

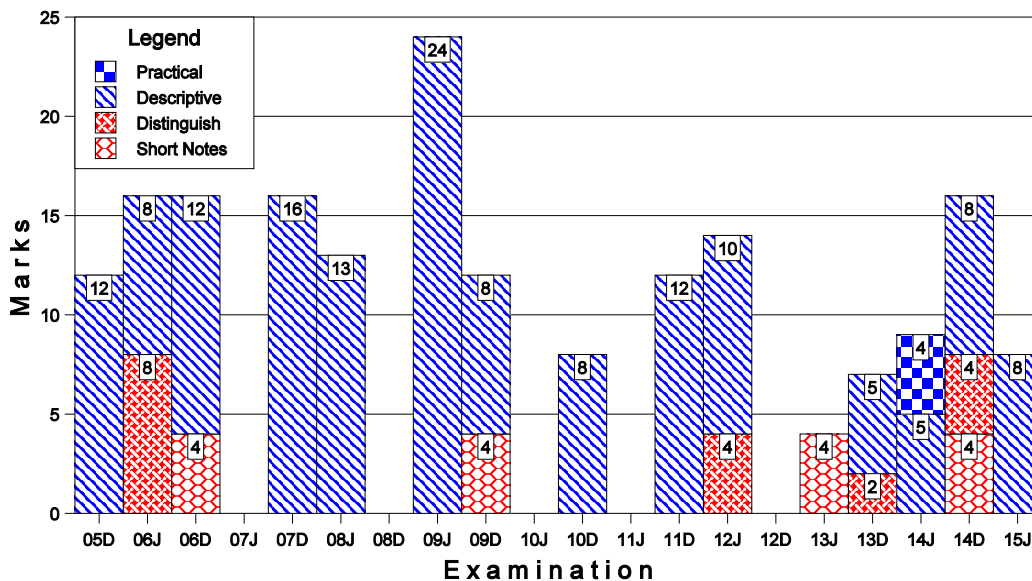
# 1

## Company Formation and Conversion

### This Chapter Includes

- Choice of form of Business Entity
- Procedure for Incorporation of Companies
- Procedure for Conversion of Companies
- Procedure for Commencement of Business
- Procedure for ratification of pre-incorporation agreements and contracts

### Marks of Short Notes, Distinguish Between, Descriptive & Practical Questions



### Chapter at a Glance

Question upto Dec - 2008 are from CS Inter Gr. II Old Course and from June - 2009 onwards are from CS Professional Programme New Course.

Topic	Important Highlight
1. <b>Types of Company</b>	<p>From the point of view of incorporation, companies can be classified as chartered companies, statutory companies and registered companies.</p> <ul style="list-style-type: none"> <li>✓ Companies can be categorized as unlimited companies, companies limited by guarantee and companies limited by shares.</li> <li>✓ Companies can also be classified as public companies, private companies, one person companies, small companies, associations not for profit having license under Section 8 of the Act, Government Companies, Foreign Companies, Holding Companies, Subsidiary Companies, Associate Companies, Investment Companies and Producer Companies.</li> </ul>
2. <b>Private Company</b>	<p>A private company has been defined under Section 2(68) of the Companies Act, 2013 as a company which has a minimum paid-up capital of ₹ 1,00,000 or such higher paid-up capital as prescribed and by its articles restricts the right to transfer its shares, limits the number of its members to two hundred and prohibits any invitation to the public to subscribe for any securities of the company.</p> <p>✎ <b>Amendment made by Companies (Amendment) Act, 2015:</b>  <i>Provides that in Clause (68), the words of one lakhs rupees or higher paid up share capital shall be omitted.</i></p>
3. <b>One Person Company</b>	<p>“One Person Company” means a company which has only one person as a member.</p>
4. <b>“Small Company”</b>	<p>“Small company” means a company, other than a public company, (i) paid-up share capital of which does</p>

	not exceed ₹ 50,00,000 or such higher amount as may be prescribed which shall not be more than ₹ 5 crores; or (ii) turnover of which as per its last profit and loss account does not exceed ₹ 2 crore or such higher amount as may be prescribed which shall not be more than ₹ 20 crores.
<b>5. Public Company</b>	<p>A public company is a company which (a) is not a private company (b) has a minimum paid-up share capital of ₹ 5 lakh or such higher paid-up capital, as may be prescribed.</p> <p>✎ <b>Amendment made by Companies (Amendment) Act, 2015:</b>  <i>Provides that in Clause (68), the words of ₹ 5 lakhs or higher paid up share capital shall be omitted.</i></p>
<b>6. Limited Company</b>	A limited company is a company limited by shares or by guarantee. An unlimited company is a company not having any limit on the liability of its members.
<b>7. Foreign Company</b>	Foreign Company means any company or body corporate incorporated outside India which (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and (b) conducts any business activity in India in any other manner.
<b>8. Investment Company</b>	Investment Company means a company whose principal business is the acquisition of shares, debentures or other securities.
<b>9. Association not for profit</b>	<p>Section 8(1) permits the registration, under a licence granted by the Central Government, of associations not for profit with limited liability without being required to use the word “Limited” or the words “Private Limited” after their names. The Central Government may grant such a license if:</p> <p>(a) it is intended to form a company for promoting commerce, art, science, sports, education,</p>

	<p>research, social welfare, religion, charity protection of environment or any such other object; and</p> <p>(b) the company prohibits payment of any dividend to its members but intends to apply its profits or other income in promotion of its objects.</p>
<b>10. Government Companies</b>	A company in which not less than 51% of the paid-up share capital is held by the Central Government, or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary company of such a Government Company.
<b>11. Holding Company</b>	As per Section 2 (46), holding company, in relation to one or more other companies, means a company of which such companies are subsidiary companies.
<b>12. Subsidiary Company</b>	Section 2 (87) provides that subsidiary company or subsidiary, in relation to any other company (that is to say the holding company), means a company in which the holding company— (i) controls the composition of the Board of Directors; or (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies.
<b>13. Control</b>	It shall include the right to appoint majority of the directors or to control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner.

<b>14. Dormant Companies</b>	As per Section 455 (1) where a company is formed and registered under this Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar in such manner as may be prescribed for obtaining the status of a dormant company.
<b>15. Associate company</b>	As per Section 2(6), “Associate Company”, in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.
<b>16. Position of OPC in India under the Companies Act, 2013</b>	As per Section 2(62) of the Companies Act, 2013, “One Person Company” means a company which has only one person as a member. Section 3(1)(c) lays down that a company may be formed for any lawful purpose by one person, where the company to be formed is to be One Person Company that is to say, a private company. In other words, one person company is a kind of private company. A One person company shall have a minimum of one director. Therefore, a One Person Company will be registered as a private company with one member and one director.
<b>17. Procedure for incorporation of a company</b>	(a) Application for Availability of Name of Company; (b) Preparation of Memorandum and Articles of Association; (c) Filing of Documents With Registrar of Companies; (d) Declaration from the professional; (e) Affidavit from the subscribers to the Memorandum; (f) Furnishing verification of Registered Office (g) Filing of particulars of Subscribers

	<p>(h) Filing particulars of first directors along with their consent to act as directors</p> <p>(i) <b>Power of Attorney:</b> Execution of power of attorney on a non-judicial stamp paper of a value prescribed in state stamp laws.</p> <p>(j) Issue of Certificate of Incorporation by Register.</p>
<b>18. Steps to be taken by a promoter</b>	The first few steps to be taken by a promoter in incorporating a company are to apply for availability of name of company, prepare the memorandum and articles of association and get them vetted, printed, stamped and signed. The promoter should then execute power of attorney and file additional documents as required under section 7. He should then file statutory declaration and pay the registration fees.
<b>19. Conclusive evidence</b>	The certificate of incorporation is conclusive evidence that everything is in order as regards registration and that the company has come into existence from the earliest moment of the day of incorporation stated therein.
<b>20. Private company to public company</b>	Pass special resolution in general meeting File form INC 27 with Registrar File MGT 14 for special resolution.
<b>21. Public to private company</b>	Pass Special Resolution in general meeting File form INC 27 with Registrar Get NCLT's approval File MGT 14 for special resolution.
<b>22. Conversion of section 8 company to any other kind</b>	<ul style="list-style-type: none"> <li>• Pass special Resolution in general meeting along with MGT 14</li> <li>• Application to Regional Director in Form INC 18 (copy to be filed with Registrar) Publication of notice (INC 19) in news paper</li> </ul>

	<ul style="list-style-type: none"> <li>• Declaration to the effect that no dividend/ bonus is paid</li> <li>• NOC from the relevant regulatory authority</li> <li>• No failure in filing financial statement certificate from PCS/CA/CWA for conversion compliance.</li> </ul>
<b>23. Conversion of One Person Company to a public company or private company</b>	<ul style="list-style-type: none"> <li>• If the paid up capital of an OPC exceeds ₹ 50,00,000. Or</li> <li>• Its average annual turnover during the relevant period exceeds ₹ 2 crore. Then it shall cease to be entitled to continues OPC</li> <li>• Minimum numbers of members and directors has to be increased accordingly. Pass special Resolution in General Meeting to alter MOA &amp; AOA Notice to Registrar within 60 days in INC 5.</li> </ul>
<b>24. Conversion of pvt company into One Person Company</b>	<p>Private company other than section 8 company having paid up share capital of ₹ 50,00,000 or less or Average annual turnover during the relevant period is ₹ 2 crore or less</p> <ul style="list-style-type: none"> <li>• Before passing resolution the company shall obtain NOC from members &amp; creditors then pass S/R in General Meeting</li> <li>• The company shall file an application in INC 6 for its Conversion</li> <li>• Declaration by Directors by way of affidavit.</li> </ul>
<b>25. Meaning of LLP</b>	Any two or more persons associated for carrying on a lawful business with a view to earn profit may form a limited liability partnership by subscribing their names to an incorporation document and registration with the registrar of companies.
<b>26. Mutual rights and duties of partners</b>	Mutual rights and duties of partners of an Limited Liability Partnership <i>inter se</i> and those of the Limited Liability Partnership and its partners shall be governed by an agreement between the partners.

