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COMMERCIAL CORRESPONDENCE AND SECRETARIAL PRACTICE

Standard 11



PLEDGE

India is my country.

All Indians are my brothers and sisters.

I love my country and I am proud of its rich and varied heritage.

I shall always strive to be worthy of it.

I shall respect my parents, teachers and all my elders and treat everyone with courtesy.

I pledge my devotion to my country and its people.

My happiness lies in their well-being and prosperity.

Price : ₹ 40.00



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Subject-Adviser

Shri J. M. Shah

Authors (Secretarial Practice)

Dr T. K. Thakur (Convener)

Dr Rushikeshbhai V. Maheta

Shri Nitinbhai Patel

Authors (Commercial Correspondence)

Dr Chetan Mewada (Convener)

Dr Titikshaben Dhruv

Dr Pareshbhai Shah

Shri Sureshbhai Patel

Translation

Dr T. K. Thakur (Convener)

Dr Chetan Mewada (Convener)

Dr Rushikeshbhai V. Maheta

Dr Titikshaben Dhruv

Dr Pareshbhai Shah

Review

Prof. P. R. Patel

Prof. Kinnary Vachhrajani

Prof. Gargi Gohil

Ms. Divya Sharma

Mr. Dharmesh Vichhi

Language Correction

Dr Swati Kapadia

Co-ordinator

Dr. Chirag N. Shah

(Subject Co-ordinator : Commerce)

Preparation and Planning

Shri Haren Shah

(Dy. Director : Academic)

Lay-out and Planning

Shri Haresh S. Limbachiya

(Dy. Director : Production)

PREFACE

The Gujarat Secondary and Higher Secondary Board has prepared new syllabi in accordance with the syllabi at the national level. These syllabi are approved by the Government of Gujarat.

The Gujarat State Board of School Textbooks takes pleasure in presenting this textbook to the students. It is prepared according to the new syllabus of **Commercial Correspondence and Secretarial Practice for Std. 11.**

This textbook is written and reviewed by expert teachers and professors. This textbook is published after incorporating the necessary changes suggested by the reviewers.

The Board has taken ample care to make this textbook interesting, useful and free of errors. However, suggestions and welcome to improve the quality of this book from persons taking interest in education.

P. Bharathi (IAS)

Director

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Executive President

Gandhinagar

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FUNDAMENTAL DUTIES

It shall be the duty of every citizen of India :*

- (a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;
- (b) to cherish and follow the noble ideals which inspired our national struggle for freedom;
- (c) to uphold and protect the sovereignty, unity and integrity of India;
- (d) to defend the country and render national service when called upon to do so;
- (e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;
- (f) to value and preserve the rich heritage of our composite culture;
- (g) to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures;
- (h) to develop the scientific temper, humanism and the spirit of inquiry and reform;
- (i) to safeguard public property and to abjure violence;
- (j) to strive towards excellence in all spheres of individual and collective activity so that the national constantly rises to higher levels of endeavour and achievement.
- (k) to provide opportunities for education by the parent or the guardian to his child or ward between age of 6 to 14 years, as the case may be.

* Constitution of India : Section 51-A

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PART : 1

(Commercial Correspondence)

1

Meaning of Communication and its Methods

What will you learn in this chapter ?

- 1.1 Introduction
- 1.2 What is Commercial Communication ?
- 1.3 The Process of Communication
 - 1.3.1 Speaker/Sender/Transmitter
 - 1.3.2 Encoding
 - 1.3.3 Message
 - 1.3.4 Channel/Medium
 - 1.3.5 Decoding
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- 1.4 Methods of Communication
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- 1.6 Written Communication
 - 1.6.1 Advantages of written Communication
 - 1.6.2 Limitations of written Communication

1 1 Introduction

Interaction with others or communication is not only an activity consciously undertaken, but also a basic need for every living being. In order to express one's feelings and exchange of ideas, it becomes imperative to come into and remain in contact with others. In this chapter we shall learn about communication and also the difference between routine communication and commercial communication. We shall logically and chronologically understand the process of communication. We shall also consider in detail different methods of communication that we use, their characteristics and limitations.

In various fields, for the process of communication, different means of communication are employed. If we take the case of social, cultural, commercial and literary fields, one element that draws our attention is that the activities undertaken for different purposes are somewhat similar and to some extent different. There are specific modes and styles for different types of communications. Their skills and methods differ from one another. It becomes necessary to maintain this variety and peculiarity and also to incorporate it with conscious efforts. Thus the process involving particular styles, skills and appropriate means and employed for exchange of information is known as the process of communication. The word 'communication' in English is derived from the Latin word '**communicare**', meaning 'to share', 'to interact', 'to exchange' and 'to participate'.

1 2 What is Commercial Communication ?

The process of communication undertaken for commercial purpose is called **Commercial Communication**. A businessman has to remain in contact with two different groups. The manufacturer and the seller of the goods form one group and their customers form another group. In order to remain in constant contact, the letter turns out to be an important tool, both these groups acting as their representative or messenger with. Thus the basic activities of business like purchase, sale, advertising and marketing are carried out through letters, it is called commercial communication.

1 3 The Process of Communication

'Information' remains the common denominating factor whether we refer to communication in general or commercial communication. Technically speaking, the agencies taking part in the process of communication get involved harmoniously and exchange information, thought, concept, emotions or message. As part of the process of communication, an individual or a group attempts to convey information/message to another individual or group wherein different mediums and tools are used. At the end of the process of exchange of ideas, feedback is received from the other end (Receiver). Let us now understand the whole procedure of communication as per its different stages.

The process of communication is successfully carried out through the following stages :

1 3 1 Speaker/Sender/Transmitter : The sender or speaker, with the intention of sending information/message, initiates the process of communication.

1 3 2 Encoding It is a process undertaken by the speaker/sender. He arranges/changes the concept/idea using appropriate language, diction, sound, medium so that the receiver; individual or group can sense communication.

1 3 3 Message The speaker/sender, employing various devices, tools, means and medium properly formulates concept/idea which is called information/message.

1 3 4 Channel/Medium The devices or tools such as language, pictures, sound or letters used to transmit information/message are called medium. The speaker/sender selects appropriate medium keeping in mind the requirement and the situation.

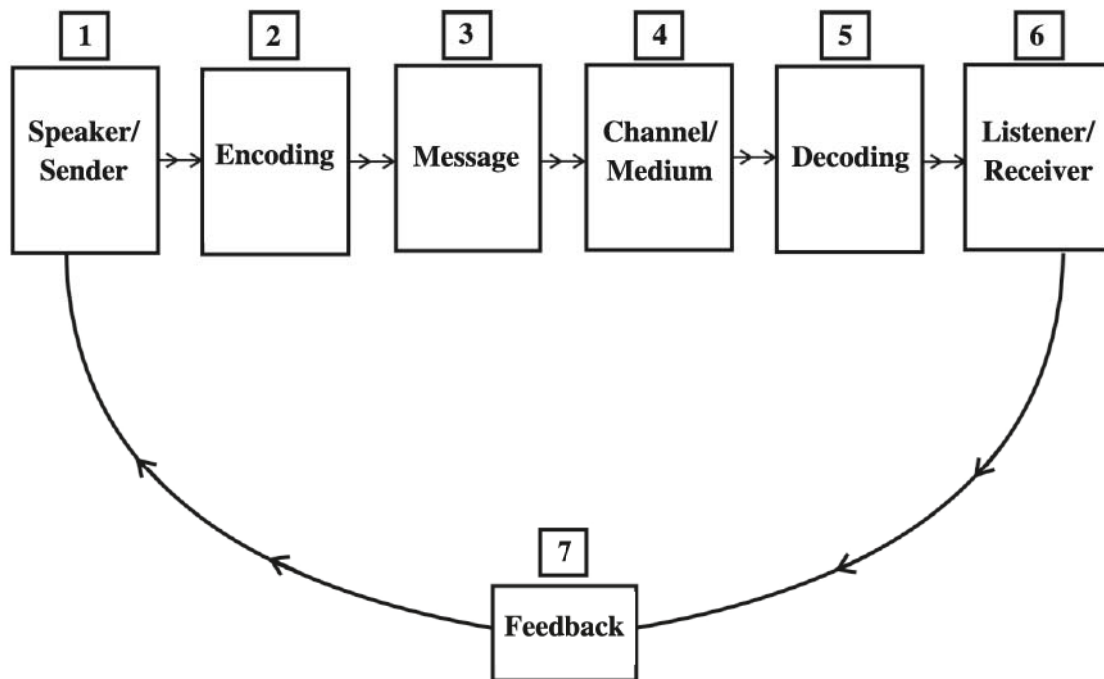
1 3 5 Decoding The process of understanding the coded information/message that the speaker/sender has sent, using particular form, tools/medium is called decoding. It is done by the receiver using the same tools/medium.

1 3 6 Listener/Receiver The person who receives information/message sent by the speaker/sender is called the listener/receiver. The process of communication is undertaken keeping in mind the receiver.

1 3 7 Feedback The process of communication thus proceeds further and ends with response from the receiver which is called feedback. The feedback from the receiver is very important as it determines the success of the process.

If the sender is satisfied with the feedback from the receiver, the attempt is considered fruitful and the process, successful. If there is partial misunderstanding or lack of understanding, then it results into complete failure of communication. In that case, the sender/speaker has to make further attempt, employing a different channel/medium. It should be noted, at this point, that language, words, script, symbols, pictures are known as channels and presentation through oral, written, expressions or acting, these several means are considered as medium. The process of communication can be explained through the following figure :

The Process of Communication



1 4 Methods of Communication

As seen earlier, medium and channel play an important role in the process of communication. Appropriate methods of communication are used for different types of communication. The method of communication in which only two persons are involved will be different. Communication between an individual and a group; where there is one speaker/sender and many receivers, e.g. classroom, in that case the process of communication will remain long or short or complex and the method would change. Contrary to it when communication takes place between a group and an individual; where the speakers/senders are many and receiver only one, e.g. press conference, then in that case the process and method of communication would change. In addition to this, when the communication is between two groups, e.g. group discussion, then in this case too, the process and method of communication would vary. Also in case when the speaker and receiver; whether individual or group, are at one place, face to face, e.g. classroom, then the process of communication, selection and implementation of channel, medium would be of a particular type. Whereas when the speaker and receiver; whether individual or group, are not at the same place, and/or connected through some means of mass communication, e.g. telephone, then the process of communication would vary. Communication using channel and medium/means of mass communication has become easy and within reach, removing a geographical distance. The Methods of Communication can be understood in the following way :

1 4 1 Oral Communication The communication undertaken by way of speaking using language/words well-suited to information/message is known as oral method of communication. In this method, clarity of pronunciation and loudness of sound are essential features. Talk, discussion, forum, lecture, group discussion etc. are the examples of this method of communication.

1 4 2 Written Communication The communication undertaken by way of writing using script, language/words well-suited to information/message is known as written method of communication. In this method, style of writing and selection of words are essential features. Literature, books, letter writing, manuscript, e-mail, newspapers, periodicals, advertisements/hoardings, handbills-leaflets etc. are the examples of this method of communication.

1 4 3 Visual The communication taking place in the form of reading or looking at signs, symbols, pictures, charts or maps etc. With or without the use of words; spoken or heard is called visual method of communication.

1 4 4 Audio Using language/words and making different sounds; even if the speaker and listener are not face to face, the audio process of communication takes place by listening to what they convey. Radio, telephone, CD, tape-recorder are the examples of this mode of communication.

1 4 5 Audio-visual It is that method of communication where the activities of watching and listening take place simultaneously. Motion pictures, DVD, television, computer are the examples where with the help of devices/appliances, both activities take place side by side.

1 4 6 Silence It is that method of communication where even in absence of words; spoken or written, message is conveyed through silence. Communication is possible without words. Silence generally, conveys consent but at times shows disagreement. Empathy can be conveyed through silence. Pauses in verbal communication catches attention and at times also makes communication emphatic.

Among various methods of communication, oral and written methods are popularly used. They simplify interaction of thought, concept, feeling and information and make formal and commercial communication successful. Let us now examine their characteristics, advantages and limitations.

1 5 Oral Communication

Language is the most useful tool and channel for communication. Any language can be learnt, understood and mastered by way of four skills. These four skills are : listening, speaking, reading and writing.

The nature of oral communication includes the speaker tries to communicate by way of speaking loudly, using proper language/diction and sentence patterns that the listener can understand. As per the requirement, he uses facial expressions and gestures. This method is used for communication between two individuals, between individual and group and also between group and group. Talk, debate, dialogue, forum, lecture, group discussion etc. are different forms of oral discussion.

1 5 1 Advantages of Oral Communication

- (1) This method of communication is extremely simple, within reach of everyone and especially most commonly used.
- (2) Tools like pen and paper are not required.
- (3) Generally takes place face to face. Here the speaker receives prompt feedback from the listener and therefore if any confusion arises solution can easily be sought.
- (4) Quick feedback from the listener motivates the speaker.
- (5) In this method of communication, because the speaker gets prompt feedback from the listener, he can make changes in a channel/medium as per requirement. As a result, failure remains a remote possibility.
- (6) Communication becomes possible even if the listener is illiterate.
- (7) This method saves time.

1 5 2 Limitations of Oral Communication

- (1) The forms of oral communication like dialogue and discussion may, sometime turn into unhealthy debate and in that situation oral communication proves to be unsuccessful.
- (2) In case of above circumstances, time and energy are wasted.
- (3) The information given, spoken, heard or narrated is always less reliable.
- (4) In absence of written proof, oral communication is not considered reliable.
- (5) In case of a detailed and comprehensive information, the speaker does not get expected results.

(6) Oral information is difficult to be remembered for a longer period of time for the speaker as well as the listener.

(7) Information loses its original form.

(8) If the speaker is not good in oratory and presentation skills, the meaning may get distorted in oral communication.

(9) The speaker has to be careful before uttering any words as the words which are spoken cannot be taken back.

1 6 Written Communication

Language, script and printing were invented as part of human evolution. This made way for other method of communication i.e. written communication which makes interaction possible between individual, between individual and group, group and individual and also between groups. Various forms like manuscript, literature, letter writing, e-mail, dailies, periodicals, advertisements/hoardings, handbills-leaflets etc. are the examples of written method of communication. These days written form is the most important form for any system. It is considered to be the most official method for commercial communication. Thus, written method of communication is that process wherein appropriate words are arranged in well-organised manner in selected language and script.

1 6 1 Advantages of Written Communication

(1) Without any restrictions of place and time, communication is possible through this method.

(2) This method is not free of cost but economical depending upon tools and gadgets.

(3) Proper arrangement and filing of information is possible.

(4) Arrangement and filing of information makes it possible to quote and refer.

(5) Written communication is considered legally authorized and therefore can be used as proof.

(6) Written communication provides ample time for expression of information; as a result conscious efforts can be made to make the expression better, correct, effective and perfect.

(7) After finding a suitable person, he can be assigned the duty of written communication. Thus, he/she can be made responsible for mistakes and thus accountability can be established.

(8) Written communication endows uniformity to the communication done by a particular firm.

(9) It is written communication that helps to create independent image of the firm.

1 6 2 Limitations of Written Communication

(1) Written communication is not possible without pen and paper and therefore it is costly to extent.

(2) Gadgets/tools required for modern written communication create added responsibility of their purchase and maintenance.

(3) Well-organised presentation of thought in written form requires human hours and thus it is time consuming.

(4) Since written method is not direct but indirect, feedback from the receiver may be delayed.

(5) Because of the above circumstances, questions may arise about the success of communication.

(6) The success of written communication depends on the understanding and command over the language and ability to express on the part of the speaker.

(7) Written communication, whether in a letter or e-mail form, needs time.

(8) Literacy is essential for written communication.

What did you learn in this chapter ?

Everythough the process of communication is routine and regular in nature, is also a procedure undertaken with conscious efforts and therefore proper care should be taken at all stages; speaker/sender/transmitter, encoding, message/information, medium, decoding, listener/receiver and feedback.

As per the requirement of the situation, oral or written methods are to be employed prudently. It should be noted that both the methods have their own advantages and limitations. Formal Communication taking place for the purpose of business and commerce, written method is used always. For different types of letter writing, it becomes necessary to obtain guidance regarding planning of basic information, its presentation, conciseness and correctness of language and should be employed as and when required.

Exercise

1 Select appropriate option from the options given :

- (1) The activity of developing business through letters is called –
(A) Communication (B) Exchange of ideas
(C) Spread of business (D) Expansion of thought
- (2) By which of the following points can the success of communication be determined ?
(A) Speaker (B) Feedback
(C) Listener (D) Medium

2 Answer the following questions in one sentence each :

- (1) From which Latin in word is the English word 'communication' derived ?
- (2) What is oral communication ?
- (3) Why is oral communication not considered authentic ?
- (4) Why does feedback remain delayed in written communication ?

3 Write in brief on :

- (1) Nature of oral communication.
- (2) Different forms of written communication.
- (3) Among various methods of communication, give examples of audio-visual method.

4 Write to the point on :

- (1) Methods of communication.
- (2) Different stages of communication.
- (3) Advantages of oral communication.

5 Write in detail on :

- (1) Explain the process of communication with its diagram.
- (2) Explain the varions methods of communication with examples.
- (3) Explain the advantages and limitations of written communication.
- (4) Explain the limitations of oral communication.



2

Effective Letter Writing and its Various Styles

What will you learn in this chapter ?

- 2.1 Introduction
- 2.2 History of letter writing
- 2.3 Characteristics of letter writing
- 2.4 Types of Letters
 - 2.4.1 Formal Letters
 - 2.4.1.1 Business Letters
 - 2.4.1.2 Official Letters
 - 2.4.2 Informal Letters
- 2.5 Meaning of Business letters
- 2.6 Importance of Business letters
- 2.7 Effective Business letter writing
- 2.8 Characteristics of Business letter writing
- 2.9 Styles of Business letter writing
 - 2.9.1 Fully Blocked style
 - 2.9.2 Modified Blocked style

2 1 Introduction

In the present age of internet, effective communication skills play a vital role in expanding business, individual and professional success. Modern methods and means of communication have almost diminished the boundaries of 'place' and 'time'. Different classes in the society look for various means of communication to stay connected constantly with one another and have accept various means of communication. Modern methods of communication are speedy, effective, economical and simpler so are widely accepted and popular. Keeping in mind, the attitude, nature, training, mental make-up and circumstances of people of India and we evaluate the methods of communication present time, we observe that people of our country in the recent age, largely rely on letter writing for business and official matters. Of course, the form of letter writing has changed but its importance has not decreased.

2 2 History of Letter Writing

The history of letter writing is quite ancient. In the olden days pigeons were used for communication. Kings and emperors used to send messengers to send secret and confidential information. Messages were written on leaves of the trees, pieces of cloth and thereafter on the piece of paper.

During the British Rule in India well-planned and organized form was given to communication and letter writing. Post and Telegraph department was started. As a result the scope of letter writing expanded. Thereafter, Indian government gifted two important services to the people, they are telephone and telegram. They were considered as modern means in those days. Letter writing was given much importance. Post card, Inland letter, envelope, etc., hence the most economical and simple means of letter writing, got much popularity amongst people.

Indian Posts and Telegraph department started Speed Post services to make the services speedier. Due to business, educational and social letter writing, the number of letters increased day by day and as a result, the new form of distributing letters, popularly known as 'Angadia' and 'Courier' - private services of delivering letters, got introduced. With the introductions internet, the most modern service of letter writing called, 'e-mail' came into existence.

2 3 Characteristics of Letter writing

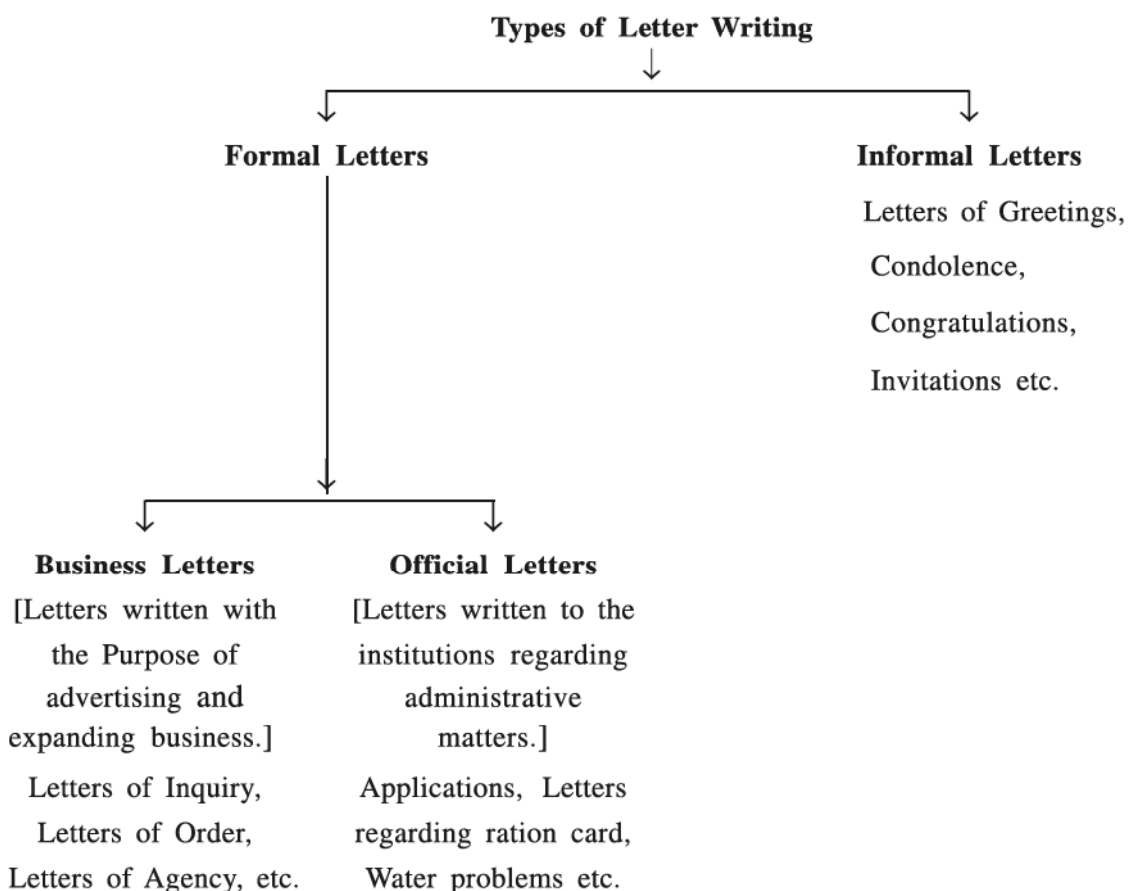
Letter writing has still retained its importance in the modern age of communication. Its characteristics

play a vital role in retaining of its importance. The characteristics of letter writing have placed letters at a very high place as a means of correspondence in communication sector. Letter writing has become an important element in business sector. Following points may be enumerated as characteristics of letter writing:

- (1) It is a simple and reasonable method of communication.
- (2) It is important and useful for the writer and receiver of the letter.
- (3) It has no boundaies of 'Place' and 'Time'.
- (4) It is recognized as the evidence of information for which the letter is written.
- (5) Information (content of a letter) can be kept confidential.
- (6) If required in future, the concerned information can be re-used.
- (7) Letters are easily sent and received.
- (8) It is a link between writer of the letter and its receiver.
- (9) The writing of letter establishes an image of the firm or institution.
- (10) Letter works as its silent representative of the concerned firms.

2 4 Types of Letter Writing

Letters are written with many objectives; letters written for business, administration or for government matters are called 'formal letters'. The letters written for social matters and to maintain relations are called 'informal letters'. Formal letters have their own specific format to be maintained whereas it is not necessary to have a format for informal letters. Types of letter writing can be explained clearly through the following table :



2 5 The meaning of Business letters

When there is an exchange of information between one individual and other, between two institutions or between individual and institution through letter writing, it is known as correspondence. When this correspondence is carried out for business purpose, it is called Business Correspondence. Business transactions, understanding of contract, promotion of the product, sale, advertisement, business negotiations, grievance, compromise and adjustments etc., are covered in Business correspondence. Certain specific terms are used in Business correspondence. Its vocabulary is different. So we can say that communication that takes place with the purpose of business, in a proper format and having specific vocabulary is known as Commercial Communication.

2 6 Importance of Business letter

Business is one of the important pillars of the financial assets of any company. It is also a means to obtain employment and income for people. The trends of business keep on changing and in the changing trend, one has to be in touch with customers related to business, manufacturers, distributors, firms, institutions, government and its machinery to survive in business and for the development of business. Business letters play a vital role in developing and spreading business by being in constant touch and reading minds of people. Business letter works as a salesman and boost business activities. They create prestige and good image by giving information to customers regarding the product. There is no exaggeration if we say that business letters are the most simple, economical and effective medium of advertisement for any business firm.

Briefly, we can say that the Business letter is an inseparable part of business activity.

2 7 Effective Business Correspondence (Effective Business letter writing)

Business correspondence is an important tool for business activity, its development and growth. That is why Business correspondence should be effective. If our letter serves the motive of our business then only it is called effective business correspondence. The communication through letters which increases the sale of the products develops long term relations with customers bring collection from the clients, removes misunderstanding that prevails among customers and create positive image of the business firm effectively is called effective business correspondence.

Effective business correspondence is result oriented and is written with a specific purpose, that is why, it should be drafted carefully. The effective business letter should contain the characteristics of effective business correspondence.

2 8 Characteristics of effective Business correspondence

A business letter would become effective if characteristics of letter writing are taken care of. The style of writing a letter should be simple, brief, clear, lucid and should reflect a customer oriented attitude. The matter should be clearly and systematically represented in the letter. The content of the letter should be communicated in a systematic way, in a easy to understand and courteous language and appropriate vocabulary should be used. Following are the main characteristics of an effective and good business letter :

(1) Clarity (2) Conciseness (3) Completeness (4) Concreteness (5) Consideration (6) Correctness and (7) Courtesy.

Now let us examine all the above attributes in brief with examples :

1 Clarity The matter written in the letter should be clear so that no query or ambiguity or any misunderstanding arise in the mind of the receiver.

Ambiguous writing 20% discount will be given to the person who purchases from us.

Writing with Clarity 20% discount will be given to the person who purchases from us the goods worth ₹ 5000 at a time.

2 Conciseness Conciseness is the soul of a letter. Letter should be brief with minimum required and befitting words. A brief letter reduces expense and becomes effective. It saves time for writing as well as reading it.

Lengthy Writing We are interested in purchasing books, drawing books, papers, note-books, pencils, rubber, color etc.,

Brief Writing We are interested in purchasing various items of stationery.

3 Completeness Letter should be complete with all required details. An incomplete letter creates doubt in the mind of the receiver. In that case the letter must to be written again. If such step is not taken it may result in slowing down the business activity and ultimately business suffers.

Incomplete Writing Goods have been dispatched as per your order.

Complete Writing As per your order dated 12th April, 20 blankets and 15 pillows have been dispatched today through Raj Transport.

4 Concreteness Content of the letter should be concrete. The words used in the letter should convey one and only one meaning so that no confusion arises in the mind of the reader.

Inconcrete Writing We are interested in purchasing some chairs.

Concrete Writing We are interested in purchasing 25 chairs of number 7.

5 Consideration The letter should contain reader centric approach. The content, language, selection of the words, should be suitable to the position, dignity and understanding of the receiver of the letter. Importance should be given to the attitude and approach of the customer.

Self-Centric Attitude We are opening a new branch in Godhara for profit and scope of our business.

Reader Centric Attitude We are opening a new branch in your city for the facility of regular customer like you.

6 Correctness The content of Business letter should be correct from language and facts point of view. Incorrect language and false content create a bad image of the firm. It harms the prestige of the firm.

Incorrect writing We are receive your letter.

Correct Writing We have received your letter.

7 Courtesy The content and language of Business letter should be modest and courteous. Mannerly and modest language strengthens relations between customer and seller and makes the relationship respectable and intimate. 'Thanks', 'Please', 'Excuse', etc. words make the letter modest and mannerly.

Non courteous writing You have been careless in making the payment of the goods you have purchased.

Courteous writing You are requested to make the payment of goods, as early as possible.

The above mentioned characteristics of letters achieve business purpose and make correspondence effective. In making Business correspondence effective, the structure and writing of the letter are important.

2 9 Style of Business Letters

Business firms adopt various types of style of business letters. Each business firm adopts the style of business letter according to its tradition, custom and convenience. Normally following styles are found in business letters :

- Fully Blocked Style
- Modified Block Style
- Semi-indented Style
- Fully Indented Style
- Hanging Indented Style
- NOMA Style

● In recent times, the following two styles of business letters are more popular : (1) Fully Blocked Style (2) Modified Blocked Style. The structures of both the styles are given below :

2.9.1 Fully Blocked Style

- The most modern style of letter writing.
- Date, inside address, salutation, body of a letter, complimentary close and signature are written on the left side of the letter.
- No punctuation marks are used in this style.
- All details are written on left side of a letter so right side is found unused.
- It is quite easy to type in this style.

Structure of Fully Blocked Style

	<hr style="width: 20%; margin: 0 auto;"/> <p style="text-align: center;">Heading</p> <hr style="width: 60%; margin: 0 auto;"/> <hr style="width: 60%; margin: 0 auto;"/>
Date :	
Inside Address	
Salutation	
	Body of the letter
Complimentary Close	
Signature	

2.9.2 Modified Blocked Style

- It is the most popular method of letter writing.
- Inside address, salutation and main part of the letter are written on the left side of the letter.
- Date of the letter, complimentary close and signature are written on the right side of the letter.
- Punctuation marks are used in this letter.
- All details of the letter are distributed on both the sides so the letter gets a balanced look.
- This type of letter should be carefully typed.

The Structure of Modified Blocked Style

Heading _____	
_____ _____	
	Date : _____
Inside Address _____ _____ _____	
Salutation _____	
Body of the letter	
	Complimentary close _____
	Signature _____ _____

What have you learnt in this chapter ?

In this chapter, you learned the history of correspondence, its characteristics, and its two types. Formal and Informal letters, difference between them. This chapter covers the difference between routine correspondence and Business correspondence, importance and meaning of correspondence and a few characteristics of effective Business correspondence such as clarity, conciseness, completeness, correctness and courtesy. You have been familiarized with different styles of business letter writing. In the present era, Fully Blocked style and Modified Blocked styles are popular in business correspondence.

Exercise

1 Select appropriate option from the given options

(1) The following style is more popular in Business correspondence :

- | | |
|--------------------------|----------------------------|
| (A) Semi indented Style | (B) Fully Blocked Style |
| (C) Fully Indented Style | (D) Hanging Indented Style |

(2) Which of the following is an informal letter ?

- | | |
|----------------------------------|-----------------------|
| (A) Consolation letter | (B) Invitation letter |
| (C) Letter regarding ration card | (D) Inquiry Letter |

2 Answer the following questions in brief

- (1) What is correspondence ?
- (2) Give examples of informal letters.
- (3) Which are the popular styles of business correspondence ?
- (4) Give the number of characteristics of effective business correspondence.

