. Grading *iii. Advertising*

iv. Storing *iv. Processing*

v. Transportation

vi. Market Research

vii. Market information

viii. Packing

ix. Labeling/Branding

A: Merchandizing Functions:

1. Buying:

The Marketing is concern with the buying of goods for sale or use. Buying is the first function of marketing. Buying is the process of acquiring goods at right time, at right price, in right quality and from a right Place. In the modern world the success of the business depends upon the effective purchasing system. Way of purchasing it can be made by:

- ***By samples***
- ***By inspection***
- ***By grading***
- ***By description***

2. Assembling:

Assembling means collection of goods from various places in small quantities and making them available in sufficient quantities at some central places. In Agriculture as well as Industrial raw material assembling is done by middleman. The assembled goods are bought by manufacturer and whole sellers. For example agricultural product is produced by a large number of farmers in various parts of the country.

3. Standardization/Grading:

If goods are properly graded according to standard, size, shape, colour, taste, design, material, and quantity then these can be easily bought or sold on net, telephones and telegrams etc….

4. Storing:

The Storing involves the function of holding the goods in proper condition from the time of production till the time of selling. Storing function is required when the production and consumption do not match. Production is always made in anticipation to consumption. So surplus production must be kept in stores until it is demanded. It has helped to regulate the prices of the market.

5. Transportation:

Transportation means the movement of the goods from one place to another place it is the function of transportation to carry the goods to those places where they are needed the modes of transport are, by land, by water, by air.

6. Market Research:

Market research guides the supplier that which quality of the product does consumer demands. It helps to understand the attitude of the consumer towards price. Correct the measurement, correct the decisions.

7. Marketing Information:

The information regarding the market condition before taking various kinds of decision, and marketing information function include collecting, analyzing and distribution about the information needed to plan, carryout and connect marketing activities.

8. Packing:

Packing is an art or act of covering the goods or material with the help of glass bottles, tin plates, cans etc… before keeping them in storage or shipment. The packing of goods is necessary for protection against damage leakage and spoilage. So goods are packed and wrapped for easy transportation and storage and has a considerable influence on sale.

9. Labeling/Branding:

Labeling means putting some signs, which classify the grade or quality of a particular product. Label provides the information about the product. Examples: i) Sony ii) LG iii) Samsung etc…

B: General Business Functions:

1. Financing:

The financing function is much important in the marketing process. Actually production, distribution and consumption require a large amount of funds many producers sell the goods to the whole seller on credit and many whole sellers sell the goods to retailer on credit.

2. Risk Taking:

There is also financial risk in buying and selling of goods due to competition and developments. The change in demand, price, and satisfaction can affect the marketing function. When goods are sent or damaged or destroyed. So insurance provides safety against the loss.

C: Sales:

1. Selling:
Selling is the very important function of marketing. Today the producer has to face the problem that how he should sell the commodity at profitable prices. It is very expensive function because creation of demand, advertising and bargaining is a very difficult job. Selling includes the following elements:

- ***Establishment of contact with purchaser***
- ***Creation of demand***
- ***Negotiation and settlement of terms***
- ***Entering into the agreement for the sale of goods***
- ***Product planning and development***

2. Pricing:
Price means what you pay for what you get. It should be fixed, as it would cover all direct & indirect cost and profit. The elasticity of demand of the commodity is also keep in mind. All the revenue activities of business depends upon pricing.

3. Advertising:
Advertising means bringing the product into the notice of public to motivate the sales. The activity involved in presenting a paid, sponsor identified non-personal message about an organization and or its product services or ideas. It is also important function of marketing because the producers and sellers have no direct contact with all buyers, so they deliver their selling message through it.

4. Processing:

It takes the form of reduction of the bulk of commodities in order to make them more readily transportable or the working up of by products.

CONCLUSION:

It can be concluded that marketing plays a very important role for the growth of business as well as for the growth of economy. Due to marketing the business grows a lot. It creates a link between the business and the outside world and communicating what products or services the business is offering and why people should come to purchase them.

Question No.26. What is Marketing Mix? What are its elements or components?

OR What are 4 Ps and write a note on them.

Answer:

Marketing Mix:

INTRODUCTION:

In this competitive environment companies design various kind of strategies in order to resist in the market. These strategies are based upon the target market on which the company is focusing because the organization profitability depends upon the number of customers. *More the customers more will be the profitability.* No doubt management of a company designs marketing mix with a combination of best controllable factors in order to achieve the goals of organization. These factors are affected by both Internal as well as external forces prevailing outside and inside the organization.

Therefore, the marketing mix should be composed of those factors or must be designed in such a way that:

- *Adapt to the Environment*
- *Satisfy the target market*
- *Enable organization to meet its marketing objectives*

Definitions:

According to Mc CARTHY:

"The controllable variables that the company put together to satisfy the target group."

Simply we can say that:

"Marketing Mix is a combination of such marketing tools with the help of which desired objectives can be achieved."

Components OR Elements of Marketing Mix:

The most popular elements of marketing mix are 4 P's which are

- ***Product***
- ***Price***
- ***Place***
- ***Promotion***

These elements are very closely related to each other and the descriptions of key elements are given below:

1. Product Strategy:

It refers to the characteristics of the product/service being marketed. Product is the base for any kind of marketing strategies because it is the product that is to be delivered to the ultimate customer. The product includes the goods, articles, services or ideas that are to be delivered to the ultimate customer.

Moreover, the product may be consumer like (pen, books, cloth) op producer goods like (machinery, plant, equipment etc).

The product strategy includes various aspects relevant to the product and covers following things:

- ***Nature of the Product***
- ***Design of the Product***
- ***Market of the Product***
- ***Quality Aspects***
- ***Variety of the Product***
- ***Brand name, Trade mark decision***
- ***What would be the packing of the product***
- ***Various features of the product***

Product planning also includes the decision relevant to new product, the Marketing Research for that product. Product strategy is important because it determines that what the customer is satisfied the organization will be prosperous.