<b>27. No. of Partner</b>	Every Limited Liability Partnership shall have at least two designated partners who are individuals and atleast one of them shall be a resident of India.
<b>28. LLP Agreement</b>	The mutual rights and duties of the partners of limited liability partnership and the mutual rights and duties of a limited liability partnership and its partners, shall be governed by the limited liability partnership agreement between the partners or between the limited liability partnership and its partners.
<b>29. Solvency</b>	Every limited liability partnership shall file the Statement of Account and Solvency in Form 8 with the Registrar, within a period of thirty days from the end of six months of the financial year to which the Statement of Account and Solvency relates. A limited liability partnership's Statement of Account and Solvency shall be signed on behalf of the limited liability partnership by its designated partners.
<b>30. Accounts Audited</b>	A limited liability partnership whose turnover exceed forty lakh rupees, in any financial year or whose contribution exceed twenty-five lakh rupees shall be required to get its accounts audited.
<b>31. Annual Return</b>	Every limited liability partnership shall file an annual return with the Registrar in Form 11.
<b>32. Foreign LLP</b>	As per rule 34(1) of the LLP Rules, a foreign limited liability partnership shall, within thirty days of establishing a place of business in India, file with the Registrar in Form 27 — (a) a copy of the certificate of incorporation; (b) the full address of the registered or principal office of the limited liability partnership in the country of its incorporation; (c) the full address of the office of the limited liability partnership in India which is to be deemed as its principal place of business in India;



(d) list of partners and designated partners, if any and the names and addresses of two or more persons resident in India, authorized to accept on behalf of the limited liability partnership, service of process and any notices.

**List of Important Form (Companies Act, 2013)**

<b>Form No.</b>	<b>Form Type</b>	<b>Purpose of Form as per Companies Act, 2013</b>	<b>Important Section</b>	<b>Important Rule</b>
INC-1	e-Form	Application for reservation of Name	4(4)	8,9
INC-2	e-Form	One Person Company – Application for incorporation	3(1), 7(1)	4,10, 12,15
INC-3	e-Form	One Person Company – Nominee Consent Form	3(1)	4(2), (3), (4), (5), (6)
INC-4	e-Form	One Person Company – Change in Member/Nominee	3(1)	4(4), (5), (6)
INC-5	e-Form	One Person Company - Intimation of exceeding threshold	–	6 (4)
INC-6	e-Form	One Person Company – Application for Conversion	18	7 (4)
INC-7	e-Form	Applicant for incorporation of Company (Other than OPC)	7(1)	10, 12, 14, 15
INC-8	Physical Form	Declaration	7(1)(b)	14
INC-9	Physical Form	Affidavit	7(1)(c)	15

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INC-10	Physical Form	Form for verification of signature of subscribers	–	16 (1) (q)
INC-11	Physical Form	Certificate of Incorporation	7(2)	8
INC-12	Physical Form	Application for grant of License under section 8	8(1), 8(5)	19, 20
INC-13	Physical Form	Memorandum of Association	–	19 (2)
INC-14	Physical Form	Declaration	7(1)(b)	19 (3), (b)
INC-15	Physical Form	Declaration	–	19 (3)(d)
INC-16	Physical Form	Licence under section 8(1) of the Companies Act, 2013	–	20
INC-17	Physical Form	Licence under section 8(5) of the Companies Act, 2013	–	20
INC-18	e-Form	Application to Regional Director for conversion of Section 8 company into company of any other kind	8 (4) (ii)	21(3)
INC-19	e-Form	Notice	–	22
INC - 20	e-Form	Intimation to Registrar of revocation/surrender of license issued under section 8	8(4), 8(6)	23
INC - 21	e-Form	Declaration prior to the commencement of business or exercising borrowing powers	11(1)(a)	24
INC - 22	e-Form	Notice of situation or change of situation of registered office	12(2), (4)	25, 27

INC - 23	e-Form	Application to the Regional Director for approval to shift the Registered Office from one state to another state or from jurisdiction of one Registrar to another Registrar within the same State	12 (5), 13(4)	28,30
INC - 24	e-Form	Application for approval of Central Government for change of name	13 (2)	29 (2)
INC - 25	Physical Form	Certificate of Incorporation pursuant to change of name	–	29
INC - 26	Physical Form	Advertisement to be published in the newspaper for License for existing companies	–	30
INC - 27	e-Form	Conversion of public company into private company or private company into public company	14	33
INC - 28	e-Form	Notice of Order of the Court or any other competent authority	–	–

SHORT NOTES

**2006 - Dec [8]** Write short notes on the following :

(ii) Limited liability partnership.

(4 marks)

**Answer :**

**Limited Liability Partnership (LLP) :**

A Limited Liability Partnership (LLP) is a body corporation, with limited liability and perpetual succession and is a separate legal entity. LLP is an alternation corporate business structure is intended to enable entrepreneurs, professionals and enterprises to form commercially efficient vehicles. A key feature of the present partnership is that liability of the partners is unlimited and this has been a serious concern in case of litigation for claims against

partners of firms. The LLP structure seeks to address this concern. In a LLP the liability of the partners is limited to their agreed contribution in the LLP. No partner is liable on account of the independent or authorized actions of other partners or their misconduct.

The Ministry of company Affairs has brought out a concept paper on LLP Law. Accordingly for the purpose of incorporation of a LLP, *inter alia* :

- (i) Two or more persons should subscribe their names to an incorporation document for carrying on a lawful business with a view to making profit.
- (ii) Incorporation document should include the state in which the registered office of LLP is to situate.
- (iii) A statement in the prescribed form should be made and filed by an advocate or a company secretary or a chartered accountant to the effect that all the requirements of the Act have been complied with.

**2009 - Dec [8]** Write notes on the following :

- (i) One person company (4 marks)

**Answer :**

**Section 2(62) of the Companies Act, 2013** define “one person company” as a company which has only one person as member. OPC is a sub – domain of Private Company as per Section 2(68).

**Rule 3 of the Companies (Incorporation) Rules 2014** say, only a natural person who is an Indian citizen and resident in India:

- (a) shall be eligible to incorporate a One Person Company;
- (b) shall be a nominee for the sole member of a One Person Company.

A person can incorporate only one “One Person Company”.

- The subscriber to the memorandum of a One Person Company shall nominate a person, after obtaining prior written consent of such person, who shall, in the event of the subscriber’s death or his incapacity to contract, become the member of that One Person Company.
- The name of the person nominated shall be mentioned in the memorandum of One Person Company and such nomination in **Form INC – 2** along with consent of such nominee obtained in **Form INC – 3** and fee as provided in the Companies (Registration offices and fees) Rules, 2014 shall be filed with the Registrar at the time of incorporation of the company along with its memorandum and articles.

- **Form INC – 2** is form for incorporation of one person company. The form is similar to **Form INC – 7** except this form contain Nomination details and particulars of nominee.

**Attachments:**

- (i) Memorandum of Association
- (ii) Articles of Association
- (iii) Proof of identity of the member and the nominee
- (iv) Residential proof of the member and the nominee
- (v) Copy of PAN card of member and nominee
- (vi) Consent of Nominee in Form INC – 3
- (vii) Affidavit from the subscriber and first Director to the memorandum in Form INC – 9
- (viii) List of all the companies (specifying their CIN) having the same registered office address, if any;
- (ix) Specimen Signature in Form INC – 10
- (x) Entrenched Articles of Association
- (xi) Proof of Registered Office address (Conveyance/ Lease deed/Rent Agreement etc. along with rent receipts)
- (xii) Copies of the utility bills (not older than two months)
- (xiii) Proof that the Company is permitted to use the address as the registered office of the Company if the same is owned by any other entity/Person (not taken on lease by company)
- (xiv) Consent from Director
- (xv) Optional Attachments.