3 Answer the following questions to the point

- (1) Draw a table and explain the types of letter writing.
- (2) What are formal letters ? Mention their types.
- (3) Define Business correspondence
- (4) What is meant by effective business letter writing ?

4 Answer the following (questions) in details

- (1) Describe the characteristics of writing letter.
- (2) Enlist different styles of writing business letters and explain the styles in vogue with their framework.
- (3) Describe in detail the characteristics of effective business correspondence.



3

Outward Appearance of a Business Letter

What will you learn in this chapter ?

- 3.1 Introduction
- 3.2 Outward appearance of a business letter
- 3.3 Matters that make the appearance of a letter attractive
 - 3.3.1 Selection of paper
 - 3.3.2 Typing
 - 3.3.3 Margin
 - 3.3.4 Folds
 - 3.3.5 Envelope
 - 3.3.6 Superscription

3 1 Introduction

We learnt about commercial communication and the meaning and types of commercial correspondence. We realised its importance and also noted that letters; especially when used for business purpose, seven important characteristics are to be taken care of. Some of them are conciseness, correctness and clarity. In addition to that we also learnt about different styles of letter writing.

3 2 Outward Appearance of a Letter

A letter is drafted with proper prior planning but if the outward appearance is not attractive, the receiver will be least interested in reading it and it may affect the business of the writer

adversely. The outward appearance of a business letter includes envelope, superscription, quality of paper used, its folds, typing etc. which could be evaluated at a glance. These elements determine the outward appearance of a business letter. Therefore the letter writer must take into consideration the size of the envelope, paper quality, its folds and of course, the write-up.

3 3 Matters that make the appearance of a letter attractive

- Paper
- Margin
- Envelope
- Typing
- Fold
- Superscription

Let us now consider them in detail :

3 3 1 Paper and its selection The paper on which a business letter is written should be taken into consideration from three different angles; size, colour and quality. Generally the paper used for letter writing is of A-4 size that provides ample space for presenting a write-up. These days, almost all the countries follow the measurement of A series of paper size and accordingly for commercial correspondence or printing attached to computer, paper size A-4 is used and the dimension of that is 8.3" × 11.7". The paper colour generally remains snow white. Certain firms do prefer pastel shades for letter writing and light sky blue, yellow or pink colours are preferred. 'Ink should not spread on paper' principle remains the sole factor for determining paper quality. In addition to this, since an official letter is to be punched and filed, paper of good quality does not threaten the possibility of tear.

3 3 2 Typing In the present times, commercial correspondence, generally, does not take place in the form of hand-written letters. These letters are generally drafted on computers and printed.

Hand-written letters have remained limited to writing of personal letters. Typing should be legible. For computer typed letter, fonts of different types and sizes are available. Simple fonts with least cursive variations increase legibility and therefore they are generally used for commercial correspondence. Proper care in typing provides elegance and brilliance to the write-up and letter both. In addition to that line spacing adds attractive look to the letter. The commonly preferred line spacing is 1.0, 1.15 or 1.5.

3 3 3 Margin It is pretty obvious that a letter stretched from the top to bottom, i.e. from the top left corner to the down right corner does not please our eye. Thus keeping margins and leaving space on all four sides attribute beauty to a letter. Margins are kept on the left and right hand sides of the paper and left margin is kept larger as compared to the one at the right. Generally on the right margin is 1" broad and on the left, 1.5". Commercial letters are to be filed and preserved. Letters are punched on the left to be filed and therefore broader space on the left remains convenient. The similar logic is applied for the space left on the top and bottom of the page. At the bottom it is generally 1" and at the top it remains 1.5". whereas, many letter writers prefer identical space pattern on top and bottom.

3 3 4 Fold When we take proper care about the paper, margin and typing of business letters, equal amount of care should be taken while the paper (letter) is folded and kept in the envelope. To select the envelope of proper size is very important. If the paper (letter) is folded three to four times horizontally and vertically and compressed in a small envelope, then it will take much time and also fail to create good impression about the letter-writer in the mind of the reader. Therefore let us know about the common practice of folding a letter. The paper (letter) can be given maximum three folds before putting it in an envelope. First would be a vertical fold covering the space spared for margin on the left. Thereafter keeping into consideration the size of the paper, it can be given two or three horizontal folds so that the paper is divided into three or four equal parts by folds. This provides convenience to the reader while he opens the envelope to read the letter and also when it is filed.

3 3 5 Envelope The first thing that reaches the receiver is the envelope. He would read the content of the letter after opening the envelope, therefore one should be precise in the matter of selecting envelope. Many a times, with the letter, several papers are enclosed. In such cases using envelope of small size is not proper. Generally a rectangle and vertical envelope is used for business letters. The paper of envelope should match with the higher quality paper and shade of paper used for letter writing. This gives attractive look. If the paper is white, the envelope should be white as well. If paper of pastel shade is used for letter, the envelope should match it. For business letters, envelope with vertical access on right is used.

Certain Firms, Banks and LIC use window envelopes to dispatch especially receipts. In this type of envelopes, a window is made by cutting the portion where receiver's address is written. Transparent paper is attached on the cut space so that the receiver's address, which is written as part of inside address is clearly read. With this type of envelope the letter is folded in such a manner that the inside address finds its place beneath the window; i.e. the transparent paper and receiver's address is properly seen. As a result, the receiver's address has not to be retyped on the envelope. Generally, for letters containing confidential matters, window envelopes are not used.

3 3 6 Superscription The envelope generally contains the receiver's as well as the writer's address with pin code. In addition to this in the top middle part, instructions regarding the dispatch of letter like 'Book-post', 'Registered A.D.', 'Local', 'Personal' are written. Thereafter towards the right hand side the receiver's name, address, name of the place, pin code etc. is written. The writer's address is generally printed in the lower horizontal band or written in the left down corner. When invitation letters or circulars are dispatched in envelopes, the sender's address is printed at the back of the envelope.

What did you learn in this chapter ?

We considered that letter is an important medium of communication and that too contains prime significance as it is an inevitable tool for business. Letter, carrying such importance, if lacks in any of the six attributes of outward appearance like paper, typing, margin, folds, envelope or superscription then it fails to create desired impact. And in such a case, there are all possibilities of the development of business getting hampered. Also the letter writer is devalued. Therefore, it becomes necessary to be careful about the outward appearance of letter in addition to its content and style.

Exercise

1 Select appropriate option from the options given

- (1) Before putting a business letter into an envelope, how many maximum folds should be made ?
(A) Two (B) Three
(C) Four (D) Five
- (2) Generally what is the size of paper used for business letters ?
(A) A-2 (B) A-1
(C) A-4 (D) A-3

2 Answer the following questions in detail

- (1) What are the three matters considered for the selection of paper used for a business letter ?
- (2) Write about the proportionate space left on all four sides of a business letter.
- (3) Explain the importance of envelope and writing on it in a business letter.

3 Write short notes on the following

- (1) The selection of paper for a business letter.
- (2) The caution for the folds of a business letter.
- (3) Explain 'typing' of a business letter.



4

Layout of a Business Letter

What will you learn in this chapter ?

- 4.1 Introduction
- 4.2 The Regular parts of a business letter
 - 4.2.1 Explanation of the regular parts of a business letter with examples
- 4.3 The occasional parts of a business letter
 - 4.3.1 Explanation of the occasional parts of a business letter with examples
- 4.4 Detailed study of the regular parts of a business letter
 - 4.4.1 Heading / Letterhead
 - 4.4.2 Date
 - 4.4.3 Inside Address
 - 4.4.4 Salutation
 - 4.4.5 Body of the letter
 - (a) Introductory paragraph
 - (b) Middle paragraph
 - (c) Concluding paragraph
 - 4.4.6 Complimentary Close
 - 4.4.7 Signature
- 4.5 Detailed study of the occasional parts of a business letter
 - 4.5.1 Personal and other Notations
 - 4.5.2 Attention Line
 - 4.5.3 Subject Line
 - 4.5.4 Enclosure
 - 4.5.5 Carbon Copy Notations
 - 4.5.6 Identification Line
 - 4.5.7 Mailing Instructions
 - 4.5.8 Postscript

4 1 Introduction

There are various styles for letter writing. Among these various styles, fully blocked form and modified blocked form are used on a large scale. Various characteristics that make the letter meaningful are always be taken care of. It is a fact that when we receive a letter, our attention is primarily attracted towards its outward appearance. The six points that make the letter attractive should necessarily be taken care of. Thus, if the letter is attractive in appearance and written properly, the process of commercial communication becomes fruitful. In addition to this, the structure or format of a business letter too is an important facet. A business letter is divided into several parts and if they are arranged in their fixed order, the letter becomes meaningful and creates desired impact on the reader. Among these various parts there are a few regular parts that should be compulsorily included in a letter whereas there are occasional parts that are included as and when necessary in the structure of a letter. These parts are also known as occasional parts; included as per their need.

All the parts which form the lay out of a bussiness letter are divided into two parts : Regular parts and Occassional parts.

4 2 The Regular Parts of a Business Letter

It is necessary to maintain pre-decided, accepted format of a business letter. Accordingly, heading, date, inside address, salutation, the body of the letter, complimentary close and signature should be included in their pre-decided order and pre-determined place. All these parts should consist all the necessary information. If any part is missing/misplaced then the structure of a letter would be inaccurate.

4 2 1 Explanation of the compulsory parts of a business letter with examples :

- (a) Heading/Letterhead
- (b) Date
- (c) Inside Address
- (d) Salutation
- (e) Body of the Letter
 - (i) Introductory Paragraph
 - (ii) Middle Paragraph
 - (iii) Concluding Paragraph
- (f) Complimentary Close
- (g) Signature

A Specimen of Regular Parts of Business Letter

	Heading	

Phone No. : _____		E-mail _____
Inside Address _____		Date _____

Salutation, _____		

Introductory Paragraph		

Middle Paragraph		

Concluding Paragraph		

		Complimentary Close

		Signature

Body
of
the
Letter

4 3 The Occasional/Optional parts of a business letter

- | | |
|----------------------------------|-------------------------|
| (a) Personal and Other notations | (b) Attention Line |
| (c) Subject Line | (d) Enclosure |
| (e) Carbon Copy Notation | (f) Identification Line |
| (g) Mailing Instruction | (h) Postscript |

4 3 1 Explanation of the Occasional/Optional parts of a business letter with examples

Apart from the seven compulsory parts of a business letter, there are certain occasional/optional parts that are used as per their requirements in a business letter. It is necessary to develop a clear understanding about the purpose and place of writing any information which should be taken care of. Among the occasional/optional parts listed below, a few are mentioned before the main part of the letter whereas a few are mentioned after the last compulsory part i.e. the signature.

A Specimen of occasional parts of a business letters :

	Heading _____ _____ _____			
Phone No. : _____		E-mail _____		
		Date _____		
		<u>Personal & Other Notations</u>		
Inside Address _____ _____ _____				
	Attention Line _____ Subject Line _____			
Salutation _____				
	Body of the Letter _____ _____ _____			
		<u>Complimentary Close</u>		
		<u>Signature</u>		
Enclosure Carbon Copy Notation - C. C. Identification Line Mailing Instruction Postscript				

4 4 Detailed Study of the Regular Parts of a business Letter

Let us now discuss the regular parts of a business letter in detail.

4 4 1 Heading / Letterhead The first regular part provides an introduction of the institute/firm. The letter begins with this part. Some institutes/firms write letters on their printed letterheads. Name of the institute/firm, type of business, postal address for correspondence and other addresses like e-mail, telephone, fax or website are mentioned here. The logo – individual identification of the institute/firm is also included here. All these details are mentioned at their fixed places. The name of the institute/firm is written in block, bold letters in the middle of the paper. The logo of the firm is either printed or embossed on its either side. Generally black or blue color is used for the fonts of the letter but any color of choice can be used for the name of the firm. Address in a business letter can be written in the middle, below the name of the firm and for that, the order of specific details to general details is followed. That means for the address, the shop number will be written first, then the name of the building, the name of the area, thereafter the name of post office area in which that area falls and lastly the name of the city and pin code are mentioned. The details like telephone number, fax number, e-mail address and website are placed as per the convenience on left or right side of the postal address. The first compulsory part of a letter; the letterhead, thus provides many details yet it should be noted that it should not cover more than $\frac{1}{5}$ part of the paper. At times, reference number of the letter is included in this part.

For example :

Better Home Appliances (Dealers in Household Utilities)	
10, Vineet Chambers, Behind S T Bus Stand, BARDOLI - 394601 - Dist. : Surat	
Phone No. : 0262-2220256	Fax No. : 0262-2220252
E-mail : bethom1@gmail.com	

Or the letterhead can be written like this :

Better Home Appliances (Dealers in Household Utilities)	
Phone No. : 0262-2220256	10, Vineet Chambers, Behind S T Bus Stand, Bardoli - 394601 - Dist. : Surat
Fax No. : 0262-2220252	
E-mail : bethome1@gmail.com	

4 4 2 Date The second important feature of the compulsory part of a business letter is the date. Its place is determined as per the style selected for letter writing; whether fully blocked or modified blocked style. It provides time reference to the letter. The date, referring to the date, month and year, can be written in two ways :

1 American Method It is also called Cardinal Numbers. Here the name of the month is written first, then the date followed by a comma (,) and lastly the year.

For example : January 10, 2016

2 British Method It is also called Ordinal Numbers. Here the date with st, nd, rd,th; the manner they are pronounced is written first, then the name of the month followed by a comma (,) and lastly the year.

For example : 10th January, 2016

It should be remembered that the full name of the month should be written and never in their short forms like 'Jan' for January and 'Feb' for February and so on. In the same way the year should be mentioned in four digits as 2016 and writing in short like '16 or 16 is not proper. For a business letter, it will also be improper to write the date as – 22-01-16 or 22/01/16.

4 4 3 Inside Address In this part the address of the receiver of the letter is written. It is written beside the left margin leaving one line after the date. For this address too, the order of specific to general details is to be followed and the punctuation marks are used accordingly. When the letter is addressed to a person, his/her name and if need be, his/her designation is also mentioned. When a name is mentioned as part of an inside address then prefix used for respect must be mentioned. 'Mr.' – the short form of 'Mister' is used before the name of a gentleman.

For example : Mr. J. K. Mehra

When the name of a lady is referred to and if that lady is married then 'Mrs.' – the short form of 'Mistress' is used before her name. If the lady is unmarried, then 'Miss' is used before her name. When there is no idea about the marital status of the lady or if she does not want to disclose it, 'Ms' (pronounced as *miz*) is used before her name.

For example: Mrs Ananta Virani / Miss Devashree Thaker / Ms Prateeti Pandit

In old days, in England, the word showing honor 'Esquire' was popularly used for gentlemen, in short form it was referred to as 'Esq.' It was written after the full name.

For example : R. V. Vaidya Esq.

Some people opt to mention their degree along with their names. It is preferred not to use Esquire and degree both together. If it is inevitable to use both, then it can be written as:

R. V. Vaidya Esq. Ph.D

Some people prefer to mention their degree/designation or title conferred upon them. These can be listed as Doctor, Professor, Sir, Padmashree, Captain, Colonel and so on. They will be mentioned before the full names as :

Dr. Urjaswa Dhruv / Sir Ravindra Jadeja / Prof. Nilay Medh.

When designation along with title is referred to, it should be written like this :

Prin. (Dr.) Rushabh Pandya

In case of ladies, it should be written as :

Dr. (Smt.) Nandana Bhargav

Prof. (Ms.) Kajri Mehta -

With the title of a firm having personal name, 'Messrs' is written before it as:

Messrs Rajani Brothers

With the title of a firm having impersonal name, 'The' is written before it as:

For example : The Radix Corporation

When the executives of any limited company, private firm, bank or public venture are to be addressed as part of inside address then their designations are mentioned and not their names.

For example : The Secretary,

Zaykor Group of Industries,

Ahmedabad

For example : The Manager,

State Bank of India,

Navrangpura,

Ahmedabad

4 4 4 The Salutation After the inside address, beside the left margin, leaving one line, the words of respect, showing readiness for communication written for the receiver of the letter are called the salutation. As per general tradition, we greet one another in the beginning of any interaction like 'Hello', 'How are you ?' 'How do you do ?' and so on. In fact, the important part of the letter now begins, therefore, it would be appropriate to greet the receiver of the letter. This salutation can be like - 'Dear Sir', 'Dear Madam', 'Dear Mr. Suri', 'My dear Mr. Thaker'. It should be remembered at this stage that if the name of the person is mentioned as part of inside address, then as salutation, after 'Dear' that name should be mentioned. If some name is not mentioned but designation is mentioned then the salutation be 'Sir/Madam'.

When the letter is addressed to some group, the salutation will be 'Gentlemen'. As per the British method the punctuation mark comma (,) is placed after salutation, whereas as per American

method the punctuation mark colon-(:). is placed. The other important thing about salutation is that it reveals the proximity or nearness in relationship between the letter writer and its receiver. For example, for official correspondence with government institutions, the most formal salutation 'Sir/Madam' is used. In general correspondence the salutation 'Dear Sir/Dear Madam' is used. When there is an intimate relationship with the receiver, the salutation like 'My dear Khan' is used. It is the salutation that decides the complimentary close because both are interconnected.

4 4 5 The Body of the Letter The body of the letter which is the theme, written immediately after the salutation. This main part of letter and is generally divided into three parts :

a Introductory Paragraph It generally provides reference to the earlier correspondence or interaction. At times it provides an introduction to the letter-writer. It serves the purpose of a connecting-link in the chain of correspondence. A properly begun letter thus works efficiently as a messenger.

b Main Paragraph This second paragraph is the essence of the letter. Here, the theme of the letter is discussed methodically and in detail. By selecting proper sentence pattern and clear selection of words, an attempt is made to justify the purpose for which the letter is drafted. If the sole purpose of drafting the letter is to convey complete and detailed information, then here it is presented in more than one paragraphs or with bullets or even in tabular form where it is arranged appropriately. An attempt is made here to impart information in a precise manner so that the reader gets it equally well and his interest is maintained.

c Concluding Paragraph The letter-writer here clearly mentions what he expects from the reader and moves in the direction of ending the letter. He makes an attempt to convert the prospective customer into an actual customer by giving some assurance. It should be noted that certain regular expressions mentioned after the third paragraph and before the complimentary close should be written as follows :

For example : 'Thanking you'	(Incorrect expression)
'Thank you'	(Correct expression)
'Awaiting an early reply from you'	(Incorrect expression)
'We await an early reply from you'	(Correct expression)

Both the earlier expressions are incorrect because they are not complete sentences. After writing a correct and complete sentence, it should end with a full stop.

4 4 6 The Complimentary Close Just as, the letter begins with greetings in form of salutation, it should end with appropriate expression complimenting the reader. This expression is called the complimentary close and it gives clear indication regarding the proximity and intimacy of relationship between the writer and the reader of the letter. As mentioned earlier these two compulsory parts of letter are interrelated.

Salutation	Complimentary close	Note
Dear Sir, Dear Madam, Sir,	Yours faithfully,	Formal - Popularly preferred for the most formal letters
Dear Mr. Shaikh, Dear Ms. Pathan, Dear Nargis,	Yours sincerely,	Informal - Popularly preferred for informal letters
My dear Jehan, My dear Nancy,	Yours truly, or Yours,	Popularly preferred for the most informal letters

One should be very particular about capitalization and punctuation marks while writing complimentary close.

For example: 'Yours sincerely,' – Here 'Y' of 'Yours' will be capital and no apostrophe mark (') is used before or after 's' of 'Yours' and 's' of 'sincerely' is always small and never capital. A comma (,) is placed at the end.

4 4 7 The Signature After complimentary close, the letter-writer writes his signature or writes his/her full name. In case he/she puts initials (first alphabets of first, middle and last names) or the signature is illegible, then in the next line below he/she is expected to write name in brackets. The signature authenticates the letter, the matter expressed in the letter and the sincerity of the writer. It clarifies that the writer endorses contents of the letter wholeheartedly. The signature is generally hand written. If the letter is computer generated then a digital signature is used.

For example :

Yours faithfully,

J. M. Macwan

(J. M. Macwan)

When the writer is the sole owner of the firm :

Yours faithfully,

M. K. Sunilraj

(M. K. Sunilraj)

In case of a partnership firm :

Yours faithfully,

For

Singhal Transport

Munnasing Yadav

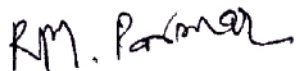
(Munnasing Yadav)

Per Pro Signature / 'Per procurationem' When a person who holds a higher post in a firm or institute is going to remain away from his/her duties, then the person, keeping in mind the promptness of the routine official work of the company, officially allows another person to sign on his behalf; of course after completing a legal formality. At times heads of different departments officially provides rights to sign on their behalf for certain routine correspondence. In such cases power of attorney is given for signature per procurationem. This proxy signature arrangement necessarily requires prior completion of legal procedure. Per-pro signature is written in the following way :

For example :

Yours faithfully,

p.p. The Oscar Chemicals Ltd.



(R. M. Parmar)

Manager (Sales)

4 5 Detailed Study of Occasional / Optional Parts of a Business Letter

We shall now study in detail about the occasional / optional parts mentioned in a business letter :

4 5 1 Personal and other Notations When the letter-writer expects that the receiver pays prompt attention to the letter, keeps the matter confidential or supply proper reply then in that case, in the top, upper, blank part of the letter instructions like 'Urgent', 'Personal', 'Confidential', 'Priority' are written in either bold letters or with different colored ink. At times, these expressions are underlined to draw attention of the reader. Because of it, any other person in an institute/firm would not open or read the letter or do the needful. It is advisable to mention notations of these types on the envelope.

4 5 2 Attention Line The letter-writer would mention the address of the receiver as part of the inside address as well as on the envelope. But when he expects that a particular person of the institute/firm should receive the letter, he only should pay attention and do the needful, then the name of that person is mentioned as part of attention line. It should be noted that if the name of that person is mentioned as part of inside address, attention line is not required in that case. Generally it is placed between inside address and salutation and is written in either of the two ways mentioned below; For example -

The Manager,
Anant Trading Co.,
Ahmedabad

For the attention of Shri Amarendra Parghi

OR

Attention : Shri Amarendra Parghi

Dear Sir,

4 5 3 Subject Line The Subject line indicates the purpose of writing a letter. Before the receiver of the letter starts reading the content of the letter, he would come to know about the main theme of the letter. This line can be written either between inside address and salutation or after salutation and before the body of the letter. Generally, Subject line is indicated by underlining it or by writing in bold letters.

For example :

Subject : Wholesale purchase of pulses and grocery.

4 5 4 Enclosure At times, along with the main letter, as mentioned in the letter, certain papers containing connected information are enclosed in the envelope. This is called enclosure. For example with an application for certain post, copies of mark sheets and certificates are required to be enclosed. The detail of enclosure is mentioned after signature, beside the left margin. When there is more than one enclosure, then either their number is mentioned or they are described one after another.

For example :

Enclosures : Total Three

OR

Encls : (1) Copy of H.S.C. mark sheet

(2) Copies of mark sheets of three years of B. Com.

(3) Copy of B. Com. degree certificate

4 5 5 Carbon Copy Notation At times a particular letter is meant for more than one institute/ department; they all come to know about the content of the letter and each one do the needful in his/ her own way. In such letters, after signature, beside the left margin and among the optional parts, they all are mentioned as carbon copy notation towards the end. With instruction 'C C to:' they all are mentioned in a serial order as :

For example :

C. C. to :

(1) The Managing Trustee, Sharda Paryavaran Jagruti Mandal, Ahmedabad.

(2) The Commissioner of Trade and Commerce, Gandhinagar.

(3) The Secretary, Commerce Section, Gandhinagar.

4 5 6 Identification Line In big institutions or government departments it is very likely that two or more than two persons are involved in the process of drafting a letter. It is also possible that the executive may give dictation of the content of the letter and any other employee may take it down in shorthand and type it. In such a situation in order to create the identity of the persons involved, their names are mentioned as part of identification line – one of the occasional / optional parts of business letter mentioned after signature, beside the left margin. Here, the initials of the person dictating the letter and the one typing it are mentioned separated by colon- (:) or slash- (/).

For example :

H.D.P.: J. R. T. OR H.D.P./ J. R. T.

Here it is understood that the executive with the initials H. D. Pathan has given the dictation of the letter and the one having initials J. R. Tadvi has typed it.

4 5 7 Mailing Instruction As per the contents of the letter the executive of the firm decides and instructs which way it has to be dispatched; whether by ordinary post, registered post, registered a. d. post, speed post or by courier. Authentic detail regarding the dispatch of a particular post is obtained from mailing instruction and it is placed either at the top or end of the letter.

For example:

By Regd. A. D. Post

OR

By Courier

4 5 8 Postscript After mentioning all necessary details as part of the body of letter, if the letter-writer wants to draw the attention of the reader towards some significant matter, then in that case among the optional parts mentioned after the signature, it is mentioned with 'P. S.'. It should be noted that if the writer forgets to mention some significant matter and then mentions as part of postscript then it suggests carelessness on his part. In such a situation, it becomes advisable to redraft the letter. It is a necessary formality to put signature after mentioning details as part of 'P. S.'.

What did you learn in this chapter ?

In this chapter we have studied that it is necessary to maintain the regular, pre-fixed format for a business letter which includes certain compulsory parts as letterhead, date, inside address, salutation, the body of letter, complimentary close and signature. They should be written in their fixed order and at fixed place. They should carefully include all necessary details and if the letter lacks in any of these formalities, it is considered inaccurate. In addition to this, the details of format of a business letter also include certain occasional or optional parts. We should develop clarity about their function, place, the details included and the manner in which they are mentioned and also use them judiciously.

Exercise

1 Select appropriate option from the options given and complete the sentences :

(1) What is the meaning of the address of the receiver of letter ?

(A) Heading

(B) Reference

(C) Salutation

(D) Inside address

(2) Compliment Close provides to a business letter.

(A) proper style

(B) idea of mature relations of the two persons

(C) priority

(D) authenticity

2 Write short notes on the following

(1) Identification line

(2) Postscript

(3) Mailing instructions.

3 Answer the following questions in detail

(1) Enumerate compulsory parts of a business letter.

(2) Write about different ways of writing date in a business letter with examples.

(3) Write about the meaning and place of attention line by providing example.

(4) What is the objective of per pro signature in a business letter ?

5

Letters of Inquiry and their Replies

What will you learn in this chapter ?

- 5.1 Introduction
- 5.2 Explanation of Inquiry Letters
- 5.3 Important points to be considered for writing Inquiry Letters
- 5.4 Replies to Inquiry Letters
- 5.5 Points to be considered for writing replies to Inquiry Letters
- 5.6 Sample Letters

5 1 Introduction

Business letters are important tool for the development and publicity of business. According to the requirement in business, different types of business letters are used. In this chapter, we shall discuss inquiry letters and reply to inquiry letters with the help of some sample letters.

It is very much necessary for a modern businessman to obtain latest information through inquiry in order to develop his business and to maintain his place in the world of commerce. Inquiry can be made to know the formal and informal details, the financial position and other matters and opinions regarding his business.

As a customer before we buy anything from the market, we would like to know about its price, weight, quality, packing, maximum discount, etc. Moreover, we would also like to know about the product's guarantee and warranty, facility of instalment etc. before taking a decision. If a customer is so cautious about his limited purchase, the trader will certainly be absolutely careful because he purchases a large number of goods of different varieties on a large scale. Thus, the prospective customer writes inquiry letter to get information from the seller about the goods he desires to purchase. Now, we shall study about such inquiry letters in detail.

5 2 Explanation of Inquiry Letters

When a customer or a businessman writes a letter to a seller requesting him to give required information for purchase of goods, generally in bulk, such letters are known as inquiry letters. Generally, these type of letters are written by customer or businessman.

Inquiry letters are frequently written by customers or buyers in the world of commerce. A customer of goods will write such letters to several sellers and analyze the information before he places an order.

5 3 Important Points to be considered for writing Inquiry Letters

- (1) In the beginning of an inquiry letter, letter writer gives introduction of his firm or organization.
- (2) It should be mentioned whether the inquiry is in reference to an advertisement by the seller, in reference to the details of business directory or through the recommendation of someone.
- (3) The purpose of inquiry must be mentioned at the beginning of the letter. It must inform whether the inquiry is for the purchase of goods or to avail services or to obtain general information.
- (4) Request for catalogue, pricelist, quotation, samples and demonstrations of goods should be made.
- (5) The inquiry should be clear and specific about the goods to be purchased. Inquiry about the available variety of the specified goods can also be made.

(6) Inquire about the price of goods and other expenses. Other expenses means – transportation charges, charges for unloading the goods, packing charges, etc. It should be also clearly mentioned that who will bear sales-tax/VAT etc.

(7) Mention the expected size of the order so that the minimum price and the maximum discount can be obtained.

(8) Inquire about the mode of payment; i.e. payment should be made in cash, by cheque; draft, or online payment, etc.

(9) Obtaining the goods at the right time is very important in business. Hence it is necessary to inform the seller about when the goods are needed and inquire whether the seller can deliver within that time period.

(10) Inquire if the seller can provide specific types of goods in specific packing according to your requirement.

(11) At the end of the letter, give an assurance to a seller for a large order in future.

(12) The letters of inquiry should be short but precise and to the point. There should be no confusion or misunderstanding about the type or quality of goods due to complex language.

5 4 Replies to Inquiry Letters

With the intention of large scale purchase, the buyer writes inquiry letters to several sellers. The response to these letters is called Reply to inquiry letters. As these letters are used to attract the customers, they must have features like accuracy, promptness, point wise response, business tact etc.

When the seller receives an inquiry letter from a buyer, he gets an opportunity to sell his goods. To convert this opportunity into reality the seller gives prompt and systematic reply to all the inquires of the letter. Sometimes leading businessmen provide additional information besides the inquiries made by a buyer or a customer so that the customer or the buyer can be convinced to place his order. In short, Reply to the inquiry letter has to act as a representative of the seller.

5 5 Points to be considered in writing Reply to Inquiry Letters

(1) At first, the seller should thank the customer for showing interest in his product or goods. Considering him as your future customer, this letter should be written with ‘You Attitude’.

(2) Reference number and the Date of the inquiry letter should be mentioned in the beginning of the letter.

(3) Even if the seller is unable to send the goods, he should give prompt reply to the customer showing the reason of his inability to do so. This will create good impression in the mind of the customer.

(4) A catalogue showing the features of the variety of goods available should be sent along with the letter. Samples of the product should also be sent and if required, demonstration can be arranged.

(5) Give clear information about the mode of payment i.e. payment will be accepted either through cash or cheque or demand draft or online payment, etc. Even the duration of credit should be clarified.

(6) Mode of transportation of goods and who shall bear the expenses of it must be mentioned. If the goods are insured, the customer must also be informed.

(7) The seller must inform the customer about the suitable packing facility; if it is available.

(8) Inform the buyer whether the goods can be delivered within the specific time limit or not.

(9) Besides giving reply to all inquiries of customer, he should be ensured to provide services at all stages of business.

