Principles of Business Ethics

Mahatma Gandhi, Father of India, promoted non-violence, justice and harmony between people of all faiths. Satyagraha, Gandhi’s approach to conflict, was to "hold firmly to Truth.” He stressed that people follow ethical principles and listed following seven Social Sins:

(i) Politics without Principles.
(ii) Wealth without work.
(iii) Commerce without Morality.
(iv) Knowledge without Character.
(v) Pleasure without Conscience.
(vi) Science without humanity.
(vii) Worship without sacrifice.

Difference between Ethics and Morals:

The word ‘Ethics’ is derived from Greek word "ethos" meaning "character". The word ‘Moral’ is derived from Latin word ‘Mos’ meaning ‘custom’.

Another way to look at the distinction is to say that morals are accepted from an authority (cultural, religious, etc.), while ethics are accepted because they follow from personally accepted principles.

For example, if one accepts the authority of a religion, and that religion forbids stealing, then stealing would be immoral. An ethical view might be based on an idea of personal property that should not be taken.

Five Sources of Ethical Standards

The Utilitarian Approach assesses an action in terms of its consequences or outcomes; i.e., the net benefits and costs to all stakeholders. It strives to achieve the greatest good for the greatest number while creating the least amount of harm or preventing the greatest amount of suffering.

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The Rights Approach: This approach starts from the belief that humans have a dignity based on their human nature per se or on their ability to choose freely what they do with their lives.

The Fairness or Justice Approach: Aristotle and other Greek philosophers have contributed the idea that all equals should be treated equally. Today we use this idea to say that ethical actions treat all human beings equally.

Common Good Approach: The common good approach suggests that ethical actions are those that benefit all members of the community.

The Virtue Approach: A very ancient approach to ethics is that ethical actions need to be consistent with certain ideal virtues like Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control etc.

Business Ethics – Importance/Need for business Ethics:

Business ethics are moral principles that guide the way a business behaves. Acting in an ethical way involves distinguishing between “right” and “wrong” and then making the “right” choice. Few of the benefits of business ethics are:

1. Ethics helps to promote a strong public image: An organization that pays attention to its ethics can portray a strong and positive image to the public. People see such organizations as valuing people more than profit.
2. Enhanced employee growth: Attention to ethics in the workplace helps employees face the reality, both good and bad in the organization and gain the confidence of dealing with complex work situations.
3. Improved society: Few decades ago, children and workers were ruthlessly exploited. Then society reacted and demanded that businesses place high value on ethics, fairness and equal rights resulting in framing of anti-trust laws.
4. Ethics programs help to avoid criminal acts “of omission” and can lower fines: Ethics programs help to detect ethical issues and violations early, so that they can be reported or addressed.

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Corporate Governance and Corporate Social Responsibility

Corporate Governance:

Definition: “Corporate governance is about promoting corporate fairness, transparency and accountability”.

The traditional governance model positions management is accountable solely to investors (shareholders). But a growing number of corporations accept that constituents other than shareholders are affected by corporate activity, who include: Employees, Trade Unions, Customers, Shareholders, Suppliers, Local Communities, Government.

Benefits of Good Corporate Governance:

- Protection of investor interests
- Studies show clear evidence that good governance is rewarded with a higher market valuation.
- Ensures compliance with laws and regulations.

Roles played by different committees in Corporate Governance:

- **Board of Directors**: The Board occupies a trusteeship role and should be accountable to all stakeholders.
- **Audit Committee**: They ensure adequate internal controls and review financial statements.
- **Compensation Committee**: It reviews and recommends the remuneration to the Board and management.
- **Investor Grievance committee**: It ensures timely and adequate redressal of investors grievances.
- **Divisional Management Committee**: It looks after the various divisions of the organizations.

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Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a concept that organizations have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations.

Strategies to implement CSR:

Below are some key strategies companies can use when implementing CSR-

- **Mission, Vision and Values Statements**: If CSR is to be integrated into company’s mission, vision and values documents. These state a company’s goals and aspirations.

- **Cultural Values**: Many companies now understand that corporate social responsibility cannot flourish in an environment where innovation and independent thinking are not welcome.

- **Employee Recognition and Rewards**: The system of recruiting, hiring, promoting, compensating and publicly honouring employees can be designed to promote corporate social responsibility.

- **CSR Reporting**: Many companies have come to understand the value of assessing their social and environmental performance on a regular basis. Annual CSR reports can build trust among stakeholders.

Importance/Need/Benefits of CSR:

- **Achievement of long term objectives**: An entity which helps the society by being socially responsible, in turn gets the benefit. A better society would produce a better environment in which the business may gain long-term profit maximisation.

- **Enhanced Brand Image and Reputation**: Customers are drawn to brands and companies with good reputations.

- **Iron Law of responsibility**: Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society’s expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society’s

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needs constructively. In the long-run those who do not use power in a manner that society considers responsible, will tend to lose it.

- **Helps minimise Ecological Damage:** The effluents of many businesses damage the surrounding environment. By their own socially responsible behavior, they can stop this.
- **Reduced Operating Costs:** For example, many initiatives aimed at improving environmental performance, such as reducing emissions of gases that contribute to global climate change or reducing use of agrochemicals also lower costs.

### Standards on CSR:

#### The Global Reporting Initiative:

- It is a reporting standard established in 1997.
- Organisations are required to report their ‘**environmental and social performance**’.
- GRI vision that this reporting should be as routine as reporting of financial statements.

#### Social Accountability 8000:

- SA8000 is an international standard that ensure compliance with Corporate Responsibility.
- It requires management to accept responsibility for supporting human rights.
- It requires improvement in working conditions.
- It applies to industries of any size and in any location.

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Workplace Ethics

Workplace ethics refers to taking right decisions at workplace.

Factors Influencing Ethical Behaviour at Work

- **The Individual**: An individual’s ethical behaviour affects not only his or her reputation within the company, but may also affect the company’s. Whether the behavior of an employee is ethical or not depends a lot on his personal values. An individual may develop unethical behavior on personal reasons like negative life experiences, financial difficulties etc.

- **Influence of managers and co-workers**: Co-workers and management will have significant influence on an employee behavior. For *example* if the boss or co-workers leave work early, one may be tempted to do so as well. If one sees co-workers making personal long-distance phone calls at work and charging them to the company, then one may be more likely to do so also.

- **Opportunity to engage in misconduct**: Pressure on employees, weak controls, over-aggressive targets may lead to unethical behavior.

Examples of unethical behavior in workplace:

Some examples of ethical issues faced by an individual in the workplace are:

1. **Relationships with suppliers and business partners**:
   - (a) Bribery and immoral entertainment
   - (b) Discrimination between suppliers
   - (c) Dishonesty in making and keeping contracts

2. **Relationship with customers**
   - (a) Unfair pricing
   - (b) Cheating customers

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(c) Dishonest advertising
(d) Research confidentiality

(3) Relationship with employees
   (a) Discrimination in hiring and treatment of employees

(4) Management of resources
   (a) Misuse of organisational funds
   (b) Tax evasion

**Discrimination:**

Discrimination is treating people differently. It is usually intended to refer to the wrongful act of making a difference in treatment or favor on a basis other than individual merit.

**Discrimination in employment involves three basic elements [4 Marks].**

- First, it is a decision against one or more employees (or prospective employees) that is not based on individual merit.
- Second, the decision taken is prejudicial, which means, there is bias in decision making on basis like gender, age, culture etc.
- Third, the decision has a harmful or negative impact on the interests of the employees, perhaps costing them jobs, promotions, or better pay (because, existing employees may leave the job due to this discrimination).

**Among the practices now widely recognized as discriminatory are the following:**

- **Recruitment Practices:** This is done by recruiting new candidates as preferred by existing employees, or advertising only in such magazines read by a particular gender only.

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- **Screening Practices**: Job qualifications are discriminatory when they are not relevant to the job to be performed (e.g., requiring a high school diploma or a credential for an essentially manual task).
- **Promotion practices**: This happens when promotions in job are issued to only certain gender or any other similar basis.
- **Conditions of Employment**: Many times wages and salaries are discriminatory to the extent that equal wages and salaries are not given to people who are doing essentially the same work.
- **Dismissal**: Firing an employee on the basis of his or her race or Gender is a clear form of discrimination.

**Harassment**

Harassment occurs when a person is made to feel insulted or humiliated. Harassment happens in-

- **Workplace harassment**: It means unwelcome verbal or physical conduct towards an employee which severely affects his work performance.
- **Sexual harassment**: It means harassing an opposite gender, generally in verbal or non-verbal, which may include coercion. According to The Supreme Court definition, in *Vishaka Vs. State of Rajasthan & Others*, sexual harassment is any unwelcome sexually determined behaviour, such as - physical contact, any other physical, verbal or non-verbal conduct of a sexual nature.

**Importance of Ethical Behaviour at the Workplace**:

Significant problems could arise, if ethical behavior is not maintained, which may include:

- Increased risk of employees making **unethical decisions**
- Increased tendency of employees to report violations to outside regulatory authorities (**whistle blowing**)  
- Inability to recruit and retain top people
- Diminished **reputation** in the industry and the community
- Significant **legal exposure** and loss of competitive advantage in the marketplace.

