Formation of a Company

Standard difficulty · 20 questions · 40 marks · Time: 38 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. The person who conceives the idea of a business and takes steps to form a company is the:
(a) shareholder **(b)** auditor **(c)** director **(d)** promoter

2. What is meant by “certificate of incorporation”?
(a) conclusive proof that a company legally exists
(b) the least amount that must be raised before allotment
(c) beyond the powers given by the objects clause
(d) contracts made by promoters before incorporation

3. Which step belongs to the capital subscription stage?
(a) identifying a business opportunity
(b) fixing up signatories to the memorandum
(c) appointing bankers, auditors and legal advisers
(d) applying to a stock exchange for listing

4. Which clause of the memorandum states the name of the company?
(a) articles clause **(b)** capital clause
(c) name clause **(d)** registered office clause

5. Which question is answered by financial feasibility?
(a) Is the technology needed for the plant available?
(b) Will the business earn enough profit?
(c) Will the firm be able to arrange a bank loan of the size needed?
(d) Can the right raw materials be obtained?

6. A company issues 2,000,000 shares of ₹100 each to the public. What is the minimum subscription it must receive?
(a) ₹180,000,000 **(b)** ₹150,000,000 **(c)** ₹100,000,000 **(d)** ₹200,000,000

7. A company offers 300,000 shares to the public. What is the least number of shares that must be applied for before it can allot any?
(a) 270,000 **(b)** 225,000 **(c)** 300,000 **(d)** 150,000

8. Which document is filed with the Registrar for incorporation?
(a) the bill of lading **(b)** the certificate of incorporation
(c) a statutory declaration of compliance **(d)** the partnership deed

Section B — Short answer — 8 × 2 = 16 marks

9. Who is a promoter?

10. Explain each term: (a) ultra vires (b) certificate of incorporation

11. To which stage of company formation does each step belong? (a) Getting SEBI approval for a public issue. (b) Appointing bankers, auditors and legal advisers.

12. Which feasibility study answers each question? (a) Will the firm be able to arrange a bank loan of the size needed? (b) Will the business earn enough profit?

13. Name the clause of the memorandum. (a) It states that members' liability is limited to the unpaid amount on their shares. (b) It states the maximum capital the company may raise.

14. Distinguish between the memorandum and the articles of association on the basis of (a) necessity (b) objective.

15. A company offers 4,100,000 shares and receives applications for 3,485,000 shares. Can it allot shares? Why?

16. A company plans a public issue of 400,000 shares at ₹10 each. What is (a) the size of the issue (b) the minimum subscription?

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the steps taken by a promoter during the promotion stage.

18. Match each with its meaning: (a) memorandum of association (b) minimum subscription (c) prospectus. Choose from: a document inviting the public to buy a company's securities; the least amount that must be raised before allotment; the charter defining a company's objects and scope.

19. The promoters of Brightway Toys Ltd took these steps: (a) receiving the minimum subscription (b) receiving the certificate of incorporation (c) getting SEBI approval for a public issue. Name the stage of formation each belongs to, and explain what happens in that stage.

20. Shubh Footwear Ltd issued 4,000,000 shares of ₹20 each and received applications for only 3,400,000 shares. (a) What was the minimum subscription in shares and in rupees? (b) Can the company allot shares? (c) What must it do with the money received?

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Answer key

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Q	Answer	Working
1	**(d) promoter**	—
2	**(a) conclusive proof that a company legally exists**	—
3	**(d) applying to a stock exchange for listing**	—
4	**(c) name clause**	—
5	**(c) Will the firm be able to arrange a bank loan of the size needed?**	—
6	**(a) ₹180,000,000**	90% of 2,000,000 × 100
7	**(a) 270,000**	90% of 300,000
8	**(c) a statutory declaration of compliance**	—
9	**A person who identifies a business opportunity and takes the steps needed to bring a company into existence.**	—
10	**(a) beyond the powers given by the objects clause (b) conclusive proof that a company legally exists**	—
11	**(a) capital subscription (b) promotion**	—
12	**(a) financial feasibility (b) economic feasibility**	—
13	**(a) liability clause (b) capital clause**	—
14	**(a) memorandum: every company must have one; articles: a company may adopt Table F instead (b) memorandum: defines objects; articles: rules for internal management**	—
15	**No: the minimum subscription is 3,690,000 shares (90%), and it received 3,485,000. All application money must be refunded.**	90% of 4,100,000 = 3,690,000
16	**(a) ₹4,000,000; (b) ₹3,600,000**	400,000 × 10; 90% of that
17	**Identification of a business opportunity, feasibility studies, name approval, fixing up signatories to the memorandum, appointment of professionals, and preparation of necessary documents.**	—

Q	Answer	Working
18	**(a) the charter defining a company's objects and scope (b) the least amount that must be raised before allotment (c) a document inviting the public to buy a company's securities**	—
19	**(a) capital subscription (b) incorporation (c) capital subscription. Capital subscription is raising funds from the public by issuing shares.**	—
20	**(a) 3,600,000 shares, ₹72,000,000 (b) no, it received less than 90% (c) refund all application money**	90% of 4,000,000; × 20