(10) Attractive schemes should be offered by the seller. e.g. (i) If your order exceeds ₹ 10,000 you will be given additional 10% discount. (ii) If you sell 50 units in a month, you will get 5% extra discount.

(11) Concluding part of the letter should be written so effectively that it compels the customer to order the goods.

5 6 Sample Letters

(1) On behalf of Tapasvi Tea Traders, Kalol write a letter to Gujarat Tea Depot, Kalapur, Ahmedabad inquiring about large scale purchase of different types of tea, their prices and terms of payment.

TAPASVI TEA TRADERS

15, Bhavana Market,
S. T. Road,
Kalol-382721

Phone No. (02764) 263465

E-mail : tapasvitea@gmail.com

24th March, 2016

Gujarat Tea Depot,
55, Adarsh Complex,
Rice Market,
Ahmedabad-380001

Sub. : Inquiry about different types of tea.

Dear Sir,

We have been dealing in the retail business of different varieties of tea for the last 15 years at the above address. With reference to your advertisement published in 'Ajana Samachar' of 15th March 2016, we are motivated to write this letter.

We wish to purchase different types of tea each in 50 kg packing. So, please send your latest catalogue and price list to us. We would like to know about the different varieties of tea, their packing according to quantity, the price, discount, conditions of payment and the mode of delivery and expenses.

As we wish to receive the goods within 10 days of placing an order, you are requested to reply soon. If we find the price and terms and conditions satisfactory, we shall place large orders in future.

Thank you.

Yours faithfully,

XYZ

Proprietor

(2) Gujarat Tea Depot, Ahmedabad has received letter inquiring about quality and price of tea.
Draft a suitable reply for it.

Gujarat Tea Depot

Phone No. (079) 76346588
Email : gujrattea@yahoo.com

55, Adarsh Complex,
Rice Market,
Kalupur,
Ahmedabad-380001

27th March, 2016

Tapasvi Tea Traders
15, Bhavana Market,
S. T. Road,
Kalol-3827219

Dear Sir,

We have received your inquiry letter dated 24th March, 2016. Thank you for showing an interest in the variety of tea products sold by us.

Our tea is popular in most of the cities of Gujarat because of its high quality and reasonable price. We, herewith send the samples of the tea through post parcel. Our price list and catalogue are enclosed along with this letter. Our Tea is available in 100 gm, 250 gm, 500 gm and 1.00 kg packings. If your order exceeds ₹ 20,000, we shall give you additional 5% discount. We send our goods through our own transport. Goods will be dispatched within 10 days of receiving your order. The total amount of bill must be paid through D.D. within one month of the date of bill.

We hope that the high quality and reasonable prices of our goods will suit you to place large orders with us.

Yours faithfully,
XYZ
Manager

Encl. :

- (1) Price-list
- (2) Catalogue

(3) Adarsh Nivasi Chhatralaya, Kheralu wants to purchase specific furniture from Jay Hind Furniture Mart, Patan. Write a letter on behalf of them inviting quotation for the purchase of specific furniture.

Adarsh Nivasi Chhatralaya

Near Sahyog Dairy,
At. & Po. Kheralu,
Dist. Mehsana-384325

Phone No. (02761) 255178

20th April, 2016

Jay Hind Furniture Mart,
17, Shivam Complex,
Palace Road,
Patan-384265

Dear Sir,

We require furniture for our Adarsh Nivasi Chhatralaya, Kheralu Dist. Mehsana. We require furniture like tables, chairs, steel cupboards, cots etc. in bulk. We wish to buy the following goods from you.

- (1) Wooden chairs : 30 pieces
- (2) Reading/writing table (wooden) (2 × 4 ft.) 30 pieces
- (3) Steel cot (6 × 2.5 ft.) 30 pieces
- (4) Steel cupboard (6 × 3 ft.) 30 pieces

We expect superior quality and minimum prices for our above mentioned order. Kindly send us quotation stating the minimum cost and maximum discount, terms and condition of payment, cost of transport and state who would bear the other expenses.

We await your prompt reply.

Thank you.

Yours faithfully,

XYZ

Principal

(4) Write a suitable reply to the letter asking for quotations and pricelist for the purchase of furniture.

Jay Hind Furniture Mart

17, Shivam Complex,
Palace Road,
Patan-384265

Phone No. (02766) 263465

Email : satyamtiles@gmial.com

25th April, 2016

Adarsh Nivasi Chhatralaya
Near Sahyog Dairy,
At. & Po. Kheralu,
Dist. Mehsana-384325

Dear Sir,

We thank you for your inquiry letter dated 20th April, 2016 for the purchase of furniture. We are pleased to know that you are interested in our products. The quotation and terms for the purchase of furniture are as under :

- | | |
|----------------------------|--|
| 1 Price | (a) Wooden chairs ₹ 1200 each
(b) Wooden Table (4 × 2 ft.) ₹ 2200 each
(c) Steel cot (6 × 2.5 ft.) ₹ 3200 each
(d) Steel cupboard (6 × 3 ft.) ₹ 4200 each |
| 2 Discount | 20% on the price list |
| 3 Payment | 50% payment along with the order letter
Remaining 50% amount within one month of receiving the goods |
| 4 Delivery of goods | Within 10 days of receiving the order |
| 5 Transportation | Through our vehicle, at our cost |
| 6 Duration of terms | 30 Days |

Keeping in mind your large order, we offer goods at maximum discount with a credit facility. We hope that our prices and terms will be acceptable and you will place order promptly.

Thank you.

Yours faithfully,
XYZ
(Proprietor)

(5) Write an inquiry letter to National Cycle Co. New Delhi with reference to their advertisement of Super Speed Cycle on Television.

Vinayak Cycle Co.

Mandavi Chowk,

S. V. Road,

Anand-388001

Phone No. (02692) 272478

Email : vinayakcycle@gmail.com

30th April, 2016

The Manager,
National Cycle Co.
M.G. Road,
Chandani Chowk,
New Delhi-110006

Dear Sir,

Your advertisement telecasted on television has drawn our attention to the different models of 'Superspeed' Cycles. It has motivated us to write this letter.

We have a large network in Gujarat for the sale of Cycles of different companies. If the prices and terms of business are satisfactory, we shall purchase approximately 500 cycles next year.

Please send us the catalogue and pricelist of the different models of Superspeed Cycles and inform us about other details like transport facility and discount etc.

Thank you.

Yours faithfully,

XYZ

Manager (sales)

(6) National Cycle Co., Delhi has received a letter inquiring about their recently launched Super Speed Cycle. Write a suitable reply for it.

National Cycle Co.

M.G. Road,
Chandani Chowk,
New Delhi-110006

Phone No. (011) 76846588

Email : nationalcycle@gmail.com

Date : 10th May, 2016

Vinayak Cycle Co.
Mandavi Chowk,
S. V. Road,
Anand-388001

Ref. Your letter dated 30th April 2016

Dear Sir,

We thank you for your inquiry letter for Superspeed Cycles. We hereby inform you that we have launched different models of Superspeed Cycles in the market. We have a wide range of cycles for children, young boys and girls, adults and even for exercise. We have received good response for all these models from our customers.

The price-list and the catalogue are enclosed along with this letter. Keeping in mind your large order, we offer maximum discount and facility of credit. If required, our sales representative will visit your firm.

Thank you.

Yours faithfully,

XYZ

Sales Manager

Encl. : As mentioned in the letter

What you have learnt in this chapter ?

Business letter is an important tool for the development and publicity of business. As per different requirements of business, different types of business letters are written. In this chapter you have studied inquiry letters, their features, suitable replies to inquiry letters through model letters.

Exercise

1 Choose the most suitable option from the given options

- (1) About what does the writer say in the beginning of an inquiry letter ?
 - (A) Goods
 - (B) Business firm
 - (C) Advertisement
 - (D) Manager
- (2) A statement showing price and terms of business is known as.....
 - (A) Pricelist
 - (B) Quotation
 - (C) Catalogue
 - (D) Samples
- (3) Replies to inquiry serve as...
 - (A) the quality of goods
 - (B) the method of payment
 - (C) advertisement
 - (D) sales representative

2 Answer the following questions in one sentence :

- (1) For which matters can inquiry be done ?
- (2) Who writes an inquiry letter and to whom ?
- (3) In reply to an inquiry letter, what should the seller do besides giving reply to all the inquiries of the customers.
- (4) Suggest an appropriate word, used for the list of items and their fetures.
- (5) How should the reply to an inquiry letter be written ?

3 Answer the following questions in two or three sentences :

- (1) Mention the points to be considered for writing letters of inquiry ?
- (2) What are different objectives of writing an inquiry letter ?
- (3) What are replies to inquiry Letters ?
- (4) Give examples of attractive proposals offered by the seller in reply to an inquiry letter.
- (5) How does the customer get information about the sellers, when he wants to purchase necessary goods for his business ?

4 Draft letters on the basis of the details given below :

- (1) You want to purchase 'Comfort' Tube Lights for your shop, Prakhar Electronics, Modasa. Write a suitable letter inquiring about its quality, price and terms of business, to Prakash Electronic, Mumbai.
- (2) Sir Shivaji High School, Dhandhuka wants to purchase stationery from Saraswati Stationery, Bhavnagar. Write a suitable inquiry letter on behalf of them.
- (3) You have received an inquiry letter from Chatpata Namkin Stores, Jamnagar for your recently launched 'Swadist Namkin'. Write a suitable reply providing necessary literature.
- (4) You have received an inquiry letter requesting to send pricelist and terms of business to purchase variety of spectacles. Draft a suitable reply to this inquiry letter.
- (5) High-fi Digital World, Vadodara wants to purchase computers items in bulk from Laxmi Agency, Bhuj. Draft a suitable inquiry letter on behalf of them.
- (6) You have received an inquiry letter from Hardik Sports, Dabhoi asking for competitive quotations and maximum discount. Draft a suitable reply letter.



6

Letters of Order, their Execution and Cancellation

What will you learn in this chapter ?

- 6.1 Introduction
- 6.2 Explanation of Letters of Placing an Order
- 6.3 Important points to be considered for writing Letters of Placing an Order
- 6.4 Letters of Acknowledgement and Execution of an order
- 6.5 Points to be considered for writing Letters of Acknowledgement and Execution of an order
- 6.6 Letters of Cancellation of an order
- 6.7 Points to be considered for writing Letters of Cancellation of an order
- 6.8 Model Letters

6 1 Introduction

In the field of business, the buyer or customer initiates correspondence by writing an inquiry letter to the seller. In response to that inquiry letter the seller informs the buyer about the price of goods, discount, packing, terms, payment conditions etc. through letter. There after the correspondence is started from the buyer or customer again. The buyer or customer studies the reply to inquiry letters received from various sellers. After comparing the pricelist and catalogue, the buyer or customer decides whom to place an order with and writes a letter.

6 2 Explanation of Letters of Placing an Order

Generally, the word 'Order' means 'Command'. But with reference to commercial letters, it means 'a request to send the goods and raw material'. The language used in this type of letter is courteous.

In legal terms the letter which places an order is a link that connects the buyer with the seller. Hence such a letter becomes a 'contract' in the world of trade.

In present days, while placing a trial order or a repeat order, the buyer or customer presents the particulars of goods in a tabular form. Sometimes a prescribed order form is used by firms. It also includes necessary instructions for customers. Thus, the chances of error are reduced.

If the seller expects the order from the buyer in the prescribed order form, it should be enclosed with the reply to the inquiry letter. On the other hand, the customer or buyer must enclose a covering letter along with the order placed in the prescribed form.

6 3 Important points to be considered for writing Letters of Placing an Order

(1) Reference No. / Letter No. and date of the reply to inquiry letter should be mentioned for reference. It should also be mentioned that the customer is satisfied with the price, terms and conditions of the seller and so, he is placing an order.

(2) The quality and quantity of the goods and material should be mentioned clearly.

(3) The goods and items should be described completely and if there is any special instruction, it should also be mentioned.

(4) Unit price shown in the price list should be mentioned again so that the order would become clearer.

(5) The seller should be instructed for the specific packing according to the size and quality of goods the buyer wants. He should also be instructed for a particular type of packing so that the goods may not be affected climate.

(6) If the seller expects the buyer to send a part of the full amount, then the letter should include the details of the same. (e.g. Cheque, demand draft etc.) If the goods are to be bought on credit, one must mention the time limit within which payment should be made.

(7) If the seller has not informed about mode of transportation, the buyer should suggest the transport facility suitable to him for sending the goods. The buyer should also mention whether the goods are to be insured or not.

(8) When different brands of goods are to be purchased in different packing, the order should be placed in a tabular form.

(9) The buyer should mention the duration in which he wants to receive the goods. It should also be clearly mentioned if the goods are not delivered within the time-period shown in the order letter, they would be rejected.

(10) In the end the customer should state if he will be satisfied with the quality of the goods delivered, bulk and large orders will be placed by him in future.

It is not necessary to include all these above points in every letter of order. One should include only those points which are related to the goods ordered by him.

6 4 Letters of Acknowledgement and Letters of Execution of Order

After receiving a letter of placing an order from a customer, the seller at first, writes an acknowledgement letter to the customer. In this letter the seller expresses thanks for the order and for showing interest in his goods.

Thereafter, the seller dispatches goods according to the instructions given by the customer and informs him about its packing, transportation etc. through letter. This letter is known as the execution of an order letter. Transportation receipt, railway receipt, bill etc. are also enclosed along with the letter.

In this way, the letter of execution of an order means the seller legally accepts all the instructions given by the customer and dispatches goods accordingly.

If the seller does not have sufficient stock of the goods required by the customer, he either asks to extend time limit or to allow him to execute the order in part or suggests substitute goods. As these points are related to execution of an order, letters for the same are also written.

6 5 Points to be considered while writing a letter of Acknowledgement and Execution of an Order

(1) In the beginning, number of the order letter, its date, and the description of the goods to be sent should be mentioned. At the same time, the seller should thank the customer for his order.

(2) The goods sent or to be sent should be described.

(3) The total amount of bill should be stated and the copies of bill, transport receipt or railway receipt or delivery receipt should be sent along with the letter.

(4) If the payment is to be made through bank, the buyer should be informed after depositing the bill in the bank.

(5) It should be clearly stated that all the instructions given by the customer regarding packing etc. are followed.

(6) If the goods are insured, the receipt of insurance should be enclosed with the letter.

(7) It should be mentioned that the seller is eager to serve the buyer and expects large order from him in future.

6 6 Letters of Cancellation of Order

Generally, the customer or buyer does not prefer to cancel the order that is already/once placed. It is because this leads to unhealthy relationship and harms (affects badly) the status/goodwill/prestige of the buyer.

However, at times, unavoidable circumstances compel the customer to cancel the order partially or fully. At the same time, the seller is also compelled to cancel the order under some circumstances. Now, let us examine such situations :

(1) In spite of the clear instruction from the customer to send the goods within stipulated time, the seller may fail to dispatch goods within that time. In such circumstances, the customer writes a reminder letter to the seller. Even after that, a reply letter or goods (no response) are not received from the seller, the customer is compelled to cancel the order.

(2) Sometimes, in spite of having sufficient goods in stock, due to the carelessness of the storekeeper, an order is placed by the customer. In that case, the order is cancelled.

(3) If the demand for particular goods declines due to the end of the season or any natural calamities, the order will be cancelled fully or partly by the customer.

(4) If the goods are not manufactured due to workers going on strike, fire in the factory or any accident, the order is cancelled partly or fully by the seller.

6 7 Points to be kept in mind while drafting Letters of Cancellation of Order

(1) To cancel the order, the customer should first inform the seller as early as possible by telephone or email. Then, the letter of cancellation of order is written. In this letter confirmation of earlier intimation and reason for cancellation of order should be explained in detail.

(2) If the customer has not received the goods in stipulated time limit, he is compelled to cancel the order. So, it should be clearly mentioned that the goods sent now onwards will not be accepted by him.

(3) If the customer has made part payment along with the order, he should inform the seller to make necessary arrangements to return the payment.

(4) In case the order has been cancelled by seller due to insufficient stock, he should inform the buyer exactly when the new stock will be available.

(5) In the beginning of the letter apology should be expressed and at the end assurance for full co-operation in future should be given.

6 8 Sample Letters

(1) An order letter for variety of chocolates :

Maitri General Stores

12, Jahanvi Market,
Indu Chacha Marg,
Bhavnagar-364001

Phone No. (0278) 2327645

14th May, 2016

Tirupati Enterprise,
21, Lokhandwala Complex,
M G Road, New Ranip,
Ahemdabad-382480

Sub. Order for variety of chocolates

Dear Sir,

Thank you for your letter dated 10th May 2016. We find the prices and terms and condition of your chocolate products quite suitable. We place an order of following chocolate products :

Sr. No.	No. of Catalogue	Type of Goods	Specific Requirement	Unit	Price Per Unit
1.	5	Almond Gold	100 gm (regular)	12	₹ 200
2.	8	Dudha Ganga	75 gm	15	₹ 100
3.	9	Milkbar	50 gm	20	₹ 50
4.	12	Milksilk	50 gm	20	₹ 40

Please send the above mentioned goods latest by 25th May, 2016 at our address by Golden Transport. We have enclosed a demand draft for ₹ 4000 as our initial payment. As suggested by you, the remaining amount will be paid by us in cash within 30 days.

Please take care to send the ordered goods in time in good packing.

Thank you.

Yours faithfully,
XYZ
(Proprietor)

Enclosure : one

(2) Umiya Kirana Bhandar, Himmatnagar wants to purchase jaggery, sugar and different types of pulses from Arbuda Traders, Kalupur , Ahemdabad. Draft a suitable letter on behalf of Umiya Kirana Bhandar requesting them to send the goods promptly.

Umiya Kirana Bhandar

21, Zamzam Market

Tower Road

Himmatnagar-383009

Phone No. (02772) 276435

E-mail : umiyakirana@yahoo.com

14th May, 2016

Shree Ambuja Tradres,
14, Kapadiya Market,
Kalupur,
Ahmedabad-380001

Sub. : Purchase of grocery items

Dear Sir,

We purchase regularly grains and grocery in bulk from you. Keeping in mind the forthcoming festivals, we need following grocery items to satisfy the demands of our customers. So, please arrange to send the goods as early as possible.

Sr. No.	Types of Goods	Specific Requirement	Quantity
1.	Jaggery	Organic (in 1 kg packing)	40 Nos (40 kg)
2.	Jaggery	Hirakani ”	50 kg
3.	Sugar	Medium ”	50 kg
4.	Sugar	Small ”	30 kg
5.	Udad	Organic ”	25 kg
6.	Udad Pulse	Small ”	25 kg
7.	Mung	Organic(small) ”	30 kg

Please execute the order according to the prices of goods, discount and terms and conditions sent to us a month ago. We wish to receive goods within 3 days by Golden Transport. We assure you to pay the amount within 30 days of our receiving the goods.

We expect your co-operation.

Yours faithfully,

XYZ

Proprietor

(3) Specimen order form :

Benarjee Electronics

113, Nehru Marg,
Bhuj-370430

Phone No. (0261) 348543

E-mail : anshubenargee@yahoo.com

Dear Customer,

- Please fill the details carefully to place an order.
- Change in order is not possible after dispatching the goods.

(1) Title of the firm : _____

(2) Address : _____

(3) Name of the officer, placing the order : _____

(4) Designation of the officer and department : _____

Details of the goods ordere

Sr. No.	Type of Goods	Speciality of Goods	Quantity	Price Per Unit

(6) Mode of Payment : _____

(7) Means of transportation of goods : _____

(8) Method of packing : _____

(9) Time period of dispatching goods : _____

(10) Signature : _____

(11) Date : _____

Letters of Acknowledgement and Execution of Order

(1) You have received an order for household crockery items from Prince Crockery, Gandhidham. Draft a letter of execution of that order.

Pestaji & Sons,
46, Chandan Market, Station Road,
Morbi-363641

Phone No. (02836) 236441

25th May, 2016

Prince Crockery,
16, Damodar Complex,
Umashankar Joshi Marg,
Gandhidham-370201

Sub. : Execution of order for household crockery

Dear Sir,

We have received your order dated 10th May 2016 along with the order form. Thank you for having interest in the crockery sold by us.

We have dispatched the goods today as per your order form through Patel Transport Agency. We hope that you will receive the goods within two days at your address. The goods are dispatched in cardboard packing as you have instructed. The remaining amount of the bill has to be paid within 30 days through State Bank of India, Nana Bazaar Branch, Gandhidham. Copies of bill and transport receipt are enclosed herewith.

As high quality of goods, lowest price and punctuality are our specialities, we expect large orders from you in future.

Thank you.

Yours faithfully,

XYZ

Proprietor

Enclosure : (1) Copy of Bill
(2) Transport Receipt

(2) Satyam Tiles Pvt. Ltd.Co., Ahmedabad has received an order for tiles. Draft a letter of execution of that order.

Satyam Tiles Pvt. Ltd. Co.

403, Hare Krishna Complex,

Pritam Nagar, Ellis bridge,

Ahmedabad-380006

Phone No. (079) 26346588

E-mail : satyamtiles@gmail.com

25th May, 2016

The Manager,
Hotel Royal Plaza,
Opp. Raj Petrol Pump,
Rajmahal Road,
Jamnagar-361001

Sub. : Execution of an order.

Dear Sir,

Thank you for your order dated 15th May 2016 for 1000 boxes of floor vitrified tiles No. 22. We are also thankful to you for selecting our tiles for the renovation of your Hotel.

We have dispatched the goods today as per your order through Vijay Road Lines. We hope that you will receive goods within three days at your address. As per your instruction, the goods are packed in cardboard boxes with necessary instructions. The amount of bill has to be paid within 20 days through Union Bank, Sadar Bazaar branch, Idgah Road, Ahmedabad. Copies of bill and transport receipt are enclosed herewith.

We expect large order, in future, from you.

Yours faithfully,

XYZ

Sales Manager,
Satyam Tiles Pvt. Ltd

Enclosure : 2; Copies of Bill and Transport Receipt.

Letter of Cancellation of Order

(1) You have placed an order for particular goods 30 days back. Even after writing two reminders, you have not received the goods till date. As you have no hopes to receive the goods from them, draft a letter of cancellation of order.

Apna General Stores

33, Hira chambers,
Prem Darwaja,
Nadiyad-387001

Phone No. (0268) 2761230

25th May, 2016

Jalaram Trading Company,
113, Happy Chambers,
Tilak Road,
Vadodra-390022

Dear Sir,

We have placed an order for 'Soham' Brand varieties of raincoats and umbrellas by our letter dated 25th April, 2016. In this letter we have clearly mentioned that we must receive the goods latest by 10th May, 2016 at our address.

We regret to state that you have not sent the goods in stipulated time; i.e. 10th May 2016. Thereafter, we have written two reminder letters to you, on 15th and 20th May 2016 respectively. However, we have neither received any response nor goods from you till date. So, we are compelled to cancel the order.

We shall not accept the goods if they arrive now.

Please note that we cancel our order dated 25th April 2016 officially.

Thank you.

Yours faithfully,

XYZ

Partner

(2) In spite of having sufficient stock of particular goods, you have placed an order for it by mistake. Draft a suitable letter cancelling the order.

Yug Fashion Wear
23, Sanidhya Tower,
College Road,
Valsad-396001

Phone No. (02632) 232764

E-mail : yugfashion@gmail.com

14th June, 2016

Unique Readymade Garments Pvt.Ltd.,
21, Navyug Complex,
Stadium Road,
Bhayandar (West),
Mumbai-401106

Sub. : Cancellation of an order

Dear Sir,

According to our telephonic instructions, we want to cancel our order dated 2nd June, 2016 for 500 Unique Readymade shirts.

We are compelled to cancel the order as our storekeeper made a mistake in taking the stock. After placing the order, we found that the goods ordered are already in sufficient stock with us. Therefore, we do not require the goods at present.

We are sorry for the inconvenience caused to you. However, we assure you that whenever the goods are required, we shall place with you an order for the same with you.

Please inform us about the confirmation of our cancellation.

Thank You.

Yours faithfully,

XYZ

Owner

What have you learnt in this chapter ?

The buyer or customer analyses the reply to inquiry letters received from various sellers. After comparing the pricelists and catalogues, the buyer/customer decides whom to place an order with and writes an order letter. In this chapter, you have studied explanation of order letters, important points for drafting such letters, also letters of Acknowledgement and Execution of order and important points for drafting such letters. In addition to that you have studied cancellation of order letters and main features of cancellation of order letters through model letters.

Exercise

1 Choose the most suitable option from the given options

- (1) With reference to Business letters, letters of placing an order mean-
 - (A) Letters inquiring about goods
 - (B) Letters requesting to send goods
 - (C) Letters giving information about goods
 - (D) Letters executing goods
- (2) What type of contract does order letter become between a buyer and a sender ?
 - (A) Informal agreement
 - (B) Oral agreement
 - (C) Written agreement
 - (D) Memorandum understanding

2 Answer the following questions in one sentence

- (1) What are the letters inquiring for goods known as ?
- (2) What is meant by letters of cancelling order in business correspondence ?
- (3) What should be the first step for customer or buyer to cancel the order ?
- (4) What items should be enclosed along with the letter of execution of order ?
- (5) What type of attitude should be shown by the customer in the end of the order letter ?

3 Answer the following questions in two or three sentences

- (1) What should the seller do when the goods ordered by the customer are not available ?
- (2) What should the seller do when he is not in a position to supply the goods in time ?
- (3) Which points should be considered while a letter of execution of order ?
- (4) Give any three reasons for cancelling order.

4 Draft letters keeping in mind following details

- (1) Radhe Cloth Stores, Surat wants to buy cotton clothes in bulk from Wah-Wah Textile, Ahmedabad. On behalf of Radhe Cloth Stores, draft a suitable letter to place an order.
- (2) Majabut Bricks, Morbi received an order of 1000 trucks of bricks from Bandhakam Traders, Visnagar. Draft a suitable letter of execution of order expressing gratefulness to the customer..
- (3) Winter Collection, Kapadvanj had placed an order to P. V. Sandhu Brothers, Panjab for rain-coats. However, they have not received goods even after a long time. Write on their behalf, a letter of cancellation.



7

Letters of Claims, Complaint and their Adjustments

What will you learn in the chapter ?

- 7.1 Introduction
- 7.2 When does the need for Claims/Complaint letters arise ?
- 7.3 Points to be kept in mind while writing Claims/Complaint letters
- 7.4 Letters of Adjustment of Claims/Complaints.
- 7.5 Principles of the letters of Adjustment of Claims/Complaints
- 7.6 Points to be remembered to settle the Claims/Complaints.
- 7.7 Model Letters

7 1 Introduction

With the progress of science and technology along with the progress of other sectors, business world too has made progress by expanding of its scope. With progress of business, its complexity has also increased. Business activity is done for the human beings by the human beings and that is why, it may be possible that there could be some mistakes made by them. Mistakes can be made by the seller or may take place in the process of transportation if proper care is not taken. As a result the situation of Claims/Complaints arises. A few years ago, businessmen used to consider Claims/ Complaints as harassment or headache. It was also considered useless and unnecessary and adjustment was done by compulsion. But in the present times, the attitude of the sellers and businessmen regarding

Claims/Complaints has changed. They have realized the importance and usefulness of fair complaints. As a result, they welcome complaints if any; regarding their products and services. In the customer oriented market, complaint letters help to bring positive result. Manufacturers come to know about the shortcomings of their products or services and by removing them, manufacturers could put before the customers better quality product. Some businessmen believe in the dictum, "Customer's satisfaction is our satisfaction". They try to win the trust of the customers by saying, "If you are satisfied with our product, then tell others and if not, tell us."

7 2 When does the need for Claims/ Complaint letters arise ?

The need for Claims/Complaints letters arises in following situations :

- (1) There is a delay from the seller to deliver goods as per order placed.
- (2) The weight of goods received is less.
- (3) Goods sent by the seller are of inferior quality than the sample shown.
- (4) The goods sent are totally of different kind from the goods showed in the sample.
- (5) Either in transit or due to improper packing, goods are damaged.
- (6) The price in the invoice shows variation from the price fixed when order was placed.
- (7) Insulting or rude behavior with the customer by an employee of the seller.

7 3 Points to keep in mind while writing Claims/Complaint letters

Customer will be highly dissatisfied when he feels that he is cheated. He will be angry and furious and will show his anger. It is but natural. In this mental state when he/she writes a letter of complaint he/she would vomit his/her anger. As this moment, he/she should control his/her anger and write a soft complaint. His/her letter should represent his/her skill, care and modesty. Letter should

not offend or insult the receiver, yet it should clarify the entire matter in a modest manner. This type of attitude is its characteristic.

Following points should be considered while writing claims/complaint letters :

- (1) The complaint should be written in clear and soft language. It should be written modestly.
- (2) All details regarding dissatisfaction along with statistical information should be provided.
- (3) Reference of order placed for which complaint has been made should also be indicated.
- (4) Claim should be very clear regarding the complaint.
- (5) Reasonable suggestions should be made by the customer for improving the situation either by compromising or by asking for compensation, instead of seriously blaming seller for Claim/Complaint.
- (6) Draw attention for speedy compromise and adjustment considering professional status and the fair attitude of a businessman who has sold the goods.
- (7) Clarify the loss of the four things a seller will have to bear: money, sale, service and prestige.
- (8) If possible, make a suggestion and mention specific time duration to carry out the suggestion.

7 4 Claim/Complaint adjustment letters

Most of the sellers consider Claim/Complaint letters positively because the success of business depends on the satisfaction of customer. A seller or a businessman, who occupies a unique position in the business world, constantly strives to maintain the quality of his/her products and services.

Each Claim/Complaint provides an opportunity to improve the product or service by removing its defect or weakness in the product or management of the organization. Customer is a king in the market. In this circumstance Claim/Complaints are of great importance.

7 5 Principles of adjustment of claim/complaint

Each seller has his own principles of removal of claim/complaint based on his experiences of many years of business.

1 Customer is always right It is believed that without any genuine cause customer would never complaint or claim. Customer's complaint is normally genuine so reasonable compensation should be given to him/her. Generally, this principle is followed large business houses.

2 Fair claim, fair adjustment All aspects of complaints are thoroughly examined and proper decision is taken. If the claims are found genuine then proper adjustment is made. A mature seller believes in this type of principle and settles the claim/complaint accordingly.

3 Customer, Be aware According to this principle once the goods are sold the responsibility of the seller ceases. The claims/complaints will not be heard. Some business firms have adopted principle and policy which may prove dangerous for business world.

7 6 Points to be kept in mind while writing for Adjustment of claims/complaint letters

Following points should be kept in mind to maintain cordial relation for long lasting relationship between customer and seller :

- (1) Letter should begin with an apology of the customer.
- (2) Seller should immediately reply the claims/complaint letters because delay is dangerous and it may create more anger and dissatisfaction in the mind of the customer.
- (3) Do not hide your fault or folly in adjustment letter. Make the situation clear.
- (4) Seller can create personal care by addressing the client with his first name.

(5) Ensure customer that due care shall be taken to avoid such situation in future.

(6) Clarify the compensation for the difficulty faced by the customer as the Claims / Complaint mentioned in the letter by the customer.