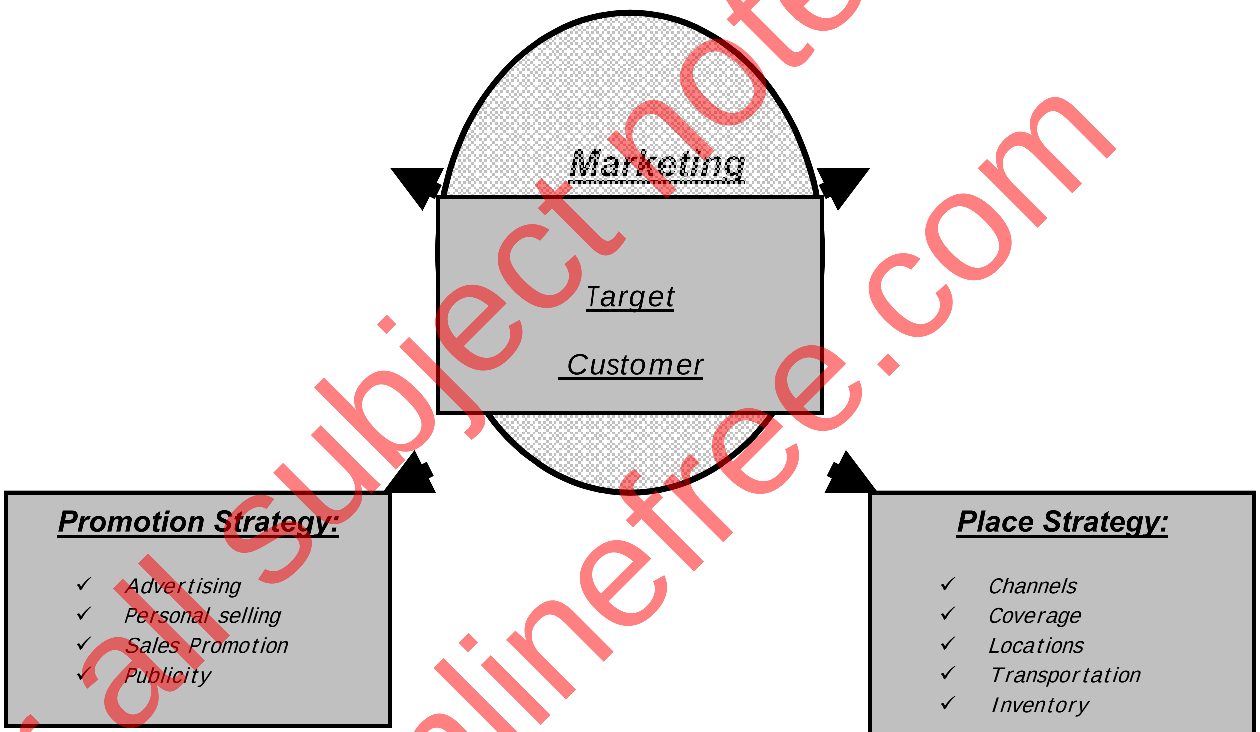
Diagram:

Product Strategy:

- ✓ *Variety*
- ✓ *Quality*
- ✓ *Design*
- ✓ *Brand Name*

Price Strategy:

- ✓ *List price*
- ✓ *Discounts*
- ✓ *Allowance*
- ✓ *Payment period*
- ✓ *Credit terms*



2. Price Strategy:

Price is also one of the strongest element in the marketing mix .Because it has the direct impact on the customer & on the overall economy.

FOR CONSUMER: Price_is the major inculcators it help the consumer to take buying decision to measure the quality of product & to make the comparison of chosen product with other products. In short one can say that its help the consumer to position the product in the market.

FOR BUSINESS: Price is an important factor because it is the point which covers the cost & gives profit.

FOR ECONOMY: Price level has a reaching effect .It influence wage, interest rate, employment & the policy of government.

Price strategy is therefore is the most difficult & an important thing to consider in the marketing area .Moreover the policy strategy also covers the following aspects:

- ***Discount rates.***
- ***Allowances Mechanism.***
- ***Payment period determination***
- ***Cash & credit terms***
- ***Highest price etc***

3. Place Strategy:

The element of marketing mix much is related to the placement of product from seller to buyer .The place strategy ensures that the product is available to the consumer when required .The place strategy covers the following aspects.

- ***Channel of distribution.***
- ***Location for the product***

- ***Mode of transportation***
- ***Timely delivery***

Sometimes the goods are directly delivered to the consumer & sometimes the goods are delivered through middleman help .The aspects above described totally depends upon the nature of product & target market.

<u>Common channel of distribution:</u>

Manufacturer

Wholesaler

Retailer

Customer/Consumer/User

<u>4. Promotional Strategy:</u>

The product produced will not automatically be sold .The consumer purchases the product when he has knowledge about it. The promotional strategy compasses those of all activities which helps to inform ate, promote & zeal the product. This strategy is compassed of these things.

a) **<u>ADVERTISING:</u>**

The process where by the customer is assured about the product. Usually this tool in marketing is used to enhance the sales.

b) <u>DIRECT SELLING:</u>

Sometimes the product is directly sold to the customer without involving of middleman.

c) <u>SALES PROMOTION :</u>

It is a process whereby the buyers are persuaded to purchase the product .It is a short term marketing activity which stimulates quick buyer action .It is done by giving

- ***Free sample***
- ***Coupons***
- ***Lotteries***
- ***Discount offers***

<u>CONCLUSION:</u>

It is quite clear from whole discussion that every element has its own importance. But these all four elements have a relationship with each other hence they must be tied in such a way that the organization achieves its overall objectives.