**2013 - June [8]** Write notes on the following:

- (i) Ministry of Corporate Affairs Circular No. 6/2011 dated 8<sup>th</sup> March, 2011 in the matter of a foreign company establishing business in India.

(4 marks)

**Answer:**

As per **Section 2 (42)** “foreign company” means any company or body corporate incorporated outside India which:

- (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and

- (b) conducts any business activity in India in any other manner.  
Every foreign company shall, within thirty days of the establishment of its place of business in India, deliver to the Registrar for registration:
- (a) a certified copy of the charter, statute or memorandum and articles of the company or other instrument constituting or defining the constitution of the company and if the instrument is not in English language, a certified translation thereof in the English language;
  - (b) the full address of the registered or principal office of the company;
  - (c) a list of the directors and secretary of the company with particulars;
  - (d) the names and addresses of one or more persons resident in India authorised to accept on behalf of the company service of process and any notices or other documents required to be served on the company;
  - (e) the full address of the office of the company in India which is deemed to be its principal place of business in India;
  - (f) particulars of opening and closing of a place of business in Indian on earlier occasions;
  - (g) declaration that none of the directors of the company or authorised representative in India has ever been convicted or debarred from formation of companies and management in India or abroad; or
  - (h) other prescribed particulars.

The Foreign Company shall, within a period of thirty day of establishment of its place of business in India, file **Form FC – 1** of the Companies (Registration of Foreign Companies) Rules 2014. Along with the Companies Act, 2013 provision of Foreign Exchange Management Act, 1999 and regulations made thereunder shall also be applicable.

Regulatory provisions under Foreign Exchange Management (Establishment in India of Branch or Office or other place of business) Regulations, 2000. A foreign company or individual planning to set up business operations in India can do so through a Liaison Office/Representative Office, Project Office or a Branch Office. The FEM (Establishment in India of Branch or Office or other place of business) Regulations, 2000 govern the opening and operation of such offices.

Accordingly, Companies incorporated outside India, desirous of opening a Liaison/Branch office in India have to make an application in form FNC-1. It may be noted that RBI has authorized AD Category I bank to forward FNC-1 along with the necessary enclosures along with the comments and recommendations to –

The Chief Manager-in-charge, Reserve Bank of India Foreign Exchange Department Foreign Investment Division Central Office, Mumbai- 400 001.

**2014 - Dec [3A] (Or)** Write notes on the following:

- (iv) One person company (OPC) (4 marks)

**Answer:**

**Section 2 (62) of the Companies Act, 2013** define “One Person Company” as a company which has only one person as member. OPC is a sub – domain of Private Company as per Section 2(68).

Rule 3 of the Companies (Incorporation) Rules 2014 say, only a natural person who is an Indian citizen and resident in India:

- (a) shall be eligible to incorporate a One Person Company;  
(b) shall be a nominee for the sole member of a One Person Company.

A person can incorporate only one “One Person Company.

The subscriber to the memorandum of a One Person Company shall nominate a person, after obtaining prior written consent of such person, who shall, in the event of the subscriber’s death or his incapacity to contract, become the member of that One Person Company. The name of the person nominated shall be mentioned in the memorandum of One Person Company and such nomination in Form INC – 2 along with consent of such nominee obtained in Form INC – 3 and fee as provided in the Companies (Registration offices and fees) Rules, 2014 shall be filed with the Registrar at the time of incorporation of the company along with its memorandum and articles.

Form INC – 2 is form for incorporation of One Person Company. The form is similar to Form INC – 7 except this form contain Nomination details and particulars of nominee.

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**DISTINGUISH BETWEEN**

**2006 - June [5]** (b) Distinguish between —

- (i) 'Public limited company' and 'private limited company'.
  - (ii) 'Certificate of incorporation' and 'certificate of commencement of business'.
- (4 marks each)

**Answer :**

(i)

<b>Basis</b>	<b>Public limited company</b>	<b>Private limited company</b>
(i) Minimum number of members	The minimum number of person is required to form a Public Company is 7.	It is two, in case of Private Company.
(ii) Maximum number of members	There is no restriction on maximum number of members in a public company.	The maximum number must not exceed 200.
(iii) Minimum paid-up capital	Public company has to have minimum paid-up capital of ₹ 5 lakhs. ✎ <b>Amendment made by Companies (Amendment) Act, 2015:</b> <i>Provides that in Clause (68), the words of ₹ 5 lakhs or higher paid up share capital shall be omitted.</i>	A Private Company has to have a minimum paid-up capital of ₹ 1 lakh. ✎ <b>Amendment made by Companies (Amendment) Act, 2015:</b> <i>Provides that in Clause (68), the words of one lakhs rupees or higher paid up share capital shall be omitted.</i>



(iv) Number of Directors	A Public Company must have at least 3 directors.	Here as a Private Company it must have at least 2 directors except OPC.
(v) Transferability of Share	The Share and debenture are freely transferable.	The right to transfer Share is restricted by articles.
(vi) Managerial Remuneration	In case of Public Company total managerial remuneration cannot exceed 11% of the Net profit.	No such restriction apply to a Private Company.
(vii) Commencement of business.	A Public Company can commence business only when it receive the certificate of commencement of business from the Registrar of Company.	A Private Company can commence business only when it receive the certificate of commencement of business from the Registrar of Company.
(viii) Prospectus	A Public Company may issue prospectus to invite the general public to Subscribe for its shares and debenture.	A Private Company cannot issue a prospectus.

**(ii) Certificate of Incorporation and Certificate of Commencement of business.**

1.	A Certificate of incorporation is issued to all types of companies.	A Certificate of Commencement of business is required to a public limited company having a Share Capital and Private Ltd. Company having Share Capital.
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2.	A Certificate of incorporation is compulsory for both private and Public Companies.	Whereas a certificate of commencement of business is required only by a public limited company having a Share Capital.
3.	The Certificate of incorporation is the birth Certificate of a Company.	The Certificate of commencement of business is a Certificate that the Company is entitled to commence business.

**As per Companies (Amendment) Act, 2015:**

*Provides that Section 11 Pertaining to commencement of business certificate to be omitted.*

**2012 - June [2]** Distinguish between the following :

- (v) 'A company limited by guarantee' and 'an unlimited liability company'.  
(4 marks)

**Answer:**

**A company limited by guarantee:** As per **Section 2(21) of Companies Act, 2013** it is a company where liability of members is limited by its memorandum of association as per the undertaking of respective members in the memorandum. This undertaking is for making contribution to company, asset in the event of winding up. Both the memorandum and the articles must state the number of members with which the company is proposed to be incorporated. A company limited to guarantee can have shares also but it is not mandatory. It can be incorporated even on the basis of guarantee. It can be a public company or a private company.

**An unlimited liability company:** As per **Section 2(92) of Companies Act, 2013**, an unlimited liability company is one where the members' liability is not limited. In the event of winding up, the members shall have to pay from its personal property and the entire personal property may be used up. However, the liability of the members is only to the company and not to creditors/lenders and it is only the liquidator who can call for amounts from

the members to treat company's debts and obligations. This type of companies can also have share capital. The Articles of this type of companies must have their distinct regulations and should mention the number of members with which they are incorporated.

**2013 - Dec [2]** (c) Distinguish between the following:

- (i) 'Holding company' and 'subsidiary company'. (2 marks)

**Answer :**

**Subsidiary Company:** A company is called subsidiary company of another company when control is imposed by another company, [Section 2 (87) of Companies Act, 2013].

A company shall be subsidiary of another only if any or more of the following conditions are fulfilled:

- (i) Where the composition of its Board of Directors is controlled by the other company.
- (ii) Where the other company holds more than half of its equity share capital or company holds more than half voting power of such company.

**Holding Company :-** Holding company is that who controls another companies or company. In other words holding company holds the Board of Directors and majority of shares of other company (Section 2 (46) of Companies Act, 2013).

**2014 - Dec [2]** Distinguish between the following:

- (b) 'Private company' and 'small company'. (4 marks)

**Answer:**

**Private Company**

As per Section 2(68) of the Companies Act, 2013, "private company" means a company having a minimum paid-up share capital of ₹ 1 lakh or such higher paid-up share capital as may be prescribed and which by its articles,:

- (i) restricts the right to transfer its shares;
- (ii) except in case of One Person Company, limits the number of its members to two hundred:

Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this definition, be treated as a single member:

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Provided further that the following persons shall not be included in the number of members:

- (a) persons who are in the employment of the company; and
- (b) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, and
- (iii) prohibits any invitation to the public to subscribe for any securities of the company.