(7) When the complaint of the customer is not justified and its adjustment is to be denied then the seller should convince the customer regarding his decision.

Letter of Claims / Complaints can be divided into three parts :

(A) Acceptance of Claims / Complaints assuming that customer may be right.

(B) If the Claims / Complaint is justified then pay compensation.

(C) Not to pay any attention to complaint.

77 Model Letters

(1) On behalf of Shilpa Emporium, Isanpur, draft a letter of complaint to Saheli Sari Center, Surat regarding the goods received are of the inferior quality and not the same as showed as sample.

Shilpa Emporium 78, Mahavir Complex, Ishanpur, Ahmedabad-382443	
Phone No. (079) 35356071	E-mail : shilpaemporium@yahoo.co.in
20 th October, 2016	
Saheli Sari Center, 31, Navkar Market, Wed Road, Surat-395004	
Sub. : Complaint regarding inferior goods.	
Sir,	
We placed an order for saris through the letter dated 5 th October 2016.	
We have received the parcel sent by you but the quality of goods is found of inferior standard. The quality of cotton silk saris showed to us as sample and the saris sent do not match with the goods sent in respect to the proportion of silk. Moreover, the lower border of the sari is small in size.	
Our clients are very particular and choosy regarding their selection. It is not possible for us to sell such saris. Please make arrangements to take the goods back or we may try to sell such inferior quality goods at 35% discount if you permit.	
Prompt reply is expected.	
Yours faithfully, XYZ Partner	

(2) **Reply of adjustment of the above complaint letter**

Saheli Sari Center

31, Navkar Market,
Wed Road,
Surat-395004

Phone No. (0261) 46377850

E-mail : sahelisaree@gmail.com

25th October, 2016

Shilpa Emporium,
78, Mahavir Complex,
Ishanpur,
Ahmedabad-382443

Sir,

We have come to know about the mistake that we have made through your letter dated 20th October 2016. We are very sorry for our mistake.

Due to carelessness of our dispatch officer, saris of another quality have been sent to you. The saris which are sent to you are of the same design as we showed in samples but by mistake those sent to you, have less quantity of silk in them

Today we have sent the saris of superior quality of silk which you will receive through Mehta Transport. Inferior quality goods will be taken back by us at our expenses.

We are extremely sorry for the inconvenience caused to you. We assure such error will not be made in future.

Yours faithfully,

XYZ

Managar

Saheli Sari Center

Encl. : Transport Receipt

(3) On behalf of Moon Moon Hotel, draft a letter of complaint regarding damage of clay cups and also of cups and saucers made of glass, in large quantity due to carelessness in packing.

Moon Moon Hotel

Ram-Rahim Chawak,

Bhuj-370001

Phone No. (02832) 11223638

Website : www.moonmoonhotel.org

January 23rd, 2016

The Anjel ceramics,
31, Abhimanyu Towers,
Station Road,
Morbi-363641

Sub. : Complaint of damage goods

Sir,

We placed with you an order for 2500 pieces of clay cups and 100 packets of glass-made cups and saucers, each packet containing 50 pieces. We have received goods today and found many of them almost broken, when the packing was opened.

The goods that we have received from you out of 700 clay cups and 150 cups and saucers are almost broken which cannot be sold. Due to this, we will have to bear the loss of minimum ₹ 10000. You will definitely agree with us that it is not fair that we have to bear the loss due to the carelessness of your packing department.

We suggest you just and fair adjustment in this regard. We expect prompt reply. We request you to take proper care in executing order and delivery of goods in future.

Yours faithfully,

XYZ

Managar

(4) Draft a letter of adjustment of a complaint from Sajid Lokhandwala, Palanpur, regarding non-receipt of plastic and paper material ordered by them.

Maharaja Group of Industries

25, Sardarnagar Estate,
Mahesana-384001

Phone No. (02762) 314470

Website : www.maharajagroupofind.in

January 25th, 2016

Sajid Lokhandwala,
M G Road,
Palanpur-385001

Sub. : Delay in execution of order

Sir,

We have received your letter dated 7th January 2016 regarding delay in execution of your order. We regret the delay.

When you placed the order with the condition of receiving goods within specified time limit we assured you for the same under the impression that we have adequate stock of goods in our go-down. But when the instructions were given to our dispatch officer to send your goods, we came to know that we were not having enough stock of the required goods. So, immediately we approached the production manager and tried our best to get the goods. But, in the manufacturing unit workers were on strike so we could not send goods.

From today, workers are back to work and production work has restarted so we will be able to dispatch goods as per your order within a week. We assure you that such error will not be repeated in future. We believe that your complaint is just and fair so the management has decided to offer you 5% additional discount on the total bill of your order.

Yours faithfully,

XYZ

Managar Administrative
Maharaha Group of Industries

What have you learnt in this chapter ?

Generally, customer checks the goods after having received them. He/She verifies the bill along with the goods received. There is no question if everything is ok. If there is any discrepancy, the customer has to write a polite complaint letter to draw the attention of the seller. In the present age, sellers/manufacturers welcome complaints. They settle the complaints. In a few institutions, providing essential services and goods have a separate grievances cell to settle the matter.

Exercise

1 Select the proper option from the given options

- (1) How do the sellers in the present times view letters of complaint and adjustment ?
(A) Negatively (B) Positively
(C) Appreciation of firm (D) Possibility of order in future
- (2) What should be the first step of the customer when he/she is ill treated or insulted ?
(A) File police case (B) Bring end to relations with the seller
(C) Write a complaint letter (D) Keep silence
- (3) Complaint letter should avoid the language which is -
(A) Simple (B) Full of anger
(C) Polite (D) Clear
- (4) Any experienced and wise seller settles claims/complaint on the principle of -
(A) Customer beware (B) Customer is always right
(C) Fair claim, fair adjustment (D) Monopoly

2 Answer the following questions in one sentence only

- (1) On which side, there is a possibility of mistake while buying and selling goods ?
- (2) What result does the complaint letters bring in customer oriented world ?
- (3) What should be done if the goods are not of the quality as per order placed ?
- (4) Apart from the slogan a customer's satisfaction is our profit through which other slogan do some businessmen today try to win over the customers ?
- (5) Which reference should be given in a complaint letter ?
- (6) Which opportunity does each claim/complaint provide ?
- (7) On what does the success of trade and commerce depend ?
- (8) Which are the unique characteristics of claims/complaint letters ?
- (9) In which circumstances the claim/complaint is the most important ?
- (10) Which policy may prove dangerous for business world ?

3 Answer the following questions in brief

- (1) In which circumstances the possibilities of claims/complaints arise in business ?
- (2) What should be the tone of claims/complaint letters ?
- (3) What should be the approach of the seller towards customer's claims/complaints ?
- (4) Explain the three major parts of a complaint letter.
- (5) Show three possibilities of claims/complaints during the process of selling, buying and transporting goods.

4 Draft the following letters :

- (1) Draft a letter of complaint from Gujarat Traders to Hariyana Woollen Company, Chandigadh, they have received 20 blankets less than ordered.
- (2) There is a shortage of 3 kg of dry sugar in the goods received. Draft a letter of complaint.
- (3) On behalf of 'Balaji Industries', Tamil Nadu, draft a letter rejecting the claim of more compensation for delay in the receipt of goods due to strike of trucks.
- (4) New Bright High School, Mehsana has complained regarding inferior quality of sports equipments sent by you. As adjustment of the claim, draft a letter suggesting a proposal of supplying new tables.



8

Letters of Inquiry Regarding Financial Status and Collection Letters

What will you learn in the chapter ?

- 8.1 Letters of Inquiry regarding financial status
 - 8.1.1 Introduction
 - 8.1.2 How will you obtain information regarding financial status ?
 - 8.1.3 Model Letters
 - 8.1.4 Letters regarding bank's reference
- 8.2 Letters regarding collection
 - 8.2.1 Introduction
 - 8.2.2 Various stages of writing collection letters
 - 8.2.3 Points to be kept in mind while writing collection letters effectively
 - 8.2.4 Model Letters

8.1 Letters of inquiry regarding Financial Status :

8.1.1 Introduction The scope of trade and commerce has expanded amazingly due to immense means of communication, effective use of advertisements, various types of research in business and increase in purchasing power of people.

One of the important reasons of the expansion, growth and development of business activities is the credit policy for business transaction. As a result of this policy, the sales activity has increased rapidly. Due to this policy, it has become easier for a seller to find customers. The buying capacity of customer (Purchaser) has improved a lot as he/she does not have to necessarily make payment promptly but he/she could pay the amount by instalment or within a fixed time limit.

Thus it is beneficial to both, the seller as well as the purchaser. If the goods are sold on credit and the seller has not been able to inquire the financial status of the client, the issue of collection arises. Money is not received within specific time limit, the risk of the loss of money too may arise. If the business is done on credit basis, that the through scrutiny of the client's / firm's financial status and prestige is advisable and desirables. Opinion regarding firm's prestige and client's financial status should be obtained from the market.

8.1.2 How to obtain information regarding financial status ? It is advisable for a business firm to acquire all information regarding client's financial status before giving him/her material or goods on credit. Normally, letters are written to banks and other business firms to obtain information. 4Cs should be examined before giving goods on credit. The character of the concerned firm, its capacity to repay the amount, its capital and collateral (Security to be furnished) should be verified closely. If this procedure is strictly followed, the risk of the loss of money could be avoided. The inquiry to obtain financial status of any business firm can be made through following procedure :

- (A) Through reference provided by other business firms.
- (B) Reference from the banker of the firm.
- (C) Financial stability of the firm can be known from last few year's annual reports.

Opinion of other business firm is considered important but the information provided by a bank is considered reliable and authentic. Letter written to a prospective customer, asking him/her to furnish reference of another business firms or of a bank should be written in polite and modest language so it does not harm his/her dignity. This type of letter requires skill. It is to be noted that the customer should not feel that his financial status is being suspected. On the contrary, it should be a routine procedure of a business activity to inquire about the financial status of the firm/customer. Now, we shall see some examples of such type of letters.

8.1.3 Model Letters

(1) Request letter for reference :

Saundarya Cosmetics

1, Raj Complex,

Nava Road,

Vadodara -390001

Phone No. (0265) 25558596

E-mail : saudarycosmetics@gmail.com

27th March, 2016

Navvadhhu Novelty stores,

Zanjar Bazar,

Santram Road,

Nadiyad-387001

Sub. : Providing reference

Sir,

We received your letter dated 20th March 2016 for placing an order for a large quantity of various cosmetics products. Thank you for placing a huge order with us.

We have also taken note that you want to purchase above mentioned goods on the credit of 50 days. This is your first business dealing with us so as a part of business tradition and policy, it is required from you to furnish reference of a business firm or your bank. After having received reference letter form you, it would be possible for us to send goods as per your order.

I expect reference from you.

Yours faithfully,

XYZ

Owner

(2) Reply to the request letter for reference. :

Navvadhhu Novelty Stores

Zanjar Bazar,
Sant Ram Road,
Nadiyad-387001

Phone No. (0268) 22232425

E-mail : navnovelty@yahoo.co.in

2nd April, 2016

Saundarya Cosmetics,
1, Raj Complex,
Nava Road,
Vadodara-390001

Sub. : Regarding reference of our firm.

Sir,

You have suggested us to provide reference in your letter dated 27th March 2016. We, too, believe in following established business traditions and policies.

We have been dealing in cosmetic products for the last ten years. You can contact the following firm or our bank to know about our financial status :

- (1) Kamal Pharmacy & Cosmetics,
Gang Bazar, Sayaji Road, Vadodara 390001
Ph No : (0265) 27656566
- (2) Bank of Baroda,
Pij Road branch, Nadiad. 387001 Ph No : (0268) 37373536
Website : www.bob.org, E-mail : bobnadiad@gmail.com
C. B. No. : 00001334364072

After having received information from the above business firm and the bank will execute the order promptly.

Yours faithfully,
ABC
Partner

(3) Letter written to a business firm asking for opinion about another business firm that desires to purchase goods on credit. :

Saundarya Cosmetics

1, Raj Complex,
Nava Road,
Vadodara-390001

Phone No. (0265) 25558596

E-mail : saudarcosmetic@gmail.com

8th April, 2016

Kalam Pharmacy & Cosmetics,
Gang Bazar,
Sayaji Raod,
Vadodara-390001

Sub. : Query regarding the credit worthiness of Nav-Vadhu Novelty Store, Nadiad

Sir,

We have received your letter, requesting us to provide the financial and business status of Nadiad based Nav Vadhu Novelty Stores.

This firm desires to purchase goods worth ₹ 3,00,000 (Three Lacs only) on credit of 50 days. We request you to provide us information in this context, especially their dealings, reliability and the financial status of the firm. Your opinion will be helpful to us in taking decision regarding business tie up with that firm. We assure you that information provided by you will be kept confidential.

We will co-operate you if you need our help in this regard in future.

Yours faithfully,

ABC

Owner

(4) Letter expressing positive opinion about a business firm :

Kamal Pharmacy & Cosmetics

Ganj Bazar,
Sayaji Road,
Vadodara-390001

Phone No. (0265) 27656566

E-mail : kamalcosmetics12@gmail.com

15th April, 2016

Saundarya Cosmetics,
1, Raj Complex,
Nava Road,
Vadodara-390001

Sub : Opinion about Navvadhu Novelty Store Nadiad.

Sir,

We have received your letter dated 8th April 2016, requesting us to opine about the financial status and trust worthiness of Navvadhu Novelty Stores, Nadiad.

Pay attention towards the following information about the firm in reference to your letter.

Our opinion is based on the following matters (facts) :

- (1) We have business relations with this firm for the last 10 years.
- (2) On multiple occasions we have supplied the goods worth ₹ 1,50,000/- on credit. It has been noted that they have been punctual in their payments.
- (3) 'Navvadhu' Novelty Store is a popular name in Nadiad. Their credibility in business and trustworthiness for allowing credit in business can never be doubted. They have been able to popularize our products by attaining highest sale figures.

The above information should be adequate enough to help you in taking the decision.

We hope that information imparted by us is adequate and will be helpful in your decision of starting business with them.

Yours faithfully,

XYZ

Owner

(5) Letter not giving any guaranteed information, regarding opinion

Kamal Pharmacy & Cosmetics

Ganj Bazzar,
Sayaji Road,
Vadodara-390001

Phone No. (0265) 27656566

E-mail : kamalcosmetics12@gmail.com

15th April, 2016

Saundarya Cosmetics,
1, Raj Complex,
Nava Road,
Vadodara-390001

Sub : Opinion about Navvadhu Novelty Stores, Nadiad

Sir,

We have received your letter dated 8th April, 2015 asking for opinion about Navvadhu Novelty Stores, Nadiad

In reference to your letter we would like to state that we have dealt with this firm only in cash so we cannot state clearly whether to supply them goods on credit or not.

Let us know if you require any information regarding business.

Thanks for inquiry.

Yours faithfully,

XYZ

Owner

(6) Letter containing negative reply regarding the firm.

Kamla Pharmacy and Cosmetics

Ganj Bazaar,
Sayaji Road,
Vadodara-390001

Phone No. (0265) 27656566

E-mail : kamalcosmetics12@gmail.com

15th April, 2016

Saundarya Cosmetics,
1, Raj Complex,
Nava Road,
Vadodara-390001

Sub. : Opinion about Navvadhu Novelty Store, Nadiad

Sir,

We have received your letter of 8th April, 2016 requesting us to provide our opinion about Navvadhu Novelty Store, Nadiad.

- (1) This firm is quite old yet we find that it has been incompetent to create good prestige and goodwill in the market.
- (2) We have been dealing with them for the last three years. We have found them very irregular in making payment.
- (3) We have not supplied them goods worth more than ₹ 1,50,000 at a time on credit.
- (4) Even after frequent reminders regarding payment, some of the bills remain unpaid till today.

We trust that opinion given by us will be kept confidential.

Yours faithfully,

XYZ

Owner

8.1.4 Reference of bank and its letters Normally, business firms hold current bank account for business transactions. Payments are made through a demand draft/cheque against the purchase of goods. Amount received on the sales of goods is also deposited in this account. Opinion given by a bank is considered more authorized and reliable as it is given, considering the transactions made through that current account. Along with the business firms, letters are also written to the banks to know real financial status of the firm.

Normally banks do not disclose the information of their account holders to anybody or to any

firm. This type of information is provided only on demand from other banks. The stages of the letters written to the bank, to know the financial status and goodwill of a business firm, are as under :

- 'X' firm desires to purchase goods from the firm 'Y'.
- Firm 'Y' asks the firm 'X' to provide reference regarding their financial status and reputation from other business firm or their banker.
- Firm 'Y' requests its bank to obtain information regarding the firm 'X' from their bank.
- The bank of the firm 'Y', on behalf of their firm 'Y' writes a letter to the bank of the firm 'X' to know about their financial status.
- The bank of the firm 'Y' sends the information to the firm 'Y'.
- The firm 'Y' takes decision, according to the information received, whether to give goods on credit to the firm 'X'.

Now we shall study the correspondence with bank to know the financial status and financial transactions of a partnership firm

(7) Request letter to a bank asking for reference and the financial status of a business firm :

Amardeep Stationers

Vakil Chambers,
Gandhi Raod,
Amdavad-380001

Phone No. (079) 34485260

E-mail : amardeep59@gmail.com

8th May, 2016

Shivani Stationery Stores,
Motibaug,
Nava Bazzar,
Jamnagar-361001

Sir,

We are glad to know that you are interested in purchasing our products. We have noted that you have requested us to send goods on credit. According to our business tradition and policy, we request you to send your banker's reference regarding your financial status.

Send your banker's detail soon, so that if found favorable we could send goods to you on credit as per your order.

Thanks,

Yours faithfully,

XYZ

Partner

(8) Response of business firm regarding the reference of bank :

Shivani Stationery Stores

Motibaug,
Nava Bazzar,
Jamnagar-361001

Phone No. (0288) 213861

E-mail : shivanistores@yahoo.com

15th May, 2016

Amardeep Stationers,
Vakil Chambers,
Gandhi Road,
Amdavad-380001

Sub. : Regarding the reference of bank

Sir,

You suggested us to send our bank's reference, in your letter dated 8th May 2016. Names and addresses of the banks where we hold our current accounts are as under. They will provide required information about us :

1 State Bank of India

Opp. Civil Hospital,
Jamnagar-361001
Phone No. : (0288) 283540,
Website : www.sbi.net E-mail : sbijam@gmail.com
Account no of our firm : C.B. 00010010008880

2 Bank of Baroda,

Gayatri Madir Road, Mahavir Branch,
Jamnagar-361001
Phone No.. : (0288) 236382,
Website : www.bankofbaroda.org E-mail : bobjam@yahoo.com
Account no of our firm : C.B. 10002030405060

Please note that we have financial transactions with these two banks for the last 10 years.

Yours faithfully,

XYZ

Owner

(9) Letter written to the banker to obtain information regarding financial status of a business firm :

Amardeep Stationers

Vakil Chambers,
Gandhi Road,
Amdavad-380001

Phone No. (079) 34485260

E-mail : amardeep59@gmail.com

20th May, 2016

The Manager,
State Bank of Saurashtra,
Nr. Electricity House,
Relief Road Branch,
Amdabad-380001

Sir,

We hold current account with your bank, having current account no 00081150809359, under the name Amardeep Stationers.

Shivani Stationery Stores, Jamnagar desires to purchase goods from us on credit. In this regard they have given the reference of State Bank of India, Jamnagar where they have their current account with number C.B. 00010010008880.

We request you to write a letter to the State Bank of India, Jamnagar on our behalf and get us information about the financial status of the firm.

Yours faithfully,

ABC

Owner

8.2 Collection Letters :

8.2.1 Introduction Goods are sold on credit only if, after thorough investigation of customer's business prestige; the opinion regarding his business is favourable. The seller makes thorough inquiry about the financial status, trustworthiness and reputation of the buyer who wants to purchase goods in bulk and on credit. He may also arrange for getting reference from the buyer's bank through his (seller's) bank. After having supplied the goods on credit, the seller expects his payment within a fixed, specified time limit. This is an ideal situation but it does not always happen in reality. Shortage of working capital occurs if the payment is not received within reasonable period. It directly affects the daily financial transactions of a firm. The businessman selling goods on credit has to fix up specific policy regarding collection.

Collection letters are also called 'Dunning Letters'. The meaning of the English word 'to dun' means 'to remind repeatedly for making payment and to insist on prompt payment'.

The purpose of collection letters is to recover outstanding amount from the client. Care should be taken while writing collection letters that in no case client's dignity is dishonored and relations get spoiled. The principle "Recover money but retain customer" should be kept in mind while writing collection letter.

In reality collection letters are written in form of reminders. Proper moral pressure is gradually exercised to recover money through collection letters.

8.2.2 Various stages of writing collection letters

(1) The first step is to write an indirect and simple reminder after the due date of making outstanding payment gets over.

(2) If there is no response to the above letter then in the second stage, the attempt should be made in a friendly manner to know the reason for not making the payment and to solve the problem.

(3) The seller of the goods wishes to co-operate the customer in all ways, even then if proper response is not received from the customer, it is to be communicated that the seller will be compelled to go for litigation and that will harm the reputation of the customer.

(4) The final date of legal procedure is finally communicated, if increasing moral pressure in the letters has not been effective on the buyer.

8.2.3 Tips for writing effective collection letters

(1) The content of the letter should reflect a friendly attitude.

(2) While writing a collection letter it should be accepted that 'Customer is honest'.

(3) The message in the letter should be positive, hopeful and free from prejudice.

(4) The tone of the language of the letter should be softer. It should not hurt the feelings of the customer.

(5) Collection letters should be in a sequence and should have firmness in tone.

(6) Collection letter written skillfully and with firmness, should not be too brief. Infact, it requires, details regarding consequences.

(7) Before threatening legal action, the customer should tactfully be reminded of the significance of dignity, reputation and sincerity in business relations.

(8) The seller cannot afford the triple loss of money, goods and customer therefore a middle option of compromise should be sought..

(9) The customer should be made to realize his/her own benefit through collection letter.

(10) Secrecy of the collection letters should be observed to maintain the prestige of the customer hence collection letters should be sent in envelopes only.

8.2.4 Model letters

(10) Draft a letter to your customer who has purchased goods on credit and considerable time has passed in making payments. Write a letter to the customer drawing his attention towards unpaid bill.

Bharat Electronics

Sardar Market,
Mahajan Gate,
Bharuch-392001

Phone No. (02642) 384042

E-mail : bharatelectronics@gmail.com

22nd May, 2016

Shahjahan Electric House,
Palace Road,
Rajpipla-393145

Sir,

With reference to your letter dated 15th February 2016, we sent you 100 pieces of 'Kadam' Fans and 150 pieces with a complete kit of 'Surya Kiran' tube lights. We hope the sale of this product is quite good in the market.

We are sending a copy of the bill of the above mentioned goods for your reference. The total amount of the bill is ₹ 1, 90,000 (Rupees One lac and ninety thousand only). The period of its three months credit is over on 15th May 2016. Do the needful in this matter, promptly.

Regular payment strengthens business relations and makes relations business oriented. We think, you know this and strongly believe in it.

Thanking you,

Yours faithfully,

ABC

Owner

Encl. : One copy of bill.

(11) Draft a letter showing your concern for the problem of the customer who normally was regular in making payments but this time he/she has not responded positively in spite of writing reminders to make payment :

Samay Watch Co.

51, Bharavi Tower,
Station Road,
Navsari-396445

Phone No. (02638) 482830

E-mail : samaywatchco@gmail.co.in

15th August, 2016

South Gujarat Watch Company,
Mandvai Bazar,
Tithal Road,
Valsad-396001

Sir,

Good wishes on Independence Day. We expect that up-coming festivals may strengthen our business relations.

We dispatched you a large quantity of various types of watches on 10th June 2016. We sent a reminder to you on 20th July for the payment of ₹ 25000 only (Rupees twenty five thousand only) as its credit period is over. 15 days have already passed but we have not heard anything from you. Regularity in payment has always been your special feature. We appreciate your dedication for our business relations for the last 10 years. Delay in payment and not replying our letter indicate that you have some financial hitch. We are ready to help you in just and fair ways regarding solution of your financial problems and your reply would help us in getting some idea about your present situation.

We await a response from you.

We expect your co-operation.

Yours faithfully,

ABC

Owner

(12) Draft a letter expressing the feelings of disappointment for National Publishing House, Godhara as they have not made any attempt to make payment in spite of your soft attempts for collection of amount.

National publishing House

Vora Vadi,
Akabar Road,
Godhara-389001

Phone No. (02672) 786225

E-mail : rashtriyhouse@yahoo.com

15th October, 2016

The Saraswati Book Bhandar,
Kadiya Bazzar,
Sardar Raod,
Santrampur-389260

Sir,

With reference to your letter dated 5th July 2016, we have sent you 100 copies of 'Gujarati Nibandh Mala' of standard 11 and 12 and also 50 copies of Gujarati – English Dictionary. The amount of its bill is Rs 18,000 (Rupees Eighteen thousand only).

We have sent you two reminders on 1st September, 2016 and the other one on 15th September 2016 respectively but no favourable response is received from you. This type of attitude is risky for business relations. In our previous letters, our attitude to co-operate you has not created any positive impact on you. Moreover we haven't received any satisfactory reply when we talked to you on telephone. Your behavior is not befitting to any reputed businessman.

We have made all necessary attempts to receive payments from you. This is for the last time we let you know to make the payment latest by 25th, October 2016 at the rate of 10% interest, Failing which we shall be compelled to proceed legally.

Yours faithfully,

ABC

Owner

(13) Letter informing about legal steps as the last source of getting the amount of unpaid bill of the goods.

The Speed Stars Cycle Stores 10, Kaveri Tower, Vile-Parle, Mumbai-400056	
Phone No. (0215) 23657001	E-mail : speedstarscycle@gmail.com
15 th March, 2017	
The Maruti Cycle Stores, Nr. Sharmishta Lake, Vadnagar-384355	
Sir,	
<p>We have made attempts through our three reminders to awaken your sense of duty to pay ₹ 35,000 (Rupees thirty five thousand only) against the bill dated 31st December 2016. You have not showed even courtesy to reply our stage wise written letters. We have been compelled to take a legal action against you due to your irresponsible attitude. Finally as per our e-mail sent on 5th March 2017, if we do not receive the amount with interest on or by 20th March we shall go for legal procedure through our lawyer. Please take note of it.</p>	
Yours faithfully, ABC Owner	

What have you learnt in this chapter ?

Business on credit is carried out only if favourable opinion regarding financial status of a business firm is received. The seller thoroughly examines the financial status of the business firm before giving goods on credit. In spite of a positive opinion, the customer is honest and upright he/she might not be in a position to pay the bills within the time period of credit due to recession in the market and unforeseen circumstances. In these circumstances, collection letters are written indirectly, in a very polite language without hurting the customer, in various stages. But a few customers/buyers would not pay any attention towards paying debts, intentionally. In that case, either by threatening the customer or by taking legal steps, if required, the amount of unpaid bills is recovered.

Exersice

1 Select suitable option from the given options

- (1) To expand the scope of business in which of the following sales methods is not required to know the financial stability ?
- | | |
|--------------------------|------------------------|
| (A) Hire purchase method | (B) Cash method |
| (C) Sales on credit | (D) Future sale method |

- (2) Whose opinion is considered more authentic while inquiring about the financial status of a firm ?
 (A) Insurance Company's (B) Angaida Firm's
 (C) Bank's (D) Other Business Firm's
- (3) What is to be verified to know the financial status ?
 (A) Business experience (B) Repaying capacity
 (C) Enthuasim to work (D) Business for sightedness be avoided
- (4) Which of the following is the chief aim of letter of collection ?
 (A) To wish the customer (B) To recover the dues
 (C) To obtain order in large quantity
 (D) To inform the customer regarding legal procedure.
- (5) By which other name, the collection letters are known ?
 (A) Threatening letter (B) Dunning letter
 (C) Settlement letter (D) Complaint letter

2 Answer the following questions in one sentence only

- (1) What type of information does the seller expect from the buyer who wishes to buy goods on credit ?
- (2) What risk factor is involved while selling goods on credit ?
- (3) How is the customer benefitted by selling goods on credit ?
- (4) When should be the letter of collection written ?
- (5) How should the letter of collection be sent to maintain its secrecy ?
- (6) Which matter should be specifically mentioned in the final letter of collection ?
- (7) What would be the consequences, if the payment is not made within time ?

3 Answer the following questions in brief

- (1) Explain the process of obtaining financial status.
- (2) Which four things should be assessed before supplying goods to a business firm on credit ?
- (3) Explain the different stages of a collection letter ?
- (4) By which other name, the collection letters are known ?

4 Draft the following letters

- (1) You have received a large order for the first time from Himmatnagar based Paras Novelty Store who desires to purchase ready made garments on credit. Draft a letter asking them to provide reference of another business firm.
- (2) Pratima Jewellers has received a letter to furnish reference about Saunday Jewellers, Rajkot. Draft a letter expressing positive opinion regarding Shanagar Jewllers.
- (3) Adhunik Cycle House of Porbandar suggested its banker to obtain information regarding its financial status. Draft a letter to your bankers to get you the information regarding the financial status of the firm.
- (4) Draft a letter to your customer giving your indirect suggestion to pay the amount of the goods sent on credit as the time limit of the credit has exceeded.
- (5) Draft a letter to Rimzim House, Vadodara informing them to be prepared for legal notice as in spite of warning for legal steps, no positive response for payment of unpaid bill is found.



PART : 2

Secretarial Practice

1

Meaning and Types of Secretary

What will you Learn in this Chapter ?

- 1.1 Meaning and definition of Secretary
 - 1.1.1 Meaning
 - 1.1.2 Definition
- 1.2 Types of Secretary
 - 1.2.1 Private Secretary
 - 1.2.2 Ministerial Secretary
 - 1.2.3 Company Secretary
 - 1.2.3.1 General Secretary
 - 1.2.3.2 Administrative Secretary
 - 1.2.4 Secretary of Embassy
 - 1.2.5 Departmental Secretary
 - 1.2.6 Association/Union Secretary
 - 1.2.6.1 Student union Secretary
 - 1.2.6.2 Secretary of Club
 - 1.2.6.3 Educational Institutional Secretary
 - 1.2.6.4 Labor Union Secretary
 - 1.2.6.5 Trade Association Secretary
 - 1.2.6.6 Co-operative Society Secretary

Introduction

Man is the most intelligent in of all living beings the world. He has always developed himself. In this development process, he has worked more and more. At one time he was not able to do all the work himself, at that time he required an assistant who could work on behalf of him. The development of Commerce started with the development of man. Initially development was slow but after industrial revolution and due to various inventions and discoveries, the new word of commerce arosed.

The Modern Commerce started with sole trader business. Then partnership firm, company, co-operative society, Joint sector units came into existence. The limitation of one form became responsible for the emergence of other forms of business. As time passed and due to wars, political boundries has changed. Different ideologes emerged. Due to different types of inventions exchange of information became faster. Due to all these the formation of commerce has changed to Multi National Company. Which has established its own position. These corporate institutions are directly or indirectly connected with human life it. If you are using a tooth paste, eating potato chips or using mobile phone, are the all product of these Companies.