<u>Question No. 27:</u> What is business combination, for what purposes business combination, are formed? And also differentiate between Horizontal & Vertical Combinations.

Answer:

Business Combination:

INTRODUCTION:

The Business Combination is an association of different business organization for the achievement of common objectives. The competition among the producers has given the place to business combinations. Business Combination is formed when several business concerns undertaking units combine to carry on business together for achieving the economic benefits and won the marketing competitions. These competitions may be temporary or permanent. The combining units may loss their separate entity of business.

Meanings:

Business Combination means to combine two or more same/different types of business to achieve some common benefits/objectives.

DEFINITIONS:

According to RALPH ESETS:

"Business Combination is the joining of two or more companies to form a single organization for the conduct of business activities"

Simply we can say that:

"Business Combination is voluntary association of different business concerns of same line combine together under one management with a view to achieve some definite objects of mutual benefits."

PURPOSE/OBJECTIVES/CAUSES OF FORMATION OF BUSINESS COMBINAITON:

The following are the main purposes or objects of a Business Combination:

1. Elimination of Competition:

Now a day, there are many firms, industries, who are selling or producing the same things. Due to competition (National & international) they sell the goods at low price, which creates may difficulties for individual business unit while Business Combination removes this difficulty and reduce their risks.

2. Change in Economic Policy:

If there is political instability in the country and economic policies of the govt. are subject to frequent changes. It promote businessman to combine and chalk out polices, which reduce risk in business, so that profit can be maximized.

3. Burden of Tariffs:

The burden of custom duties on the imported goods is also an important factor in the formation of combination. The protected industries having no fear of the competition foreign goods combine together and are able to sell the goods at a price higher than the competitive market.

4. Rationalization:

The business units may combine for standardization of products, planned utilization of resources and introduction of automation in industry

5. Transportation Development:

The developments of fast means of transport has also let to the growth of industrial combinations. The transportation development has made it possible to buildup large business various parts of the country.

6. Economies in Production:

In Business Combination the goods are produced on large scale. They purchase the raw material in bulk, reduce the operational cost and sell the goods and earn maximum profit.

7. Economies in Management:

The managerial work may be centralizes and few efficient persons may be able to manage the whole procedure of the business. In this way there is a lot of saving in managerial expenses and cost per unit may also be reduced.

8. Economies in Marketing:

Economies in marketing can also be achieved through business combination because saving in production and selling expenses and do combine advertisement. As there are no competition expenses more, which reduce the selling price and increase the sales.

9. Working Capital:

Basically separate business units have more capital than their requirements. It remains idle, when these units combine such idle working capital can be used properly. *(Working Capital = Current Assets – Current Liabilities)*

10. Respect for Bigness:

The business units of bigger size command more respect than of smaller units. The business units therefore, aspire to combine to have respect for bigness.

11. Stability in Prices:

The purpose of any combination is usually the stability in the price level. The political stability is necessary for economic stability. Due to economic stability business combination may in a position to keep the price stable than individual.

12. Availability of Funds:

The large scale business can easily collect the funds, so additional funds can easily be raised for expansion and re-equipment. This will be a cause of reducing the cost of goods produced.

13. Investment Facilities:

This type of business opens the opportunities of investments of general public. Basically people feel hesitation to invest in small business units.

14. Research Facilities:

Business Combination enjoys the peaceful stability in the society because local strikes or breakdowns do not effect a large scale business to the some extant as they to do a solitary business unit.

15. Geographical Stability:

New and improved methods or production are the basis of success. Research is necessary which is not affordable by small business units. So this facility is enjoying by the business combination form.

16. Services of experts & Professionals:

The Business Combination may be made to hire expert's services. Combination is necessary to obtain the benefits, of common management, which reduced the cost of production and earn maximum profit.

17. Profit Maximization:

The main purpose of every business unit to earn maximum profit, which is impossible due to lake of capital, expert's services, modern method of production. So combination achieves the target easily.

18. Less Capital Expenditures:

The growth of Business Combination reduces wasteful competition, cost of production, administrative expenses and reduce capital expenses.

19. Utilization of technology:

A combination makes possible the utilization of technical know-how on a co-operative basis.

20. Division of Work:

Due to combination it is possible to allot work to those persons who are fit for that work, because there is greater variety of talented persons.

CONCLUSION:

In nut-shell, a business combination plays an important role in improving business atmosphere Like: Reduction in competition, Reduction in risks, Reduction in operating expenses, division of work, Reduction in financial problems, Increase in capital etc... And combinations are the need of the hour especially for developing countries like Pakistan but keeping in mind that excess of everything is bad.

Differentiation Between Horizontal & Vertical Combinations:

1. Definitions:

Horizontal Combination:

"When two or more than two businesses of same nature are combined, it is called Horizontal Combination."

Vertical Combination:

"When several firms engaged in various stages of production are combined, it is called vertical Combination."

Other Differences between Horizontal & Vertical Combinations:

2. Objective:

The H.C has competition	The V.C has no competition

among the members for purchase of raw material.	among the members for purchase of raw material.

3. Distribution:

The H.C can eliminate the healthy competition among the members in distribution.	The V.C cannot eliminate the competition among the members in distribution.

4. Basis:

The H.C is possible on equal basis due to same nature of business. The companies perform the same nature of work.	The basis of V.C is the input or output. The nature of one business differs from other business. All business units doing different work.

5. Dependence:

In H.C all business units are independent to each other, because the output of one unit is not input of other unit.	In V.C all business units are dependent to each other, because the output of one unit is input of other unit.

6. Production:

In H.C all business units have freedom of production in their respective areas.	In V.C all business units have no freedom of production in their respective areas because they have to follow policies of central body.

Question No.28: Describe the various types of business combinations. Why these are formed?