✎ **Amendment made by Companies (Amendment) Act, 2015:**

*Provides that in Clause (68), the words of one lakhs rupees or higher paid up share capital shall be omitted.*

### **Small Company**

As per Section 2(85) “small company” means a company, other than a public company:

- (i) paid-up share capital of which does not exceed ₹ 50 lakhs or such higher amount as may be prescribed which shall not be more than ₹ 5 crores; or
- (ii) turnover of which as per its last profit and loss account does not exceed ₹ 2 crores or such higher amount as may be prescribed which shall not be more than ₹ 20 crores:

Provided that nothing in this definition shall apply to:

- (a) a holding company or a subsidiary company;
- (b) a company registered under section 8; or
- (c) a company or body corporate governed by any special Act.

### **DESCRIPTIVE QUESTIONS**

**2005 - Dec [2]** (a) State the procedure for incorporation of a private limited company. (8 marks)

**Answer:**

The following procedural steps are require to be taken by the promoters for the incorporation of a private limited company:

**1. Obtain Director Identification Number (DIN)**

It is important to note that every person who is to be appointed as a director must have “Director’s Identification Number (DIN)” [Section 152(3)]. If the proposed director does not already have a DIN, he/she must obtain the same before incorporation of the company. This can be obtained by making an application on the MCA portal in Form DIR - 3C.

**2. Acquire Digital Signature Certificate (DSC)**

The Information Technology Act, 2000 provides for use of Digital Signatures on the documents submitted in electronic form in order to ensure the security and authenticity of the documents filed electronically. This is the only secure and authentic way that a document can be submitted electronically. As such, all filings done by the companies under MCA21 e-Governance programme are required to be filed with the use of Digital Signatures by the person authorised to sign the documents.

**Acquire DSC** - A licensed Certifying Authority (CA) issues the digital signature. Certifying Authority (CA) means a person who has been granted a license to issue a digital signature certificate under Section 24 of the Indian Information Technology Act, 2000.

**Register DSC** - Role check for Indian companies is to be implemented in the MCA application. Role check can be performed only after the signatories have registered their Digital Signature Certificates (DSC) with MCA.

**3. Selecting Name of the Company and Making Application to ROC**

Promoters shall select at least six names for the proposed company and make an application to ROC of the state in which the proposed company is to be incorporated. The application in prescribed form **INC-1** alongwith an application fee of ₹ 1,000 shall be made to Registrar.

**4. Name Availability**

Where the Registrar of Companies intimates the company or the promoters of the company that the changed name or the name with which the proposed company is to be registered, is not undesirable, such name shall be available for adoption by the said company for a period of sixty days or by the said promoters of the company for sixty days from the date of intimation by the Registrar.

If within the stipulated period of sixty days, the company is not incorporated with the name made available by the Registrar or if the existing name of the company is not changed to the new name made available by the Registrar, the validity period of the name expires.

**5. Drafting and Printing of Memorandum and Articles**

After ascertaining availability of name from the Registrar of Companies moves should be taken to get the memorandum and articles of association for the proposed company drafted, printed and registered. The memorandum of a company limited by shares shall be in Table – A in **Schedule – I of the Companies Act, 2013.**

A public company limited by shares may adopt all or any of the regulations contained in model articles of association registered along with its memorandum of association.

The model articles of a company shall be in Table – F in Schedule – I of the Companies Act, 2013 as may be applicable to the company. A company may adopt all or any of the regulations contained in the model articles applicable to such company.

The memorandum and articles shall be in conformity with the provisions of **Section 4 and 5 of the Companies Act, 2013.**

**6. Stamping and Signing of Memorandum and Articles**

The memorandum and articles should be got printed and stamped by the appropriate State Authority (Collector of Stamps) under the Indian Stamp Act. Thereafter, the memorandum and the articles should be signed by atleast two subscribers. The signatures of all the subscribers shall also be witnessed.

**7. Dating of Memorandum and Articles**

The memorandum and articles are then dated, but the date must be a date of stamping or later than the date of their stamping and not, in any case a date prior to the date of their stamping.

**8. Filing of Documents and Forms for Registration**

According to **Section 7 of the Companies Act, 2013** all document related to incorporation shall be filed before the registrar, in whose jurisdiction registered office of a company is proposed to be situated. A Registrar may have jurisdiction over several states or only a part of a state. Following documents are to be submitted:

- (a) The Memorandum and Articles of the company duly signed by all subscribers;
- (b) A declaration by –
  - (i) an advocate or Practicing professional (CA, CS, CA) who is engaged in incorporation, and
  - (ii) a person named in director as Director, Manager or Secretary, that all requirements related to incorporation has been complied with;
- (c) an affidavit from each subscriber and from each person named as first director in the articles that;
  - (i) he is not convicted if any offence in connection with promotion, formation or management of any company,
  - (ii) he is not been found guilty of any fraud or misfeasance or of any breach of duty to any company during preceding five years, and
  - (iii) all the documents filed with the Registrar contain correct, complete and true information to the best of his knowledge and belief;
- (d) the address for correspondence till its registered office is established;
- (e) the particulars of every subscribers along with proof of identity;
- (f) the Particulars of first directors along with proof of identity; and the particulars of interests of first directors in other firms or bodies corporate along with their consent to act as directors.

**Forms**

Form INC - 7 Application for incorporation of a company pursuant to **Section 7(1) of the Companies Act, 2013** and Rule 12 of the companies (Incorporation) Rules 2014 containing the

- (1) Service Request Number of Form INC – 1,
- (2) Name of the company,
- (3) Type of the company,
- (4) Status of company,
- (5) Category of company,
- (6) License number in case of section 8 company,
- (7) Share capital of company,
- (8) Name of State in the company is to be registered,

- (9) Name of office of the Registrar in which the company is to be registered,
- (10) Provisional address for correspondence,
- (11) Share capital,
- (12) Maximum number of members
- (13) Main division of Industrial Activity,
- (14) Approval from sector regulator, if any,
- (15) Details of promoters,
- (16) Entrenchment, if any,
- (17) Details of subscribers, and
- (18) Particulars of Stamp duty, along with a declaration by a promoter and certificate by practicing professional.

### **Documents**

Following documents are required to be filled along with these forms:

- (i) Memorandum of Association,
- (ii) Articles of Association,
- (iii) Declaration in Form INC - 8 by an advocate or Practicing CA/CS/CMA
- (iv) Affidavit in Form INC - 9 from the subscribers to the memorandum and from persons named as first directors if any.
- (v) Proof of residential address
- (vi) Specimen Signature in Form INC – 10
- (vii) Proof of identity
- (viii) Entrenched Articles of association
- (ix) Copy of In-principle approval granted by sectorial regulator if already taken
- (x) NOC in case there is change in the promoters (first subscribers to Memorandum of Association)
- (xi) Proof of nationality (in case the subscriber is a foreign national)
- (xii) PAN card (in case of Indian national)
- (xiii) Copy of certificate of incorporation of the foreign body corporate and registered office address
- (xiv) Copy of resolution/consent by all the partners or board resolution authorizing to subscribe to MOA



**9. Registration and Filing Fee**

Promoters must make sure to submit to the Registrar, along with the above forms/documents, the prescribed registration fee and fee for filing of forms.

**10. Minimum Paid-up Capital**

It should be ensured that the minimum paid-up capital is ₹ 1 lakh (Private Company) and ₹ 5 lakh (Public Company).

- ☞ **Amendment made by Companies (Amendment) Act, 2015:**  
*Provides that in Clause (68), the words of ₹ 1 lakh or higher paid up share capital shall be omitted.*
- ☞ **Amendment made by Companies (Amendment) Act, 2015:**  
*Provides that in Clause (68), the words of ₹ 5 lakhs or higher paid up share capital shall be omitted.*

**11. Scrutiny of Documents and Forms by Registrar**

On receipt of the above mentioned documents, office of the Registrar of Companies shall scrutinise them and if found complete in all respects, the Registrar will register the company and allot a Registration Number.

**12. Issue of Certificate of Incorporation by Registrar**

After the registration of the company, the Registrar will issue under his hand and seal of his office, the Certificate of Incorporation in the name of the company.

**13. Verification of Registered Office:**

The Company has filed with the Registrar a verification of its registered office within a period of 30 days of its incorporation in Form INC 22.

The Certificate of incorporation shall be in Form INC- 11 of the Companies (Incorporation) Rules, 2014.

**2005 - Dec [7] Briefly answer the following:**

- (i) A subscriber to the memorandum and articles of association of a company is illiterate. How can he sign them? (2 marks)
- (v) Mention the documents to be submitted for the conversion of a public company into a private company. (2 marks)

**Answer:**

- (i) In the case of an illiterate subscriber to the memorandum and articles of association, the thumb impression or mark duly attested by the person writing for him should be given. The person attesting the thumb mark should make an endorsement on the document to the effect that it has been read and explained in the same sense as is constructed from MOA & AOA to the subscriber.
- (v) **Documents to be submitted for conversion of public company into private company**
1. Copy of memorandum and articles of association as altered for changing name of the company.
  2. Copy of immediate audited Balance Sheets and Profit and Loss Account.
  3. Copy of special resolution and Form MGT 14.
  4. Copy of public notice in newspaper intimating change of name, if the Registrar so directs.
  5. Copy of minutes of same general meeting.
  6. Demand Draft proofing payment of requisite fees.
  7. Form INC 27 for approval of Central Government for conversion.