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Guidelines for Managing Ethics in the Workplace:

- **Codes of Conduct and Ethics**: A proper code of conduct in an organization will make sure that proper ethics are followed at various levels of organization.
- **Include a grievance policy for employees** to use to resolve disagreements with supervisors and staff.
- **Set an example from the top**: Executives and managers not only need to endorse strict standards of conduct, but should also ensure that they follow it themselves.
- **Appointing an ombudsperson**: This establishes a point of contact where employees can go to ask questions seek advices.
- **Creating an atmosphere of trust** is also critical in encouraging employees to report ethical violations they observe.
Ecological Ethics / Environment Ethics:

- Business firms are parts of a larger ecological system.
- It means application of ethical principles while dealing with environment.
- It requires minimizing adverse impact or businesses on environment.
- Problems like Global warming, Ozone depletion and disposal of hazardous wastes that concern the entire world.
- They require International cooperation and have to be tackled at the global level.

Sustainable Development:

"Sustainable development is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs."

A nation or society should satisfy its requirements – social, economic and others – without jeopardizing the interest of future generations.

Sustainable development is about finding better ways of doing things, both for the future and the present. We might need to change the way we work and live now, but this doesn’t mean our quality of life will be reduced.

Air Pollution:

- **Air Pollution:** Air pollution has increased exponentially as industrialization expanded. The most prevalent forms of air pollution are the gases and particulates spewed out by autos and industrial processes, which affect the quality of the air we breathe.
- Air pollutants also affect vegetation decreasing agricultural yields
- One of the worst industrial disasters of all time occurred in Union Carbide’s plant in Bhopal on the night of December 3, 1984. The accidental release of methyl-isocynate in the congested, low-income district of Old Bhopal killed 3,000 people and left many thousand more with chronic disabilities leading to premature deaths.

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Global Warming: Greenhouse gases - carbon dioxide, nitrous oxide, methane, and chlorofluorocarbons, occur naturally in the atmosphere to absorb and hold heat from the sun, preventing it from escaping back into space, to keep the earth's temperature about 33°C.

This is done, particularly by the burning of fossil fuels such as oil and coal rising the levels of greenhouse gases and resulting in increasing amounts of heat, raising temperatures around the globe.

Ozone Depletion:

- A layer of ozone in the lower stratosphere screens all life on earth from harmful ultraviolet radiation.
- This ozone layer, however, is destroyed by CFC gases, which have been used in aerosol cans, refrigerators, air conditioners, industries.
- This results in the subsequent increase of ultraviolet rays which could cause several hundred thousand new cases of skin cancer and could also lead to considerable destruction of the 75 percent of the world's major crops that are sensitive to ultraviolet light.

Acid Rain: Like global warming, acid rain is a threat to the environment that is closely related to the combustion of fossil fuels (oil, coal, and natural gas), which are heavily used by utilities to produce electricity. Burning fossil fuels, particularly coal containing high levels of sulphur, releases large quantities of sulphur oxides and nitrogen oxides into the atmosphere. These acids are then carried down in rain.

Water Pollution:

Although water is essential to human life as well as to industrial growth and development, the world's per capita supplies of water are shrinking and are now 30 percent smaller than 25 years ago. A number of factors have contributed to this.

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An increase in population and economic activity particularly in urban areas, has resulted in increased demands for water. To meet these demands, water is being increasingly diverted from agricultural irrigation to provide water for cities.

**Land Pollution:**

Each year people living in cities produce tons of solid wastes every year. City garbage dumps are significant sources of pollution, containing toxic substances such as cadmium (from rechargeable batteries), mercury, lead (from car batteries and TV picture tubes), vanadium, copper, zinc.

Vinyl chloride is another common industrial chemical used in the production of plastics, which is released in small amounts when plastic products deteriorate, causes liver related deceases.

**Eco-friendly Business Practices:**

- Business and Industry are closely linked with environment and resource utilization.
- Business, Industry and multinational corporations have to recognize environmental management as the priority area.
- Accordingly, waste management is to be done through following systems.
  - Minimum production of waste.
  - Maximizing reuse of waste and recycling.
- **Green accounting systems:** The conventional accounting system ignores the impact of a business economic activities on environment. This may result in businesses involving in practices that are against the environment. Green Accounting requires including environmental costs in the cost of products. It is also known as ‘environmental accounting’ or ‘natural resource accounting’

**What is Green Accounting [4 Marks]?**

- Green Accounting is a new concept to businesses.
- The conventional accounting system ignores the impact of economic activities on environment.
- This may result in businesses involving in practices that are against the environment.
- Green Accounting requires including environmental costs in the cost of products.
- It is also known as ‘environmental accounting’ or ‘natural resource accounting’

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Ethics in Marketing and Consumer Protection

Marketing executives face the challenge of balancing their own best interests in the form of recognition, pay, and promotion, with the best interests of consumers. In any situation they must be able to distinguish what is ethical from what is unethical.

Importance of Ethics in Marketing:

- **To reverse declining public confidence in marketing.** Periodically we hear about misleading package labels, false claims in ads, phony list prices etc. To reverse this situation, business leaders must make sure ethics are followed.
- **To avoid increases in government regulation.** Unethical behavior simply increase the probability of more government regulation. Moreover, once some form of government control has been introduced, it is rarely removed.
- **To regain the power granted by society:** If marketers do not use their power in a socially acceptable manner, that power will be lost in the long run.
- **To protect the image of the organization.** Buyers often form an impression of an entire organization based on their contact with one person. You may base your opinion of a retail store on the behavior of a single sales clerk.

**Competition Act, 2002:**

Competition Law was introduced in India in 2002, to improve competitiveness in an industry.

**Parameters of Competition Law:**

- **Prohibition of certain agreements, which are considered to be anti-competitive in nature.** Examples of such agreements are Tie-In agreement, Bid rigging etc.
- **Abuse of dominant position:** There shall be an abuse of dominant position if an enterprise impose unfair conditions or prices.
- **Regulation of combinations** which cause or likely to cause an appreciable adverse affect on competition within the relevant market in India is also considered to be void.

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Consumer Interest Vs Public Interest

<table>
<thead>
<tr>
<th>Consumer Interest</th>
<th>Public Interest</th>
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<tr>
<td>Consumer interest covers with the a consumer’s well being</td>
<td>It is concerned with public at large i.e, society as a whole</td>
</tr>
<tr>
<td>The focus is on protecting consumers from market mal-practices</td>
<td>The focus is balancing the interests of everyone</td>
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<tr>
<td>Consumers are affected by quality, price, quantity etc</td>
<td>Public is affected by political stability, economic reforms etc</td>
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<tr>
<td>Few applicable acts are Consumer Protection Act, Competition Act etc</td>
<td>Few applicable acts are RTI Act, Wild life control Act etc</td>
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Consumer Protection Council of India:

The objects of the Central Council shall be to promote and protect the rights of the consumers such as,-

a) the right to be protected against the marketing of goods and services which are hazardous to life and property;
b) the right to be informed about the quality, quantity, potency, purity, standard and price of goods or services so as to protect the consumer against unfair trade practices;
c) the right to be assured, wherever possible, access to a variety of goods, and services at competitive prices;
d) the right to be heard and to be assured that consumer’s interest will receive due consideration at appropriate terms;
e) the right to consumer education.
f) the right to seek redressal against unfair trade practices

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Ethics In Accounting And Finance

Fundamental principles for Finance and Accounting Professionals:

- **Integrity**: In simple terms, Integrity means ‘honesty’. A finance and accounting professional should be straightforward and honest.
- **Objectivity**: He should not be biased. He should express his opinion independently, without any bias.
- **Confidentiality**: This principle requires practitioners of accounting and financial management to refrain from disclosing confidential information related to their work.
- **Professional competence and due care**: Finance and accounting professionals have a need to update their professional skills from time to time.
- **Professional behavior**: This principle requires accounting and finance professionals to comply with relevant laws and regulations and avoid such actions which may result into discrediting the profession.

Threats:

**Self-interest threats**, which may occur as a result of the financial or other interests of a finance and accounting professional or of an immediate or close family member;

**Self-review threats**, which may occur when a previous judgment needs to be reevaluated by the finance and accounting professional responsible for that judgment;

**Advocacy threats**, arise when a professional is give his opinion on a client such that his objectivity may be compromised.

**Familiarity threats** occur when a finance and accounting professional has close relationships in the work environment and such relationships impair his selfless attitude towards work.

**Intimidation threats** arise when a professional is threatened not to perform his duties.

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Safeguards to overcome threats:

Safeguards are those measures employed to eliminate or minimize the threats faced by a finance professional.

Safeguards created by the profession, legislation or regulation, like-

- Professional Standards
- Disciplinary action against the professional.
- Educational, training and experience requirements for entry into the profession.

Safeguards in work environment:

- Strong internal controls.
- Leadership that stresses the importance of ethical behavior
- The employing organisation’s ethics and conduct programs.

Reasons for Unethical Behaviour:

*Emphasis on short term results:* This is one of the primary reasons which has led to the downfall of many companies like Enron and WorldCom. Manipulating accounting entries to depict good profitability can help companies raise further capital from the market.

*Ignoring small unethical issues:* It is a known fact that most of the compromises we make start are small however they lead us to large problems. Similarly, companies need to develop an environment where small ethical lapses are taken seriously.

*Economic cycles:* In situations of recession, managements might follow window dressing by showing appreciated financial statements.

*Accounting rules:* A Finance professional might be unethical due to the complex set of laws and rules which are hard to get into.
How to create ethical environment:

- Ensuring that employees are aware of their legal and ethical responsibilities.
- Ensuring fair treatment to those who act as whistle blowers
- Providing a communication system between the management and the employees so that any one in the company can report about fraud and mismanagement without the fear of being reprimanded
- Top management initiative

Importance of Ethics:

- **Investor Protection**: The finance and accounting professional must make sure that the trust put on them by stakeholders is fulfilled.
- **Stock Markets**: Every fraud will have an effect on stock markets, due to which common man, who invested might suffer.