In these Companies, Shareholders the investors are the real owners (i.e. share holder) which are

spread all over the country. So Share holders can't manage company. The Company is managed by Board of Directors, but to manage day-to-day affairs secretary is to be appointed. The company is not a living person yet it enters into contracts, formulates documents, take important decisions. Law has assigned an artificial personality to the company. The Secretary is involved in these functions. The secretary's position is important in the company. In India, after independence, Company Law was introduced in 1956. Under this law many amendments have been done from time to time, ultimately in 2013 new Company Law has been introduced. (The amendments in company low up to dt. 29-5-15 has included in this book)

1.1 Meaning and Definition of Secretary

1.1.1 Meaning : In Gujarati language the word 'secretary' has been derived from English. Generally we use Mantri word in Gujarati, which means personal assistant/secretary. In olden days Kings and other Royal Families used to keep secretary. Shri Sumant was a secretary of King Dasharath. Shri Vidur was secretary of Dhritirashtra. In Mughal Empire they were called 'Vazir'. Birbal, Abul Fazal were well known. In the ancient Roman Empire those who performed the work of correspondence on behalf of the king were called **Scriba**. The word Secretary is derived from Latin word 'secretarius' which means one who keeps secret details and observes correspondence. Secretary works as personal assistant. He does correspondence on behalf of his Master and keeps personal secrets. He is not supposed to reveal his master's secret to others.

1.1.2 Definitions : Secretary can be defined as follows :

In the general sense "Secretary means a person who performs the activities of maintaining secrecy, observes correspondence, documentations, keeps records of agreements and undertakes other activities as directed on behalf of another person, association, corporation or public institutions."

As per Oxford Dictionary "A person who conduct correspondence on behalf of any person society corporation or any public institution keeps records and maintains any carry out different business transaction is appointed."

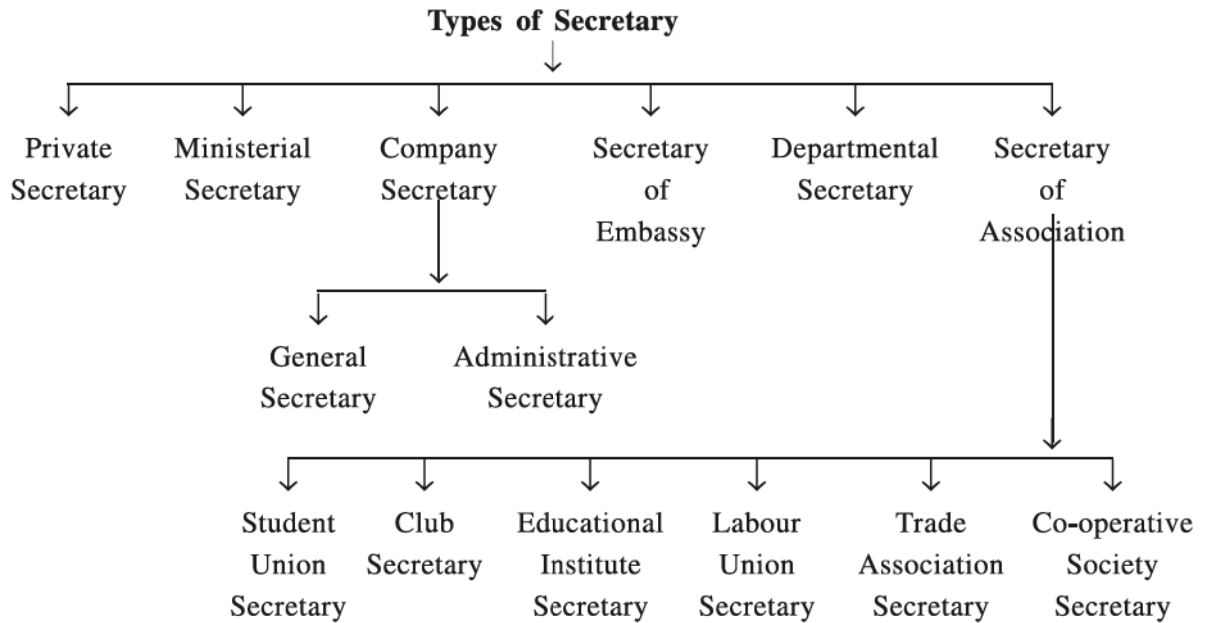
According to the Company act "**Secretary means constitutionally qualified person appointed to observe the responsibilities of the duties as assigned to the secretary according to the statute and performance of other administrative and ministerial duties.**"

From the above definitions the following points can be drawn. They may also be called as characteristics of secretary :

- (1) The Secretary must be properly qualified.
- (2) The secretary knows personal matters and secrets of his master and keeps it confidential.
- (3) He performs whatever duty is assigned to him.
- (4) He doesn't have any of his own authority. Authority is assigned to him.
- (5) The secretary is helpful to constitute documents and contracts. He does correspondence on behalf of his master. He preserves documents, contracts properly.
- (6) Only a living person can be appointed as secretary.

1.2 Types of Secretary

We have seen earlier that **the word Secretary** was used for the persons who were corresponding on behalf of Rulers. As society developed commerce also developed and the significance of the word 'secretary' became wider. Now word 'secretary' is used in extensive meaning. In the present times Leaders, actors, ministers, business men etc. Keep secretary. In different institution like Co-operative society, Labour unions, Cricket Board , trade Association ,Government Corporation, Government Department the position of secretary is very important. These institutions probably would not be able to function without secretary. Generally in Hindi Prime Minister is known as '**Pradhan Mantri**' and state chief minister is also known as **Mukhya Mantri**. From the above points secretary can be classified in the following types :



1.2.1 Private Secretary : Private Secretary is also known as P.A. or some time as confidential personal secretary. Such type of secretary attends phone/calls, observes correspondence on behalf of his Master. More over he looks after the administrative work makes arrangement of scheduled appointments and reminds to this busy master. In the present time film artists, industrialists, chief executives, Officers, Political leaders and business tycoons institutions appoint Private Secretary. Professional, like Doctors, solicitors, Chartered Accountants also appoint P.A. when their function becomes wider. Honest trustworthy persons are generally appointed as a Private Secretary.

1.2.2 Ministerial Secretary : In Western countries people elect President. Such elected President is responsible for the administration. The president nominates persons to look after different departments. They are called Department Secretary. In India also Ministerial Secretary is head of Department.

1.2.3 Company Secretary : As per new Company Act 2013 appointment of secretary is mandatory, where subscribed capital of a company is Rs 5 crore or more. In a company, position of secretary is very important because as per the Company Law, company possesses artificial personality. Here Shareholders (owner) and company are two separate identities. The management of the company is carried out by the Board of Directors. All the members of Board of Directors are not acquainted with all rules and regulations and all are not local. So, to administer Company as per the rules and regulations efficiently a competent officer is appointed. He is known as Company Secretary. Thus the secretary is appointed by Board of Directors. He is an employee of a Company. The secretary has to carry out the orders given by the Board of Directors. He does not have any power but he has to follow orders. The authority has been assigned by Board of Directors; he has to carry out functions as directed by the company law. Thus secretary works under the control of Board of Directors. The company secretary can be divided into two types from the view point of delegation of authority. (1) General Secretary (2) Administrative secretary.

1.2.3.1 General Secretary : The general secretary looks after the following day-to-day activities of the company according to the direction of the Board of Directors :

- (1) To carryout correspondence on behalf of the company,
- (2) Issue of shares and debentures as ordered by the Board of Directors,
- (3) To observe the functions of share allotments, transfer, calls on share, forfeitures of shares,
- (4) To issue notice for the General meeting of shareholders, to prepare its agenda and to maintain its minutes,.
- (5) To prepare statements, documents which are mandatory in Company Act, and file with company registrar,
- (6) To distributs dividend.

1.2.3.2 Administrative Secretary : The following are the main functions of Administrative secretary :

- (1) To select and appoint employees,
- (2) To negotiate and prepare the agreement on behalf of the company,
- (3) To observe the Accounts of company,
- (4) To provide reliable information to the Board of Directors in the matter of policy formulation and programming,
- (5) To look after the administration of various departments of the company,

Thus as an administrative officer, Secretary is a link between Board of Directors and company.

1.2.4 Secretary of Embassy : Now-a-days every country nominates its representative as an Ambassador in other country. Their main function is to protect interest of their own country and to convince over their contry's ideology. Such secretary is known as the Secretary of Embassy.

1.2.5 Departmental Secretary : The people of country elect Members of Parliament or Member of Legislative Assembly. Whichever party has majority, form the Cabinet Ministry. The Minister takes care of particular Department. The minister becomes in charge of that particular Department. To manage that department a Gazzeted Officer (IAS) is appointed who is known Departmental Secretary. The function of such secretary is to look after smooth administration of departments as per policy formulated. The Secretary has to work efficiently, honestly and lawfully. These secretaries are like Secretary of Education Department, Secretary of Home Ministry etc.

1.2.6 Association/Union Secretary : As human civilization advanced, the form, scope and range of cultured economy and society changed. So the economic, social, political and cultural institution and unions need secretary. The various types of Union Secretary are :

1.2.6.1 Student Union Secretary : In Schools and Colleges make the student understand democratic pattern, to utilize student rights, to represent their problems such student union are formulated. The students elect their secretary by election. Such elected person is known popularly as G.S. (General Secretary).

1.2.6.2 Club Secretary : Clubs are established to promote sports and, cultural activities e.g. The Sports Club of Gujarat ,B.C.C.I. (Board of control for Cricket in India) etc. The Secretary is elected or appointed as per constitution of club. The function of such secretary is to manage club according to the need and prevailing Law.

1.2.6.3 Educational Institute Secretary : In cities like Delhi, Kota and Ahmedabad big educational campus is established. To manage such big educational institutions secretary is appointed. In such place secretary is works as Chief Administrative Officer.

1.2.6.4 Labour Union Secretary : The workers who are working in different areas, formulate labour union. to represent their demands, problems before authority/ Government. As for example in India INTUC (Indian National Trade Union Congress) and ITUC (International Trade Union Confideration) unions are active. These unions appoint secretary to represent their demands before respective authority. In 1922 the Ex-President of India Shri V.V.Giri established 'Akhil Bhartiya Rail Karmchari Sangh'.

1.2.6.5 Trade Association Secretary : The Trade Association, The Producers Association, The Service Sector Association etc. establish their union to solve their problems which are raised in business e.g. Indian Chamber of Commerce, FICCI etc. are such associations. When such association is formulated their secretary is appointed. The secretary has to manage such associations as per their constitution.

1.2.6.6 Co-operative Society Secretary : To promote economic empowerment of the people, to enhance social and cultural environment of the society co-operative society/ credit co-operative societies are established e.g. Housing Co-operative Society. In school, colleges and in other institutions also employees establish Staff Credit Co-operative society to obtain loan in easy terms and conditions. In such co-operative society secretary is appointed or elected. The secretary has to manage co-operative society as per its constitution/rules and regulations of society..

What have you learned in this chapter ?

As the wandering tribe started to live a settled life, commerce came into existence and gradually barter system – evolution of money- industrial revolution and modern inventions enhanced the development of commerce. The Sole trader business, partnership firm, company, cooperative society etc. came in to existence. Initially development rate of commerce was slow but communication made it speedy. The position of secretary becomes important in company formation.

Meaning : In Gujarati secretary is known as **Mantri**. In olden time rulers and royal families appointed secretary who observed communications and negotiations. The word Secretary is originally derived from Latin word ‘secretarius’ which means person who keeps secret details and observes correspondence

Definitions : In a general sense “**Secretary means a person, who performs the activities of maintaining secrecy, observes correspondence, documents, keeps records of agreements and undertakes other activities as directed on behalf of other persons, association and corporation or public institutions.**”

According to the company Act “Secretary means constitutionally qualified person appointed to observe the responsibilities of the duties as assigned to the secretary according to the statute and performs other administrative duties.”

Types of secretary :

(1) **Private Secretary :** Private Secretary is also known as P.A. or confidential secretary. Usually Leaders, Film stars, Executives Professional persons like doctors lawyers appoint such assistant for day to day functions.

(2) **Ministerial Secretary :** In Western Countries President nominates a person for the administration and to look after the different departments, known as secretary.

(3) **Company Secretary :** Company is an artificial person. It exists due to law and it is managed by Board of Directors. But for the day to day administration secretary is appointed by Board of Directors. The secretary is link between Board of Directors and Company. As per the assignment of authority by the Board of Directors secretary can be of two types :

(A) **General Secretary :** Who observes communication on behalf of the directors about issues shares and debentures, performs share allotment, share forfeiture, share transfer and issues notice to members for the meeting

(B) **Administrative Secretary :** Who selects and appoints employees, negotiate on behalf of the company, keeps a watch on different departments, keeps a track of accounts, provides reliable information to the Board of Directors.

(4) **Secretary of Embassy :** Each and every country nominates its representative in other country as Ambassador. Such secretary protects the interest of the nation and makes clear the ideology of the country.

(5) **Departmental Secretary :** The minister is in charge of department and gazzeted officer are appointed for administration. These officers are known as Departmental secretary. They administrate department as per policy framed.

(6) **Secretary of Association :** With the development of civilization, to promote economic, social and cultural activities different types of association came into existence Student union, clubs, educational institute, labour union, trade association, co-operative society. In such associations the secretary is appointed or elected to represent their problems, to develop association, to administrate properly and to follow present rules and regulation.

Exercise

1. Select suitable option from the given options :

- (1) As per the company Act appointment of secretary
- (A) is done when company is making loss.
(B) is done when subscribed capital is 5 crore or more.
(C) is not essential. (D) is done by shareholders.
- (2) As a departmental secretary
- (A) Secretary of Embassy is appointed. (B) Secretary of Association is appointed.
(C) Secretary of club is appointed. (D) Gazzeted officer is appointed.
- (3) Company secretary
- (A) is link between company and Board of Directors.
(B) is not essential in company.
(C) is counseling shareholders. (D) is administrates Board of Directors
- (4) Full form of FICCI is
- (A) Firefox Institute of Cricket Club of India
(B) Federation of Internal Control of Chamber of India.
(C) Federation of Indian Chamber of Commerce & Industry
(D) Federation of Indian Chamber of Commercial Institute
- (5) Distribution of dividend is done by
- (A) Company's general secretary. (B) Administrative secretary of company.
(C) Student Union secretary. (D) secretary of labour union
- (6) Secretary of Cooperative Society is
- (A) Secretary of Staff credit cooperative society
(B) Secretary of labor Union
(C) Secretary of trade union (D) Secretary of Educational Institute

2. Answer the Following Questions in One Sentence :

- (1) What do you mean by private secretary
- (2) What is the personality of company ?
- (3) In a company which secretary does selection and appointment of employees ?
- (4) Who appoints secretary in a company ?
- (5) Where was 'Scriba' famous ?
- (6) How many types of company secretary are there ?
- (7) Which company Law is in existence to day ?
- (8) When is the appointment of secretary mandatory according to new company act ?
- (9) Who was the secretary of King Dasharath ?

3. Answer the Following questions briefly :

- (1) Who appoints Personal Secretary ?
- (2) What are the causes of change in formation of commerce ?
- (3) Who is known as Ministerial Secretary ?
- (4) How are corporate institutions are connected with human life ?
- (5) What are the functions of Secretary of Embassy ?
- (6) What is the need of Secretary of Embassy ?

4. Answer the Following Questions to the point :

- (1) Who is the departmental secretary ? What are the functions of departmental secretary ?
- (2) Write down characteristics of secretary.
- (3) What is the importance of company secretary ?
- (4) Narrate the functions of General Secretary.
- (5) Write down the functions of Administrative secretary.
- (6) What are the functions of confidential secretary ?
- (7) Who are included in Association Secretary ?

5. Answer the Following Questions in Detail :

- (1) Narrate the types of secretary.
- (2) Give the meaning and definition of secretary.
- (3) How did the necessity of secretary arise ?
- (4) Why is the position of secretary important in company ?

You may be Egger to Know

INTUC	:	Indian National Trade Union Congress
ITUC	:	International Trade Union Confederation
P. A.	:	Personal Assistant
BCCI	:	Board of Control for Cricket in India
FICCI	:	Federation of Indian Chamber of Commerce & industry (established in 1927)
MNC	:	Multi National Company

2

Company Secretary

What will you Learn in this Chapter ?

- 2.1 Qualities and Qualifications of Company Secretary
 - 2.1.1 Qualities of Company Secretary
 - 2.1.2 Qualifications of Company Secretary
- 2.2 Appointment of Company Secretary and its provision
- 2.3 Functions and duties of Secretary
 - 2.3.1 Functions of Secretary
 - 2.3.2 Duties of Secretary
- 2.4 Authority, limitations and liabilities of Company Secretary
 - 2.4.1 Authority of the Secretary
 - 2.4.2 Limitations of authority of a Secretary
 - 2.4.3 Liabilities of Secretary
- 2.5 Termination of the Company Secretary
- 2.6 Significance of Secretary

Introduction

Commerce has changed along with the change of social pattern. In the present times it appears in the form of a general company, a big company and multinational company. Now a days Company Secretary is essential as per the new Company Act. The Company secretary is a special managerial officer in company structure. He has to manage company efficiently, effectively by observing Company Act. New Company Act 2013 has given special status of Key Managerial Personnel to the secretary. In the Company Law the following five persons have been included as Key Managerial Personnel(KMP) :

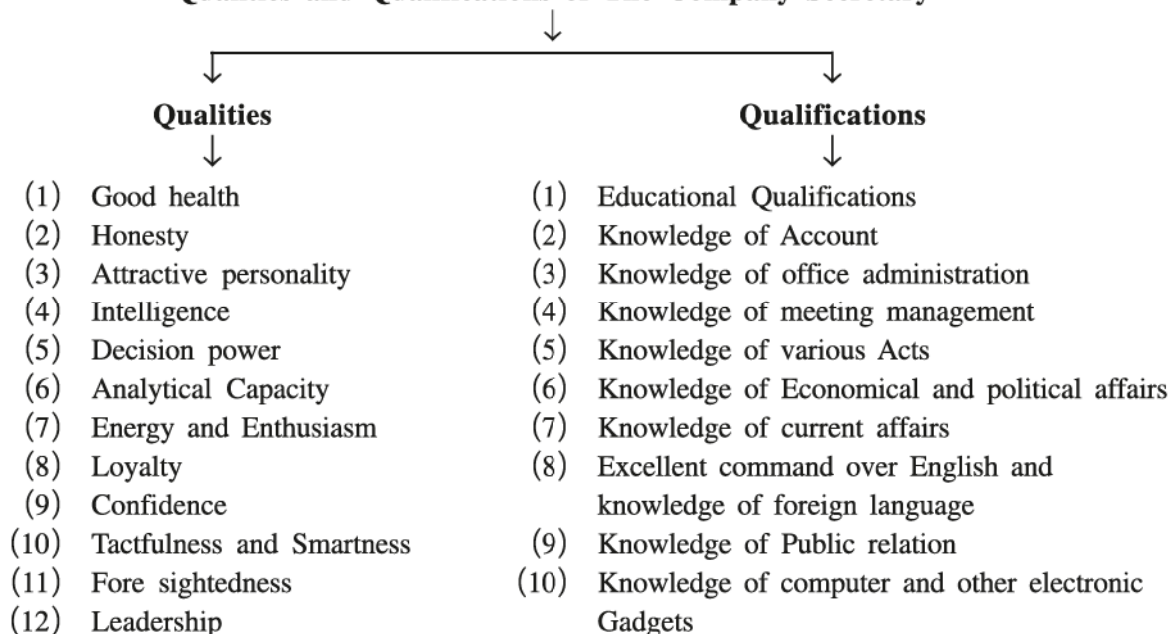
(1) The Managing Director or Chief Executive Officer or the Manager, (2) The Company Secretary and (3) The Chief Financial Officer /Such Other officer as may be prescribed (4) The wholetime director (5) Such other officer as may be prescribed.

It can be said that Company Secretary has been given second position in KMP according to company provision.

2.1 Qualities and Qualifications of Company Secretary

As the Company Secretary has been put as KMP, naturally his responsibilities and fields of action are exhaustive. To fulfill the responsibilities properly he must have minimum qualification as per the Company Act and extra qualification to fulfill the job satisfactorily in the company.

Qualities and Qualifications of The Company Secretary



2.1.1 Qualities of Secretary : Qualities are as below :

- (1) **Good Health** : As the company secretary is Chief Administrative Head he has to work hard at different levels. He has to face irregularities. To fulfil his commitments he has to work hard, for that good health is essential then he will not get tired. If he is physically fit naturally he will be fit mentally also.
- (2) **Honesty** : The Secretary is key managerial personnel. He knows each and every matter of the company. So it becomes his moral duty to be honest. His good character and good habits will motivate other officers. He has to see interest of the company instead of his own, for that honesty is essential.
- (3) **Attractive Personality** : The Company secretary has to work with many people like: Shareholders, Debenture holders, Board of Directors, Government Officers, Employees, General public etc. Moreover he has to work with Bank, Government Department and other specialized professional persons. For that, his personality should be attractive and impressive to such people.
- (4) **Intelligence** : The Secretary has to look after administrative function, business affairs, economic affairs, rules and regulation of the Company Act, along with policy matters. To carry out all this commitments the secretary must be highly intelligent and sharp to tackle all this matters effectively and efficiently.
- (5) **Decision Power** : It is very difficult to take proper decision at a proper time for any matter. At the same time it is also very essential to take prompt decision for effective administration and to take advantage of available opportunity. If the secretary has quick, proper decision power then time, resources and energy can be saved.
- (6) **Analytical Capacity** : The secretary has to prepare contracts, agreements. For that he must have capacity to analyse different aspects of such agreements. Whenever any administrative or executive problem occurs he must have the ability to unfold it and take prudent decision. If the secretary doesn't have such capability there is possibility of wrong decision.
- (7) **Enthusiasm** : If the company secretary is energetic, he will motivate other employees because persons with lack of enthusiasm (indolent) make work burdensome while enthusiastic person makes it easy.
- (8) **Loyalty** : As the Company Secretary is a Key Managerial Person he has sensible and confidential information with him. So loyalty is essential. He should not provide any information to other competitive company for his own interest.
- (9) **Confidence** : Whatever the decision is taken by the Secretary, he must have confidence. His confidence must be reflected in his work. He must have such confidence that whatever work is done by him will be a success. The confident secretary is easily able to manage complicated situations. He should always be optimistic towards work.
- (10) **Tactfulness and Smartness** : The secretary must have ability to understand the complications of law. Tactful secretary turns tough situation easy. A smart secretary has ability to understand what's happening around him and what types of changes are going to take place. The tactful and smart secretary is able to manage situations according to the requirement.
- (11) **Foresight** : The Company Secretary is closely associated with day to day functions. He must know that a decision taken by him in the present, and its consequences on future.

- (12) **Leadership** : The Company secretary is a high ranked responsible officer. He must have quality get the work done timely and effectively from other officers. For this the secretary must have leadership quality like co-operation, courageousness, and capacity to motivate other officers. Ultimately it is helpful to the secretary to fulfil his responsibility properly and in time.

2.1.2 Qualifications of The Company Secretary : In the Company Act minimum Qualifications of the Company Secretary is prescribed. But usually the secretary acquires more qualifications to fulfil his responsibility effectively and easily. These qualifications can be achieved through education and training. These qualifications are as under :

- (1) **Educational Qualifications** : The Company Secretary must have Certificate of Institute of Company Secretary. It means he must be Company Secretary. Moreover Degree of Law helps him to prepare agreements, legal documents, contracts and in other legal affairs.
- (2) **Knowledge of Accounting** : The books of Accounts must be prepared as per rules and regulation of the Company Act in time. Then only it may be possible to get them audited in time. These are the responsibilities of the Company Secretary. If the accounts are prepared in time, the secretary can submit annual accounts in time to the shareholders at annual general meeting. He is able to do this if he has basic knowledge of accounts.
- (3) **Knowledge of Office Administration** : The company secretary is chief of administrative office. He must have ability and knowledge of distribution and coordination of work between different departments. The Company Secretary requires knowledge of office administration to resolve problems arising in day to day office functions.
- (4) **Knowledge of Meeting Management** : The Company Secretary has to arrange different types of meetings like Board of Directors, Shareholders, creditors etc. In these meetings secretary has to perform duties before meeting, during meeting, and after meeting. He has to issue notice for meeting, he has to prepare agenda and also he has to write down minutes. During these meetings he has to observe rules and regulation for quorum, proxy and voting rights as per Company Act. So the Company Secretary requires knowledge of meeting management.
- (5) **Knowledge of Various Acts** : In the present situation the secretary is supposed to know various laws. It is very essential to manage company effectively. In these laws particularly Indian Contract Act, SEBI Act, Sales of Goods Act, Stamp duty Act, Provident fund Act, Law for VAT, Law for Service Act etc. are essential for the Company Secretary to perform his duty with perfectly and lawfully. By the knowledge of these laws he can prevent probable legal hurdles.
- (6) **Knowledge of Economical and Political Affairs** : The Company is formed in society. Ultimately it is a part of society. It comes across different section of society. The company is affected by the economic and political affairs of society. The secretary must converse himself with present affairs and changing situation. So the Board of Directors may be intimated in proper time, situation can be handled properly and the arising situation can be turn into a profitable one.
- (7) **Knowledge of Current Issues** : The Company Secretary must know the current affairs and present problems. The current affairs may affect the development of the company, e.g. in Assam certain group has put restriction on exporting crude oil. In such type of situation the secretary may provide proper guidance to Board of Directors to prevent such situation in future.

- (8) **Excellent Command Over English and Other Languages :** Now a day in any company communication for business is in English. The Company Secretary has to follow correspondence with various parties in English. The Company Secretary must be excellent in English. With the development of company it has to deal with foreign company. At that time foreign language is helpful for the secretary to understand and do agreements with foreign companies.
- (9) **Knowledge of Public Relations :** The Company Secretary has to maintain relations with various parties. The relationship with such parties is essential to build up confidence amongst these parties. In the long run it helps to increase the prestige and goodwill of the company. So the knowledge of public relation is a basic requirement for the company secretary.
- (10) **Knowledge of Computer and Other Electronic Gadgets :** In the modern times computer has become a basic requirement for company. Computer is very helpful to store various types of information regarding shareholders, debenture holders, Board of Directors, creditors and other information of company on huge scale, which saves time, resources and human labour. To gain this advantage, knowledge of computer is essential. Moreover he must be well conversant with electronic gadgets which are used in office administration and to command and control over indiscipline of employees.

2.2 Appointment of Secretary and its Legal Provisions

As per the new Company Act 2013 the Company Secretary is Key Managerial Personnel. At the time of appointment of company secretary, provisions of company law should be followed.

Legal Provisions Regarding Appointment of the Company Secretary :

- (1) For the company which has subscribed capital of Rs. Five crore or more, appointment of secretary is mandatory.
- (2) Only living persons can be appointed as secretary. The partnership firm or any institute/ corporate units cannot be appointed.
- (3) The person who is going to be appointed must have Certificate from Institute of Company Secretaries of India.
- (4) As a company secretary minor person or an insolvent or an insane person cannot be appointed.
- (5) To appoint a company secretary resolution of the Board, should be passed in the board of Directors meeting. In this resolution.....
 - terms and conditions of appointment
 - remuneration
 - and membership number are essential.
- (6) Willingness certificate is to be taken from the secretary to be appointed as KMP.
- (7) With the Registrar of Companies (i) Form MGT 14 along with resolution of Board of Directors and consent letter to work as KMP (Key Managerial Personnel) should be registered. (ii) Form MR1 and willingness letter to work as KMP and resolution of Board of Director should be registered within 60 days.

2.3 Functions and Duties of the Company Secretary

The Company Secretary has important position in Private Limited Company, Public Limited Company as well as in a Multinational Company. The functions and responsibility depend upon (A) types of business (B) terms and conditions of appointment (C) work assigned by directors. The functions and responsibilities which are to be performed are mentioned in agreement.

2.3.1 Functions of Secretary : Following functions are to be carried out by secretary :

- (1) The secretary has to report to the Board of Directors as per rules under the provisions of law and other rules applicable to the Company.
- (2) The Secretary has to ensure that the Company is maintaining Secretarial standard.
- (3) To perform the duties which are prescribed in Law.

2.3.2 Duties of Secretary : Following duties are to be performed by secretary :

- (1) To guide the Board of Directors of the company for their duties and responsibilities.
- (2) To arrange Board meeting, Annual general meeting and to prepare their minutes.
- (3) To obtain permission from the Board of Directors, General Meeting, Government and other competent authority as per Company Act requirement.
- (4) To represent with various authorities and perform other duties as per Companies Act.
- (5) To help Board of Directors to run business of Company.
- (6) To guide and help for good Corporate Governance and best practices of Company.
- (7) To perform other duties as prescribed in Companies Act.
- (8) To perform duties as and when allotted by The Board of Directors.

2.4 Authority – Limitations and Liabilities of Company Secretary

2.4.1 Authority of the Secretary : The Company Act doesn't provide specifically for the authority of a secretary. There is a provision for authority in the Articles of Association. If it is not defined in the Articles of Association, Board of Directors pass a resolution regarding authority of the secretary. The authority of the secretary can be described as below :

- (1) To register the necessary documents with the Registrar of Companies to obtain Certificate of Incorporation.
- (2) The Secretary is the Head of Office Administration. He has the authority to look after and control the various department of the company.
- (3) The Company Secretary is authorized to sign the letters related to allotment of shares, calls on shares, forfeiture of share, share transfer etc. on behalf of the company.
- (4) The secretary undertakes correspondence with different parties on behalf of the company.
- (5) The secretary is authorized to work as agent of the company.
- (6) The Company is responsible for the act done by Secretary as per the power assigned by Board of Directors.
- (7) The secretary is authorized to execute the work as per the direction of Board.

2.4.2 Limitations of Authority of a Company Secretary :

- (1) If the Board of Directors has not instructed, the secretary cannot convene any meeting as per his wish.
- (2) The secretary cannot borrow finance on behalf of the company for the company affairs.

- (3) The secretary can help to prepare agreements, but he cannot enter into agreement on behalf of Company without authority.
- (4) The secretary cannot take any decision on policy matters.
- (5) The agreements entered into are null and void for which the secretary is not empowered by the Board and the company is not bound for it.
- (6) The Secretary cannot issue shares to the public without authority..

2.4.3 Liabilities of the Company Secretary : The company secretary is responsible in the following circumstances.

- (1) The company secretary is responsible if he violates the provision of Company Act.
- (2) The Company Secretary is responsible if does not submit necessary documents to the registrar of Companies in specific time.
- (3) The company secretary is responsible if he misuses his power or takes commission secretly. He is liable to punishment with fine and /or imprisonment.
- (4) The secretary is responsible for any act beyond the powers delegated, misappropriation of fund, fraud.
- (5) The secretary is responsible for any loss that occurs by the company due to willful negligence of duties. It is the responsibility of the secretary to pay for loss.
- (6) The secretary is responsible for not writing necessary recommendations of the meeting or minutes of the meeting.
- (7) The secretary is responsible if he fails to present annual reports in the general meeting with in the prescribed time.
- (8) The secretary is responsible for unauthorized changes made by him in documents.