**2006 - June [2]** (a) Detail the procedure for conversion of Wholesome Entertainment Ltd. having 70 members (including 25 past and present employees) into a private limited company. (8 marks)

**Answer:**

As the number of members is 70, it is assumed that it is not a listed company. The procedure for conversion of a public company into a private company are:

1. Hold a meeting of its Board of Directors to consider and approve the proposal for conversion of public company into private company. The following resolutions must be passed at the meeting.
  - (i) To approve the proposal for conversion of the company into private company.
  - (ii) To fix time, date and venue for holding an extraordinary General Meeting of the company.

- (iii) To approve notice, for the General Meeting alongwith the explanatory statement.
- (iv) To authorize Company Secretary or some competent officer to issue the notice of General Meeting on behalf of the Board.

**2. Hold the General Meeting and pass the following resolutions:**

- (i) Special resolution for altering the articles of the company, as required under **Section 14 of the Companies Act, 2013** so as to include therein restrictions, limitations and prohibition specified in Section 2(68) of the Act converting a public company into a private company.
- (ii) File Form MGT 14 alongwith certified copy of the Special Resolution & Explanatory statement alongwith the filing fees within 30 days of passing of the special resolution with ROC.  
Also wherever free transferability of securities is mentioned in the Articles it has to be suitably altered by putting restrictions on free transferability.
- (iii) Get the fresh stationary printed.
- (iv) Also the sign Board be changed accordingly.
- (v) Issue public notice for such change.
- (vi) Make application to Central Government in Form INC 27 alongwith the following:
  - (a) A copy of Special Resolution.
  - (b) A printed copy of the unaltered copy of memorandum & Articles of Associations
  - (c) Certified true copy of the Audited Financial Statement of latest year.
  - (d) Certified true copy of the Minutes of General Meeting at which Special Resolution was passed.
  - (e) Consent in writing from substantial creditors for conversion.
- (vii) File altered copy of Articles duly approved by Central Government with Registrar of Companies within one month.  
Surrender to Registrar, the certificate of incorporation and the Registrar then issued fresh certificate for such conversion.

**2006 - Dec [1] {C}** (a) As a Company Secretary, what steps would you take for incorporation of a Public Limited Company having Share Capital?

(12 marks)

**Answer :**

**(1) Obtain Director Identification Number (DIN)**

It is important to note that every person who is to be appointed as a director must have "Director's Identification Number (DIN)" [Section 152(3)]. If the proposed director does not already have a DIN, he/she must obtain the same before incorporation of the company. This can be obtained by making an application on the MCA portal in Form DIR - 3C.

**(2) Acquire Digital Signature Certificate (DSC)**

The Information Technology Act, 2000 provides for use of Digital Signatures on the documents submitted in electronic form in order to ensure the security and authenticity of the documents filed electronically. This is the only secure and authentic way that a document can be submitted electronically. As such, all filings done by the companies under MCA21 e-Governance programme are required to be filed with the use of Digital Signatures by the person authorised to sign the documents.

**Acquire DSC** - A licensed Certifying Authority (CA) issues the digital signature. Certifying Authority (CA) means a person who has been granted a license to issue a digital signature certificate under Section 24 of the Indian Information Technology Act, 2000.

**Register DSC** - Role check for Indian companies is to be implemented in the MCA application. Role check can be performed only after the signatories have registered their Digital Signature Certificates (DSC) with MCA.

**(3) Proposing the name of the Company and ascertaining its availability from the ROC:**

Promoters may propose up to six names in order of procedure for the proposed company and secure the name availability by making an application to the Registrar of Companies of the State in which they want to have the proposed company incorporated. The application is required to be made in Form INC -1. While applying for a name in the Form INC-1, using Digital Signature Certificate (DSC), the applicant shall be required to verify that:

- (i) he has used the search facilities available on the portal of the Ministry of Corporate Affairs (MCA) i.e., [www.mca.gov.in/MCA21](http://www.mca.gov.in/MCA21) for checking the resemblance of the proposed name(s) with the companies and Limited Liability Partnerships (LLPs) respectively already registered or the names already approved. He has also used the search facility for checking the resemblances of the proposed names with registered or applied trademarks.
- (ii) the proposed name(s) is/are not in violation of the provisions of Emblems and Names (Prevention of Improper Use) Act, 1950 as amended from time to time;
- (iii) the proposed name is not offensive to any section of people, e.g., proposed name does not contain profanity or words or phrases that are generally considered a slur against an ethnic group, religion, gender or heredity
- (iv) the proposed name(s) is not such that its use by the company will constitute an offence under any law for the time being in force.

Following documents have to be attached to INC - 1:

- (i) Copy of Board resolution of the existing company or foreign holding company as a proof of no objection.
- (ii) Copy of direction from Central Government, if name is changed due to direction received from the Central Government.
- (iii) Trademark or authorisation to use trade mark, if the name of the company is based on trade mark or application for deed of assignment or a copy of application of registered trademark.
- (iv) Proof of relation.
- (v) In principal approval from the concerned regulator wherever is applicable.
- (vi) NOC from sole proprietor/ partners/ other associates.
- (vii) NOC from existing company.
- (viii) Copy of affidavit in case of proposed name includes phrase 'Electoral Trust'
- (ix) Order of competent authority.

**(4) Drafting and Printing of Memorandum and Articles of Association**

The memorandum of a company limited by shares shall be in Table – A in Schedule – I of the Companies Act, 2013.

A public company limited by shares may adopt all or any of the regulations contained in model articles of association registered along with its memorandum of association.

The model articles of a company shall be in Table – F in Schedule – I of the Companies Act, 2013 as may be applicable to the company. A company may adopt all or any of the regulations contained in the model articles applicable to such company.

The memorandum and articles shall be in conformity with the provisions of **Section 4 and 5 of the Companies Act, 2013.**

**(5) Stamping and Signing of Memorandum and Articles**

The memorandum and articles should be printed and signed by subscribers. Thereafter, the memorandum and the articles should be stamped by the appropriate State Authority (Collector of Stamps) under the Indian Stamp Act, 1899. However, presently there is a facility for online payment of stamp duty along with filing fees.

It is pertinent to note the Stamping is a subject matter of “State Revenue” and not a matter of the Central Government. Hence the Stamp Duty payable on the Memorandum and/or the Articles of Association shall be determined according to the place of incorporation of the company.

**(6) Dating of Memorandum and Articles of Association**

The memorandum and articles are then dated, but the date must be the date of stamping or later than the date of their stamping and not, in any event, a date prior to the date of their stamping.

**(7) Filing of Documents and Forms for Registration**

According to **Section 7 of the Companies Act, 2013** all document related to incorporation shall be filed before the registrar, in whose jurisdiction registered office of a company is proposed to be situated. A Registrar may have jurisdiction over several states or only a part of a state. Following documents are to be submitted:

- (a) The Memorandum and Articles of the company duly signed by all subscribers;

- (b) A declaration by :
  - (i) an advocate or Practicing professional (CA, CS, CA) who is engaged in incorporation, and
  - (ii) a person named in director as Director, Manager or Secretary, That all requirements related to incorporation has been complied with;
- (c) an affidavit from each subscriber and from each person named as first director in the articles that;
  - (i) he is not convicted if any offence in connection with promotion, formation or management of any company,
  - (ii) he is not been found guilty of any fraud or misfeasance or of any breach of duty to any company during preceding five years, and
  - (iii) all the documents filed with the Registrar contain correct, complete and true information to the best of his knowledge and belief;
- (d) the address for correspondence till its registered office is established;
- (e) the particulars of every subscribers along with proof of identity;
- (f) the Particulars of first directors along with proof of identity; and

**Forms**

Form INC - 7 Application for incorporation of a company pursuant to **Section 7(1) of the Companies Act, 2013** and Rule 12 of the companies (Incorporation) Rules 2014 containing the

- (1) Service Request Number of Form INC – 1,
- (2) Name of the company,
- (3) Type of the company,
- (4) Status of company,
- (5) Category of company,
- (6) License number in case of section 8 company,
- (7) Share capital of company,
- (8) Name of State in the company is to be registered,
- (9) Name of office of the Registrar in which the company is to be registered,
- (10) Provisional address for correspondence,
- (11) Share capital,

- (12) Maximum number of members
- (13) Main division of Industrial Activity,
- (14) Approval from sector regulator, if any,
- (15) Details of promoters,
- (16) Entrenchment, if any,
- (17) Details of subscribers, and
- (18) Particulars of Stamp duty, along with a declaration by a promoter and certificate by practicing professional.