Resolving Ethical conflict:

An ethical conflict arises when it becomes for a professional to decide what is right and what is wrong. In such case, the procedure to resolve it shall be -

- Considering relevant facts.
- Selecting course of action and consequences.
- Consulting with those charged with governance.
- Obtain a legal advice if required.
- Documentation of important matters.

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Essentials of Communication

Importance of Communication:

As John Harvey says, ‘Communication is the single most essential skill’. Communication helps to bind the employees in an organization together. Factors responsible for importance of communication are:

a. **Growth in the size and multiple locations of the organization**: Most of the organizations are growing larger and larger in size. The people working in these organizations may be spread over different states of a country or over different countries. Keeping in touch and getting feedback is possible only when communication lines are kept working effectively.

b. **Growth of trade unions**: Over the last so many decades trade unions have been growing strong. No management can be successful without maintaining good relationship with trade unions.

c. **Growing importance of human relations**: Workers in an organisation are not like machines. They have their own hopes and aspirations. Management has to recognise them and effective communication helps to achieve them.

d. **Public relations**: Every organisation has a social responsibility, towards customers, government, suppliers and the public at large. Communication with them is the only way an organisation can project a positive image of itself.

e. **Advances in Behavioural Sciences**: Modern management is deeply influenced by exciting discoveries made in behavioural sciences like psychology, sociology, transactional analysis etc. All of these help in developing positive attitude and this is possible only through communication.

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Process of Communication:

Communication is a dynamic in which there is an exchange of ideas linking the sender and receiver consisting of seven elements:

1. **Sender (Source):** The process of communication begins with a sender, the person who has an idea and wants to share it...

2. **Encoding:** The sender must choose certain words to translate the idea into a message. This activity is called encoding. A simple “thank-you” message will be relatively easy. In contrast, to inform 200 employees of a bad news about salary cut requiring carefully planned messages.

3. **Message:** For communication to occur your receiver should first get the message. Messages could be verbal (written or spoken) or nonverbal (such as appearance, body language, etc)

4. **Channel:** How will you send your message? Should it be sent via an electronic word processing system or through the printed word or through graphic symbol on paper, or via the medium of sound.

5. **Receiver:** In the confusing and imperfect world of business, however, several problems can occur. The message may never get to the receiver. If the message is oral, the listener might forget it.

6. **Decoding:** Even if the message reaches intact to its intended receiver, there is no guarantee that it will be understood as the sender intended it to be. The receiver must still decode it.

7. **Feedback:** Ultimately the receiver reacts or responds to the communication sent by the sender. Whatever the response of a receiver to a sender is, it is known as feedback.

Types of Communication:

**Formal Communication:** A formal communication flows along prescribed channels through pre-determined rules. The main types of formal communication within a business are-

**Advantages of Formal Communication:**

- Communication is **effective** when formal channels are used.
- In this type of communication, the **source** of each information can be easily located.

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Formal communication maintains **constant relations** among the superiors and the subordinates

- All formal communication like letters, report & memos are kept permanently. So it is helpful in **future decision making**.
- It maintains all formalities of communication for which there is less chance of **errors** and mistakes.

**Informal Communication:**

It is a casual form of information sharing typically used in personal conversations with friends or family members. Within a business environment, informal communication is sometimes called the grapevine and might be observed occurring in conversations, electronic mails, text messages and phone calls between socializing employees.

**Grapevine Chains:** Specialists in this field have identified four types of grapevine chains:

1. **Single Strand Chain:** In this type of chain, ‘A’ tells something to ‘B’ who tells it to ‘C’ and so on. This type of chain is the least accurate in passing on the information or message.
2. **Gossip Chain:** In it, a person seeks out and tells everyone the information he has obtained.
3. **Cluster Chain:** In this type of chain, ‘A’ tells something to a few selected individuals and then some of these individuals inform a few other selected individuals.
4. In it, individuals are indifferent to the persons to whom they are passing some information. This chain is found when the information is somewhat interesting but not really significant.

**Merits of Grapevine Communication:**

- **Speedy transmission:** The greatest merit of this phenomenon is that it transmits information very speedily. The very moment a worker comes to know that something is ‘top secret’ or ‘confidential’ he tries to look into it or have some idea of it and pass it on to others. Thus it spreads within minutes.
- **Feedback value:** It is primarily through the grapevine that the managers or top bosses of an organisation get the feedback regarding their policies, decisions, memos etc.

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Support to other channels: The grapevine or informal channel functions as a supplementary channel of communication.

Psychological satisfaction: The grapevine gives immense psychological satisfaction. It draws them nearer to each other and thus keeps the organisation intact as a social entity.

Demerits of Grapevine:

- The information spread through the grapevine is less credible than the one given by the formal channel.
- The grapevine does not always carry the complete information. Thus one may not get the complete picture on its basis.
- The grapevine often distorts the picture or often misinforms. As its origin lies in the rumour mill it may spread any kind of stories about responsible people. In this way it may spoil the image of the organisation.

Communication Media:

Oral Communication:

According to a research, an average manager in general spends only 9% of his/her time in writing, 16% in reading, 30% in speaking and 45% in listening. Oral Communication is characterized by 7 C’s – Candidness, Clarity, Completeness, Conciseness, Concreteness, Correctness, and Courtesy.

Advantages of Oral Communication:

- Time saving: When action is required to be taken immediately it is best to transmit a message orally.
- Cost savings: Cost is involved in any communication. When the communication is needed within the organization and if it and is completed in orally, it has not needed any paper, pen or stamp or computer. So it saves the money of the organization.
- More powerful: Speech is a more powerful means of persuasion and control.
- Correction of errors: If any error is expressed at the time of oral communication. It was possible to rectify at that time or within a very short time.

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Non-Verbal Communication:

**Body Language:**

- It must be noted, though it is known to almost all, that all our bodily movements, gestures, postures etc., are guided by our feelings and thought processes.
- The nodding of our head, blinking of our eyes, waving of our hands, shrugging of our shoulders etc., are expressions of our thought and feelings.
- That is why this area of study has been called ‘body language’. Just as language uses sets of symbols to convey meaning, our body, consciously as well as unconsciously, conveys messages, attitudes, moods, status relationships etc.
- Nervousness, anger, fear, sympathy, pity, lack of understanding, disinterestedness can be much better expressed through the body language than through words.

**Para Language:** The term paralanguage is used to describe a wide range of vocal characteristics like tone, pitch, and speed etc. Some of the vocal cues are:

a) **Pitch Variation:** Most of us introduce wide variations in pitch while speaking. These variations are necessary to catch the listener’s attention and to keep him interested in us.

b) **Speaking speed:** One should not, always speak at a high speed. Speaking fast or at a high speed is not fluency.

c) **Pause:** The speaking speed is also accompanied by pause the right moments. Incorrect use of pauses can create problems.

d) **Volume variation:** Our speech should be loud enough to be audible to the audience, not too loud to put them off. The larger the audience, the higher the volume. But depending upon the different parts of the message we should monitor the volume of our speech

e) **Word Stress:** Proper word stress is of crucial importance in communication.

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Barriers to Communication:

The purpose of communication is to get your message across to others successfully. Few of the barriers that breaks down the communication are-

**Noise:** Noise is the first and foremost barrier to communication. It means “interference that occurs in a signal and prevents you from hearing sounds properly.” In a factory, for example, the continuous noise made by machines makes oral communication difficult. In the same way some technical problem in a public address system or a static in a telephone or television cable will distort the sound signal and affect communication.

**Semantic Problems:** Semantics is the systematic study of meaning. That is why the problems arising from expression or transmission of meaning in communication are called semantic problems. The sender has to take care that the receiver does not misunderstand his message, and gets the intended meaning.

**Cultural Barriers:** We live in a culturally diverse world, and so could encounter individuals from different races, religions, and nationalities. Knowing about other cultures and being proactive will help to develop these skills.

**Socio-Psychological Barriers:** Social and psychological factors are the most difficult barriers to communication. These consist of factors like close minded, resistance to changes, distrust, Status and fear, Inattention, Emotions etc.

**Filtering:** Filtering means that the sender of a message manipulates information in such a way that it will be seen more favourably by the receiver.

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Interpersonal Communication Skills

Principles of Interpersonal Communication:

Interpersonal communication is inescapable: The very attempt not to communicate communicates something. Remember that: people judge you by your behaviour, not by your intent.

Interpersonal communication is irreversible: A Russian proverb says, "Once a word goes out of your mouth, you can never swallow it again. You cannot really take back something once it has been said.

Interpersonal communication is complicated: No form of communication is simple. Because of the number of variables involved, even simple requests are extremely complex.

Interpersonal communication is contextual: This means, a communication is different from each situation, which can be categorized into-

- Relational context
- Situational context
- Environmental context
- Cultural context

Functions of Interpersonal Communication:

Gaining Information: One reason we engage in interpersonal communication is gain knowledge about another individual, so that we can know how to communicate with them laterly.

Building Understanding: interpersonal communication helps us to understand better what someone says in a given context.

Establishing Identity: We also engage interpersonal communication to establish an identity based on our relationships and the image we present to others.

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Active Listening:

Most of us assume that listening is a natural trait, but practically very few of us listen properly. What we regularly do is - we hear but don’t listen. Hearing is through ears and listening is by mind.