Answer:

TYPE OF BUSINESS COMBIMATION:

When nature of work becomes the basis of combination, it is called Type of Combination as:

1. **Horizontal Combination**
2. **Vertical Combination**
3. **Circular Combination**
4. **Diagonal Combination**
5. **Lateral Combination**

1. Horizontal Combination:

Definitions:

"It is a combine of number of firms or companies engaged in the sale or manufacture of good in the same state of firm."

OR

"When two or more than two businesses of same nature are combined, it is called Horizontal Combination."

Example:

Suppose there are four textile industrial units which are all the same stage of production. They are related in same activities. They sell wholesale and in the same market. This combination of four industrial units will be called "Horizontal Combination".

Objects (WHY THEY ARE FORMED/ROLE):

- *To minimize the cost per unit*
- *To avoid from competition*
- *To supply the goods at possible lowest prices*
- *To introduced improved method of production*
- *To regulate the price of production*
- *To achieve the benefit of large scale production*

- *To reduce the middlemen's commission*
- *To organize common advertising campaign*
- *To earn maximum profit*
- *To hire the services of expert*

2. Vertical Combination:

Definitions:

"Vertical integration is the combination of firm in successive stage of the same industry. When various departments, large industrial units combine together under single management is called vertical combination from purchasing of new material to finished goods all the stages are linked up by the units."

OR

"When several firms engaged in various stages of production are combined, it is called vertical Combination."

Example:

If business units engaged in cotton weaving, cotton calendaring, cotton bleaching and cotton selling combine together, it will be a case of vertical combination as:-

COTTON WEAVING
COTTON CALENDARING
COTTON BLEACHING
COTTON SELLING

Objects (WHY THEY ARE FORMED/ROLE):

- *To minimize the cost per unit*
- *To eliminate competition*
- *To hire the services of experts*
- *To regulate the supply of raw material*
- *To use modern technology*
- *To earn maximum profit*
- *To supervise the management*
- *To reduce the middlemen's commission*
- *To find proper market for their product*

- *To achieve the benefit of large scale*

3. Circular Combination or Mixed Combination:

Definitions:

"When different business units manufacturing and selling different type of goods and services can decide to combine their business for obtaining the benefit of common management is called "Circular Combination or Mixed Combination."

OR

"When two or more than two businesses of different nature are combined, it is called Circular Combination."

Example:

If cloth, shoes, chemical and cement industries combined together under one controlling authority, circular combination takes place.

Cement Industry

Objects (WHY THEY ARE FORMED/ROLE):

- *To supervise the production and management most effectively*
- *To achieve the economics in various sectors*
- *To increase the efficiency of business and industries*
- *To promote the cooperation in financing, advertising, research and other meters*
- *To earn high profit*
- *To secure the benefits of administrative ability through common management*

4. Diagonal Combination:

Definition:

"When two or more than two business units which supply helping goods and services for making the final products are combined with one main company under one management the diagonal combination comes into existence."

OR

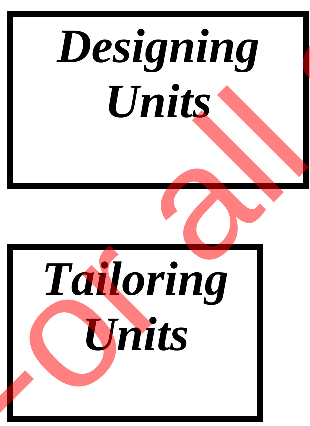
"When two or more than two business units perform subsidiary services which they combine themselves under the main industry is called Diagonal Combination."

OR

"When two or more firms or companies providing helping goods or services to each other are combined, it is called Diagonal Combination."

Example:

If designing and tailoring business units are combined with the garment industry, it is called Diagonal Combination. It can be explain with the help of diagram as under:



Objects (WHY THEY ARE FORMED/ROLE):

- *To make the business large and self sufficient*
- *To maintain the quality of product*
- *To reduce the coat per unit*

- *To promote the efficiency of business*
- *To provide the services in time*
- *To achieve the economics and various sectors.*

5. Lateral Combination or Allied Combination:

Definition:

"When different business units to combine their work on the basis of allied(related) nature of work, so it is the combination of different industrial units, which supply goods and services to help in the functioning of one major common undertaking and the different types of raw material used for one finished good."

Example:

In a printing press or new agency, which may be associated with the other units engaged in the supply the paper, ink, typing and cardboard.

Card Board

Typing

Ink

Objects (WHY THEY ARE FORMED/ROLE):

- *To supply raw material regularly*
- *To reduce the selling expense to a large scale business*
- *To available of managerial economics*
- *To hire the services of experts*
- *To increase the capacity of working hours*

Objects For All (WHY THEY ARE FORMED/ROLE):

- *To minimize the cost of production*
- *To minimize the operating expenses*
- *To minimize the excessive competition*
- *To minimize the risks*
- *To hire services of experts*
- *To manage by single management*
- *To minimize the interference of middleman*
- *To enhance the Capital*
- *To get economies of trade*
- *To introduce new methods of production.*

CONCLUSION:

It is concluded that different kinds of business combinations perform their respective functions to enhance business activities. And combinations are the need of the hour especially for developing countries like Pakistan but keeping in mind that excess of everything is bad.

OTHER IMPORTANT DEFINITIONS:

1. **TRADE ASSOSIATION:**

A trade association is a voluntarily association of owners engaged in particular trade or industry. **OR**
When businessmen of a particular trade or industry are combined to look after their common interest, it is called Trade Association.

2. **CHAMBER OF COMMERCE:**

The voluntarily associations of businessmen organized on regional basis to promote pleasant business atmosphere in their respective region. They also act as spokesman of their members.

3. **RING:**

A ring is an agreement among producers of a particular commodity to restrict the output. The purpose is to regulate the prices by controlling the supply.

4. **HOLDING COMPANY:**

A holding company is one that acquires such numbers of shares in another company as may enable it to appoint majority of directors in the other company.