2.5 The termination of the Company Secretary

The company secretary is appointed by a resolution passed in the meeting of Board of Directors. Usually his appointment is terminated as per the terms and conditions of agreement. The secretary can be terminated from his position in following circumstances :

- (1) In case of death of the secretary.
- (2) When the secretary is incapable for contract.
- (3) When the secretary resigns himself.
- (4) When company issues notice for termination.
- (5) When any fraud or misappropriation are done with the company by the secretary.
- (6) For willful neglect of duties while performing the work as secretary and due to which company incurs/financial loss.
- (7) When the secretary violate the provisions of Company Law.
- (8) When any secret profit or commission at the cost of the company is earned or taken by secretary.
- (9) When the company goes in to liquidation or legally winds up, the secretary can be terminated.

2.6 Significance of the Secretary

In the modern times and in the world of commerce Company formation is a specific arrangement where ownership and management are separate. The shareholders are the owners of the company but they are not directly involved in its management. The management of the company is done by elected representatives of the shareholders means the Board of Directors. The company has artificial personality

as per Company Law. A significant contribution is provided by the secretary to obtain Certificate of Incorporation by fulfilling all formalities and legal requirements.

The secretary proves to be a friend, philosopher and guide for the Board of Directors as he has knowledge of various Laws, technical aspects and has good experience. The secretary proves to be coordinating link between the shareholders and Board of Directors. He convenes the meeting of shareholders, he keeps minutes, observes correspondence and provides necessary information to shareholders. The secretary does share transfer, right share allotment procedure, distribution of bonus share its procedure on behalf of the company. By this way the secretary ensures and develops cordial relationship between shareholders and Board of Directors for the progress of company.

The secretary works as Public Relation Officer (PRO) by developing relationship with various parties. The secretary ensures great reputation of the company by his efficient administration. The secretary provides leadership, zeal and cultivates discipline among employees. He does division of work and coordinates it to fulfill the objective of the company with high efforts. The secretary has to submit and register different types of forms, statement and documents with Registrar of Companies within stipulated time in the frame work of Company Law. He provides guidance to the Board of Directors for various policy matters and leads the company on the top by proving his efficiency.

Thus the position of the secretary for management, company, employee, shareholders, creditors, Government departments, Registrar of companies is very important. In the development of company, contribution of secretary is of prime importance. The development of company means increase in production, increase in sales, and creation of employment. The secretary contributes indirectly in the development of a Country.

What have you learned in this chapter ?

Introduction : In the modern times the secretary is essential in company formation. He is a prominent administration officer. As per the new Company Act 2013 he has been given status of Key Managerial Personnel.

Qualities and Qualification of the Secretary :

Qualities : Qualities are as below :

- (1) **Good Health** : It is essential for irregularities occur due to work pressure.
- (2) **Honesty** : Honesty is essential as he knows confidential aspects of the company.
- (3) **Attractive Personality** : As he has to deal with various people it is helpful to make his work easy.
- (4) **Sharp Intelligence** : For the day to day management it is essential.
- (5) **Decision Power** : The quick decision power saves time, resources and energy.
- (6) **Analytical Capacity** : It is helpful to analyse problems.
- (7) **Enthusiasm** : The energetic secretary motivates employes and unenthusiastic person turns work into burden.
- (8) **Loyalty** : It is essential for sensitive matters and secrecy.
- (9) **Confidence** : The decision taken by secretary is correct. Such confidence is essential.
- (10) **Tactfulness and Smartness** : To find out the way from hurdles of legal matters it is essential.
- (11) **Foresight** : The secretary must have ability to understand the consequences of present decision on future.
- (12) **Leadership** : The secretary must have ability to lead employees, take timely work from them, to create environment of cooperation, confidence.

Qualifications : Can be achieved by Education and training.

- (1) **Educational Qualification** : Certificate from Institute of Company Secretary.
- (2) **Knowledge of Accounts** : To prepare accounts timely as per company law and to present in AGM of shareholders it is essential.

- (3) **Knowledge of Office Administration** : Being the Head of Office ability for division and allocation of work, coordination, timely completion of work is required.
- (4) **Knowledge of Meeting Management** : The secretary has to convene meeting of Board, Shareholders, debenture holders. Before meeting, during meeting and after meeting he has to follow legal procedure.
- (5) **Knowledge of Various Acts** : The knowledge of various laws like SEBI, PF,VAT, Service tax etc. prevents him from probable legal hurdles.
- (6) **Knowledge of Economic and Political Affairs** : Such knowledge be helpful for creating situations in favour of the company.
- (7) **Knowledge of Current Affairs** : The secretary informs BOD about new current affairs affecting company. It may be helpful to overcome new, arising problems.
- (8) **Excellent Command over English and other Language** : It is essential as all affairs of the company are done in English. Knowledge of other language opens the new gate of development.
- (9) **Knowledge of Public Relation** : It is helpful to work with different parties.
- (10) **Knowledge of Computer and other Electronic Gadgets** : Computer is a wonderful device which preserves and stores different types of information of BOD, Shareholders, and other necessary information. Use of other electronic gadgets save time and cost.

Appointment of the Secretary and its Legal Provisions : As per the Company Act if Subscribed capital of company is Rupees Five crore or more appointment of secretary is mandatory. As a secretary only living person can be appointed. As a secretary insolvent, minor, lunatic person cannot be appointed. He must be member of Institute of Company secretary. For the appointment resolution of BOD consent is mandatory. A written consent from secretary to work as KMP, BOD resolution along with form MGT 14 should be registered with Registrar of Companies.

Functions and Responsibilities of the Company Secretary :

Functions of the Company Secretary :

- (1) To report to ensure obligation of Law.
- (2) To observe the secretarial standard.
- (3) To perform other prescribed functions.

Duties of the Company Secretary :

- (1) To provide guidance for duties, authority and responsibility to B.O.D.
- (2) To arrange all meetings.
- (3) To obtain necessary permission from B.O.D., AGM, Govt. and other competent authority.
- (4) Report to various authorities
- (5) To help Board of Directors to carry out business of company.
- (6) To guide and help for good Corporate Governance and best practices of company.
- (7) To perform other duties as per companies Act.
- (8) To execute duties as and when allotted by Board of Directors.

Authority of Secretary : The secretary has authority to register documents with Registrar of Companies to obtain Certificate of Incorporation and Certificate to commence Business. He has authority to command and control the office. He has authority to sign on share allotment, calls on shares on behalf of company. He is authorized to use common seal. He is authorized to work as per direction of BOD, and to receive remuneration.

Limitations of Authority of a Company Secretary : The secretary cannot convene meeting on his will. He cannot borrow money on behalf of the company. He cannot enter into any agreement on behalf of the company. He cannot take any policy decision. The company is not responsible for ultraviolet contracts.

Responsibility of the Company Secretary : The company secretary is responsible, if he violates the provisions of company, he does not register the documents with Registrar of registrar, he misuses powers, he commits fraud misappropriation, willful neglects duties, doesn't maintain minutes, doesn't prepare annual reports, doesn't fulfill duties of secretarial audit.

The Termination of the Secretary : The termination of the secretary occurs in case of death, in case of self-resignation, or if he becomes incompetent for the contract, or does misappropriation, fraud, etc.

Significance of Secretary : In a company formation ownership and management are separate. He is link between shareholders (owner) and BOD (management). He has knowledge of various laws, knowledge of technical facts and vast experience to prove to be friend, philosopher and guide. He helps in formation of policy, convenes shareholders' meeting and provides information to them. He fulfills his duty as administrator head by providing guidance, allocation of work and inspiring employees. By maintaining cordial relationship with bankers, solicitors, auditors, registrar of companies, Government departments he enhances creditability of the company. He provides legal requirements to company, turns artificial personality of company to developing going on professional personality. Indirectly he contributes in the development of country.

Exercise

1. Select suitable option from the given options :

- (1) How many persons are included as KMP in Company Law ?
(A) 2 (B) 5 (C) 3 (D) 4
- (2) Who can be appointed as secretary ?
(A) Partnership firm (B) Living person
(C) Company (D) Cooperative Society
- (3) Which form is to be registered with Registrar of Companies for appointment of Company Secretary ?
(A) Pan card (B) Income tax return
(C) MGT 14 Form (D) Certificate to commence Business
- (4) Where is appointment of the secretary mandatory ? When subscribed capital is
(A) ₹ 50 Lacks (B) ₹ 2 crore
(C) ₹ 5 Crore or more than that (D) ₹ 1 crore
- (5) What is the qualification of the secretary ?
(A) M.Com (B) Company secretary
(C) Chartered Accountant (D) Only experience

- (6) Which statement is incorrect with reference to secretary ?
- (A) Secretary works as an agent on behalf of company.
 - (B) Secretary has the authority to do the work assigned by the Board of Directors.
 - (C) He has the authority to appoint Board of Directors.
 - (D) He must have knowledge of various laws ?

2. Answer the Following Questions in one Sentence :

- (1) What is KMP ?
- (2) When was new Company Act introduced ?
- (3) Why is honesty expected from the secretary ?
- (4) How is quick decision helpful to the secretary ?
- (5) What matters are to be included in BOD's resolution for appointment of the secretary ?
- (6) Where is Form MGT 14 useful ?

3. Answer the Following Questions briefly :

- (1) What legal responsibilities are to be carried out by the secretary ?
- (2) What will happen if company secretary does not have knowledge to conduct meeting ?
- (3) Which are responsible factors for functioning of company secretary ?
- (4) Why is good health essential for the secretary ?
- (5) What is to be done to register the appointment of the secretary ?
- (6) What laws are expected to be known by the secretary ?
- (7) Why does the secretary require command over English ?
- (8) What are the educational qualifications required for the secretary ?

4. Answer the Following Questions Point-wise :

- (1) Under which circumstances a secretary can be terminated ? Give four reasons.
- (2) Who is included in Key Managerial Personnel ?
- (3) What are the limitations of authority of the secretary ?

5. Answer the Following Questions in Detail :

- (1) What are the powers of the secretary ?
- (2) Discuss the qualification of the secretary.
- (3) Discuss the provisions for appointment of the secretary.
- (4) How is post of the secretary terminated ?
- (5) Write down the significance of the secretary.
- (6) What type of qualities are required in the secretary ?

You may be Eager to Know

SEBI	:	Securities and Exchange Board of India
ROC	:	Registrar of Companies
A/A	:	Articles of Association
M/A	:	Memorandum of Association
VAT	:	Value Added Tax
PF Act	:	Provident Fund Act
CA	:	Chartered Accountant
CS	:	Company Secretary
KMP	:	Key Managerial Personnel
CEO	:	Chief Executive Officer



What will you Learn in this Chapter ?

- 3.1 Meaning and definition of Company:
- 3.2 Characteristics of a Company
 - 3.2.1 Independent Corporate Existence
 - 3.2.2 Limited Liability of Company's Members
 - 3.2.3 Perpetual Existence
 - 3.2.4 Separate Property
 - 3.2.5 Transferability of Shares
 - 3.2.6 Capacity of the Company to Sue and be Sued
 - 3.2.7 Professional Management
 - 3.2.8 Finances
- 3.3 Procedure of Company Formation:
 - 3.3.1 Preliminary Stage :
 - (Promotion stage of a Company)
 - 3.3.1.1 The Idea for the promotion of a business
 - 3.3.1.2 Primary investigation
 - 3.3.1.3 Extensive investigation
 - 3.3.1.4 Mobilising the resources
 - 3.3.1.5 Arranging the finance
 - 3.3.2 Incorporation Stage :
 - 3.3.2.1 Memorandum of Association
 - 3.3.2.2 Article of Association
 - 3.3.2.3 List of Directors
 - 3.3.2.4 Written consent and affidavit of the subscribers / Directors
 - 3.3.2.5 Declaration
 - 3.3.2.6 Disclosures of interest in other firms / company

Introduction

In a commercial set up for large scale trade the formation of company is the most suitable arrangement. Company possesses artificial personality. Its legal personality does not automatically come into existence. The procedure of incorporation of a company is complicated and lengthy. Sole proprietorship firm can be established easily. The nature of partnership firm is broader than the Sole proprietorship firm. The registration of a partnership firm is optional. As compared to that the incorporation procedure of a company is lengthy, complicated and expensive. A company comes into existence after having complied with the provisions of the Companies Act, registration of necessary documents and completion of the legal procedures. The persons who establish such artificial legal personality are known as promoters.

3.1 Meaning and Definition of Company

Meaning : The word 'Company' has no strictly technical or legal meaning. Under the British Common Law, Company is defined as a "legal person" or "legal entity". It is separate from and capable of surviving beyond the lives of its members. The members of any company may change, retire or die, but it does not affect the existence of a company.

Definition : Definition of Company under the Companies Act, 2013,

"Company" means a company incorporated under the Companies Act, 2013 or under any previous company law.

Companies Act 2013 is introduced stage wise.

3.2 Characteristics of Company

Any incorporated company must have the following characteristics :

3.2.1 Independent Corporate Existence : Independent Corporate Existence is one of the most significant features of company. Company is regarded as a legal person having entire distinct personality independent from its members.

3.2.2 Limited Liability of Company's Members : The company, being separate legal person is the owner of its assets and bound by its liabilities. Members, even as a whole, are neither the owners of company's undertakings nor liable for its debts. The members' liability is limited only to the nominal values of the shares taken by them. No member is bound to contribute more than the nominal value of the shares held by him. However, company with unlimited liabilities can be formed.

3.2.3 Perpetual Existence : A company is defined as an artificial person. It has perpetual existence. It is not subject to death or illness of any of its members.

3.2.4 Separate Property : Being separate legal person, company is capable of owning, enjoying and disposing of property in its own name. No shareholder of a company can claim his right over the property of a company.

3.2.5 Transferability of Shares : Subject to the provisions laid down in the Articles of Association of a company, the shares of a company can be transferred.

3.2.6 Capacity of the Company to Sue and be Sued : A company being legal person in the eyes of law can initiate legal proceedings against anyone as well as it can be sued by any person in its own name. In the same manner, suit can be filed against a company by any person for breach of contract.

3.2.7 Professional Management : The corporate sector is capable of attracting the growing cadre of professional managers.

3.2.8 Finances : Normally an incorporated company comes into existence on the capital raised by public subscriptions either from shares or debentures.

3.3 Procedure for Incorporation of Company

For incorporation of company many legal provisions are to be followed, Incorporation procedure is expensive and complex. Following procedure is followed for incorporation :

(1) Preliminary Stage (2) Incorporation Stage

3.3.1 Preliminary Stage : (Promotion Stage of a Company) : This is the first stage involving the conception of the idea of setting up a company and the primary and extensive investigation of the feasibility of the idea, the requirement of resources and capital etc. Thus, the promotion of the company can be considered through the following steps :

3.3.1.1 The Idea for the Promotion of a Company/Business : The concept or the idea of a business by one person or a group of persons starts the process of business formation and consequently the idea of establishing a company for the same. The idea is the seed of a business and the promoter who conceived the idea uses his imagination and creativity to give it a concrete form and he is also ready to bear many risks. He converts idea into implementation by mobilising manpower, materials and capital resources to carry out business. Thus company comes into existence. Company is known as brain child of promoters.

3.3.1.2 Primary Investigation : After considering the idea and its possibility, the economic viability is checked out with the help of experts. The expenditure and income estimate is taken and if the result is satisfactory, further detailed survey is conducted.

3.3.1.3 Extensive Investigation : There can be adverse results if thorough investigation is not undertaken. The government policies, legal provisions, availability of raw materials, the demand-supply situation, the availability of auxiliary services, etc. are carefully checked, so that a clear picture is created, which will help to decide whether to proceed with the plan to establish a company or not.

3.3.1.4 Mobilising Resources : If it is decided to proceed with the project, the arrangement for resources like equipment, machinery, tools, land will be made and necessary correspondence, contracts and formalities will be undertaken.

3.3.1.5 Arrangement of Finance : For mobilising the resources and for the promotion expenses, finance will be required. The type of activity and the amount of funds required by the company as well as the sources of capital will be considered.

3.3.2 Incorporation Stage : After having completed the preliminary stage, the second stage in the direction of process of formation of a company is called incorporation stage wherein Certificate of Incorporation of Company is to be taken. A private company has limited members and its share transfer is restricted. So company can start functioning after Certificate of Incorporation.

A private as well as a public company need the following documents in order to get Certificate of Incorporation :

- 3.3.2.1 Memorandum of Association :** This is the basic document of the company. The details/clauses mentioned in it define the scope of activities of the company. It includes the name of the proposed company, its objectives, and the address of its registered office, the capital and the liability of its members. It establishes the relations between the company and the third parties. Memorandum of Association is one of the most important basic and primary requirements for every company. Memorandum of Association states the types of business the company wants to undertake.
- 3.3.2.2 Articles of Association :** This document defines the rules and regulations for the internal management of the company. It states the company's policies and means of achieving the objectives determined in the Memorandum of Association.
- 3.3.2.3 List of Directors :** A list of the names, addresses, age, occupation, nationality etc. of the persons who take responsibility of the work as directors has to be prepared and submitted before the Registrar of Companies as per the Companies Act. There has to be at least one woman director for certain companies among the list of Directors decided by Company Act.
- 3.3.2.4 Written Consent and Affidavit of the Directors :** Each subscriber/director has to give a written consent to the registrar that he has accepted the responsibility to work as a director willingly. Moreover the Subscribers and First Director has to file affidavit before the Registrar of Company containing following facts :
- He has not been convicted for any offence
 - He has not been found guilty of any fraud/misfeasance
 - The information supplied to the Registrar of Companies are correct and complete.
- 3.3.2.5 Declaration :** A declaration in the prescribed form signed by an advocate, a chartered accountant, cost accountant or company secretary in practice, who ever is involved in formation of the company and also signed by persons named in the Articles of Association of the company as a Director, Manager or Secretary of the company.
- 3.3.2.6 Disclosure of Interest in Other Firms/Company :** If the Directors, Subscribers Manager or Secretary are also associated with other firm or company, they have to give information regarding their association.

Certificate of Incorporation : After payment of prescribed Registration Fees and verification of the documents, if the Registrar finds the documents to be satisfactory, he registers them and enters the name of the company in the Register of Companies. After this process the Registrar issues a certificate called Certificate of Incorporation. The life of company commences from the date mentioned in the Certificate of Incorporation.

The Registrar of Companies issue Certification of Incorporation along with Corporate Identity Number (CIN). This identification number is of company which is incorporated in Certification of Incorporation. The company has to preserve the identity original document and information till liquidation at company's registered office.

What have you learnt in this chapter ?

Company has separate artificial and legal personality. Registration of various documents is necessary to establish such legal personality.

Companies Act in India: After independence, the Companies Act, 1956 was introduced in India. Thereafter, provisions of the Companies Act, 2013 are gradually being made applicable.

Meaning : Being artificial legal person, the members of company may change, retire or die; the existence of a company is not affected at all.

Characteristics of a Company : (1) Independent Corporate Existence (2) Limited liabilities of Company's members (3) Perpetual Existence (4) Separate Property (5) Transferability of shares (6) Capacity to sue and be sued (7) Professional Management (8) Finances.

Stages of Company Incorporation :

(A) Preliminary Stage :

- (1) **Idea of Incorporation of Business :** Promoters may have an idea to commence business.
- (2) **Preliminary Investigation :** In order to convert the idea into reality, preliminary investigation is necessary.
- (3) **Extensive Investigation :** Detailed extensive investigation is done by the experts about the implementation of idea to start business
- (4) **Mobilising Resources :** Which resources are available and the quantity there of is to be seen.
- (5) **Arrangement of Finance :** How much finance is required for establishment of business and to purchase the assets is to be calculated.

(B) Incorporation Stage :

Every company has to obtain Certificate of Registration after making application for registration before the Registrar of Companies. Company can commence its business after obtaining such Certificate. Following documents are to be submitted for Registrations :

- (1) **Memorandum of Association :** It is the basic fundamental document containing name, object, capital, registered office etc of the company.
- (2) **Article of Association :** This document shows internal management of a company. Every company has to prepare it.
- (3) **List of Directors :** In the list of Directors it is necessary to mention details of all directors such as names, address, occupation etc.
- (4) **Written Consent and Affidavit of the Subscribers/Directors :** Written consent and affidavit of the directors containing their willingness and consent to accept liability and also that they are not found guilty for any offence. Also affidavit stating the information given by them are true.
- (5) **Declaration :** Declaration is to be submitted stating that all the provisions of law have been complied with and the declaration has to be signed by Secretary, Manager, Director, C.A., Advocate etc.

Exercise

1. Select suitable option from the given options :

- (1) Which of the following is not a characteristic of a Company ?
 - (A) Independent Existence
 - (B) Limited Liability of its members
 - (C) Perpetual Existence
 - (D) Head Office in the Metro Cities.
- (2) Which of the following documents are not required to be given to the Registrar of Companies at the incorporation Stage of a Company ?
 - (A) Memorandum of Association
 - (B) Article of Association
 - (C) List of Directors
 - (D) Particulars regarding profit and loss
- (3) Who examines the possibilities of Idea of Promotion of Business ?
 - (A) Directors
 - (B) Share holders
 - (C) Advocate
 - (D) Experts

- (4) In case of death of a member of company
- (A) Company gets closed (B) New members to be taken
(C) No effect on company (D) New company is to be formed

2. Answer the Following Questions in One Sentence :

- (1) Who can issue certificate of incorporation ?
- (2) Who are called promoters ?
- (3) Which is the special characteristic of a company ?
- (4) Who has to put signature in the declaration statement ?
- (5) Who are attracted by capability of Corporate Sector ?
- (6) Why is a company called brain child of promoters.
- (7) Which matter is included in Articles of Association.

3. Answer the Following Questions in Briefly :

- (1) What kind of liability a member of company has ?
- (2) Which type of existence a company has ?
- (3) On what basis can share holders transfer shares ?
- (4) Why is extensive investigation necessary ?
- (5) What kind of a document Memorandum of Association is ?
- (6) What kind of a document Article of Association is ?

4. Answer the Following Questions Point Wise :

- (1) Explain the meaning and definition of a company.
- (2) Which matters are required to be extensive at the extensive Investigation during the formation of a company ?
- (3) Which matters should be included in the Articles of Association ?
- (4) Which matters are required to be shown while presenting the List of Directors ?
- (5) Which matters are shown in the Affidavit of the Directors ?
- (6) Who shall put their signature in the statement for obtaining the Certificate of Incorporation ?

5. Answer the Following Questions in Detail :

- (1) State the characteristics of a company.
- (2) Which matters are included in the Preliminary Stage ?
- (3) What is to be done in the Registration Stage ?



4

Memorandum of Association

What will you learn in this chapter ?

- 4.1 Introduction and Definition
- 4.2 Characteristics of Memorandum of Association
- 4.3 Importance of Memorandum of Association
- 4.4 Clause of Memorandum of Association
 - 4.4.1 Name Clause
 - 4.4.2 Registered Office Clause
 - 4.4.3 Object Clause
 - 4.4.4 Liability Clause
 - 4.4.5 Capital Clause
 - 4.4.6 Subscription Clause
- 4.5 Change in Memorandum of Association
 - 4.5.1 Change in Name Clause
 - 4.5.2 Change in Registered Office Clause
 - 4.5.3 Change in Object Clause
 - 4.5.4 Change in Liability Clause
 - 4.5.5 Change in Capital Clause

Introduction

Each and every type of company is required to be compulsorily registered under the provisions of the Companies Act, 2013. At the time of registration, the company has to present and register the Memorandum of Association and Article of Association. Memorandum of Association is a fundamental and important document for every company. It is such a basic document of a company based upon which the area of operation of company external affairs of the company in relation to outsiders are determined. Memorandum of Association presents the constitution of a company wherein name, capital, liability, objects etc. are determined.

4.1 Meaning and Definition of Memorandum of Association

Meaning : Memorandum of Association is a fundamental document of a company which determines the area of working of a company. The objective of Memorandum of Association is to provide information about the objectives of the

company to the Shareholders, creditors and all the persons having relation with the company. Thus Memorandum of Association is very important document which indicates an established company having specific name, situated in a particular State, having fixed Share Capital, with definite fixed liabilities of its members and specific objective. It indicates establishment of the company by the signatories.

Definition : “The Companies Act, 2013, defines Memorandum as Memorandum of Association of a company as originally framed or as altered from time to time in pursuance of any previous company law or the present Act.”

As stated by Lord Cance “Memorandum of Association is a constitution of company and such a document which shows the limitation of the officers of a company established under law.”

4.2 Characteristics of Memorandum of Association

It is for the purpose to inform the shareholders, creditors and public at large about the objectives of the company. From above definition the following are the characteristics of the Memorandum of Association :

- (1) It is a basic fundamental document of a company.
- (2) It defines the objectives of the company.
- (3) It is useful for all parties.
- (4) It provides the information about the existence of the company and its registered office.
- (5) It is very difficult to make changes in the Memorandum of Association.
- (6) Memorandum of Association is considered as the constitution of a company.

Depending upon the nature of a company the Memorandum of Association of a Company can be drafted as per one of the following formats prescribed in the various tables of Schedule I of the Companies Act, 2013.

	Type of Company	Table of Memorandum of a Company Under Schedule I of the Companies Act, 2013
(1)	Company limited by Shares	As per TABLE A
(2)	Company limited by Guarantee and not having a Share Capital	As per TABLE B
(3)	Company Limited by Guarantee and having a Share Capital	As per TABLE C
(4)	Unlimited Liability Company and not having Share Capital	As per TABLE D
(5)	Unlimited Liability Company and having Share Capital	As per TABLE E

The Memorandum of Association has to be printed in serially numbered paragraphs prescribed as per the contents of the Tables A, B, C, D or E whichever is applicable and the same should be signed by the subscribers of the company in presence of the witnesses.

Any provision of the Memorandum of Association which is contrary to the provisions of the Companies Act shall be void. Similarly, any agreement executed or resolution passed by the company in general meeting or by its Board of Directors which is contrary to the provisions of the Companies Act, 2013 are void.

4.3 Importance of Memorandum of Association

It is compulsory for every company under the Companies Act to get its Memorandum of Association registered. It gives basic information about the company which is important for the following parties :

(1) **For Company** : It is a fundamental document for every company. It forms the base of a company. Memorandum of Association shows the constitution as well as area of affairs of a company. It contains name, objects, capital, liabilities, and state of the Registered Office etc. If a company does any act contrary to its objectives given in its Memorandum of Association, the same is called **ultra virus** act. This document also contains the information like official capital of company, liabilities of a company limited or unlimited etc.

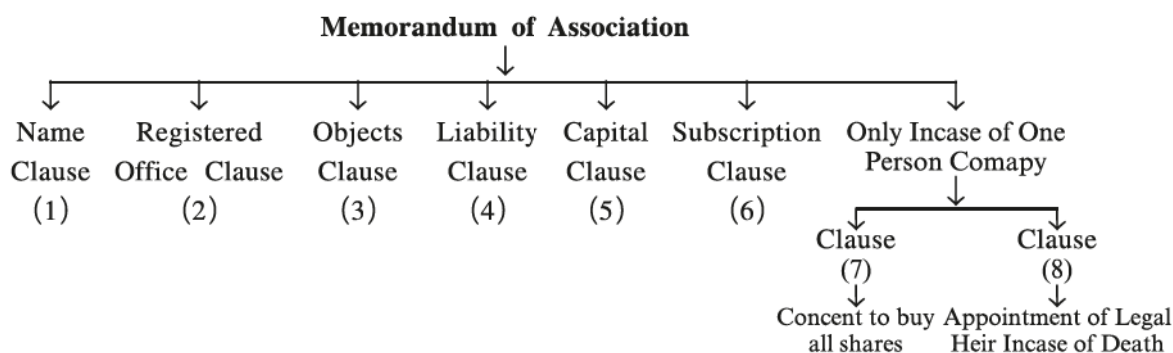
(2) **For the Creditors, Traders Banks** : Memorandum of Association determines relation of a company with the third parties. After having known the proposed activities of a company, creditors, Traders banks decide whether to lend money to the company or not.

(3) **For Shareholders of a Company** : The shareholders are assured that the fund invested by them shall be utilized only for the activities specified in the Memorandum of Association of a company. If a company does not function as per the Memorandum, the same can be challenged before the court. Shareholders feel secure with the determination that their liabilities will be limited to the extent of the amount of the shares purchased by them.

(4) **For Public at Large** : Any person can get preliminary information for investing money in any company from its Memorandum of Association. He can also get a copy of the Memorandum.

4.4 Clauses of the Memorandum of Association

Following clauses are included in the Memorandum of Association :



4.4.1 Name Clause : Name Clause of the memorandum is necessary to state the name of the proposed company. Being artificial legal person, company must have its name. It is a privilege for the Promoters of the company to select name of the company as they desire. However, this discretion to have desired name of the company is subject to following restrictions :

- (1) Name stated in the memorandum of the company should not be identical with or resemble the name of any existing registered company.
- (2) The name should not be undesirable or objectionable and it should not constitute any offence under any law.
- (3) No word or expression in the name of company should be such that it carries impression that the company is connected with central/state government or local authority or body corporate constituted by central/state government for example President, Rashtra Pita (Father of Nation), Prime Minister ,Chief minister, court, Governor etc.
- (4) Every public company with limited liability must add the word “Limited” and a private company must have “Private Limited” at the end of its name.
- (5) Companies proposed to be established for the purpose of promotion of commerce, art, science, sport, research, social welfare, religion, charity etc. having no motive to distribute the profit in the form of dividend are exempted from adding the words “Limited” or “Private Limited”.

4.4.2 Registered Office Clause : In the Memorandum of Association itself, every company has to mention the state in which its registered office is situated. A company must from the fifteenth day of its incorporation must have a registered office which is capable of receiving and acknowledging all communication and notices as may be addressed to it. All the correspondences and communications to the company must be addressed to its registered office. The territorial jurisdiction of the court is also determined from the address of the registered office of company. The members of the company or other parties who want to examine the documents personally or obtain additional information about the company may approach its registered office.

4.4.3 Object Clause : It is mandatory for every company to state in its Memorandum of Association the objectives for which the company is proposed to be incorporated. Object Clause carries the greatest importance in the entire memorandum of a company. The promoters of the company are at liberty to have a choice of objects of a company. However, the following are the restrictions upon the promoters to select the object of the company :

- (1) Objects must not be against any law or the provisions of the Companies Act.
- (2) Objects of the company must not be against any public policy or the provisions of the Constitution of India.
- (3) The objects should not be contrary to the provisions of any general law.

Doctrine of Ultravires : A company can pursue only those objects which and are clearly mentioned in its Memorandum of Association. A company possesses only those powers which are either explicitly or impliedly conferred upon it by virtue of its Memorandum of Association. Any activity in excess to what is stated in the object clause will be void and the same will be declared ultra vires (beyond powers). If the act is ultra vires it does not create any legal relationship. Such an act is absolutely void even the whole body of shareholders ratify it and make it binding upon the company. Following are the consequences of Ultra Vires Acts :

- (1) The Directors of the company are held personally liable for ultra vires acts.
- (2) Courts can prevent a company from doing such acts.
- (3) Ultra vires contracts are void.