Guidelines for Active Listening:

- **Look at the person** and suspend other things you are doing, in order to understand the other person's concerns, intentions.
- **Be interested** in what the person is saying. If you just can't make yourself interested, you will lose important information.
- **Ask questions** once in a while to clarify meaning. Doing so will keep you alert, and let the other person know you have been listening and are interested.
- **Restate** what the person said. Restating their meaning is a way for you to make sure you understand the person clearly.

Critical thinking:

Critical thinking is the discipline of rigorously and skillfully using information, experience, observation and reasoning to guide your decisions and actions. To do this effectively, you need to develop skills to:

- **Classify and Sequence**: You must be able to group items or sort them according to similar characteristics.
- **Evaluate**: You must be able to determine sound criteria for making choices and decisions.
- **Predict**: You must be able to finding and analyze trends, and extend these to make predictions about the future.
- **Prioritize**: You must be able to determine the importance of an event.
- **Analyze Cause and Effect**: You must be able to separate the reason for an event (the cause) from the result or outcome (the effect).

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Qualities of a Critical Thinker:

Critical thinking is the discipline of rigorously and skillfully using information, experience, observation and reasoning to guide your decisions and actions. Few of the qualities of a critical thinker are-

a) **Open-minded** – is willing to accept and explore alternative ideas.

b) **Well-informed** – Knows the facts and what is happening on all fronts.

c) **Experimental** – Think through “what if” scenarios to create probable options and then test the theories to determine what will work and what won’t.

d) **Contextual** – Keeps in mind the appropriate context when thinking things through.

Emotional Intelligence:

Emotional intelligence (EQ) is the ability to identify, use, understand, and manage emotions in positive ways to relieve stress, communicate effectively. As we know, it’s not the smartest people that are the most successful or the most fulfilled in life.

You probably know people who are academically brilliant and yet are socially inept and unsuccessful at work or in their personal relationships. Intellectual intelligence (IQ) isn’t enough on its own to be successful in life.

**Competencies associated with Emotional Intelligence:**

- **Personal Competence** – How You Manage Yourself: This requires self awareness qualities like self-control, transparency, adaptability, self-confidence etc.

- **Social Competence:**
  - Social awareness, means sensing others emotions, talking active interest in their concerns etc.
  - Relationship management, which includes motivating, teamwork etc.

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Group Dynamics

A group is a collection of people, who work together to accomplish a goal. As an old saying ‘Two heads are better than one’.

Characteristics of Groups:

Spirit of Conformity: Individual members soon come to realize that in order to gain recognition, admiration and respect from others they have to achieve a spirit of conformity. Our beliefs, opinions, and actions are influenced more by group opinion than by an individual’s opinion, even if it is an expert’s opinion.

Respect for group values: Any working group is likely to maintain certain values and ideals which make it different from others.

Resistance to change: It has been observed that a group generally does not take kindly to social changes.

Collective power: It need not be said that groups are always more powerful than individuals, how so ever influential the individual may be. That is why individuals may find it difficult to speak out their minds in groups.

Types of Groups

- **Self directed teams** – autonomous and self regulated groups of employees empowered to make decisions.
- **Quality Circles**- Quality Circle has been defined “as a group of workers from the same area who usually meet for an hour each week to discuss their quality problems, investigate causes, recommend solutions and take corrective actions
- **Committees** – Various committees like Standing Committee, Advisory Committee etc.
- **Task Force** – Task force is like Committee but it is usually temporary. Task force groups are very important in govt. organization to tackle specific administrative problems.
Consensus building:

Consensus means overwhelming agreement. Consensus building is usually carried out by a mediator or a facilitator. Consensus building will have following elements:

- **Problem-solving orientation** - It is important to be constructive and maintain a problem solving orientation, even in the face of strong differences and personal antagonism.

- **Engage in active listening** - Participants in every consensus building process should be encouraged in active listening.

- **Strive for the greatest degree of transparency possible** - To the greatest extent possible, consensus building processes should be transparent. Final report should be open to scrutiny by anyone affected by the group's recommendations.

- **Strive to invent options for mutual gain** - The goals of a consensus building process ought to be to create as much value as possible

Negotiation:

It is a process by which compromise or agreement is reached while avoiding argument and dispute. Negotiations can be approached in four ways.

i. **Win-Lose**: situations result when only one side perceives the outcome as positive. Thus, win-lose outcomes are less likely to be accepted voluntarily.

ii. **Lose Lose**: A situation in which a favorable outcome is impossible. You are bound to lose something. For example, if customers feel cheated, they are likely to tell others about their dissatisfaction, costing the company future business.

iii. **Compromise**: Sometimes it seems better to compromise than to fight battles in a competitive manner and risk a lose-lose outcome. Example, if two managers each need a fulltime secretary but budget restrictions make this impossible, they may have to compromise by sharing one secretary.

iv. **Win-Win Orientation**: A win-win approach differs significantly from the preceding negotiating styles. It focuses on satisfying the ends each is seeking.

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Negotiation process:

At every level careful planning and execution is required to make negotiations successful. These seven steps of the negotiation are:

1. **Preparing:** A negotiation is an unpredictable path one will come across unforeseen and unanticipated situations. Hence one needs to be well prepared.

2. **Arguing:** This is the first stage of the actual negotiation process, where the two parties are engaged in the process of building a case for their respective stands.

3. **Signaling:** This phase occurs during the arguing process and usually after some amount of arguing. The two parties are aware of the deadlock and are in a mood to break the deadlock when signaling would occur. The signal refers to verbal or non-verbal clues.

4. **Proposing:** It is the culmination of arguments when based on some signals one proposes for a possible solution.

5. **Packaging:** This involves various proposals comprising of concessions you are going to signal in the package, what do you want in return etc.

6. **Bargaining:** Everything must be conditional. Signal what is possible if, and only if, the opponent agree to your conditions.

7. **Closing and Agreeing:** This is the final phase where the deal gets finalized and sealed. Closing means ending the bargaining and reaching a stage where we push the opponent to make a decisions on agreeing or otherwise.

Influencing and Persuasion Skills

**Influence** is much wider in depth and dimension. It is a set of skills including body language, listening, building rapport, planning, probing and explaining, a set of attitudes including confidence, trust, patience and belief in win-win outcomes.

Whenever there is a change in a person’s thoughts, feelings or behavior because of another person’s personality, then influence is said to have taken place. Great leaders have this ability or charisma to make others behave or do what they want without actually saying it in words. Persuasion on the other hand takes place when you communicate to try and deliberately change a person’s behavior.

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Communication Ethics

Ethical communication encompasses being honest in all communications, keeping confidential information confidential, and not discussing the personal or business situations of others in public or in front of a third party.

Factors Influencing Ethical Communication:

- There are countless complexities involved in the communication process, but communicators initially face three simple choices: to speak, to listen, or to remain silent. Each choice implies an ethical decision.
- The timing and mode of communication add another layer of complexity to the ethical dimension.
- Remaining silent might seem like the safest way to avoid ethical dilemmas. But even here there is no safe haven. Remaining silent in the face of unlawful behavior or a potentially harmful situation presents a serious ethical decision. Silence signals consent or perhaps tacit agreement.

Ethical Dilemmas In Communication

Ethical dilemmas, also known as moral dilemmas, are situations in which there is a choice to be made between two options, neither of which resolves the situation in an ethically acceptable fashion. Some of the ethical dilemmas faced while communicating are:

- **Secrecy:** Secrets are kept for both honourable and dishonourable reasons; may be used to guard intimacy or to invade it. Here then lies the challenge for the person to determine when secrets are justifiable or not.

- **Whistle-blowing:** Anyone who has and reports insider knowledge of illegal activities occurring in an organization. Whistleblowers can be employees, suppliers, contractors, clients or any individual who somehow becomes aware of illegal activities taking place in a business.

- **Leaks:** Politicians have used leaks for years to, stall a plan, or defame an opponent. Employees may also leak information to the press for honourable or dishonourable reasons.

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- **Rumour and gossip:** Rumours and gossip seem to be an inevitable part of everyday corporate life. Even though rumours and gossip often travel through the same networks, there is a distinction between the terms. Rumours tend to focus on events and information, whereas gossip focuses on people.

- **Lying:** A lie is a false statement intended to deceive. Most would agree that "one ought not to lie." Yet lies in business are more common than many would care to admit.

### Guidelines to handle Communication Ethics Dilemmas

Ethical dilemmas, also known as moral dilemmas, are situations in which there is a choice to be made between two options, neither of which resolves the situation in an ethically acceptable fashion. Few principles of handling these are:

- **Legal Considerations:** One place to look for guidance is the laws saying or writing something is clearly illegal, you have no dilemma: You obey the law.

- **Moral Considerations:** Although legal considerations will resolve some ethical questions, one has often had to rely on your own judgment and principles. If your intent is to mislead or manipulate the audience, the message is unethical, regardless of whether it is true.

- **Keep Messages Accurate** - When you are relaying information from one source to another, communicate the original message as accurately as possible.

- **Maintain Candour** – Candour refers to truthfulness, honesty, and frankness in your communication with other people. Although revealing everything you know about a situation may not always be appropriate.

- **Keep Confidences** - When someone tells you something and expects you not to divulge that information to others, a sacred trust has been placed on you.

- **Confront Unethical Behavior** - To maintain a consistent ethical viewpoint, you must confront unethical behavior when you observe it. Public condemnation of unethical persons may not be necessary, but it is important that people understand that your own tolerance for unethical behavior is low.

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Communicating Corporate Culture, Change and Innovative Spirits

Corporate Culture is described as the personality of an organization, or simply as “how things are done around here. Senior management may try to determine a Corporate Culture. They may wish to impose corporate values and standards of behavior.