#### **Documents**

Following documents are required to be filled along with these forms:

- (i) Memorandum of Association,
- (ii) Articles of Association,
- (iii) Declaration in Form INC - 8 by an advocate or Practicing CA/CS/CWA
- (iv) Affidavit in Form INC - 9 from the subscribers to the memorandum and from persons named as first directors if any.
- (v) Proof of residential address
- (vi) Specimen Signature in Form INC – 10
- (vii) Proof of identity
- (viii) Entrenched Articles of association
- (ix) Copy of In-principle approval granted by sectorial regulator if already taken
- (x) NOC in case there is change in the promoters (first subscribers to Memorandum of Association)
- (xi) Proof of nationality (in case the subscriber is a foreign national)
- (xii) PAN card (in case of Indian national)
- (xiii) Copy of certificate of incorporation of the foreign body corporate and registered office address
- (xiv) Copy of resolution/consent by all the partners or board resolution authorizing to subscribe to MOA

#### **(8) Registration and Filing Fee**


Promoters must make sure to remit to the Registrar, along with the above forms/ documents, the prescribed registration fee and fee for filling of forms as per the rates contained in the Rules.



The fee payable for the purpose can be remitted either electronically (by using a Credit Card or by electronic Bank transfer) or by cash/draft through challan generated electronically on submission of the e-form.

**(9) Minimum Paid-up Capital**

Ensure that for a public limited company, the minimum paid-up capital is ₹ 5 lakh rupees or such higher paid-up capital as may be prescribed.

 **Amendment made by Companies (Amendment) Act, 2015:**  
*Provides that in Clause (68), the words of ₹ 5 lakhs or higher paid up share capital shall be omitted.*

**(10) Scrutiny of Documents and Forms by Registrar**

On receipt of the aforementioned documents, the office of the Registrar of Companies will scrutinise them and if they are found complete in all respects, the Registrar will register the company and generate a CIN. If the Registrar finds any defect or deficiency in any of the documents or forms, the Registrar will send an electronic communication pointing out the defects and after the deficiencies are removed, the Registrar will register the company.

**(11) Issue of Certificate of Incorporation by Registrar**

After the registration of the company, the Registrar will issue under his hand and seal of his office, the Certificate of Incorporation in the name of the company and send it electronically. One may also take printout of the Certificate of Incorporation generated online. The date mentioned by the Registrar in the Certificate of Incorporation shall be the date of incorporation of the company, on which date the company will be considered to have come into existence as a legal entity separate from its subscribers.

The Certificate of Incorporation shall be in Form INC - 11 of the Companies (Incorporation) Rules, 2014.

**(12) Certificate of Commencement of Business**

On registration, a company cannot commence business or exercise any borrowing powers until it files a declaration by directors in Form INC - 21 to the effect that every subscriber to the memorandum has paid the value of the shares agreed to be taken by them as specified in Section 11(1)(a). This form has to be verified by Practicing CA/CS/CWA. In the

case of a company requiring registration from sectoral regulators such as Reserve Bank of India, Securities and Exchange Board of India etc, the approval from such regulator shall be required.

**(13) Verification of Registered Office**

The company has filed with the Registrar a verification of its registered office within a period of 30 days of its incorporation in Form INC 22.

**2007 - Dec [6]** Outline the detailed procedure for formation of a public company and also to obtain certificate of commencement of business in the present scenario of e-filing. (16 marks)

**Answer :**

*Please refer 2006 - Dec [1] {C} (a) on page no. 44*

**2008 - June [1] {C}** Draft specimen resolutions with requisite explanatory statement, wherever necessary, for transacting the following items of business indicating the kind of meeting at which each resolution is to be passed and the type of resolution required for :

(iv) Adoption of common seal of the company. (5 marks)

**Answer :**

**Adoption of common seal**

Kind of Meeting: Board Meeting

Type of Resolution: Resolution by Simple Majority

"RESOLVED that the seal as per impression affixed in the margin of the minutes initialed by the Chairman and placed at this meeting be and is hereby approved and adopted as the common seal of the company and that the said seal be placed in the custody of the Secretary."

**Amendment made by Companies (Amendment) Act, 2015:**

**Amendment of Section 9:**

*In Section 9 of the Principle Act, the words "and a common seal" shall be omitted.*

**Amendment of Section 22:**

*In Section 22 of the Principal Act, —*

(i) *In sub-section (2),—*

(a) *for the words "under its common seal", the words "under its common seal, if any," shall be substituted;*

(b) *The following proviso shall be inserted, namely:—*

*“Provided that in case a company does not have a common seal, the authorisation under this sub-section shall be made by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary.”;*

*(ii) In sub-section (3), the words “and have the effect as if it were made under its common seal” shall be omitted.*

**Amendment of Section 46:**

*In Section 46 of the Principal Act, in sub-section (1), for the words “issued under the common seal of the company”, the words “issued under the common seal, if any, of the company or signed by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary” shall be substituted.*

**2008 - June [2]** (c) Mrs. Rakhi is a member of ABC Producer company since its inception. She was so involved in the activities of the company that she acquired fullest knowledge of its activities, processes, marketing, etc. After gaining confidence of highest order, she got incorporated another XYZ Producer Company with the same objects and commenced its operations.

At the meeting of the members of ABC Producer Company, other members objected to the continuation of the membership of Mrs. Rakhi. You are required to explain whether the objection raised by other members is valid or not. (4 marks)

**Answer:**

In terms of the provisions of **Section 581D (Section 465 of Companies Act, 2013)**, no person, who has business interest which conflicts with the business of the producer company, shall become a member of that Company and if subsequently, a member acquire any business interest which is in conflict with the business of the producer company, he shall cease to be a member and be removed as a member in accordance with articles.

In view of the above, the objection raised by other members of ABC Producer company on the continuing membership of Mrs. Rakhi is valid. In fact Mrs. Rakhi shall cease to be a member of ABC Producer company, the moment she got the permission for incorporation of XYZ Producer company.

**2008 - June [7]** (c) What are the contents of Form No. INC 1 relating to availability or change of name? (4 marks)

**Answer :**

E-form INC 1 is an application form for availability or change of name in pursuance of **Sections 4 and 13 of the Companies Act, 2013**. The contents of the said form are under mentioned:

1. Application for Incorporation of New Company/Change of name of an existing company.

**Part A - Availability of name:**

- (a) Name of applicant
  - (b) Occupation
  - (c) Address
  - (d) e-mail id
  - (e) Phone and Fax
2. Details of promoters.
  3. Name of the state in which the proposed company is to be registered.
  4. Name of the Registrar of Companies in which the proposed company is to be registered.
  5. Whether the proposed company is public or private.
  6. Proposed name of the company (6 name in order of preference).
  7. Significance of the key or coined word(s), if any, in the proposed name(s) (in brief).
  8. Main objects of the proposed company (if the objects include banking, stock exchange, Mutual fund etc. Then a copy of the in-principle approval of the appropriate authority should be enclosed).
  9. Whether the proposed name(s) is in consonance with the principal object.
  10. Whether the proposed company is a government company.
  11. Particulars of director(s).
  12. Particulars of other directorship held by Director(s) & if he is a promoter of any other company, its detail.
  13. Proposed authorised capital.
  14. Whether the proposed name(s) are based on a registered trade mark or is the subject matter of an application pending for registration under the Trade Marks Act.

**Part B - In case of change of name**

15. (a) CIN of company :

- (b) Global location number (GLN) of company.
16. (a) Name of the company  
(b) Address of the registered office of the company.
17. Reasons for change in name.

**2009 - June [5]** (b) Enumerate the procedure for conversion of a public company into a private company. (8 marks)

**Answer :**

*Please refer 2006 - June [2] (a) on page no. 42*

**2009 - June [6]** (a) Describe the basic features of limited liability partnership (LLP) and distinguish it from normal partnership. (8 marks)

**Answer :**

**The salient features of the Limited Liability Partnership are as follows:-**

1. The LLP is a body corporate and a legal entity separate from its partners. Any two or more person associated for carrying on a lawful business with a view to earn profit, may by subscribing their names to an incorporation document and filing the same with the Registrar to form a Limited Liability Partnership. The LLP will have perpetual succession.
2. Subject to the provisions of the legislation the mutual rights and duties of partners of an LLP inter se and those of the LLP and its partners shall be governed by an agreement between partners or between the LLP and the partners. There would be flexibility to Revise the agreement as per their choice. In the absence of any such agreement the mutual rights or duties shall be governed by the provision of the legislation.
3. The LLP will be a legal entity, liable to the full extent of its assets with the liability of the partners being limited to their agreed contribution in the LLP which may be tangible or intangible in nature or both tangible or intangible in nature. No partners would be liable on account of the independent or unauthorized acts of other partners or their misconduct.
4. Every LLP shall have at least two partners or shall also have at least two individuals as designated partners of whom at least one shall be resident in India. The duties and obligations of designated partners shall be as provided in the law.
5. The LLP shall be under an obligation to maintain annual accounts reflecting true and fair views of its state of affairs. A statement of

accounts and solvency shall be filed by every LLP with the Registrar every year. The accounts of LLPs shall also be audited subject to any class of LLPs being exempted from this requirement by the Central Government.