5. **MERGER:**

In order to avoid competition and to avail economies of scale the competing firms, sometimes, inclined towards complete consolidation.
OR

When one existing company or firm absorbs one or more existing companies or firms, it is called Merger

6. ABSORPTION:

Absorption means that a firm acquires whole of the business of a competing firm. The acquired firm loses its entity and it is absorbed into acquiring firm.

7. AMALGAMATION:

Amalgamation means that two or more than two competing firms dissolve their entity and merge into a new business entity to carry on business of all of them.

8. TRUST:

A form of business organization established through temporary consolidation in which the shareholders of the constituent organization under a trust agreement transfer a controlling amount of the shares to a Board of Trustees in exchange for trust certificates.

9. CORNER:

The form of organization among traders of a particular commodity, it is called Corner.

10. POOL:

An agreement made by members producing and dealing on similar products. The aim of pool is to eliminate competition among the producers by regulating prices.

11. OUTPUT POOL:

Under this pool, the current demand in market is estimated and then outputs are fixed for various members.

12. TRAFFIC POOL:

A pool formed by transport agencies to eliminate competition is called Traffic Pool.

13. MARKET POOL:

The production pool is formed to restrict output of each firm according to an agreed formula among the competing firms.

OR

Under this pool, the market is divided among members of pool. Each member is allowed to sell his product within territory allotted to him.

14. PRODUCTION POOL:

The market is divided among the members of the combination. A member cannot sell his product in the allotted territory of the other member of the pool.

15. INCOME AND PROFIT POOL:

Under this pool, the prices are fixed by Central Board consisting of all members. This all profit earned by each member is paid into the pool and again this profit is distributed among the members.

16. CARTEL/CYNDICATE:

A voluntarily agreement between an association of independent enterprises of similar type to secure a monopoly of the market, it is called Cartel.

17. PRICE FIXING CARTEL:

Under this cartel, no member is allowed to sell the goods below fixed price.

18. TERM FIXING CARTEL:

Term Fixing Cartel, is that under which terms regarding rate of discount, credit period and insurance are prescribed.

19. CUSTOMER CARTEL:

Customer Cartel is that under which each member unit is allotted certain customers.

20. QOUTA FIXING CARTEL:

Under this cartel, production quota is fixed for each member and no member can produce more than allotted quota.

21. COMMUTY OF INTEREST:

A form of business organization in which without any formal administration, the business policy of several companies is controlled by a group of common stockholders of directors.

Question No 29: ***What is insurance, its advantages or importance?***

Answer:

INSURANCE:

INTRODUCTION:

Whenever there is a business there is a risk. There is as such no activity under taken in a business which doesn't contain the element of risk that is why the business and risk goes together and business without a risk cannot be termed as true business. Same in the case that the word risk is frequently used in connection with insurance, however, there is no one generally accepted.

Definition of risk:

According to THOMAS.J.ADAMS:

"The chance of loss due to some unfortunate occurrences."

Simply we can say:

"It is evident that risk in unavoidable but it is also true that it can be reduced and this risk can be reduced with the help of insurance."

Definition of Insurance:

According to THOMAS J.ADAMS:

"Insurance is *a method of shifting responsibility for loss to specialist (insurance company*) who handles the risk of spreading it over a large number of people or firm (policy holder)."

According to OXFORD DICTIONARY:

"Insurance is a financial arrangement which distributes the lists of unexpected loss."

LIFE INSURANCE:

"Life insurance is a contract, which provides financial protection to his family in case of death of policyholder. If insured person remains alive during the particular period then insurance co. returns the principle amount with interest".

FIRE INSURANCE:

"Fire insurance is a contract between the policyholder and insurance company in which the insurance co. undertakes the indemnity caused by a fire to the particular property in the particular period",

MARINE INSURANCE:

"Marine insurance is the insurance of ships or their cargo against specified causes of loss or damage that might be encountered at sea."

ADVANTAGES OF INSURANCE:

Following are the advantages available to different groups.

1. **Advantages to public:**

   The general public enjoys the following advantages from the insurance.

a) **Increase in Saving:**

Life insurance is a means of saving money. The people make arrangement for the payment of premium even reducing their expenses to avoid the lapse of insurance policy. In this way, the saving leads towards large amount. This can be used for personal purposes.

b) **Financial Support:**

Life insurance is a good means to make provision for the old age. The amount received from the insurance company will be helpful to support him and his family.

c) **Availability of loans:**

The life insurance policy can be used as security against loan. The people can get the loans from the banks and insurance companies against the security of life insurance policies. The value of security increases with the payment of premium. The insurance company and the insured determine the value and the lender is informed.

d) **Sense of Safety:**

The life insurance provides safety against economic difficulties to the family. If the insured person dies, the dependents will get amount from the company.

e) **Removing Fear:**

Insurance helps to remove various types of fear from the mind of the people. Because insured think that the protection of the insurance fund is behind him if any loss has to face. This though will eliminate worries of fear of loss.

f) Solution of Problem:
Insurance Company also solves many social problems by providing financial assistance. Because in case of assureds death, it provides finance to his family.

g) Employment Opportunity:
Insurance provides employment opportunity to jobless persons, which is helpful for the improvement and progress of social conditions.