Elements of Culture:

- **The Paradigm**: What the organization is about; what it does; its mission; its values.
- **Organizational Structures**: Reporting lines, hierarchies, and the way that work flows through the business.
- **Symbols**: These include the logos and designs, but would extend to symbols of power, such as car parking spaces and executive washrooms!
- **Stories and Myths**: Build up about people and events, and convey a message about what is valued within the organization.

Change:

Typically, the concept of organizational change is in regard to organization wide change, as opposed to smaller changes such as adding a new person, modifying a program, etc. Examples of organization-wide change include a change in mission, restructuring operations, new technologies, mergers, major collaborations.

Resistance to change:

It is a basic tenet of human behaviour that any belief or value that has been previously successful in meeting needs will resist change.

*Reasons Why People Resent or Resist Change –*

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One major reason why people resist change is the potential for loss on a personal level. Some of the things people feel are at risk during change processes are:

- Friends and contacts
- Money
- Freedom
- Authority
- Security

While a feeling of threat is a primary reason why people resist change, there are other factors that can mobilize people into resisting any changes. These include:

- Lack of respect for person responsible for the change
- Bad timing of the change
- A desire to challenge authority

**Reasons for Acceptance of Change:**

While it is likely to encounter people who resist change for the previously stated reasons, one will also encounter people who accept or welcome change. Few reasons are:

**Personal Gain:** People will be more likely to accept change when they see the possibility that they will gain in some of the following areas:

- Money
- More Authority
- Better Personal Contacts
- Self-Satisfaction
- Reduces Boredom
- Improves Future

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**Communication and Change:**

Communication is probably the most important skill that people need to have in order to be effective managers. There are four decisions that managers must make around communication in change situations:

**To whom:** The basic rule is that communication should take place directly between the manager and employees when employees NEED TO KNOW OR WANT TO KNOW. In other words, except for situations that involve confidential information, even those people who are indirectly affected would like to know what is going on, and how it may affect them.

**What:** In changed situations, it is good to communicate as much information about the change as is available.

**When:** In general, communicate as early as possible about change, but do not assume that once you have done this that the job is over. Ordinarily, one's boss should be informed prior to major changes.

**How:** Should one use oral or written communication? Below are some guidelines for making this decision.

**Building Innovation Enabled Organization:**

No organization can succeed without innovation. The key elements in the innovation framework are:

- **Accessibility:** The major organizational challenge is to make everyone, particularly the workers, active participants in the work process. Accessibility to everyone facilitates a feeling of teamwork, trust and equality. This not only includes the workers, but the customers and suppliers as well.

- **Recognize and Reward Innovation:** Companies reward activities they value. Employees know this, and react accordingly. Financial rewards have proven successful, but there are other and often more meaningful rewards such as personal recognition. Innovators can be recognized in company newsletters, trade publications, and the local media.

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- **Develop Company Programs That Encourage Innovation:** 3M has a program that allows employees to spend up to 15% of their time working on their own innovative project.

- **Foster Informal Communication:** The paperwork involved in proposing or even pursuing a project can be a major roadblock to innovation. Bill Gates, the innovative founder of Microsoft, credits the use of electronic mail as one of the keys in keeping his company on the creative frontier.

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1. Nature of Company

Company - As per Section 2(20) Company means a company incorporated under this act or any other previous acts

**Features of the company**

| Incorporated Association | • With minimum number of members  
• Recognized & Registered as per law  
• Comes into existence after registration |
|---------------------------|-------------------------------------------------------------------------------------------------|
| Artificial Person         | • Recognized in the eyes of law  
• Run by natural persons |
| Citizen or Not?           | • Not a citizen |
| Separate legal entity     | • Members are different from the company  
• Salomon Vs Salomon Co Ltd  
• Lee Vs Lee air farming ltd |
| Common seal               | • Signature of the company  
• Authorises the documents |
| Perpetual succession      | • Exists even if all the members die |
| Separate property         | • Can have own property |
| Transferability of shares | • Freely transferable  
• Restrictions in private company |
| Separation of ownership   | • Management is entrusted to Board of directors |
| Capacity to sue and be    | • Outsiders cannot sue members in their individual capacities |
| sued                      |                                                                  |

**Lifting & Piercing of corporate veil**

<table>
<thead>
<tr>
<th>To prevent illegal or improper activities</th>
<th>Horne Vs Gilford motors company ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>To protect revenue of the government</td>
<td>Sir Dinshaw Maneckjee Petit</td>
</tr>
<tr>
<td>To prevent violation of welfare laws</td>
<td>Associated rubber industry ltd</td>
</tr>
<tr>
<td>To determine the enemy character of the company</td>
<td>Diamler company ltd Vs Continental tyre and rubber compa ltd</td>
</tr>
<tr>
<td>To determine the technical competence of the company</td>
<td>New Horizons India Ltd</td>
</tr>
</tbody>
</table>

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2. Classification of Companies

On the basis of restrictions

Private Company [Section - 2(68)]

<table>
<thead>
<tr>
<th>Nature of Restriction</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferability of shares</td>
<td>• Cannot be banned</td>
</tr>
<tr>
<td></td>
<td>• Can only be restricted</td>
</tr>
<tr>
<td></td>
<td>• By way of pre-emption</td>
</tr>
<tr>
<td>Maximum number of members restricted to 200</td>
<td>• Employees who became members by virtue of their employment are not considered</td>
</tr>
<tr>
<td></td>
<td>• Joint share holders are considered as one</td>
</tr>
<tr>
<td>Cannot invite public to purchase its share</td>
<td>• Can only get monies from its existing share holders or through private placement</td>
</tr>
</tbody>
</table>

[The Minimum Capital Requirement of Rs.1 Lakh Removed now]
Minimum number of members – 2

Public Company [Section - 2(71)]

- No above mentioned restrictions
  - [The Minimum Capital Requirement of Rs.5 Lakh Removed now]
  - Minimum number of members - 7

One Person Company [Section - 2(62)]

- Only one person
- Nominee is compulsory
- One person or nominee can only hold one OPC
- Only resident of India can start OPC (those who resided for not less than 182 days in the preceding financial year)
- Certain exemptions are provided in the Act
- Compulsory conversion into either private or public company if paid up share capital exceed Rs 5,00,00,000 /- (or) Average (preceding 3 years) annual turnover exceeds Rs 2 crores
- Can also be converted voluntarily

On the basis of liability

Limited by shares
Limited by guarantee
Unlimited liability

Section - 8 Company

- Not for profits. Established for promotion of commerce, health, research, social welfare, science, education, sports, religion & protection of environment or any such other acts
• Obtain licence from the central government
• The CG will direct the company upon contents of MOA & AOA
• Not to declare dividends
• Monies must be spent only for purpose for which it has been started
• Certain privileges are available in Act
• CG may cancel license by giving the company an opportunity of being heard

**Holding - Subsidiary & Associate Companies**

**Holding company 2(46)** controls the **Subsidiary Company 2(87)** either by

- controlling composition of directors
- controlling more than half of total share capital either directly or indirectly

**Subsidiary company must not hold any shares in Holding company**

Two companies are treated as **Associate companies 2(6)** if one company holds 20% or more in another. **(Significant interest)**

**Government Company [Section 2(42)]**

In which not less than 51% of paid up share capital is held by

- Central Government
- State Government(s)
- Central Government & State Government(s)

Includes even subsidiary of a Government Company

**Government company is not considered as Government Department**

**Electoral Trust**

Section 8 Company started in compliance with the provisions of CBDT rules in this regard.

**Dormant Company**

No significant accounting transaction

**Foreign Company [Section 2(42)]**

A company incorporated outside India but having place of business in India

**Body Corporate [Section 2(11)]**

Body corporate includes a foreign company but excludes co-operative society and entities notified by CG

**Illegal Association [Section 464]**

Any association for profit in which more than 100 members are associated

**Exceptions:**

- Company
- Registered under any other Act
- Service motive
- Single HUF
- Partnership formed by professionals

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3. Promotion

**Promoter [Section 2(69)]**

A person who has been named as such in Annual return and prospectus
A person who controls affairs of the company either directly or indirectly as a shareholder, director or otherwise
A person in accordance with whose instructions the BODs will act

**Duties of Promoter**

Duty not to make secret profits
Duty to disclose the interest in transactions

**Note:** May get remuneration if there is written agreement

**Remedies available to company**

Rescission of contract
Suit for breach of trust

**Validity of Pre-Incorporation contracts**

Will be binding on the company if the company decides to adopt the same, otherwise the promoter will be liable.
The company may adopt if the contract was entered on condition of incorporation and for the object of the company.