(4) For any ultra vires act by an employee acting on behalf of the company, the company can be held liable.

(5) The Directors of a company are responsible to the Third Party for Ultra Vires Acts.

In order to avoid above situations generally company includes most area of function with the term “any other objects” in the object clause of its Memorandum of Association.

4.4.4 Liability Clause : On the basis of kind of liability the companies can be classified into three classes :

(i) a company limited by Shares, (ii) a company limited by guarantee and (iii) an unlimited liability company.

The Memorandum of a company limited by shares must state in its liability clause that the liability of its members is limited. In the company limited by shares members cannot be called on to pay more than the nominal value of their shares.

If the liability of the members of a company is limited by guarantee then their liability will be up to the extent of the guarantee offered by them. In case of one person company the name of the person who in the event of death of the subscriber, shall be nominated the member of the company must be stated in the liability clause.

4.4.5 Capital Clause : The capital clause is compulsory only in the case of a limited company. The company limited by shares must state in its capital clause the amount of capital, the number of shares into which it is divided and the amount of each share.

In the case of a company limited by guarantee, the amount up to which each member undertakes to contribute at the time of winding up should be specified. If the company limited by guarantee also has a share capital, the capital clause of such company has two capital clauses, (i) one relating to the guarantee and (ii) another relating to share capital.

In case of “one Person Company” the name of the person who in the event of death of the subscriber shall become the member of the company must be written.

4.4.6 Subscription Clause : This clause can be termed as Incorporation Clause, Association clause or Signature Clause. A company may be formed for any lawful purpose by signature of minimum seven or more persons where the company to be formed is a “Public Company”. Signature of minimum two or more persons are required where the company to be formed is a “Private Company”. In case the company is to be formed by one person only, it is termed as “One Person Company”.

The members of the company put their signatures and give an undertaking to the effect that they are interested in promoting the incorporation of a company and are willing to purchase the shares mentioned against their names. The name, address and details about their work has to be provided and attested by a witness. Such members are also called signatories.

4.5 Change in the Memorandum of Association

Memorandum of Association is important, fundamental and basic document of a company which can not be easily changed. However, depending upon the requirements the Memorandum of Association can be changed in a restricted manner by following the provisions of the Companies Act.

4.5.1 Change in the “Name Clause” : A company may change its Name Clause by passing a special resolution to that effect and the same has to be approved by the Central Government. Within 15 days from the date of such approval from the Central Government, the Registrar of Company must be informed by the company about such change of name. The Registrar enters new name of the company in the Register of Company. However, no such approval of the Central Government is necessary when the word “Private” is added or deleted from the name on the conversion of any one class of company to another class.

4.5.2 Change in Registered Office Clause :

(1) **Change of Registered Office Within the Same City :** By passing resolution any company can change its registered office. The company must inform such change of address within 15 days of such change of its Registered Office to the Registrar of Companies.

(2) **Change of Registered Office from One City to Another Within the Same State** : The Registered Office of any company can be changed from one city to another from the jurisdiction of one Registrar to the jurisdiction of another Registrar after having passed special Resolution by the company to the effect and also on the permission given by the Regional Director to that effect.

(3) **Change of Registered Office from one State to Another** : Registered Office of a company can be shifted from one state to another state with the following conditions :

(a) The permission of the Central Government is to be obtained by company. After obtaining the permission from the Central Government within 30 days, application is to be presented to the Registrar of Companies with certified copy of permission along with necessary fees in requisite form.

(b) If the creditors, debenture holders and other concern persons with the company have any objection to change of registered office. They may apply for that. Intimation of such alteration of office shall be intimated to the Registrar of the State, where the office is being shifted and a fresh Certificate of Incorporation shall be given by him indicating such change of Registered Office.

4.5.3 Change in Object Clause : Object Clause of a company can be changed only on the following conditions :

(1) A company cannot deviate from the object without passing special resolution for which the capital is raised.

(2) No alteration made in the object clause shall be effective until it has been registered by the Registrar of Companies.

(3) Change in the object clause of Memorandum of Association can be made giving any member right to participate in the divisible profits of a company, when a company is limited by guarantee and does not have share capital. Any other change of object clause shall be void.

4.5.4 Change in Liability Clause : In this clause following alteration can be done :

(1) It may extinguish or reduce the liability on any of its shares in respect of the share capital not paid-up.

(2) A Company limited by Share Capital or limited by Guarantee may reduce its share capital by a Special Resolution.

4.5.5 Change in Capital Clause : A limited company having a share capital may if so authorised by its Articles of Association alter its Memorandum of Association after passing resolution in its general meeting. By such Resolution a company may change its Capital Clause in the following manner :

(1) Increase its authorised share capital.

(2) Consolidate and divide all or any of its share capital into shares of larger amount than its existing shares.

(3) Sub-divide its shares or any of them into shares of smaller amount than is mentioned in the Memorandum.

(4) Cancel the shares, which are not taken by anyone and diminish the amount of its share capital.

The Share capital of a company limited by shares or limited by guarantee and having a share capital may be reduced by a special resolution of the company, which is followed by an application to the court and on confirmation the share capital can be reduced.

What have you learnt in this chapter ?

In order to register any company it is essential to submit Memorandum of Association and Articles of Association. Memorandum of Association is a basic fundamental document which cannot be easily changed.

Meaning : Memorandum of Association determines the relation of company with outsiders.

Definition : “The Companies Act, 2013, defines Memorandum as Memorandum of Association of a company as originally framed or as altered from time to time in pursuance of any previous company law or the present Act.”

Characteristics of Memorandum of Association : (1) It is a fundamental document of a company. (2) It states objects of a company. (3) It is helpful for outsiders. (4) It provides information about the existence of a company and its Registered Office. (5) It is difficult to change. (6) It is constitution of a company.

Memorandum of Association is to be prepared depending upon the kinds of company as per the specimens provided in table A, B, C, D or E of Schedule I of the Companies Act, 2013. Memorandum of Association is divided into various paragraphs and should be printed. It should not be contrary to the provisions of the Companies Act.

Importance :

- (1) **For Company** : It is main document determining the constitution of a company.
- (2) **For Creditors of Company- Traders - Banks** : It decides relationship of company and they decide whether to lend money or not.
- (3) **For Shareholders of Company** : Memorandum of Association determines the area of work of a company. It gives idea about where the money/capital of the shareholders would be spent by a company.
- (4) **For public** : Public can get information about the company from the Memorandum of Association.

Contents of Memorandum of Association :

- (1) **Name Clause** : It is compulsory for every company. The name should not be similar to other company. It should not create illusion that a company is of State/Central government. At the end of name Public Company must write the words “Limited” and Private Company must write the words “Private Limited”.
- (2) **Registered Office Clause** : It shows in which state the Registered office is existing. This clause informs about the correspondence and other transactions with the company.
- (3) **Object Clause** : This is the most important clause determining the object of a company. The object of any company should not be contrary to the Companies Act or illegal. If a company act outside the object of a company, the same is considered as ultra vires act.
- (4) **Liability Clause** : So far as liability is concerned, companies can be divided into three categories- (1) company limited by Shares (2) company limited by guarantee (3) Company with unlimited liability. This clause determines the type of liabilities of Shareholders.
- (5) **Capital Clause** : In this clause it states the Share Capital of the proposed company.
- (6) **Subscription Clause** : It is also known as Association clause, Signature Clause or Incorporation Clause. The promoters have to put their signature in presence of witnesses. In public company minimum 7 and in private company minimum 2 persons have to put their signature.

Change in Memorandum of Association :

- (1) **Change in Name Clause :** In order to change name of a company special resolution is to be passed followed by the permission of the Central Government.
- (2) **Change in Registered Office Clause :** (a) change in the address of registered office of a company from one place to another place within the same city can be done by passing resolution. (b) The Registered Office of any company can be changed from one city to another city after having passed special Resolution (c) For changing Registered Office of a company from one state to another, permission of the Central Government is necessary. The creditors, debenture holders and other persons having any objection for it may apply to competent authority.
- (3) **Change in Object Clause :** (1) A company cannot deviate from the object for which the fund is raised by it. (2) Such change in object clause becomes enforceable only after the entry of such change by the Registrar (3) In a company limited by guarantee change in the object clause can be made giving any member right to participate in the divisible profits of a company.
- (4) **Change in Liability Clause :** The company limited by Shares, by special resolution can reduce the share capital in any manner
- (5) **Change in Capital Clause :** By changing capital clauses a company may (i) increase its authorised share capital; (ii) consolidated and divide share; (iii) Sub-divide its shares; (iv) cancel the shares. After passing special resolution permission from court is essential for above changes.

Exercise

1. Select suitable option from the given options :

- (1) Memorandum of Association is
 - (A) Ancillary Document
 - (B) Sub-Document
 - (C) Main Document
 - (D) Additional Document
- (2) Which of the following matter is incorrect about the Name Clause of a company ?
 - (A) Name should not be of an existing company.
 - (B) Name should not be such which creates impression about State Government/Central Government
 - (C) Name should not resemble with that of Local Authority.
 - (D) Any Name can be kept.
- (3) Which of the following matters are incorrect about the Memorandum of Association ?
 - (A) Memorandum of Association is a fundamental document.
 - (B) It provides information regarding registered office.
 - (C) It includes the matters about internal management of a company.
 - (D) It clarifies the object of a company.
- (4) Ultra vires acts are
 - (A) Void.
 - (B) Voidable.
 - (C) Void at the option of the person who has contracted with a company.
 - (D) Voidable at the option of the share-holders of a company.

- (5) Which companies are exempted from adding the words “Limited” or “Private Limited” ?
 (A) One Person Company (B) Company established for social welfare
 (C) Company doing business of Building and Construction
 (D) Company established for selling software products
- (6) Unlimited liability Company and not having Share Capital has to prepare its Memorandum of Association as prescribed under of Schedule I of the Companies Act, 2013.
 (A) Table A (B) Table B (C) Table C (D) Table D
- (7) While changing the name clause within how many days after receiving permission from central Government for the register should be informed ?
 (A) 15 (B) 90 (C) 30 (D) 60
- (8) Within how many days a permission of Central Government has to be taken for changing Registered Office of a company from one state to another after having made application to the Registrar of Companies ?
 (A) 15 (B) 30 (C) 90 (D) 60
- (9) Which Table is applicable to company Limited by shares as per schedule ?
 (A) Table A (B) Table C (C) Table E (D) Table D
- (10) Which matter is incorrect with reference to Memorandum of Association ?
 (A) Capital clause (B) Object clause (C) Dividend clause (D) Liability clause

2. Answer the Following Questions in One Sentence :

- (1) Where would public correspond to a company if they want ?
 (2) Which company has to write “Limited” after its name ?
 (3) Which company has to write “Private Limited” after its name ?
 (4) On what basis the court jurisdiction of a company can be ascertained ?
 (5) If a person wants to verify the documents of a company, from where can he have inspection of the same ?
 (6) How many capital clauses are there in a company limited by a guarantee ?
 (7) How much liabilities a member has in a company limited by guarantee ?
 (8) Which document gives idea about the existence of a company ?
 (9) What is ‘One person company’ ?
 (10) What kind of a liability a shareholder has in a company limited by shares ?
 (11) From where public can obtain primary information for investing money in any company ?

3. Answer the Following in Briefly :

- (1) How is Memorandum of Association useful to the creditors ?
 (2) What is the minimum number of persons required to establish a public company and a private company ?
 (3) When is a permission of Regional Director necessary in order to change Registered Office of a company ?
 (4) How a Registered Office of a company can be changed from one State to another ?
 (5) What are the limitations of the object clause.
 (6) How many clauses are there in Memorandum of Association ?

4. Answer the Following Questions Poinr Wise :

- (1) How is Memorandum of Association useful for a company ?
- (2) Which assurance is given by Memorandum of Association of a company to shareholders ?
- (3) Which type of names a company cannot keep ?
- (4) Why is Registered Office Clause necessary ?
- (5) State the limitations of Object Clause.
- (6) 'Which company is given exemption from using words "Limited" or "Private Limited"?'
- (7) How can Name Clause be changed ?
- (8) In which circumstances it is not necessary to obtain permission of the Central Government for changing the Name Clause ?
- (9) How can Liability Clause be changed ?
- (10) How can change in the Capital Clause be done ?
- (11) What kind of liability are the Directors having for the ultra vires acts ?

5. Answer the Following Questions in Detail :

- (1) State the meaning of the Memorandum of Association of Company and its characteristics.
- (2) Define Memorandum of Association and explain the importance thereof.
- (3) Which clauses are included in the Memorandum of Association ? Explain in short.
- (4) Which acts are Ultra Vires? State the consequences of Ultra Vires Acts.
- (5) Write Short Notes on the following :
 - (A) Name Clause
 - (B) Registered Office Clause
 - (C) Object Clause
 - (D) Liability Clause
 - (E) Capital Clause
 - (F) Subscription Clause
- (6) State the kinds of companies and state which type of table will be applicable to it.



5

Articles of Association

What will you learn in this chapter ?

- 5.1 Meaning and Importance of Articles of Association
- 5.2 Legal Provisions of the Companies Act about the Articles of Association
- 5.3 Contents of the Articles of Association
- 5.4 Meaning and introductions of Tables F, G, H, I and J given under the Schedule I of the Companies Act, 2013
 - 5.4.1 Table F
 - 5.4.2 Table G
 - 5.4.3 Table H
 - 5.4.4 Table I
 - 5.4.5 Table J
- 5.5 Alteration in the Articles of Association
- 5.6 Duties of the Secretary regarding alteration in the Articles of Association
- 5.7 Doctrine of Indoor Management its exceptions
- 5.8 Distinction between the Memorandum of Association and Articles of Association

Introduction

In a business world the Company format is the best format. However, it is not a living person. It is given a status of artificial person by law. In order to come into force (activate) this legal personality, the registration of necessary documents before the Registrar of Companies is must. Memorandum of Association is important among these documents. Articles of Association is another important document. It is meant for control of internal affairs of a company. Articles of Association is for carrying out internal administration of a company.

5.1 Meaning and Importance of Articles of Association

Meaning : “Articles means the Articles of Association of a company as originally framed or as altered from time to time or applied in pursuance of any previous Company Law or the Companies Act, 2013.”

“Articles means the set of rules governing the internal administration of a company.”

Importance : The rules of internal administration of a company are determined through the Articles of Association. The provisions of the Articles of Association of a company cannot be contrary to the provisions of Memorandum of Association. It implies that the provisions of Memorandum of Association of a company are binding to Articles of Associations. It is presumed that every person dealing with the company is aware of the provisions of Articles of Association. Memorandum of Association is the basic document of a company; whereas Articles of Association determines the rules of internal administration of a company within the limits of its Memorandum of Association. The importance of Articles of Association can be described as under :

(1) **Useful in Daily Administration** : It shows the necessary policy and rules for proper administration and functioning of a company by remaining within the area of work shown in the Memorandum of Association. With the help of Articles the daily administration of a company goes on.

(2) **Important for Secretary** : Articles of Association is very important for the Secretary. The definite rules prescribed in the Articles of Association regarding the interpretation of various routine words of a company, how to distribute the shares, how to call for instalments of shares, how to forfeit and transfer shares etc. help the Secretary in office administration and functioning of a company. It also provides guidance to secretary for appointment of Directors, auditors and clarifies their authority, duties and responsibilities.

(3) **Useful for the Shareholders** : Articles of Association is helpful to fulfil the objects stated in the Memorandum of Association. Articles of Association also contains clarification of the rights and liabilities of the Shareholders. Articles of Association is the supplementary document of Memorandum of Association.

(4) **Useful for Determining Various Relations** : Articles of Association determines the relation between the company and its members. It also regulates the mutual relations of the members of a company and internal relations of the members.

(5) **Useful to Ascertain the Nature of a Company** : Articles of Association is a document through which whether a company is a public company or a private company can be known.

5.2 Legal Provisions Pertaining to the Articles of Association

Important provisions of the Articles of Association are narrated in various sections of the Companies Act, 2013, which are as follows :

- (1) Every person giving signature in the Memorandum of Association has to put his signature in the Articles of Association.
- (2) The signatories have to mention their address, occupation and other necessary particulars.
- (3) Signature must be done in presence of at least one witness.
- (4) The company may accept all rules or any of the rules mentioned in the specimen of the Articles of Association or matters of Table F.
- (5) A company is bound to follow the provisions of Articles of Association. Company cannot escape from its liabilities towards members.
- (6) Articles of Association must not contain any provision contrary to the Memorandum of Association.
- (7) Private company has to show the following three special provisions in its Articles of Association :
 - (a) There must be minimum 2 and maximum 200 members in the company.
 - (b) There must be restriction on the Share Transfer.
 - (c) The company must not invite the public to purchase its own shares.
- (8) The law must presume that every person related to the company is aware about the Articles of Association of the company. Any such person may inquire about the Articles of Association by approaching at the office of the company and also obtain the copy of it by payment of requisite fees.
- (9) Company may amend its Articles of Association by passing special resolution subject to the conditions of its Memorandum of Association and provisions of the Companies Act, 2013.
- (10) Articles of Association must contain the affidavit of the persons mentioned as the first promoters containing the statement to the effect that they are not found guilty for any offence relating to the establishment, incorporation or administration of the company.

5.3 Contents of Articles of Association

Generally the Articles of Association contains the following particulars :

- (1) If any primary agreements have been entered into or not, if so the same have been accepted or not.
- (2) The number of shares and face price thereof.
- (3) Rules relating to the share instalments.
- (4) Rules relating to the transfer of shares.
- (5) The lien of the company about the value of unpaid shares.
- (6) Rules about transmission and forfeiture of shares.
- (7) The number of members in a company with unlimited liability and the capital invested in it.
- (8) Restriction on transfer of shares in a private company.
- (9) Rules relating to the General Meeting.
- (10) Rights and duties of the Board of Directors
- (11) Rules relating to the Dividend.

5.4 Introduction of Tables F, G, H, I and J of Schedule I of the Companies Act, 2013

5.4.1 Table F : Articles of Association of a company Limited by Share

Table F of Schedule I of the Companies Act, 2013 is for the companies limited by Share. Following matters are included in it :

- (1) Explanation of words given in the Companies Act, 2013.
- (2) Common seal/stamp of a company and the explanation/rules for its use.
- (3) Provisions regarding Share capital and the rights of Shareholders

- (4) Rules regarding lien of a company on its shares
- (5) Rules regarding instalments of Shares
- (6) Rules relating to transfer of Shares
- (7) Rules regarding Share transmission – in case of death.
- (8) Rules regarding forfeiture of shares
- (9) Rules regarding change of share capital
- (10) Rules regarding capitalization of profit
- (11) Rules for buy back of share capital
- (12) Rules relating to General Meeting
- (13) Rules for the conducting of General Meeting
- (14) Procedure about adjournment of Meeting
- (15) Rules/explanations about the voting rights
- (16) Rules about proxies
- (17) Rules about the Board of Directors.
- (18) Rules relating to the number of Directors and their remuneration
- (19) Procedure to conduct the meeting of Board of Directors
- (20) Rules regarding the use of common seal/stamp and its preservation.
- (21) Guidelines regarding Dividend
- (22) Rules relating to reserved fund
- (23) Rules relating to Accounts
- (24) Procedure for closure/liquidation of a company
- (25) Indemnity contracts for the officers, its procedure and rules.

5.4.2 Table G : Article of Association of a Company Limited by Guarantee and having Share Capital :

A company where the liabilities of its members as per the Memorandum of Association is limited to the extent of the amount of the shares purchased by the members is called Company Limited by Guarantee and having Share Capital.

At the time of the registration of such companies the number of its members has to be 100(one hundred). However, as per the requirement of the company, the Board of Directors has powers to increase the number of its members from time to time.

Such companies have to accept these provisions over and above Table F.

5.4.3 Table H : Articles of Association of a Company Limited by Guarantee and not having Share Capital :

Where the liability of the members of a company in the event of its liquidation is limited to the extent of the contribution agreed to be paid in the assets of the company as per the Memorandum of association it is called a company limited by Guarantee and not having Share Capital. Following matters are to be included in such Articles of Association :

- (1) Number of Members : For the purpose of registration of a company the number required is 100. The company may increase the number of its members as per its requirements.
- (2) General Meeting : All the meetings except General meeting will be considered as special meetings.

- (3) Rules regarding conducting of General Meeting.
- (4) Procedure for Adjournment of Meeting.
- (5) Rules regarding Voting Rights
- (6) Board of Directors and regulation of their meetings
- (7) Chief Administrative Officer, Manager, Company Secretary, Chief Financial Officer and their appointment – rules to remove them
- (8) Rules regarding common seal/stamp.

5.4.4 Table I : Articles of Association of Company with Unlimited Liability and having a Share Capital :

The liabilities of the members of such company are unlimited. Such companies also issue shares. Just like Sole Proprietorship Firm or Partnership firm the liabilities of members are unlimited. At the time of winding up of such company, if the company does not have sufficient assets to set off its liabilities then the member has to realise debt of a company from his personal properties. Such company cannot use the word “Limited” after its name.

Such company may be commenced with 100 members. However, depending upon the requirement, the Board of Directors may increase the number of its members from time to time.

The provisions of Articles of Association prescribed in Table F are also applicable to such companies.

5.4.5 Table J : Articles of Association of Company with Unlimited liability and not having Share Capital :

The liabilities of the members of such company is unlimited. There is no share capital in such company. In such companies also just like sole proprietorship or partnership firm the liabilities of the members are unlimited. It means that when the company is to be wound up, if the company does not have sufficient assets to realize its debt, the same is to be realized from the personal assets of its members.

Such company may be commenced with 100 members. However, depending upon the requirement, the Board of Directors may increase the number of its members from time to time.

The Articles of Association prescribed in Table H is also applicable to such companies ever and above Table 3.

5.5 Alteration in Articles of Association

The following matters are to be considered while making alteration in the Articles of Association :

- (1) Special Resolution is required to be passed under the Companies Act, 2013 in order to have following alteration in the Company :
 - (a) To convert Private Company into Public Company
 - (b) To convert Public Company into Private Company
 Prior sanction of the Tribunal is required to be obtained before converting Public Company into Private Company.
 The above mentioned alterations are subject to the conditions laid down under the Articles of Association.
- (2) If a private company as per the Companies Act makes such alterations in its Articles of Association so as to remove the limitations or restrictions included in it, it ceases to be a private company from the date of its alteration.
- (3) Special Resolution is required to be passed in case of alteration about increase in the remuneration of the Directors, Managing Director or Full time Director.
- (4) No alteration can be made in contravention of the provisions of paramount.

- (5) No alteration shall be made against any existing laws of India.
- (6) No alteration in contravention of the Memorandum of Association shall be permissible.
- (7) No alterations can be made in the Articles of Association which lead to cheating, fraud or coercion to the members.
- (8) The alteration in the Article of Association must have been made in the interest of a company.
- (9) Alteration in the Articles of Association shall not be made against the provisions of the Companies Act, 2013.

5.6 Duties of the Secretary Relating to the Alteration in the Articles of Association

In order to have alteration in the Articles of Association of a company, the Secretary has to perform following duties :

- (1) To prepare the notice for calling upon the meeting of Shareholders and such notice has to be sent to the shareholders so as to reach them before 21 days of the meeting.
- (2) To prepare the agenda of the work to be done at the meeting. The proposed alteration to be made in the Articles of Association should be included in such agenda.
- (3) General Meeting is required to be called for passing special resolution. It is the duty of a Secretary to maintain the minutes when the meeting is going on. To count votes in case of voting and to have note thereof etc. are the duties of the Secretary.
- (4) To make necessary arrangement to send a copy of special resolution about altering the Articles of Association for the registration before the Registrar within 30 days. after having passed in a General Meeting.
- (5) When the minutes of the proceeding of a meeting is to be prepared, special type of minutes are to be included therein.
- (6) To make arrangement to obtain permission of Tribunal in any matter where the same is necessary.
- (7) After having included the alterations in the Articles of Association, the newly printed copy of Articles of Association is to be registered before the Registrar in a prescribed period. The alterations of Articles of Association comes into force only after having registered before the Registrar.

5.7 Doctrine of Indoor Management

The meaning of this principle is that the outsider (Third Party) dealing with the company believes that the internal management of a company is regular and proper. It is presumed that the outside persons are conversant with the particulars of the Memorandum of Association and Articles of Association. This presumption is made because of the fact that the Memorandum of Association and Articles of Association, both are public documents. Hence, ignorance of any person about these documents of a company is not sustainable in the eyes of law. A common man may presume that whatever transactions done by the company must have been done as per the rules mentioned in the Articles of Association. Common man can presume that all the proceedings to complete the work which is approved by the Memorandum of Association and Articles of Association must have been complied with. This principle is known as Doctrine of Indoor Management.

Exceptions of the Doctrine of Indoor Management :

- (1) The doctrine of Indoor Management is not applicable in the event of such an act done by a company of which it has no power.
- (2) If any document is obtained from the company by fraud, this doctrine is not applicable.
- (3) When any outsider is aware about the irregularity of internal administration of a company, this principle does not apply.
- (4) When it becomes necessary for outsider dealing with a company to inquire about the company, in spite of that he does not make inquiry, no advantage of this doctrine is available.
- (5) When the act of an officer of a company is apparently without power, the doctrine of Indoor Management is not applicable.

In the event of above mentioned exceptional circumstances the doctrine of Indoor Management is not applicable. Therefore the outsiders (Third Party) get protection against the internal mismanagement and negligence of the company.

5.8 Distinction between Memorandum of Association and Articles of Association

Sr. No.	Point	Memorandum of Association	Articles of Association
(1)	Registration of Company	It is compulsory for every company to prepare this document for obtaining Certificate of Registration.	It is optional to prepare this document for the companies limited by and having share capital. If a company does not prepare this document, it can adopt Table F.
(2)	Necessity of Registration	It is mandatory to register this document before the Registrar of Companies.	It is not necessary to register this document if a company adopts Table F.
(3)	Significance	Memorandum of Association is the basic document.	Articles of Association is a document for internal administration of a company.
(4)	Object	Memorandum of Association determines the area of work of a company. Company cannot proceed beyond the area of work mentioned in Memorandum of Association.	It determines as to how the internal administration of a company functions.
(5)	Alteration	It is not easy to make alteration in Memorandum of Association. It is a very long process to make alteration in it, which is complicated and expensive. Special Resolution is to be made and necessary permission is to be obtained.	Articles of Association can be altered easily. It can be altered by passing special resolution in the General Meeting. Permission of Tribunal is taken in special cases.
(6)	Limitation of Powers	Company cannot perform any activity beyond the object described in Memorandum. If any such act beyond its scope is done by a company, even the members of that company cannot ratify it. Such acts are called ultra vires acts.	Any act done beyond the powers of the Articles of Association, the members of the company can sanction the same
(7)	Relations	Memorandum of Association has relation with outside persons and public at large	Regulation of internal relations between a company and its members is done through Articles of Association.
(8)	Supremacy	Memorandum of Association is not subordinate to Articles of Association.	Articles of Association is subordinate to the Memorandum of Association. Any provision made in the Articles of Association, contrary to the Memorandum of Association is null and void.
(9)	Third Party	Third party can get advantage of the provisions of Memorandum of Association.	Third party cannot take advantage of the provisions of the Articles of Association.

(10)	Particulars	Memorandum of Association has six clauses (1) Name Clause (2) Registered Office Clause (3) Object Clause (4) Capital Clause (5) Liability Clause (6) Subscription Clause	Articles of Association includes Share Capital, its kinds, Share Transfer, Forfeiture, Board of Directors, Administration of Meeting, Accounts, Voting Rights etc provisions.
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What have you learnt in this chapter ?

Memorandum of Association and Articles of Association are the important documents for the establishment of a company. After registration of these documents, the artificial character of a company starts getting legal entity. Articles of Association is a document regulating the internal management of a company.

Meaning : “Articles means the set of Rules regulating internal management of a company.”

Importance : (1) Important in the daily administration. (2) Important for the secretary (3) Useful in achieving the objects (4) Useful in determining various relationship (5) To ascertain whether a company is a public company or private company.

The provisions of the Companies Act, 2013 relating to Articles of Association:

(1) The subscribers have to put their signatures. (2) Signature in presence of witness is must. (3) Entire specimen table or part thereof may be taken. (4) It is necessary to observe the provisions of the Articles of Association. (5) It is not binding to the third party. (6) The provisions of Articles of Association must not be contrary to those of Memorandum of Association. (7) Three main characteristics of a Private Company : (i) Limited Number of members, (ii) Restriction on Share transfer, (iii) No invitation to the public to purchase the shares (8) Any person can peruse the Articles of Association of a company and also obtain copy thereof. (9) It can be altered by special resolution. (10) Statement from the promoters to the effect that they are not involved in any offences.

Contents of the Articles of Association :

Table F : Particulars to be included in the Articles of Association of a Company limited by Shares are as follows :

(1) List of the words of the Companies Act (2) Type of Share Capital (3) Rights of Shareholders (4) Share lien (5) Transfer of Share instalments/ Rules about the forfeiture (6) Change in Share capital (7) Investment of profit. (8) Buyback of shares (9) Rules regarding the administration of General Meeting (10) Right to vote : Rules about proxies (11) Rules about the remuneration of Board of Directors (12) Common Seal/stamp-its use- preservation (13) Rules about Dividends (14) Rules regarding reserves - Accounts (15) Rules about indemnity.

Table G : In a **Company Limited by Guarantee and having Share Capital** - The liability of the members is limited only to the extent of number of shares in which they have given guarantee. Such companies have also to accept the Articles of Associations of Table F.

Table H : Articles of Association of a **Company Limited by Guarantee and not having Share Capital** has to accept this type of Articles of Association which includes (1) number of members (2) General Meeting (3) conducting of the meeting/adjourn ,rules for voting rights (4) Board of Directors (5) Appointment of Administrative Officers – Rules for removal (6) Common seal.

Table I : In a **Company with Unlimited Liability and having a Share Capital**, The liabilities of the members of such company are unlimited and beyond the amount of shares purchased by them. Such companies are not permitted to use word “Limited” after their names and they have to accept the Articles of Association as prescribed in Table F.

Table J : The liabilities of the members are unlimited in a **Company with Unlimited liability and not having Share Capital**. In order to realize the liabilities of such company members may pay the dues from their own assets. Such companies have to also accept the Articles of Association as prescribed in Table H.

Alteration in Articles of Association :

- (1) Special Resolution is required to be passed in order to convert Private Company into Public Company and Public Company into Private Company and sanction of Tribunal is also required to be taken in certain cases.
- (2) Due care should be taken that no alteration should escape from the Memorandum of Association or transfer.
- (3) Special Resolution should be passed in order to change the remuneration of Directors.
- (4) Alteration cannot be made contrary to the provisions of existing laws or Memorandum of Association.
- (5) No alterations can be made against the interest of a company
- (6) No alteration can be made against the provisions of the Companies Act, 2013.