2. Advantages to the Businessman:

The following advantages are available to businessman:

a) Increase in Safety:
The insurance provides safety against the risks of marine and fire losses. The workmen's compensation insurance provides sum assured to the workers on accidents. The businessman can even make up of their losses by insurance. Thus, insurance provides safety against different kinds of risks in business.

b) Availability of loans:
The businessmen need money for expansion and improvement of their business. To get the loan the businessmen have to give guarantee to the banks. They can use their insurance policies as security to take loans from banks.

c) Increase in Saving:

The general public (businessmen) paid some amount in shape of premium. These premiums are not lying idle. These are invested and earn a large amount of interest. In thus way some little savings promote to large saving.

d) **Sense of Security:**

At every moment there is a chance of loss in business due to insurance risk is transferred to the insurance Company and it gives the sense of security to businessman.

e) **Solution of Problem:**

Insurance Company also solves many social problems by providing financial assistance. Because in case of assureds death it provides finance to his family.

f) **Employment Opportunity:**

Insurance provides employment opportunity to jobless persons, which is helpful for the improvement and progress of social conditions.

g) **Promotion of Business Competition**:

Insurance enables the small business units to compete upon more equal terms with the bigger organization. Without insurance it would have been impossible to undertake the risks themselves.

h) **Factors of Production:**

Insurance also helps in achieving favorable allocation of the factors of production. Actually people feel hesitation to invest their capital where financial losses are great so they ready to invest in shape of premium for this.

3. Advantages to the Community:

a) Availability of funds:

Funds are required to provide facilities to the community. Insurance companies generate funds. These funds can be used to reduce the problems of people.

b) Development of country:

The insurance companies help in the economic development of country. The insurance companies collect premium and invest the funds in purchasing shares and debentures of companies. Thus, they help in industrial and economic progress of the country.

c) Employment:

The insurance companies provide employment to people. The valuers are employed to calculate premium and loss. The people get jobs as salesmen and sales officers. The insurance companies invest funds in different companies and create jobs in these companies indirectly.

d) Other benefits:

Insurance creates a sense of confidence regarding future. The insurance companies spend money on medical research. Health services causes of fire, road accidents, to inform the public to reduce the risk of loss. The insurance companies thus render a great service to the community.

e) Life Protection:

Life insurance provides protection to the assured person because in case of death or accident of assured person the financial assistant is provides to the assured family.

f) <u>Source of Investment:</u>

Actually business units paid funds in shapes of premium so insurance companies invest these funds in any other business units and in this way earn more profit, which distributed among the policyholders of a specific period.

g) <u>Distribution of Loss:</u>

The loss, which is face by the ensured business units or person, is distributes by the insurance Company and the businessman. So the loss is bear by the both parties which has minimum burden.

4. <u>Advantages to the Government;</u>

a) <u>Sufficient Loans:</u>

The insurance companies invest their funds in government securities and the government gets sufficient loans easily.

b) <u>Earn Foreign Exchange:</u>

The insurance companies also earn foreign exchange by doing insurance business in foreign countries.

c) <u>Industrial Development:</u>

Insurance is very important for industrial development. In the stock exchange insurance companies are the major investors in purchasing and selling the securities.

d) Economic Development:

Insurance contributes to the efficiency of the business and promotes economic growth and development.

e) Source of Investment:

Actually business units paid funds in shapes of premium so insurance companies invest these funds in any other business units and in this way earn more profit, which distributed among the policyholders of a specific period.

CONCLUSION:

In the end, one can say that insurance is very supportive to every field of life due to its safeness, reliability. And the economy of a country is also growing due to its vital role. Hence, one can say that insurance companies are playing a vital role in the development of economy of a country.

SPECIAL TERMS

1. Re-Insurance:

In order to avoid heavy financial loss the insurance companies get a part of the risk with another insurance company. It thus protects the insurance funds of the original insurer.

2. Insurer:

The term insurer refers to the party who protect others from risk of loss. Or the party who take an obligation of loss, which has to face, by the policyholder is called insure.

3 Insured:
A person, party or business unit who contribute some funds in shape of premium for the purpose of compensate future loss is called insured (person Party or business unit).

4. Premium:
Premium is the consideration amount, which is paid by the assured to the insured in exchange paid by the assured to the insurer in exchange for shifting of risk.

5. Policy:
It is an important document of the insurance in which terms and conditions of the contract between insured and insurer are written clearly. It is signed and stamped by the insurance Company.

6. Double Insurance:
If an assured gets more than one insurance policy with more than one insurance Company it is called double insurance.

Question No.31:- What is E-Business & E-Commerce, what are kinds of E-Commerce & its importance?

ANSWER:

E-BUSINESS & E-COMMERCE:

DEFINITION OF E-BUSINESS:

"Electronic business or e-business is any business process that is empowered by electronic information system".

DEFINITION OF E-COMMERCE;

"E-commerce is the buying & selling of goods & services on the internet especially the World Wide Web."

OR

"Electronic commerce or e-commerce consists primarily of distributing buying, selling, marketing servicing of products or services over electronic systems such as the internet & other computer networks."

E-commerce consists of e-marketing & e-purchasing. E-marketing includes all efforts of a company to communicate about promote, & sell its products services through the use of electronic communications technology. E-purchasing or e-procurement refers to buying by consumers of companies of goods and services by using electronic communication technology.

TYPES OF E-COMMERCE ACTIVITY:

E-commerce activity is divided into following three categories.

1. **BUSINESS TO CONSUMER (B2C) E-COMMERCE:**

The term business to consumer is used to denote business communicating with selling to consumers.B2C e-commerce refers interactive marketing involving the internet and the worldwide web.

2. **BUSINESS TO BUSINESS (B2B0 E-COMMERCE:**

The term business to business refers to one business communicating with or selling to another business. B2B e-commerce is changing the way business does business with each other.

3. **CONSUMER TO CONSUMER (C2C) E-COMMERCE:**

The term consumer to consumer refers to one consumer communicating with or selling to another consumer. Millions of items are offered and billions of dollars worth of merchandise are sold every year through this website.

SIGNIFICANCE OF E-COMMERCE:

In order to explain implications and importance of e-commerce the topic is divided into three sections:

- **What online consumers buy?**
- **Why consumers buy online?**
- **How companies benefit from e-commerce?**

1. **WHAT ONLINE CONSUMERS BUY?**

While browsing through shopping links of yahoo, AOL, MSN, Goggle etc. one wonders to see the wide variety of items being sold through the internet.