**Process of Incorporation (Section – 7)**

<table>
<thead>
<tr>
<th>Check name availability</th>
<th>Apply to ROC – ROC intimates within 7 days – Name is available for next 60 days.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Submission of documents</td>
<td>• MOA/AOA&lt;br&gt;• Statutory Declaration&lt;br&gt;• Address of Registered Office&lt;br&gt;• Applicable forms for Incorporation&lt;br&gt;• Particulars of Directors named in AOA</td>
</tr>
<tr>
<td>ROC issues certificate Incorporation</td>
<td>• Incorporation certificate dated and contains CIN&lt;br&gt;• Incorporation certificate is conclusive and cannot be questioned</td>
</tr>
</tbody>
</table>

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## 4. Memorandum & Articles

### Memorandum of Association [Section – 2(56)]

**Format:** Given in Table A, B, C, D & E of Schedule - I

| **Name clause** | • Word Limited / Private Limited / OPC have to be added  
• Name must not be identical, undesirable, projecting connection to the Government, against Names & Emblems Act  
• Clearly engraved outside every place of business and printed on all letter head, bills, vouchers along with RO – address  
• If name is written wrong then the officer signing the document is personally liable |
| **Situation clause** | State of the RO |
| **Objects Clause** | • Not illegal  
• Main objects, Incidental objects & Other objects |
| **Liability Clause** | Liability of the members |
| **Capital clause** | • Authorised share capital  
• Total number of shares  
• Nominal value of shares |
| **Subscription Clause** | • At least 2 (or) 7 as the case may be  
• Minor cannot sign as subscriber  
• Each subscriber agrees to take at least on share  
• First members of the company |
| **Nomination clause** | Only for OPC |

### Alteration of Memorandum of Association [Section – 13]

#### Name Clause

**Voluntary Change**

- **Special Resolution – CG Approval – Inform ROC within 30 days**
- Alteration of words ‘Private’ CG approval not required  
- Listed companies some additional procedures

**Change in name by CG order [on own or on application]**

- **Ordinary Resolution – Inform ROC within 15 days**
- Comply with directions within 3 months

#### Situation Clause

**Within city limits**

- **Board Resolution – Inform ROC within 15 days**

**From one city to another (no change in ROC)**

- **Special Resolution – Inform ROC within 30 days**

**From one city to another (change of ROC)**

- **Special Resolution – RD Permission - Inform ROC within 60 days of order**

---

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### From one state to another
- **[Special Resolution – CG Approval – Inform ROC within 30 days of order]**
- No reduction in employees, no pending investigations, repay or provide security to creditors

### Objects Clause
- **Company not issued prospectus**
  - **[Board Resolution – Inform ROC within 30 days]**
- **Company issued prospectus**
  - **[Special Resolution by postal ballot – Inform ROC within 30 days]**

### Liability Clause
- **Limited to Unlimited**
  - **[Ordinary Resolution – Inform ROC within 30 days]**
- **Unlimited to Limited – Re registration**

### Capital Clause
- Increase Authorised Share Capital
- Consolidate or Split the Shares
- Reduce the balance of Authorised Share Capital
- Convert Shares into Stock and Vice Versa
  - **[Ordinary Resolution – Inform ROC within 30 days]**

### Subscription Clause
- Cannot be changed

### Nomination Clause
- At any time by informing to ROC

### Articles of Association [Section – 2(5)]

**Format:** Given in Table F, G, H, I & J of Schedule - I

**Contents:**
- Rights of each class of share holders
- Procedure for allotment of securities, increase or decrease in share capital, transfer of securities, issue of share certificates
- Procedure to appoint directors, audit & accounts
- Constitution of committees
- Borrowing powers of board etc.

### Alteration of AOA
- **[Special Resolution – Inform ROC within 15 days]**
- **CG permission if converts public company into a private company**

### Entrenchment Provision
- Stricter provision for altering AOA
- Must be included in AOA at the time of incorporation
- **Can be included afterwards [private company – unanimous resolution]**
  **[Public company – special resolution]**

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Conversion of Companies [Section – 18]

<table>
<thead>
<tr>
<th>Private to Public</th>
<th>Public to Private</th>
<th>OPC to Private or Public</th>
<th>Voluntary Conversion</th>
<th>(Compulsory Conversion discussed already)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Alter AOA removing restrictions</td>
<td>• Alter AOA including restrictions</td>
<td>Voluntary Conversion</td>
<td>• Minimum 2 years from incorporation</td>
<td></td>
</tr>
<tr>
<td>• Increase SC &amp; members</td>
<td>• NCLT approval</td>
<td></td>
<td>• Increase members</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Alter MOA &amp; AOA</td>
<td></td>
</tr>
</tbody>
</table>

Private to OPC

- Alter MOA & AOA
- NOC from creditors
- Submit documents to ROC

Effect of MOA & AOA

<table>
<thead>
<tr>
<th>Member bound to company</th>
<th>Boreland’s trustee Vs steel brother &amp; co Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company bound to member</td>
<td>Wood Vs Odessa water work co.</td>
</tr>
<tr>
<td>Members bound to member</td>
<td>Ray field Vs Hands</td>
</tr>
<tr>
<td>Company not bound to outsiders</td>
<td>Eley Vs Positive life insurance co</td>
</tr>
<tr>
<td>Directors bound to company</td>
<td></td>
</tr>
</tbody>
</table>

Ultra vires

Richie Vs Ashbury Railway Carriage and Iron Company Ltd

- Beyond the powers of AOA – Voidable
- Beyond the powers of MOA – Void
- Beyond the Act – Void

Doctrine of Constructive Notice (Protects Company)

Kotla Venkata swamy Vs Rammurthy

AOA & MOA are public documents; every person dealing with the company is expected to have knowledge of these provisions.

Doctrine of Indoor Management (Protects Outsiders)

Turquand Vs Royal British Bank

Every person dealing with the company can assume that internal procedures are complied

Exceptions

<table>
<thead>
<tr>
<th>Knowledge of irregularity</th>
<th>Howard Vs Patent ivory manufacturing co</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negligence</td>
<td>Anand biharilal vs Dinshaw &amp; Company</td>
</tr>
<tr>
<td>No knowledge of AOA</td>
<td>Rama corporation Vs Proved tin &amp; General investment co</td>
</tr>
<tr>
<td>Forgery</td>
<td>Ruben Vs Great Fingall Company Ltd</td>
</tr>
<tr>
<td>Ultra vires transactions</td>
<td>Void ab initio</td>
</tr>
</tbody>
</table>
5. Membership

Section 2(55) says Member includes

- All the subscribers to the memorandum
- Those who have agreed in writing to become the member of the company and their names are entered in the Members register
- Those who are named as beneficial owners in the depositories books

**Modes of becoming a Member**

- By subscribing to MOA
- By purchasing shares of the company
- By providing guarantee
- By applying in writing for membership and their name entered in members register
- By becoming beneficial owner
- Member by Estoppel
- By transfer & transmission

“All share holders are members, but all members need not be share holders”

*Exceptions*

**Capacity to become Member**

<table>
<thead>
<tr>
<th></th>
<th>Minor</th>
<th>No</th>
<th>Company</th>
<th>Yes</th>
<th>Firm</th>
<th>No</th>
<th>Co – operative Society</th>
<th>Yes</th>
<th>HUF</th>
<th>No</th>
<th>Trade union</th>
<th>Yes</th>
<th>Insolvent</th>
<th>No</th>
<th>Trust</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>But can become member of Section – 8 company</td>
<td></td>
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</tr>
</tbody>
</table>

- *Mehri Bibi Vs Dharmodas Gosh*
- *No contractual capacity*
- *Repudiate if accidentally becomes a member*
- *Partly paid share cannot be transferred to minor however fully paid shares can be*
- *Provided in MOA*
- *Subsidiary cannot become member of Holding*
- *But can become member of Section – 8 company*
- *Discharged insolvent can become a member*

**Members Register, Annual Return (Section – 88 ,92)**

- **Contents** – Name, Address, No. of shares held, Amount of guarantee given, class of shares etc
- **Index** – For more than 50 members
- **Kept at** – RO of the company, A copy of register can be kept outside India for the purpose of members outside India
- Can be kept any other place where more than 10% of its members reside by passing a special resolution and intimation to ROC

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6. Allotment

I. **Proper Authority** – Board or Committee

II. **Written Application**

III. **Minimum Subscription (Section – 39(1))** –
- 90% offer made
- Mentioned in prospectus
- No allotment if not received in 30 days of issue of prospectus
- Return within 15 days
- Otherwise directors personally liable for interest @ 15% p.a

IV. **Application Monies [39(2)]**
- Not less than 25% of nominal value
- Must be kept in separate bank account
- Not used for other purposes

V. **Listing of shares [40(1)]**
- Mandatory for issue of shares to public
- To be mentioned in Prospectus

VI. **Return of Allotment**
- Filed within 30 days to ROC
- Not required for reissue of forfeited shares

**Underwriting [Section 40(6)]**
- Commission not exceeding 5% for shares, 2.5% for debentures
- Lower rate may be prescribed in AOA
- Only when offered to public
- Sub underwriting can be done by main underwriters

**Brokerage**
- No limit
- Only for professional brokers

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7. Prospectus

Section 2(70) defines Prospectus as any document named as prospectus and includes Red herring prospectus, Shelf prospectus, Any notice, circular, advertisement or any other document inviting offer from public for subscription and purchase of shares of the company.

*Oral invitation not a prospectus*

**When Prospectus is not required**

- Right issue or further issue
- Private placement
- Conversion of loan or debenture or PSC
- Bonus issue
- ESOPs
- Issued to QIBs
- Application for underwriting
- Listed company – similar issue as earlier

**Contents of Prospectus (26)**

- All about the company
- Business plan
- Capital Structure
- Details of persons connected
- Earlier public issue & utilization & Expert statement
- Failure to obtain minimum subscription

Last 5 years Audit reports & financial statements must be attached to prospectus

Prospectus must contain a declaration that all the provisions of this act, SCRA and SEBI are complied.

Prospectus must also contain consent given by every person named in prospectus

Prospectus is by every director

**Registration Prospectus**

- Before issue to public copy must be given to ROC
- No prospectus can be issued 90 days after submission to ROC
- Date of prospectus is the date which is printed in prospectus

*If above provisions are not satisfied then penalty of Rs 50000 - 300000*

**Advertisement of Prospectus**

Not mandatory but company can on its own. Advertisement must give details like liability of company, company’s object, capital structure and amount of SC

**Abridged Prospectus (33)**

Summary of prospectus attached with application. Member may request for detailed prospectus.

