

**Important Topics Exposition:**

*[The important information of this chapter has been provided here at a glance.]*

**1. Concept of Joint Stock Companies:**

On a legal basis company is formed with more capital and larger in size which is called joint stock business or company organization.

According to Company Act 1994, company means-company formed and registered under the law or any existing company. Actually, company is such an organization which is created under the law, having separate legal existence, separate legal entity and limited liabilities for the owner and where several people jointly invest money to earn profit.

**2. Features of Joint Stock Company:**

At present in the era of large scale of business, the significance of this type of business is unlimited. This type of business possesses some features which has given it separate status than all other type of business. The features of Joint Stock Company are described below:

- i.** Joint Stock Company is formed legally; its formation is complex and formal. Number of its member is limited by law. In case of private limited company the number is minimum two and maximum 50 and for public limited company the minimum number is seven and the maximum is limited by the number of shares.
- ii.** Joint Stock Business is an enthusiastic organization. Any member can leave the business easily through transfer of his share. And anyone can become a member through buying its share.
- iii.** Since, company is formed legally; its dissolution must be done under formal legal system.
- iv.** The company has to use a seal of its own name because of its being a legal personality.
- v.** The total capital of the company is divided in to several small portions legally. Each of the unit is called a share. Any person of age more than eighteen or any institution can become a member by buying its shares.
- vi.** The liability of the member of the company is limited. It is not unlimited like the sole proprietorship business or partnership business. Member's liability is limited by the share value or commitment.

**3. The Advantages and Disadvantages of Joint Stock Companies:**

<b>Advantages of Joint Stock Company</b>	<b>Disadvantages of Joint Stock Company</b>
<ul style="list-style-type: none"> <li>● Accumulation of huge financial resources</li> <li>● Scope of expansion</li> <li>● Stability of existence</li> <li>● Managerial efficiency</li> <li>● Stimulation of savings and investments</li> <li>● Tax relief</li> <li>● Diffused risk</li> <li>● Social responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>● Adherence of too many legal formation</li> <li>● Concentration of power in few hand</li> <li>● Excessive Government control</li> <li>● High nepotism</li> <li>● Inflexibility in management</li> <li>● Bureaucratic control</li> <li>● Social abuses</li> </ul>

#### **4. Classification of Joint Stock Company:**

In Bangladesh, limited companies are mainly divided in to two categories: a) Private Limited Company; and b) Public Limited Company

##### **a) Private Limited Company:**

The company in which numbers of share holder are limited to minimum two and maximum fifty and where the shares are not easily transferable is called Private Limited Company. The size of this type of limited company is usually smaller because of limited members and capital.

##### **b) Public Limited Company:**

The company in which minimum numbers of member is seven and maximum is limited by the number of shares as mentioned in the memorandum of association, can make invitation for subscription of shares and debentures, and shares are easily transferable is called a Public Limited Company.

#### **5. Process of Formation of a Company:**

Companies in Bangladesh are formed following some sequential process under the prevailing Company Act 1994. Formation of a company is done through four continuous stages. These are:

##### **a. Taking Initiative**

At this stage, people interested to form the company comes together to take decision about the probable name of the company, type of the company, amount of capital, ways to raise fund, address of the company etc. The entrepreneur fixes the possible name of the company and takes certificates from the Registrar of Joint Stock Company.

##### **b. Preparation of Documents**

At this stage, the entrepreneur of the business prepares two important documents for the business. One is called Memorandum of Association and the other one is Memorandum of Articles. Memorandum of Association is called the main documents of limited company. It is also called the main deed, certificate or constitution of the company. Various important issues like name of the company, registered address, objective of business, amount of capital, responsibilities of the share holders, minimum subscription etc. are incorporated in it. On the other hand, Memorandum of Articles incorporates all the necessary internal operational procedures of the business.

##### **c. Collection of Registration**

At this stage, for registration of the company, application for registration is collected paying a certain amount of fees. The application form is submitted to the registrar of the Joint Stock Company along with other necessary documents. If the registrar is satisfied after receiving the application fee, all the related documents then he enlist the company in the register book and gives certificate of registration. Private Limited Company can commence its business after receiving this document, but Public Limited Company has to wait for the Business Commencement Certificate from the Registrar to launch the business.

##### **d. Business Commencement**

To collect the business commencement certificate for launching business operation of the public limited company, application to be made to the registrar along with declaration of minimum subscription of capital by the directors and Prospectus to issue share to the public with other important documents. If all the documents are found correct and the registrar is satisfied, then he provides business commencement certificate to the company. Public limited company can commence business after receiving this document.

## **6. The importance of joint stock companies for socio economic development:**

The characteristics of sole proprietorship firm are mentioned below:

- Create employment opportunity
- Improve standard of living and per capital income of people
- Internationally expansion of business
- Attain economics of scale in production
- Joint stock company promote the industrial development of a country

### **CQs for Self-assessment:**

1. 17 businessmen established an insurance company. They prepared the memorandum of association. According to their memorandum their company has some features of a corporation and some of a partnership. They sell stocks, but they also hold personal financial responsibility.
  - a. Define Joint Stock Company.  
Or what is share?  
Or what is limited liability?
  - b. What are the advantages of Joint Stock Company?  
Or what do you understand by memorandum of association?  
Or in which business liability of the owner is unlimited? Why? Explain.
  - c. What process of formation of a joint stock company did the 17 businessmen follow? Describe.
  - d. 'These businessmen with their joint stock companies can contribute more than other types of business to the economic development of the country' – Give your opinion.