- **PRODUCTS FOR WHICH PRE-PURCAHSE TRIAL IS NOT CRITICAL;**

This category includes items for which product information an important part of purchase decision, but the consumer so not need to touch, smell, or physically examine the particular item before they buy it.

- **<u>PRODUCTS HAVING STRONG BRAND IDENTITY:</u>**
  Online shoppers prefer to buy products carrying famous brand names such as Sony, Yashika, Moulines, L.G etc…..

- **<u>PRODUCTS REQUIRING AUDIO/VIDEO DEMONSTRATION:</u>**
  There are certain products that require elaborate audio/video demonstration of product features and qualities to convince the customer to buy. Physical fitness equipments, kitchenware, tourist packages, beauty creams and cosmetics, hair grafting etc are example of such products.

- **<u>PRODUCTS HAVIG SMALL & SCATTERED CUSTOMERS:</u>**
  Items that appeal to small but geographically dispersed groups of customers, e.g collectibles, gift items, specialized products and services etc are well suited to e-commerce.
- **<u>PRODUCTS WITH CONVENIENT SHIPPING PROFILE;</u>**
  A shipping profile is the collection of attributes that affect how easily a product can be packaged and delivered.

2. <u>WHY CONSUMER BUY ONLINE?</u>

Reasons as to why consumers prefer to buy online are grouped into six categories i.e. convenience, cost, choice, customization, communication and control. These advantages of online buying to consumers, also termed as six Cs are that are briefly discussed below:

- **<u>CONVINIENCE:</u>**

A consumer can visit a market space twenty-four hours a day and seven days a week by browsing through the internet.

- **<u>COST:</u>**

Research indicates that most of the items offered online can be purchased online at the same price of cheap price than in retail stores.

- **<u>CHOICE:</u>**

An online buyer can visit as many virtual shopping malls as he pleases by clicking the addresses of their websites.

- **<u>CUSTOMIZATION;</u>**

Online buyers can customize many products in order to meet their individual needs. For example buyers of dell computer an build the exact computer they desire, determine how and when it will be shipped and keep track of its progress from production through delivery.

- **<u>COMMUNICATION:</u>**

Interactive communication capabilities of internet/web-based technologies allow online buyers to engage in an electronic dialogue with marketers and other customer.

➢ **CONTROL:**
Finally, consumers prefer to buy online because of the control it gives them over their purchase decision process.

3. **HOW COMPANIES BENEFIT FROM E-COMMERCE?**
There are several potential benefits that a business firm can avail by online presence.

➢ **ORGANIZATIONAL SIZE IS NOT A CONSTAINT:**
In conventional marketing, big business firms often get significant advantages over the smaller firm.

➢ **BUSINESS LOCATION BECOMES LARGELY IRRELEVENT:**
In conventional marketing firms often need to locate their operations in shopping areas easily accessible to their customers. On the internet however each company is just at a click away from the customers.

➢ **INVENTORY REDUCTION:**
E-traders do not necessarily keep inventory of each item they offer online. They may operate on just in time basis.

➢ **COST REDUCTION:**
E-commerce provides attractive savings to business firms in many areas. Sellers neither need to establish lavishly furnished stores in main shopping areas nor need to employ number of salesman to attend the customers.

➢ **IMPROVED CUSTOMER SERVICE:**
An online seller is available to its customer twenty-four hours a day and seven days in a week.

- **BETTER FEEDBACK FROM CUSTOMERS;**

Success in business requires entrepreneurs to determine their current and potential customers need and preference through feedback from customers.

CONCLUSION:

It is conducted that e-commerce plays an important role in development of countries. It is the need of hour and of course for future to exist in markets. It creates easiness for producer and consumers in many ways. It facilitates the community, companies and investors as well to a larger extent.

Question No.32:- Write Notes on:

1. **Share Capital**
2. **Shares**
3. **Debentures**
4. **Resolutions**

ANSWER:

1. Share CAPITAL:

MEANING OF CAPITAL:

The term capital means a particular amount of money of money with which a business is started. In case of a company, the term capital refers to the amount of money raised by issue of shares.

KINDS OF CAPITAL:

The following are different kinds of capital:

1) AUTHORIZED CAPITAL:

It is the maximum amount of share capital which a company is authorized to issue. The amount of authorized capital is mentioned in the capital clause of the memorandum along with division into shares of a fixed amount. This is also known as registered capital or nominal capital.

2) ISSUED CAPITAL:

It is not necessary for a company to issue all its authorized capital to the public for sale. Out of the authorized capital, the amount of share capital which is issued to the public for sale is called issued capital. The balance is retained for future requirements.

3) SUBSCRIBED CAPITAL:

It is not necessary that all the capital issued by the company may be purchased by the public. The part of the issued capital for which the company has received applications from the public is called subscribed capital.

4) CALLED UP CAPITAL:

Generally, the companies do not ask the shareholders to pay the full amount of share at once. They take it in installments. It is the part of the subscribed capital, which in fact the company asks the shareholders to pay.

5) UNCALLED UP CAPITAL:

It is that part of the subscribed capital which is not called for, by the company from the shareholders. It is the amount outstanding on each share.

6) RESERVED CAPITAL:

It is that part of the uncalled capital which the company by passing a special resolution decides not to call up. The company can ask the shareholders to pay on event of winding up of company. It is saved for the purpose of payments of debts to the creditors on the winding up of the company.

7) REDEEMABLE CAPITAL:

A company can obtain the redeemable capital by issuing participation term certificate, Musharaka certificate, and term finance certificate, and other security not based on interest other than ordinary share of a company

CONCLUSION:

In the end, one can say that company has different kinds of capital which are used to perform different activities in the company. And make the growth of company possible.

2. Shares:

INTRODUCTION:

Share is a part of the share capital. The capital of a company is divided in several small units and each unit is called a share. Shareholders are the owners of the company. Share give the right to the shareholders to receive their shares in profit.