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Shelf Prospectus (31)
- In case of similar issues of a listed company which is valid for 12 months from the date of opening of subscription list for first offer.
- Information memorandum has to be filed explaining the changes during the period.

Deemed Prospectus (25)
In case of issue through ISSUE HOUSE
The prospectus must contain additional details
- Net consideration receivable by company
- Place, date, time where the agreement can be verified

Red herring Prospectus (32)
- Incomplete prospectus (No. of shares & Issue price will be missing)
- The missing details will be filed at least 3 days before the opening of subscription list

Misstatement in Prospectus (34,35)
- Remedies Available – Rescind the contract & Sure for the damages
- Civil Liability – Every Person connected is liable for reimbursement of damages
- Criminal liability – Every person connected if liable for penalty which may extend up to 3 times the amount of fraud & Imprisonment from 6 months to 10 years
- Defence – Not given consent, with drawn consent, believed to be genuine, immaterial

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8. Share Capital

As per Section 2(84) Share means a share in the share capital of a company and includes stock.

Kinds Of Shares

Preference Share: Carries preferential right in respect of payment of dividend; and repayment of capital. A company can issue only redeemable preference shares

Equity Share: Which has equal rights; The Company may issue equity shares with differential rights

Issue of Shares

Public Offer

- Pass a special resolution
- Get listed
- Open a separate bank account for application monies
- Enter into agreements with underwriters & broker
- Prepare prospectus
- Submit prospectus to ROC
- Print the prospectus and issue the applications to public
- Open Subscription list
- Receive application monies
- Close the subscription list
- Calculate minimum subscription
- Allot shares or refund monies
- Only in Dematerialised form
- File return of allotment with ROC

Further Issue (or) Rights Issue

- Pass a board resolution
- To the existing share holders in proportion of their holding
- At least 3 days notice before opening of subscription list
- Give 15 days’ time for the share holders to decide
- Member can renounce the rights unless restricted by Articles
- Board may deal with the shares not applies or renounced as they wish
- File return of allotment with ROC

Private Placement

- Pass a special resolution
- Mention the names in register to whom private placements can be made
- Send private placement offer letter to the proposed investors
- No advertisement
- File return of allotment with ROC

Conversion of loan/ debentures into shares (Section – 62)

- No special resolution is required
- The government in public interest may order the company to convert

For more notes visit: www.dailybestjobs.net
Company must file appeal within 60 days to NCLT

**Sweat equity shares (54)**
- Can be issued at discount
- Special resolution has to be passed
- Notice must be detailed
- Company may place restrictions on transferability
- File return of allotment with ROC

**Bonus shares**
- Only with respect to fully paid shares
- Authorization in AOA
- Pass ordinary resolution
- No default in redemption, payment of dividend & statutory dues relating to labour
- File return of allotment with ROC

**Issue of shares at premium**
- Security premium account can be used for bonus shares, write off preliminary expenses, write off issue expenses, payment of premium on redemption, and buy back.

**Calls**
- Made by board of directors
- Not more than 25% of face value
- At least 14 days notice
- No voting rights till calls are paid
- Gap between two calls at least 1 month
- Interest on calls unpaid

**Calls paid in advance**
- Can pay interest on advance
- Can pay dividend
- No additional voting rights
- No refund
- In liquidation these will be paid before payment of share capital

**Forfeiture**
- Authorised by AOA
- Fully paid shares can also be forfeited
- BOD’s decision
- At least 14 days notice
- Can be re issued
- Re issue price must not be less than the amounts due from defaulting SH
- Profit on reissue may be given to defaulting share holder if articles permit

**Surrender**
- Same as forfeiture
- As per the provisions of articles

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CA - IPCC – Rapid Revision Notes

- Profit on reissue may be given to defaulting share holder if articles permit

**Lien on shares**

- With respect to other amounts due to the company from SH
- To be provided in Articles

**Buy back of shares**

- **Purposes** - To improve EPS, avoid hostile takeover, return surplus cash, provide SH option to exit
- **Eligibility** - No default in redemption of PS/Debenture/Deposits/Bank loans, payment of interest & dividend (Ban for 3 years). Must have filed Annual returns, followed Schedule – III
- **Limit** –
  - 25% of equity paid up capital at a time
  - Amount to be withdrawn – 10% of (PUSC+FR) [Board’s Permission]
  - 25% of (PUSC+FR) [Special Resolution]
  - Debt equity ratio after buy back not more than 2:1
  - Amounts required can be withdrawn from either FR, Security premium or fresh issue (not same class)
  - If Security premium account used create capital redemption reserve
- **Time limits** –
  - To be completed within 1 year from resolution
  - Gap between two buy backs at least 1 year
  - No issue of same class of shares for next 6 months
  - Within 30 days from completion of buy back intimate ROC
- **Other Conditions** –
  - Solvency certificate
  - Destroy SC within 7 days
  - Disclose failure to buy back in Director’s report
  - Penalty Rs 1lac – 3 lacs & Imprisonment – 3 years
  - Only fully paid shares

**Redemption of Preference Shares**

- Pass a board resolution
- Out of FR & Fresh issue
- Premium can be paid out of Security premium account
- Unable to redeem – Issue fresh preference shares if 75% of value agrees
- Exit option to dissenting SH
- Within 30 days from completion of buy back intimate ROC

**Share Certificate**

- Estoppel as to title & Estoppel as to payment
- Prevails over members register
- Proper authority – 2 director & 1 CS should sign
- Duplicate share certificate – upon submission of Indemnity bond
- Penalty for impersonation Rs 500,000/-

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Nomination

- Minor, Firm, HUF, Trust cannot be nominated
- To be recorded within 2 months
- Can be changed at any time

Transfer & Transmission

- Apply company within 60 days of instrument of transfer
- Partly paid – Company has to obtain NOC from transferee within 2 weeks
- Joint holders – Transposition not a transfer
- Transfer must be registered within 1 month from receipt of all documents
- If rejected by company – intimate transferee within 30 days from application
- Transferee may appeal to NCLT
- NCLT within 10 days issues an order

9. Charges

Charge means an interest or lien created on the property or assets of a company, it includes mortgage & hypothecation [Section – 2(16)]

**Fixed Charge:** created on some identifiable property

**Floating Charge:** created on class of assets, present and future

**Crystallization of Floating charge:** liquidation; closure of business; creditors enforce their security; on happening of event specified.

Registration:

- within a period of 30 days from the date of creation of charge, can be extended up to 300 days by ROC, Beyond 300 days – CG
- Even oral charges
- May be registered by ROC up on application from creditor by giving 14 days notice to the company
- Once charge registered – any person dealing with such property is deemed to have been given notice
- If unregistered, the obligation is on company but in liquidation such creditor becomes unsecured creditor
- Penalty – Company (Rs 100,000 – 1,000,000) Officer (Rs 25,000 – 100,000 & 6 months imprisonment)

**Note:** Provisions applicable to assets acquired with charge & any modifications afterwards.

Register

- Maintained by ROC can be accessed in MCA21
- Company must maintain one register in Form – CHG – 7
- Inspection by any person upon payment of certain fees (Members & Creditors no fees)

For more notes visit: www.dailybestjobs.net
Satisfaction of Charges

- Within 30 days company should inform ROC
- No extension of time
- ROC may on its own enter satisfaction of charges, inform parties within 30 days

10. Debentures

As per Section 2(30) Debenture includes debentures stock, bonds and other instrument of a company evidencing a debt whether constituting a charge on the assets on the company or not

Company can issue only secured debentures

Procedural

Debenture Trustee

- If issue is for more than 500 members
- Name of trustee must be stated in every notice
- Written consent from trustee
- Trustee must be an independent person (not a share holder, officer, director, promoter, KMP, Creditor, Customer, Relative of officer – promoter – KMP – Director)
- Casual vacancy to be filled by Board (if due to resignation to be filled by written consent of majority)
- Removal if approved by 75% of value holding debenture holders
- Duties: Ensure that letter of offer does not contain inconsistent matters with trust deed; terms not prejudicial; Get periodical performance reports; Communicate promptly the defaults made by company; Appoint a nominee director; ensure sufficiency of assets
- If found negligent then liable for damages (can escape if 75% consents)

Trust deed must be entered within 60 days of allotment of debentures

Debenture Redemption Reserve

- The company shall create DRR equivalent to at least 50% of the amount raised from the debenture issue before debenture redemption commences.
- Every company required to create DRR shall on or before the 30th day of April in each year, invest or deposit, as the case may be, a sum not be less than 15% of the amount of its debentures maturing during the year ending on 31st March of the next year

Failure to redeem or pay interest - NCLT may impose 18% P.a penal interest & repayment immediately otherwise penalty [up to Rs 5 lacs] & Imprisonment 3 years

Remedies available Proceed on security, Apply to NCLT, Apply to court for winding up

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11. Deposits

As per Section 2(31) Deposit includes any receipt of money by way of deposit or loan or in any other form by a company, but does not include such categories or amount as may be prescribed in consultation with the RBI. (Advance, Borrowings, Commercial Paper & calls in advance, Debentures unsecured, Employees, Foreign Govt & Foreign Bank)

Procedure

From Members:
- Any company
- Ordinary Resolution
- No default earlier in interest & repayment
- Enter into Deposit insurance at least 30 days before circulation of notice
- File circular with ROC 30 days before its circulation
- At least 7 days before circulation appoint a trustee
- Circular to all its members
- Circular valid till 6 months after closure of FY
- Issue Deposit Receipt within 21 days from receipt of money
- Within 30 days of acceptance create security (Charge + Insurance = Value of Deposits)
- (Deposits outstanding + Deposits to be taken or renewed) must not exceed 25% of PUSC + FR