6. The Central Government shall have powers to investigate the affairs of an LLP, if required by appointment of competent inspector for the purpose.
7. The Indian Partnership Act, 1932 shall not be applicable to LLPs. In accordance with the provision of the legislation, the Indian Partnership Act, 1932, shall not be applicable to LLPs.
8. The Central Government has framed rules for carrying out the provision of the proposed legislation.

**2009 - June [7]** (a) You are a Practicing Company Secretary. One of your clients abroad wants to establish a place of business in India for a company incorporated abroad in which he is a Whole-time Director. Prepare a note for his information indicating the procedure involved to set-up a place of business in India. (8 marks)

**Answer :**

If Whole-time Director of foreign company is willing to establish a place of business within India, then pursuant to **Section 380 of the Companies Act, 2013**. FC -1 (Registration of Foreign Companies) Rules 2014 is required to be delivered to Registrar of Companies within 30 days of the establishment of the place of business for its registration. In such e-form, some of the important details like address and state of principal place of business in India, date of its establishment, full address of principal office of foreign company, type of office and main division of business activity, details of persons resident in India and authorized to accept on behalf of company service of process and any notices documents to be served on the company. The following documents are required to be attached-

- Charter, statutes or memorandum and articles of association or other instrument constituting or setting out the constitution of the company. If the documents are not in English language then it should be translated in English language.
- Details of directors (individuals as well as bodies corporate).

- Approval letter from Reserve Bank of India for the setting up of business in India.
- Power of attorney or board resolution in favour of the authorised representatives.

The form is required to be signed digitally by the authorized representative of the foreign company.

The details of directors, Secretary and body corporate should contain the following particulars:

**(a) with respect to each director -**

- (i) In the case of an individual, his present name, former name (if any) and surname, his usual residential address, his nationality of origin, (if other than nationality) and his business occupation, if any or if he has no business occupation but holds any other directorship or directorships, particulars of that directorship or of some one of those directorships; and
- (ii) In the case of a body corporate, its corporate name and registered or principal office and the full name, address, nationality and nationality of origin, (if different from that nationality) of each of its directors.

**(b) with respect to the secretary or where there are joint secretaries with respect to each of them-**

- (i) In the case of an individual, his present name, former name (if any) and surname and his usual residential address; and
- (ii) In the case of a body corporate, its corporate name and registered or principal office.

Provisions under FEMA (Establishment in India of Branch of Office or other place of business) Regulation, 2000.

A foreign company or individual desiring to set up business operations in India can do so through a Liaison Office/Representative Office, Project Office or a Branch Office. The FEMA (Establishment in India of Branch or Office or other place of business) Regulation, 2000 governs the opening and operation of such officers.

Accordingly, companies incorporated outside India, desirous of opening a Liaison/ Branch office in India have to make an application in form FNC-1. It may be noted that RBI has authorized AD Category I bank to forward

FNC-1 along with the necessary enclosures along with the comments and recommendations to

The Chief Manager-in-charges

Reserve Bank of India

Foreign Exchange Department

Foreign Investment Division

Central Office Mumbai - 400001

**2009 - Dec [5]** (a) What is a 'foreign company' and 'foreign controlled company'? State the legal requirements a foreign company should comply with relating to delivery of documents to the Registrar of Companies, if it wishes to establish a place of business in India under the Companies Act, 2013. (8 marks)

**Answer :**

As per **Section 2(42) of Companies Act, 2013** A foreign company means a company incorporated outside India and having a place of business in India, whatever be the pattern of their holding. However, as per **Section 379 of the Companies Act, 2013**, where not less than 50% paid-up capital of foreign company is held by one or more citizens of India or by one or more bodies corporate incorporated in India, whether singly or in aggregate, such company shall comply with the provisions of the Companies Act, 2013, as if it were a company incorporated in India.

"A foreign controlled company", however means a company in which the majority shareholding and voting power is in the hands of foreign individuals and/or bodies corporate.

**Filing of returns and documents (Section 380 of Companies Act, 2013):**

Foreign companies which establish a place of business in India must within one month from that date file with the ROC:

- (1) a certified copy of the charter, statutes or memorandum and articles of the company or other instrument defining its constitution with a certified translation of the documents in the English language if they are not in that language.
- (2) the full address of the Registered or principal office of the company;



- (3) a list of directors giving with respect to each of the directors who are individuals, his name and surname, former name and surname, usual residential address and nationality;
  - (4) the present name and surname, former name and surname and usual residential address of the Secretary, if he is an individual and if a body corporate its corporate name and its registered office or principal office and if a firm, the partners of which are joint secretaries, the name and principal office of the firm;
  - (5) the names, addresses of persons resident in India and authorized to accept service of documents, notices and processes on behalf of the company; and
  - (6) the address of the principal place of business in India (Section 380).
- A foreign company should deliver to the ROC within the prescribed time, a return containing particulars of any changes or alterations in any of the particulars mentioned above (Section 380).

**2010 - Dec [7]** (a) Enumerate the procedure for conversion of a public company into a private company. (8 marks)

**Answer :**

*Please refer 2006 - June [2] (a) on page no. 42*

**2011 - Dec [1] {C}** Draft Board resolutions for a listed company for the following businesses:

- (vi) A resolution for obtaining a certificate of commencement of business under section 11. (4 marks)

**Answer:**

**Board Resolution for obtaining a certificate of commencement of business**

**“RESOLVED THAT** the draft of the Statement in Lieu of Prospectus made in accordance with the provisions of the Companies Act, 2013, as placed before the Board duly initialed by the Chairman for the purpose of identification be and is hereby approved and that the same be signed by all the directors of the company and delivered to the Registrar of Companies, Delhi & Haryana, for obtaining the Certificate of Commencement of Business.

**FURTHER RESOLVED THAT** Mr....., Director of the Company be and is hereby authorised to sign and file a prescribed form the Registrar of Companies, Delhi & Haryana.

**FURTHER RESOLVED THAT** the directors of the company be and is hereby authorised to give Power of Attorney in favour of Mr....., the Director and/or Mr. ...., Advocate to do all such acts, deeds and things for filing of the above said Statement in Lieu of Prospectus and to make any additions, corrections, alterations, etc. for and on behalf of the Board of directors of the company as may be required or directed by the Registrar of Companies for taking on record and to issue the certificate for Commencement of Business.”

**2011 - Dec [2]** Explain the following pair of terms to bring out their distinctions:

- (v) ‘Section 8 company’ and ‘producer company’. (4 marks)

**Answer:**

**Section 8 of Company :**

- (a) Company should be formed for promoting commerce, art, science, religion, charity or any other useful object.
- (b) The company should use its profit/income for the promotion of its objects and prohibits payment of dividend to its members.
- (c) The Central Government may grant licence on such conditions and regulation, as it think fit.
- (d) Section 8 permits a limited liability company, to be registered without using the words Ltd. or Pvt. Ltd. in its name, under a special licence granted by the Central Government, provided it is a company formed not for profit.

**Note : Revocation of licence:** If any of the above conditions are contravened the licence shall be revoked.

A licenced company cannot alter the object Clause of its memorandum of Association without the approval of Central Government signified in writing.

**Producer Company :** As per **Section 581 A(1) (Section 465 of Companies Act, 2013\*)** producer company means a body corporate having objects or activities specified in **Section 581 B (Section 465 of Companies Act, 2013\*)** and registered as producer company under this Act.

The term producer has been defined as “Any person engaged in any activity connected with or relatable to any primary produce” which in turn encompasses agricultural and farm activities resulting in production or in aid of production produce of cottage industries handloom handicraft etc.

- (a) A producer company can be formed by any ten or more individual each of whom will be a producer or any two or more producer institution or combination of ten or more individuals and producer institutions.
- (b) It has to use the word ‘producer company limited’ as the last words of its name.
- (c) It will be limited liability of the company.
- (d) It is not to hold a license from the Central Government but have to get registered as producer company.

**2012 - June [4]** (a) Bring out the procedure for incorporation of a company as subsidiary of an existing company. (8 marks)

(c) Do you agree with the following statements? Give brief reason(s) in support of your answer :

- (i) In a scheme of amalgamation, shareholders of Company-A were offered shares of Company-B in lieu of shares held by them in Company-A. Can the offer letter issued by Company-B to the shareholders of the Company-A be regarded as prospectus?