According to Lord Lindley;

"Share is the portion of capital which each shareholder is entitled to."

CHARACTERISTICS:

A share has the following characteristics.

- Share is a movable asset of the company.
- A share is an interest of a shareholder in a company.
- It is measured by sum of money i.e. fixed amount.
- It shows rights and obligations of its holders.
- It bears a distinctive number.
- Every shareholder is liable to the company within the provisions of the articles.

KINDS OF SHARES:

Following are the kinds of shares of a limited company:

1) **PREFERENCE SHARES;**

Those shares which enjoy a right to receive a fixed rate of dividend before the other shareholders are called preference shares. They have the following characteristics;

- Their rate of dividend is fixed.
- The preference shareholders get a dividend before other shareholders.

- The preference shareholders get their capital before other shareholders at the time of winding up the company
- .

KINDS OF PREFERENCE SHARES:

These can be divided into the following different kinds
:

- **CUMULATIVE AND NON-CUMULATIVE SHARES:**

In **cumulative shares,** if in any year the profits are not enough, their right to dividend does not lapse but continues accumulating and the same may be paid from the profits of next year.

In **non-cumulative shares,** if no profits are available for distribution as dividend in a particular year, the holders of such shares cannot claim the unpaid dividend in subsequent years.

- **PARTICIPATING AND NON-PARTICIPATING:**

The **participating shareholders** get a fixed rate of dividend. They also participate in the surplus profit with ordinary shareholders.

The **non-participating shareholders** get the fixed rate of dividend. They cannot participate in the surplus profits with ordinary shareholders.

- **CONVERTIBLE AND NON-CONVERTIBLE:**

The holders of **convertible preference shares** have the right to convert them in other shares within a fixed period.

The holders of **non-convertible preference shares** do not have the right to convert them in other kinds of shares.

- **REDEEMABLR AND IRREDEEMABLE:**

Those **preference shareholders** whose paid up capital is to be retuned after sometime are called redeemable preference shares. Such shares are redeemed when they are fully paid up.

Those preference shares on which the right of redemption within a definite period is not attached are called **irredeemable preference shares.**

2. **ORDINARY SHARES:**

These shareholders get dividend from the net profits of the company after the fixed dividend on preference shares has been paid up. It, after paying the dividend on preference shares, no profits remain, such shareholders will receive no dividends.

3. **DEFERRED SHARES:**

These shares are also called founders or management shares. These are generally issued to the promoters of the company. In consideration of their services for forming the company.

3. DEBENTURES:

The debentures are issued by the companies to secure loan. Debenture is a written letter of acceptance issued for securing loan by the company in which interest, surety and conditions regarding return of loan are recorded.

CHARACTERISTICS:

It has the following characteristics:

- It is an acknowledgement of indebtedness by the company to its holder.
- It is issued under the common seal of the company
- It provides for a fixed rate of interest to the debenture holder.
- It generally provides for repayment of money at a fixed date.
- These are generally secured but this is not essential.

KINDS OF DEBENTURES:

The following are kinds of debentures on the basis of security, method of transfer and payment.

1) .**SECURITY:**

- **SIMPLE OR NAKED DEBENTURES:**

  The debentures for which the company does not keep anything by way of security are called simple or naked debentures.

- **SECURED OR MORTGAGED DEBENTURES:**

  If the company deeps some security for the loans secured through debentures, then such debentures are called secured or mortgaged debentures.

2) **TRANSFER:**

- **REGISTERED DEBENTURES:**

  These debentures are written in the name of the creditor and his particulars are written in the debentures register of the company. These debentures are not transferred by change of hands.

- **BEARER DEBENTURES;**
  These debentures can e transferred by change of hands like bearer cheques. The payment of interest is made through coupons attached with the debentures.

3) PAYMENTS:

- **REDEEMABLE DEBENTURES:**
  The debentures which are issued with a condition that the amount of loan will be returned, on demand or after a definite period are called redeemable debentures.
- **IRREDEEMABLE DEBENTURES:**
  The debentures for which the company is not responsible to return the amount of loan under any condition are called irredeemable debentures. The repayment of such debentures depends on the desire of company but in case of liquidation it should be paid like other creditors.

4. RESOLUTION:

MEANINGS:

The agenda (matters to be considered) is presented before the members in the meeting to discuss and make decision. Each matter is discussed, debated and finally put to vote. If it is carried by the requisite majority, it becomes the resolution of the meeting on that particular matter.

TYPES OF RESOLUTION:

There are two types of resolution……..:

a. ORDINARY RESOLUTION:

An ordinary resolution is a resolution passed by a simple majority of the members entitled to vote. It is required for the following matters.

- To declare dividend.
- To appoint auditors and fix their remuneration.
- To elect directors.
- To approve annual accounts.
- To issue shares at discount.
- To approval statutory report.
- To remove an auditor and appoint another.
- To fill the casual vacancy due to resignation.
- To appoint directors retiring by rotation.
- To remove director before the expiry of its term of office.
- To sell, lease or dispose off the company undertaking.

SPECIAL RESOLUTION:

A special resolution is a resolution passed by three-fourth majority of the members entitled to vote. In order to pass this resolution a notice of 21 days must e give to call the meeting. A special resolution is required for the following matters……..

- To change the name of the company.
- To change the registered office from one province to another.
- To alter the articles of association of a company.
- To reduce the share capital of a company.
- To make the liability of directors limited.
- To sanction the assignment of office by a director.

- To initiate a winding up by court.
- To wind up a company voluntarily.
- To change the objects.
- To enable a liquidator to exercise some of his powers.
- To enable voluntary liquidator to make compromises with creditors.
- To issue debentures.
- To change the rights of special classes of shares.
- To commence new business.

- To enable a company to buy its own securities.