From Public:
- Only eligible companies (Public company – Net worth not less than Rs 100 Crores or TO not less than Rs 500 crores)
- Board Resolution if total borrowings do not exceed (PUSC + FR), otherwise Special resolution
- Obtain credit rating from a recognised credit rating agency
- No default earlier in interest & repayment
- Enter into Deposit insurance at least 30 days before circulation of notice
- File circular with ROC 30 days before its circulation
- At least 7 days before circulation appoint a trustee
- Circular in form of advertisement
- Circular valid till 6 months after closure of FY
- Issue Deposit Receipt within 21 days from receipt of money
- Within 30 days of acceptance create security (Charge + Insurance = Value of Deposits)
- Maximum [10% of PUSC + FR from members, 25% of PUSC + FR from public]

Terms & Conditions

Period – Not less than 6 months & not more than 36 months (less than 6 months up to 10% of PUSC + FR)

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Interest rate should not exceed rate prescribed for NBFCs
Register of Deposits
- Contents: Details of depositor, Date, Amount, Duration, Interest rate, Interest payment dates, other details
- Place: Registered Office
- Period: Eight years from end of FY in which latest entry is made

Premature surrender of deposits: Reduce 1% interest from the rate applicable

Return of Deposits: Every year 30th June

12. General Meetings

Types of General Meetings
- Annual General Meeting
- Extra Ordinary General Meeting
- Class Meeting

Annual General Meeting
- Applicable for Every Company except OPC
- First AGM:
  - Within 9 months from the conclusion of first FY
  - No extension can be granted
- Subsequent AGMs:
  - Every calendar year must have one AGM
  - Gap between 2 AGMs must not be more than 15 months
  - Within 6 months from the conclusion of FY
  - ROC can extend up to 3 months

Requirements of valid meeting
- Properly Convened (Proper Authority, Notice)
- Properly Constituted (Quorum, Chairman)
- Properly Conducted (Resolutions, Minutes, ROC filing)

Proper Authority

| AGM | • Board of Directors (96)  
|     | • NCLT on application from any member (will also give certain directions) (97)  
|     | • Date & Time – Not a national holiday & only during business hours (Exceptions: Section – 8 company, resolution passed fixing a particular date etc)  
|     | • Place – Only at registered office or some other place in same city |

| EGM (100) | • Board of Directors  
|           | • Board of director upon receipt of request from members holding at least 1/10th of voting power (Within 21 days give notice, within 45 days conduct meeting) |

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- **Requisitionists by themselves**
  - within 3 months from request to board
  - Reimbursement of expenses by board personally
- **EGM called by NCLT** on own or upon application
- **Date, Time & Place**: No restrictions but within India

<table>
<thead>
<tr>
<th>Class meetings</th>
<th><strong>Board of Directors</strong></th>
</tr>
</thead>
</table>

**Notice to GM (Section – 101)**

**Time**

- Not less than 21 clear days notice either in writing or through electronic mode (excluding date of notice, date of meeting & 2 days for transmission)
- Shorter notice can be ratified by 95% of number of members either before or at meeting

**Contents:**

- Date, Time & Place
- Agenda/ Business
- Right to appoint proxy

**Sent to:**

- Every member/ Legal representative/ official assignee
- Auditor(s)
- Directors
- Failure to send notice to eligible person invalidates the meeting (Exception – When it is unintentional)

**Business**

- Ordinary Business
  - Consideration of Accounts
  - Declare dividend
  - Retirement & appointment if directors & auditors
- Special business (Other than ordinary)

**Explanatory statement**

- Only for special business
- **Contents**: Material facts, Interests of directors, Inspection of documents relating
  (For non disclosure every officer in default will get a fine of Rs 50000/- or % times the benefit)

**Quorum (Section – 103)**

Private Company – 2 members personally present

Public Company -

<table>
<thead>
<tr>
<th>Up to 1000 members</th>
<th>5 members personally present</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 1000 but up to 5000 members</td>
<td>15 members personally present</td>
</tr>
<tr>
<td>More than 5000 members</td>
<td>30 members personally present</td>
</tr>
</tbody>
</table>

For more notes visit: www.dailybestjobs.net
AOA may mention higher quorum
Need not be present throughout the meeting

<table>
<thead>
<tr>
<th>Person</th>
<th>Considered for Quorum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member present in person</td>
<td>Yes</td>
</tr>
<tr>
<td>Preference share holders</td>
<td>Depends</td>
</tr>
<tr>
<td>Proxies</td>
<td>No</td>
</tr>
<tr>
<td>Authorised representatives of corporate members</td>
<td>Yes</td>
</tr>
<tr>
<td>Joint holders</td>
<td>One</td>
</tr>
<tr>
<td>Dual capacity</td>
<td>More than one</td>
</tr>
</tbody>
</table>

Consequences if there is no quorum within 30 minutes from scheduled time

<table>
<thead>
<tr>
<th>Meeting is called upon requisition members</th>
<th>Meeting shall stand dissolved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other case</td>
<td>Meeting shall be adjourned to:</td>
</tr>
<tr>
<td></td>
<td>the same day in next week, at the same time and place, or</td>
</tr>
<tr>
<td></td>
<td>such other day, time and place as determine by the Board</td>
</tr>
<tr>
<td>Adjourned meeting</td>
<td>Members present shall be the Quorum.</td>
</tr>
</tbody>
</table>

Single person cannot be considered as quorum

Proxies (Section – 105)

- Need not be member of company
- Anyone can appoint proxy
- Specified form given by company
- Must be deposited at least 48 hours before meeting or such less time prescribed by articles
- Also valid for Adjourned meeting
- May even specially be appointed for adjourned meeting
- Not counted for quorum
- No participation
- Cannot inspect minutes book
- Only votes in poll
- Can demand poll
- One person can act as proxy for different members (maximum 50)
- Members can inspect proxies list by giving 3 days notice to company
- If member attends himself proxy is cancelled
- Remains valid even if member has died or insolvent

Chairman (Section – 104)

Appointment

- Board’s chairman = General meetings chairman
- If not present within 15 minutes directors will select one among them
- If no director is willing then the members will select one among them

For more notes visit: www.dailybestjobs.net
Either by show of hands or poll

**Power of casting vote (additional vote) if authorised by AOA**

**Resolutions (Section – 114 & 115)**

- **Ordinary Resolution**: vote cast in favour of the resolution exceeds votes cast against it
- **Special Resolution**: votes, cast in favour of the resolution are not less than 3 times the votes cast against the resolution
- **Resolution requiring special notice**:
  - By members holding not less than 1% of total voting power or holding shares on which an aggregate sum of not less than Rs 5,00,000 is paid up.
  - At least 14 days before meeting
  - Company must circulate it before 7 clear days if not possible give an advertisement

**Voting (106 – 109)**

- No restrictions unless AOA (only valid reasons)
- Members can use votes differently

**Methods**

- By acclamation
- By voice
- By division
- By show of hands
- By poll
  - By chairman himself
  - By members & Proxies
  - By members holding not less than 10% of total voting power or holding shares on which an aggregate sum of not less than Rs 5,00,000 is paid up.
  - Demand can be withdrawn
  - Poll within 48 hours of demand (Exceptions – Adjournment of meeting and removal of chairman has to be taken immediately)
  - Scrutiniser appointed by chairman
- By postal ballot (100)
  - Not for ordinary items
  - Not for those decisions where auditors or directors have to be given an opportunity of being heard
  - Mandatory when CG specifies
  - Member has to send reply within 30 days
  - Scrutiniser submits report within 7 days

**Minutes (Section – 118 & 119)**

- Record of business transacted
- Book form, pages serially numbered
- Initialled on every page & signed at the end of matter relating to that meeting by chairman within 30 days (if chairman is unable to sign then by one director authorised by board)
Chairman may exclude any matters (cannot be questioned)
Kept at registered office
Permanently
Open for inspection daily for at least 2 hours
Minutes act as evidence
Cannot be published
Can be inspected by any member without any fees
Can also take copies upon certain fees
### Amendment in Payment of Bonus Act, 1965

#### The Payment of Bonus (Amendment) Act, 2015

<table>
<thead>
<tr>
<th>Section Number</th>
<th>Before Amendment</th>
<th>After Amendment</th>
</tr>
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</table>
| **Section 2 (13)** | Eligibility Limit was Rs. **10,000/- per month.**  
(As per the Principal Act, Employee means any person (other than an apprentice) employed –On a salary or wage not exceeding Rs. **10,000 per month**) | As per the **Payment of Bonus (Amendment) Act, 2015**, Eligibility Limit has been raised to Rs. **21,000/- per month.** |
| **Section 12** | According to the Principal Act, where the salary or wage of an employee exceeds Rs. **3,500 per month**, the bonus payable to such employee shall be calculated as if his salary or wage were only Rs. **3,500 per month.** | As per the **Payment of Bonus (Amendment) Act, 2015**, calculation ceiling for the bonus has been raised. For the words “3,500 rupees”, the words “7,000 rupees or the minimum wage for the scheduled employment, as fixed by the appropriate Government, whichever is higher” |
| **Section 38** | According to the Principal Act, the Appropriate Authority had the power to make rules. Where Appropriate Authority can be CG or SG | As per the **Payment of Bonus (Amendment) Act, 2015**, Central Government has the power to frame rules after passing a notification in Official Gazette. |

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