(2 marks)

**Answer :**

(a) As per **Section 2(87) of Companies Act, 2013** a company shall be deemed to be a subsidiary of another if:

- (i) That other controls the composition of its Board of Director or
- (ii) For the purpose of control the company should hold more than half in nominal value of the equity shares of another company.
- (iii) Exercises or controls more than half the total voting power of another company.

Procedure for the formation and registration of its subsidiary company:-

1.44

■ *Solved Scanner* **CS Prof. Prog. M-I Paper-1 (New Syllabus)**

- (1) To call a meeting of the Board of Directors.
- (2) Selecting the name of the company.
- (3) Ascertaining its name availability from ROC.
- (4) Drafting and printing of memorandum and Articles of Association.
- (5) Stamping of memorandum and Articles.
- (6) Dating of memorandum and Articles.
- (7) E-form INC 10, INC 9, INC 7, INC 8, INC 22, DIR 12 are then filed within ROC for Registration alongwith the prescribed registration fees and fees for filling of forms as per the rates contained in **Section 403 of Companies Act, 2013** to the Companies Act.
- (8) The Registrar of company, will scrutinize them and if they are found complete in all respects. The Registrar will register the company.
- (9) After the registration of the company the Registrar will issue under his hand and seal of his office the certificate of incorporation in the name of the company.

**Answer:**

- (c) (i) No, the offer letter issued by company-B to the shareholders of company-A cannot be regarded as a prospectus.

As per **Section 2(70) of Companies Act, 2013** define the prospectus as any document described or issued as prospectus and includes any notice, circular or other documents inviting offers from the public for subscription or purchase of share body corporate.

**2013 - Dec [1] {C}** Attempt the following:

- (i) Draft a resolution with associated requirements altering articles of association of the company to include restrictions as specified in Section 2(68) converting DJA Limited into DJA Private Limited.

(5 marks)

**Answer :**

Body to consider the resolution: General Meeting

Type of resolution: Special Resolution

“RESOLVED THAT -

- (i) pursuant to proviso to **Section 14 of the Companies Act, 2013** and subject to the approval of the Central Government, the company be and is hereby converted into a private company.
- (ii) the articles of association of the company be and are hereby altered by inserting the following new article as article No.....after article No.....:  
“Article No.....  
The company is a private company and accordingly -
  - (a) limits the number of its members to two hundred not including-
    - (i) persons who are in the employment of the company; and
    - (ii) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased;
  - (b) prohibits any invitation to the public to subscribe for any shares in, or debentures of the company;
  - (c) restricts the right to transfer its shares, provided that where two or more persons hold one or more shares in the company jointly, they shall, for the purposes of this article, treated as a single member; and
  - (d) prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.
- (iii) the name of the company be and is hereby accordingly changed from DJA Limited to DJA Private Limited.
- (iv) the secretary of the company be and is hereby authorised to make an application in e-form No. INC- 27 as prescribed in the Companies (Central Government's) General Rules along with the prescribed enclosures and the prescribed application fee, to the concerned Registrar of Companies.

**2014 - June [1]** (d) Associations registered under **Section 8** enjoy all the privileges of a limited company. Comment. (5 marks)

**Answer:**

As per **Section 4 of Companies Act, 2013**, it is necessary that the name of every company shall have the last words as “Limited”, if the company is registered with a limited liability.

However, Section (8) permits the registration, under a license granted by the Central Government, of associations not for profit with limited liability without being required to use the word “Limited” or the words “Private Limited” after their names.

The company is registered without paying any stamp duty on its Memorandum and Articles.

On registration, the Association enjoys all the privileges of a limited company and is subject to all its obligations, except, those in respect of which exemption by a special or general order is granted by the Central Government.

A license may be granted by the Central Government under **Section 8 of Companies Act, 2013** on such conditions and subject to such regulations as it thinks fit and those conditions and regulations shall be binding on the body to which the license is granted.

An association registered under the Act, which has been granted a license under Sub-section (1) Section 8 is subject to all the obligations under the Act, except where the Central Government has issued some notifications directing exemption, to such licensed companies from various provisions of the Act.

**2014 - Dec [2A] (Or)** (i) The promoters of a public limited company want to insert a clause in the articles of association of the company giving power of expulsion of a member to the Board of directors, where the directors are of the view that the activities or conduct of such a member is detrimental to the interest of the company. Is it a right step? Explain. (4 marks)

**Answer:**

**Yes, it is a right steps**

**Expulsion of Member**

- A question had arisen as to whether a public limited company has powers to insert a clause in its articles of association relating to expulsion of a member by the Board of Directors of the company where

- the directors are of the view that the activities or conduct of such a member is detrimental to the interests of the company.
- The then Department of Company Affairs (Now Ministry of Corporate Affairs) clarified that an article for expulsion of a member is opposed to the fundamental principles of the Company Jurisprudence and is *ultra vires* the company, the reason being that such a provision militates against the provisions of the Companies Act relating to the rights of a member in a company.
  - According to Section 6 of the Companies Act, the Act overrides the memorandum and articles of association and any provision contained in these documents repugnant to the provisions of the Companies Act, is void.
  - The erstwhile Department of Company Affairs has, therefore, clarified that any assumption of the powers by the Board of Directors to expel a member by alteration of articles of association shall be illegal and void. (Circular No. 32/7 dated November 1, 1975).

**2014 - Dec [6] (a)** A foreign company proposes to establish a place of business in New Delhi. Explain the requirements and compliances to be made in this regard. Whether the directors of the company are required to obtain DIN? (4 marks)

**Answer:**

**Procedure to Register a Foreign Company in India:**

As per Section 2 (42) “foreign company” means any company or body corporate incorporated outside India which:

- (a) has a place of business in India whether by itself or through an agent, physically or through electronic mode; and
- (b) conducts any business activity in India in any other manner;

Every foreign company shall, within thirty days of the establishment of its place of business in India, deliver to the Registrar for registration:

- (a) a certified copy of the charter, statute or memorandum and articles of the company or other instrument constituting or defining the constitution of the company and if the instrument is not in English language, a certified translation thereof in the English language;
- (b) the full address of the registered or principal office of the company;

- (c) a list of the directors and secretary of the company with particulars;
- (d) the names and addresses of one or more persons resident in India authorised to accept on behalf of the company service of process and any notices or other documents required to be served on the company;
- (e) the full address of the office of the company in India which is deemed to be its principal place of business in India;
- (f) particulars of opening and closing of a place of business in Indian on earlier occasions;
- (g) declaration that none of the directors of the company or authorised representative in India has ever been convicted or debarred from formation of companies and management in India or abroad; or
- (h) other prescribed particulars.

The directors of Foreign Company are not required to obtain DIN.

**2015 - June [2]** (d) Explain the provisions governing one person company (OPC). Can a person incorporate more than one OPC? (4 marks)

**2015 - June [3]** (d) BST is a company incorporated as a company not for profit under section 8 of the Companies Act, 2013. The Board of BST has decided to convert the same into a public company under section 2(71). Explain the procedure governing conversion of BST into BST Ltd. (4 marks)

### PRACTICAL QUESTIONS

**2014 - June [4]** (d) Beach SA, a company incorporated in France, wants to set-up a branch in India. Advise Beach SA, regarding provisions to be complied with. Will it make any difference if 50% of the paid-up share capital of Beach SA, is held by Indian citizens? (4 marks)

**Answer:**

**Section 380 of Companies Act, 2013** lays down that every foreign company which establishes a place of business in India must, within 30 days of the establishment of such place of business, file with the Registrar of Companies at New Delhi and also with the Registrar of Companies of the State in which such place of business is situated:



- (a) a certified copy of the charter, statutes or memorandum and articles of the company or other instrument constituting or defining the constitution of the company; and if the instrument is not in the English language, a certified translation thereof;
- (b) the full address of the registered or principal office of the company;
- (c) a list of the directors of the company and its secretary with full particulars of their names, nationality, their addresses and business occupations;
- (d) the names and addresses of one or more persons resident in India who are authorised to accept service of process and any notices or other documents required to be served on the company; and
- (e) the full address of the principal place of business in India.

Approval letter from Reserve Bank of India for the setting up of business in India is required to be attached.

When 50% of the paid up capital is held by Indian Citizens, they should comply with such of the provisions of the Act as may prescribed by Central Government with regard to the business carried on in India, as if it were a company incorporated in India.

<b>Repeatedly Asked Questions</b>		
No.	Question	Frequency
1.	Enumerate the procedure for conversion of a public company into a private company. 06 - June [2] (a), 09 - June [5] (b), 10 - Dec [7] (a)	3 Times
2.	One person company (OPC) . 09 - Dec [8] (i), 14 - Dec [3A] (Or) (iv)	2 Times

Table Showing Marks of Compulsory Questions										
Year	10 D	11 J	11 D	12 J	12 D	13 J	13 D	14 J	14 D	15 J
Descriptive			4				5			
Total			4				5			

**Motivational Quote**