Duties of the Secretary in Alteration of Articles of Association :

(1) To prepare the notice for meeting of shareholders. (2) To prepare the agenda of the meeting (3) To call for the meeting- to make arrangement of counting of votes at election (4) To inform Companies Registrar within 30 days of alteration after seeking permission from central Government. (5) To make arrangement for obtaining the permission of the Tribunal. (6) To register the printed copy of the Articles of Association after alteration before the Registrar.

Doctrine of Indoor Management :

It is presumed that the persons dealing with the company are aware of the Memorandum of Association and Articles of Association. Any prudent person believes that whatever transaction is made by the company is as per the provisions of the Articles of Association. This is called the Doctrine of Indoor Management. :

Exceptions : (1) The company has no power to do particular work (2) When the document is obtained by fraud (3) When the third party knows about the irregularity (4) No inquiry is made when it is necessary (5) The work of any officer of the company is apparently beyond power.

Distinctions between Memorandum of Association and Articles of Association :

(1) Registration of company (2) Necessity of Registration (3) Importance (4) Object (5) Alteration (6) Limitation of powers (7) Relationship (8) Supremacy (9) Third Party (10) Particulars

Exercise**1. Select suitable option from the given options :**

- (1) Articles of Association
 - (A) determines the objects of a company
 - (B) regulates the mutual relations among the company and its members
 - (C) determines the relations between a company and third party
 - (D) determines the relations between a company and Government
- (2) Which of the statement is incorrect in relation to Articles of Association ?
 - (A) Rules relating to objectives. (B) Rules relating to share Instalments.
 - (C) Rules relating to Rights and duties of Board of Directors.
 - (D) Rules regarding share transfer.

- (3) is for the Internal Administration of a company.
 (A) Memorandum of Association (B) Prospectus
 (C) Articles of Association (D) Company Secretary Act
- (4) Personality of a company is
 (A) Eternal
 (B) By registering necessary document with registrar of companies, it obtains legal identity.
 (C) given through shareholders (D) given through Board of Directors.
- (5) Which of the following types of Articles of Association is applicable to a Company with Unlimited Liability and not having a Share Capital ?
 (A) Table I (B) Table H (C) Table F (D) Table J
- (6) Transfer of shares of private company is
 (A) Independent (B) Decided by the members inter se
 (C) Restricted (D) not permissible at all
- (7) Which of the following types of Articles of Association is applicable to a Company with Unlimited Liability and having a Share Capital ?
 (A) Table I (B) Table F (C) Table G (D) Table H
- (8) Doctrine of Indoor Management is
 (A) Shareholders know what is going on in a company
 (B) Board of Directors know how the company administration is done
 (C) Employees know that the management of a company is proper.
 (D) Third party presumes that the internal management of a company is regular and proper.
- (9) Which of the following types of Articles of Association is applicable to a Company Limited by Guarantee and not having Share Capital ?
 (A) Table G (B) Table H (C) Table I (D) Table J
- (10) Which of the following types of Articles of Association is applicable to a Company limited by Share Capital ?
 (A) Table F (B) Table G (C) Table I (D) Table H
- (11) Which of the following types of Articles of Association is applicable to a Company limited by Guarantee and not having share capital ?
 (A) Table A (B) Table I (C) Table H (D) Table J

2. Answer the following questions in one sentence :

- (1) Within how many days the alterations of Articles of Association are required to be registered before the Registrar ?
- (2) Which type of liability do the members of company limited by guarantee have ?
- (3) Which members have unlimited liability ?
- (4) How many days' prior notice is to be given to the shareholders for alteration of Articles of Association ?
- (5) How many Tables are there in the Companies Act, 2013 for Articles of Association ?

- (6) What is the maximum number of members in a private company ?
- (7) What is the minimum number of members required for a private company ?
- (8) Which document determines the relationship among the members ?

3. Answer the following questions in short :

- (1) For which alterations of Articles of Association is the permission of Tribunal necessary ?
- (2) State the meaning of Articles of Association.
- (3) Which documents are necessary to establish an artificial personality ?
- (4) When does the alteration of Articles of Association come into force ?
- (5) How is Articles of Association useful in daily administration ?

4. Answer the following question to the point : :

- (1) To which company is Table J applies ?
- (2) To which company is Table I applicable ?
- (3) Table H is applicable to which company ?
- (4) Which matters are included in Table G ?
- (5) How is the Articles of Association important to the Secretary ?
- (6) State the exceptions of the Doctrine of Indoor Management.

5. Answer the following questions in detail :

- (1) What is Doctrine of Indoor Management ?
- (2) State the duties of the Secretary for altering Articles of Association.
- (3) Which matters are included in Table F ?
- (4) State the provisions of the Companies Act, 2013 regarding the Articles of Association.
- (5) Distinguish between Memorandum of Association and Articles of Association. (any five)
- (6) Write Note – Alteration in the Articles of Association.
- (7) Which matters are included in Table H ?
- (8) Which particulars are to be included in the Articles of Association ?
- (9) State the significance of Articles of Association.



What will you learn in this chapter ?

- 6.1 Meaning and Definition of Prospectus
- 6.2 Importance of Prospectus
- 6.3 The Contents to be included in the Prospectus
- 6.4 The provisions of the Companies Act regarding issuance of Prospectus
- 6.5 Liabilities for the misrepresentation in the Prospectus
 - 6.5.1 Civil Liability
 - 6.5.2 Criminal Liability
- 6.6 Duties of the Secretary about Prospectus
- 6.7 Minimum Subscription
 - 6.7.1 Importance of Minimum Subscription
- 6.8 Under Writing Contract for Share
- 6.9 Private Placement
 - 6.9.1 The provisions of the Companies Act about Private Placement

Introduction

Capital is the source of any business. If the area of work of a company is in large it requires huge capital. At the time of incorporation of a company, it does not have capital of its own. This capital is collected by a public company from the public through shares or other securities. Before investing capital in such companies, minute investigation is done by public and unless there is complete satisfaction and sufficient information investors do not invest in companies. In order to provide necessary information of a company to the public at large the investors, the company issues a document which is known as **Prospectus**. In other words, **A document through which an invitation is extended by public company to the public at large to purchase shares or debentures of the company is called Prospectus.**

6.1 Meaning and definition of Prospectus

In simple language **Prospectus** means advertisement. Prospectus is an invitation given by a company through a document to public at large to purchase its share capital , debentures or other securities in order to raise capital.

Definition : Prospectus means any document described or issued as prospectus and includes a red herring prospectus or shelf prospectus or any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate.

Prospectus means a public document giving invitation to the public at large to purchase the securities of a company.

Thus, the circular issued by the promoters of a company after incorporation of the company in order to attract/purchase its shares or debentures to the public is known as prospectus, in which Red herring prospectus and shelf prospectus are also included.

From the above facts, the following characteristics of a prospectus can be traced :

- (1) Prospectus is an invitation published by a company.
- (2) The public is given invitation to purchase securities through the prospectus.
- (3) Prospectus should be in the nature of notice, circular or public advertisement.
- (4) Prospectus should be in written form.

6.2 Importance of Prospectus

Prospectus is an important document for the public at large making investment because relying upon this document the investor decides to invest in the company. For this very reason all the information mentioned in the prospectus must be correct and real. Hence, prospectus is a document

presenting fiduciary relationship (relationship of trust) with the public at large. The significance of the prospectus can be more understood from the following points :

- (1) In the prospectus the information about the name of the company, the kind of share capital, the working area of company, future plans are given.
- (2) Information regarding main officers of a company are provided in the prospectus.
- (3) The purpose of this document is to inform the public at large. There should not be any misrepresentation or misleading information in it as the same amounts to breach of trust on the investors who have relied upon the company. Special provisions are kept in the Companies Act to prevent false/misleading statements in the prospectus.
- (4) The officers who have given such false, misleading statement or information in the prospectus of a company are held liable.
- (5) The presentation of true financial situation of a company in its prospectus gives idea of reality to the investor.
- (6) In the prospectus there is a mention about the possible risks of a project of a company. As a resultant effect investor can take appropriate decision.

Therefore it is said that Prospectus should be unambiguous and clear as well as transparent like water.

6.3 Matters to be Stated in the Prospectus

Prospectus is an important document inviting public at large to make investment in a company. As per the provisions of the Companies Act, 2013 the following matters are to be included in the prospectus :

- (1) Name of a Company
- (2) Address of Registered Office of a Company
- (3) Names and addresses of Company Secretary, Chief Financial Officer, Auditor, Legal Advisors, Banker, Trustee, Guarantor Brokers and other specified persons.
- (4) The dates of opening and closure of the subscription, Allotment of securities and Time limit for payment of money
- (5) Statement of Promoters to the effect that the company will open a separate account in a Bank and the entire fund would be kept in it.
- (6) All information about the under-writer Contract
- (7) Consent of the Promoters, Auditors, specific Bankers, Experts and all other concerned officers.
- (8) Information about the authorised officer regarding subscription and the resolution regarding it.
- (9) The schedule about the process of distribution regarding securities.
- (10) Capital structure of a company as per the Companies Act.
- (11) The purpose of Public Subscription, conditions and other relevant matters.
- (12) The main object of a company and its present business, the place of business and the schedule of implementation of its project
- (13) Regarding project :
 - (a) The idea of promoters and risk factors in it.
 - (b) Waiting period for the project
 - (c) The development in the project
 - (d) Time for completion of the project
 - (e) Information regarding any pending suit, legal proceedings or filing of a suit or legal proceeding against a promoter by Government Department during, of past 5 years from the date of publication of the prospectus.

- (14) Information about the Minimum Subscription, information regarding the amount to be paid as premium, information about issuing of any share except cash.
- (15) Information about the Board of Directors, their appointment, remuneration and the details about their interest in the company, if any.
- (16) Information about the contribution of the promoters.
- (17) The following additional information is required to be given by such companies having business in existence :
 - (a) Profit-loss statement of the company, Final Balance-Sheet, report of auditor regarding it.
 - (b) Profit-loss information of past five years before publication of prospectus, Reports of Ancillary Branch
 - (c) Information regarding the business in which direct or indirect use of the obtained securities is to be utilized.
- (18) Statement to the effect that the contents of the prospectus are not violating the Companies Act, Securities Contract Act, 1956 or the SEBI Act, 1992.
- (19) The date written in the prospectus will be considered as the date of publication of the prospectus.

6.4 Provisions of the Companies Act Regarding Issuance of the Prospectus

The following are the main provisions regarding the issuance of the Prospectus :

- (1) Unless all the provisions pertaining to the registration of the Prospectus are complied with, the Registrar of Companies will not make registration of the Prospectus.
- (2) The date which is written in the prospectus will be considered as the date of publication of the prospectus.
- (3) No person shall be allowed to publish prospectus on behalf of the company before presenting it to the Registrar of Companies.
- (4) Each person whose name is shown in the prospectus must put his signature prior to making registration before the Registrar.
- (5) If Registrar needs details regarding any information stated in the prospectus, he should be provided such information in an information statement.
- (6) Written consent of each person shown in the prospectus is required to be attached.
- (7) The statement of the Expert person shown in the prospectus is to be taken as well as his written declaration to the effect that he has no interest in the company.
- (8) Printed copy of the prospectus is required to be given to the Registrar.
- (9) Prospectus has to be published within 90 days from the date of its registration. If it is published after 90 days, it is declared illegal.
- (10) Before registration of prospectus a statement is to be given before the Registrar of Companies stating therein that the Provisions of the Companies Act are complied with and there is no breach of the Security Contract Regulation Act and provisions of the SEBI Act.
- (11) No application forms can be published without Mini Prospectus for Securities purchase of a Company.

6.5 Liability for the Misrepresentation in the Prospectus

The prospectus is an important document giving invitation to the public to make investment in the shares or debentures of a company. In case of any misrepresentation, fraudulent advertisement or exaggerated statements made in the prospectus, the authorised officials of the company are held responsible. Misrepresentation means :

- (1) The statements made with reference to the contents of the prospectus is misleading.
- (2) In order to mislead the reader necessary information is not provided in the prospectus.
- (3) By using ambiguous words in the prospectus, an attempt is made to mislead the public.

Thus, for such misleading or exaggerated presentation made in the prospectus, the liability of the company arises. Such liability may be of two types : (1) Civil Liability, (2) Criminal Liability.

6.5.1 Civil Liability : If any person who has invested in a company relying upon the published prospectus of a company sustains loss, he may initiate civil proceedings against the company for getting compensation for his loss and the company is liable to give him the damages (compensation for loss). This is called Civil Liability. Thus, due to misrepresentation made in the prospectus, if anyone sustains financial loss, the following persons are liable to compensate the same :

- (1) The persons who were directors of the company at the time when prospectus was published.
- (2) The directors who have consented to put their names in the prospectus.
- (3) The promoters of the company .
- (4) The officer authorised by the company to publish the prospectus.
- (5) Person whose name is mentioned for giving opinion as an expert in the prospectus.

6.5.2 Criminal Liability : To give deliberate misrepresentation in the prospects and cause financial loss is considered as criminal offence. In this type of liability the officers of the company can be punished with imprisonment or fine or both. The very purpose of making misleading statement is to fraudulently tempt to invest or attempt to tempt to invest the persons in a company. For such incidents strict provisions for punishment are made under law.

(1) Liability of Other Offences Regarding Information of the Prospectus

- (a) If the prospectus is not of the legal character or the necessary information are not provided therein, the Director or authorised person can be held responsible.
- (b) Prospectus can be published only after getting it registered before the Registrar. There should be date and signature of authorised persons in the prospectus. If the above formalities are not complied with, the person responsible for the publication of prospectus may be punished with fine.
- (c) If the provisions regarding the statements of experts are not complied with , the person who has published the prospectus is liable for fine.

(2) Liability for the Breach of Trust and Cheating :

If any person knowingly makes careless statements or false promise, conceals material facts, dishonestly hides something and thereby attracts others to invest in the shares or debentures of a company, he can be held liable for the offences of Criminal Breach of Trust or Cheating and be punished with imprisonment or fine or both.

6.6 Duties of Secretary for the Prospectus

The company gathers capital from the investors by issuance of prospectus. The information provided in the prospectus should be true and trustworthy, and it should not be misleading. Prospectus should be a transparent document. For that Secretary has to play very important role which is as given below :

- (1) To arrange the meeting of a committee which is assigned the work to prepare the prospectus by the directors, to prepare minutes of such meeting, to provide all administrative help to this committee. Sometimes this work is assigned to Solicitor. When such work is assigned to the solicitor, the secretary should provide all help by remaining in contact with them.
- (2) To call meeting of the Board of Directors after preparation of the draft of Prospectus for obtaining its approval and to provide all information about the provisions of the Companies Act.

- (3) To get the prospectus printed and to send a copy thereof to the Registrar of Companies for registration after preparation and approval of the prospectus by the Board of Directors in a meeting.
- (4) Before registration of prospectus,
 - (a) it should be verified whether date is written or not
 - (b) it is the duty of the secretary to verify whether all the information and reports are included as per the Companies Act or not.
- (5) It is also the duty of the secretary to send a copy of the prospectus to the Directors whose names are mentioned in the prospectus.
- (6) If the names of the Experts are to be printed in the prospectus, their written consent is required to be obtained.
- (7) Written consent of the persons should be taken, whose names are mentioned as Auditor of Company, Legal Advisor, Solicitor and Banker in the Prospectus.
- (8) The applications cannot be published for shares and debentures. However, with the Mini Prospectus application forms can be attached. Therefore, arrangement should be made to print application forms along with Mini Prospectus.
- (9) To make arrangement for dispatching the Mini Prospectus and application forms to the Guarantee Brokers with whom the arrangement is made.
- (10) The amount of the shares received has to be deposited in a separate account of a scheduled bank, such account should be opened.
- (11) The arrangement should be made to give proper advertisement in various newspapers for opening of subscription of shares.
- (12) Arrangement should be made to register the shares which are published in the Share Market.
- (13) Secretary has to see that after registration of Prospectus, the same is published within 90 days.

6.7 Minimum Subscription

“The minimum amount of share purchase required in order to start proper business as per its wish is called Minimum Subscription.”

The amount of Minimum Subscription is not anywhere defined under the Companies Act. But as per the guide line prescribed by SEBI - if the Company had not made underwriting contract with underwriters minimum subscription should be 90% issued capital. In order to sustain the financial prosperity and to sustain the credibility of company before the public minimum subscription is essential. If minimum subscription is not received by the company as per prospectus company cannot allot securities.

6.7.1 Importance of Minimum Subscription : In order to secure the interest of the investors the provisions of Minimum Subscription is made in the Companies Act. Distribution of Securities can be done only when the amount of Minimum Subscription is received.

Some dishonest or inexperienced directors establish a company with insufficient capital. As a resultant effect business cannot run in a systematic manner and the investors from public at large have to lose their invested money. In order to avoid such situation it is necessary to have this provision. As per the Companies Act, 2013, if the amount of Minimum Subscription is not received within 30 days from the date of issuing prospectus or the time limit prescribed by the SEBI, then such amount is required to be returned as per the directions of the SEBI. On violation of such rule, the concerned officers are liable to pay fine. While allotting the shares the same are required to be registered before the Registrar of Companies.

The Effects of Non-receipt of the Amount of Minimum Subscription :

If a company does not receive the applications equivalent to the Minimum Subscription then,

- (1) The allotment of shares of a company cannot be done.
- (2) The applicants are required to be refunded the amount as per the directions of SEBI.
- (3) On violation of these provisions by a public company, the concerned officers are liable to pay fine.

6.8 Underwriting Contract for Share

When any public company invites public at large to purchase its shares/debentures, and such newly established company fails to receive the amount of Minimum Subscription, its reputation comes in danger. Moreover, possibilities of its future success get obstructed. Negative situation arises among the share market about the company. In order to avoid this risk the newly established company enters into Share under writing Contract with the Brokers, mediators wherein such brokers assure the company that in the event of non-purchase of shares the remaining shares would be purchased by the Brokers entered into contract with the company.

Thus, Share Under writing Contract is such contract whereby the brokers in consideration of the commission guarantee the company to the effect that in case the securities issued for the public at large are not fully purchased by the public, they would purchase the remaining shares and would make payment thereof. The commission to be paid to the underwriter Brokers for the shares purchased is called underwriting Commission.

Advantages of Share underwriting Contract :

- (1) After having entered into under writing contract, there is no uncertainty among the promoters of the company to collect capital.
- (2) The underwriter Brokers, being experts of Share market give appropriate advice to the company and hence there is no risk for the investors.
- (3) Before taking liability, the Underwriter Brokers make necessary investigation about the condition and future of the company and thereafter enter into Under writer Contract. Therefore, the investors are confident about the safety of their money.
- (4) The company also gets advantage of goodwill of underwriter Brokers. Because of the names of reputed underwriter Brokers the investors are attracted to invest in the company.

6.9 Private Placement

By publication of prospectus the public company invites the public at large to purchase its securities. But instead of inviting public for purchasing prospectus such company may make private placement for the Guarantee Subscription. As per the Companies Act 'Private placement means company makes an offer to allot securities to definite group of person to purchase securities.'

Maximum 50 persons or such number of persons as fixed by the SEBI can be invited for the Minimum Subscription over and above institutional purchasers and employees qualified under the Employees Stock Option Scheme.

6.9.1 Provisions of the Companies Act Regarding Private Placement :

- (1) The amount regarding this type of subscription can be paid through a cheque or draft or by Bank transactions. Payment cannot be done in cash.
- (2) The allotment should be made within 60 days for such type of subscriptions. If the directors do not make such allotment within 60 days, the applicants should be refunded the amount within 15 days after the expiry of 60 days.

- (3) On failure to make payment within 15 days after expiry of 60 days, the interest of 12 % per annum is to be paid by the company from the date of expiry of 60 days till the date of refund.
- (4) The amount received in such type should be kept in a separate account of a Scheduled Bank.
- (5) Only such persons will be given the intimation for the private placement, whose names are registered by the company before giving invitation for subscription. Such persons will be intimated for subscription by name.
- (6) The records regarding such intimation will be maintained as decided and after passing resolution regarding concerned private placement. The Complete detail about it shall be presented before the Registrar within 30 days.
- (7) The companies resolving to have private placement in such a manner shall not be entitled to make any advertisement for providing information to public about such resolution.
- (8) When company allots subscription in this manner, the names, addresses, number of allotted subscription and all other information about the Indemnity Holders are required to be presented before the Registrar of Companies.

What have you learned in this chapter ?

Capital is required to run a company. Company does not have capital at the time of its incorporation. Such capital is gathered by shares or debentures. In order to obtain such capital public is invited by a document, which is called prospectus.

Meaning : The document by which public is invited by a company to raise fund is called prospectus.

Importance : “Prospectus means a public document giving invitation to the public at large to purchase the shares of debentures of a company.”

Characteristics :

- (1) It is published by a company.
- (2) Invitation is given to the public to purchase shares or debentures.
- (3) Prospectus is in the nature of notice or circular.
- (4) Prospectus must be in written form.

Importance :

- (1) The prospectus contains the name , Share capital, the working area , future planning of the company etc.
- (2) It provides Information regarding main officers of the company .
- (3) Any false, misleading statement or information in the prospectus will damage reliability of the company.
- (4) It presents true financial situation of the company, gives idea of reality to the investors.
- (5) It informs regarding possible risks of the project of the company.

Contents of the Prospectus :

- (1) Name of company and address of Registered Office
- (2) Name and addresses of Secretary, Solicitor, Advisor, Indemnity Brokers of a company.
- (3) Date of opening and closure of Subscription, Time-table of distribution process etc.
- (4) Statement regarding opening of separate account in a bank

- (5) Information regarding underwriting Contracts
- (6) Written consent of Directors, Auditor, Banker and Experts.
- (7) Resolution about subscription and authorised person for that
- (8) Capital structure of the company
- (9) Purpose, conditions and necessary particulars about Subscription
- (10) Objectives of the company and the place of Business
- (11) Risk factors about project, Development and period of completion of project
- (12) Appointment and remuneration of Board of Directors and their interest in a company
- (13) Contribution of Promoters
- (14) If the business is continuing, the Balance sheet of last five years, the Report about Profit and Loss A/C, Balance sheet , Branch Report
- (15) Statement regarding non-violation of any legal provision.

Provisions of the Companies Act Regarding Publication of Prospectus :

- (1) There should be compliance of legal provisions.
- (2) The date shown is considered as date of publication of prospectus.
- (3) No person shall be allowed to publish prospectus on behalf of the company before presenting it to Registrar of Companies.
- (4) Additional information-statement should be provided, if required.
- (5) Written consent of each person shown in the prospectus is required.
- (6) Printed copy of the prospectus is required to be given to the Registrar.
- (7) Prospectus has to be published within 90 days from the date of its registration. If it is published after 90 days, it is declared invalid.
- (8) Before registration of prospectus a statement is to be given before the Registrar of Companies stating therein that the Provisions of the Companies Act are complied with and there is no breach of the Security Contract Act and provisions of the SEBI Act.
- (9) The application form cannot be published without the Mini Prospectus.

Liability for Misrepresentation in the Prospectus: If there is any misrepresentation or fraudulent publication is made or ambiguous words are used, the officers whose names are shown in the prospectus are held liable. Such liabilities are of two types :

(1) **Civil Liability** : If there is a financial loss to the investors who have invested relying upon the Misrepresentation or fraudulent representation, the officers whose names are shown in the prospectus are held responsible to compensate the same. This is called civil liability.

(2) **Criminal Liability** : By believing any fraudulent representation to be true any investor gets attracted and invests and thereby sustains loss, all the officers whose names are shown in the prospectus are liable for the punishment of imprisonment or fine or both. This is called criminal liability.

Liability of Other Offences of Prospectus : If the prospectus is not of legal character, necessary information are not shown, it does not bare signature or it is published before getting the same registered by the Registrar, the publisher of the prospectus is liable for fine.

Liability of Criminal Breach of Trust in the Prospectus : Any person who knowingly makes irresponsible statements or makes false statements and induces others to invest in shares/ debentures of a company is liable for punishment of imprisonment or fine or both.

Liabilities of a Secretary in the Prospectus :

- (1) To be in contact with the committee preparing prospectus or solicitor and provide necessary help.
- (2) To discuss the draft of prospectus in the committee of Board of Directors.
- (3) To get prospectus published.
- (4) It is his duty to see whether the dates and provisions of the Companies Act are complied with or not.
- (5) To send a copy of prospectus to the Directors.
- (6) To obtain written approval of concerned officers and experts.
- (7) To make arrangement to print the applications along with Mini Prospectus.
- (8) To send Mini Prospectus to the under writer Brokers.
- (9) To make arrangement to deposit the amount of subscription in a separate Bank account.
- (10) To get the prospectus published in the newspapers.
- (11) To make arrangement to register the shares at the Share Market.
- (12) To make arrangement to publish the prospectus within 90 days from the date of registration of prospectus.

Minimum Subscription : How much minimum amount is required to commence a business is a Minimum Subscription.

Importance of Minimum Subscription : Minimum Subscription is necessary to protect the interest of share holders. After having published the shares, if amount of Minimum Subscription is not obtained within 30 days, the amount is required to be refunded as per the directions of SEBI. In case of violation of the above provisions, the responsible officer is liable to pay fine.

Underwriting Contracts of Share : New company whose securities are issued and could not get the Minimum Subscription, cannot commence a new business. The reputation of a company comes into danger. In order to avoid such situation, a company makes Underwriting Contracts of securities with the brokers. In such contract, the brokers assure the company that they would purchase the shares of deficit amount. Commission is to be paid to the brokers in consideration thereof. Due to Underwriting Contract there is no uncertainty for a company to collect capital . Moreover, proper advice of Brokers gives reputation to the company.

Private Placement : If a public company does not invite public to purchase its shares or debentures, it may make private placement for filling up its subscription. In such event, proposal may be given to fifty persons as per SEBI guidelines.

Provisions of the Companies Act for the Private Placement :

- (1) The amount of it can be taken by cheque or Draft but not in cash.
- (2) The allotment of shares in such case shall be made within 60 days failing which the amount has to be refunded within 15 days. If such amount is not refunded within 15 days, the interest of 12 % per annum shall be paid.
- (3) Such amount shall be kept in a separate account of a Scheduled Bank.
- (4) Those persons who have registered their names, before inviting for the subscription can be offered by name such proposal of Private Placement.
- (5) Record about this shall be kept in a prescribed form and the same is required to be registered within 30 days before the Registrar.
- (6) No advertisement about this can be done before public.
- (7) All the matters regarding proposal should be presented before the Registrar.

Exercise

1. Select suitable option from the given options :

- (1) Person liable for Civil Liability in case of publication of information in prospectus.....
(A) can be punished with fine. (B) can be punished with imprisonment or fine.
(C) cannot be punished at all.
(D) can be punished with imprisonment as well as fine
- (2) Person liable for criminal offence in case of publication of information in prospectus.....
(A) can be punished with imprisonment (B) can be punished with fine only
(C) is to be pardoned for the first offence
(D) can be punished with imprisonment and fine or both
- (3) Which of the following statement is incorrect in relation to prospectus.
(A) Prospectus is an invitation published by a company
(B) Prospectus must be in written form. (C) Name of the company.
(D) It is not mandatory to register with Registrar of companies.
- (4) In order to invite public to purchase shares, a company.....
(A) may print application form. (B) cannot print application form.
(C) print along with mini prospectus. (D) may take application on a paper.
(D) It is not mandatory to register with Registrar of Companies.
- (5) The amount of subscription received is to be
(A) deposited by opening a separate account in a Scheduled Bank.
(B) deposited in Nationalized Bank. (C) deposited in current account of a company.
(D) deposited in the account of the Director.
- (6) In private placement in how many days allotment is to be done ?
(A) with in 15 days (B) with in 60 days (C) with in 75 days (D) with in 90 days
- (7) Prospectus.....
(A) is not required to be published. (B) is necessary to be published.
(C) may be in the written form. (D) is in the nature of scattered information.
- (8) In case of Civil Liability, the Directors.....
(A) have to pay for the loss. (B) are not liable at all for the first time.
(C) have to pay for the possible loss. (D) have to pay the loss sustained in the profit.
- (9) How many people can be offered in private placement ?
(A) 50 (B) 30 (C) 20 (D) 10

2. Answer the Following Questions in One Sentence :

- (1) On basis of which document, the investor decides to invest in the company ?

- (2) Where is the contribution of promoters mentioned ?
- (3) What is the driving force of a business ?
- (4) What is called the date of publication of prospectus ?
- (5) In which form a company gathers capital from the public ?
- (6) Where is the money obtained in private placement to be kept ?
- (7) Within how many days the allotment of subscription can be done in case of private placement ?
- (8) To whom the liability to prepare the prospectus is entrusted ?
- (9) What is prospectus ?
- (10) Within how many days the prospectus can be published after the registration of the company ?
- (11) If the allotment of subscription is not done in private placement, within how many days the money should be refunded ?

3. Answer in Short the Following Questions :

- (1) With whom the underwriting contracts are entered by the company ?
- (2) What are the effect in case of failure to get Minimum Subscription ?
- (3) Whose written consent is necessary in the prospectus ?
- (4) To whom is the proposal to be given in case of Private Placement ?
- (5) What kind of liability is there regarding other offences in the prospectus ?
- (6) List out the officers to be included in the prospectus ?

4. Answer the Following Questions Pointwise :

- (1) Explain the meaning of Prospectus.
- (2) State the characteristics of prospectus.
- (3) What is called criminal liabilities in relation to the prospectus ?
- (4) Which matters are required to be seen by the secretary prior to registration of prospectus before the Registrar ?
- (5) What is called Minimum Subscription ?
- (6) What is called civil liabilities in relation to the prospectus ?
- (7) Which matters about the project are to be included in the prospectus ?
- (8) State the liabilities of Criminal Breach of Trust relating to the prospectus.
- (9) Which additional information are required to be shown by the companies having continuing business ?
- (10) Explain the importance of Minimum Subscription.
- (11) Which difficulties are faced by the company, if the under writing contracts are not made ?

5. Answer the Following Questions in Detail :

- (1) State the provision of companies Act regarding private placement ?
- (2) Explain the liabilities for misrepresentation made in the prospectus.
- (3) State the duties of a secretary related to the prospectus.
- (4) Write down merrits of under-writing contract.
- (5) When can it be said that there is misrepresentation in the prospectus ?
- (6) What is called private placement ?
- (7) What is Under-writing Contract in relation to the prospectus ?
- (8) Explain the importance of prospectus.
- (9) What is Prospectus ? Explain it by giving meaning and definition.
- (10) Explain the provisions under the Companies Act for publication of prospectus.
- (11) Which matters are to be included in the prospectus ?

Terminological Words

Prospectus	: વિજ્ઞાપનપત્ર
Certificate of Incorporation	: નોંધણી પ્રમાણપત્ર
Minimum Subscription	: લઘુત્તમ ભરણું
Promoters	: સ્થાપકો
Civil Liability	: દીવાની જવાબદારી
Criminal Liability	: ફોજદારી જવાબદારી
Solicitor	: સોલિસિટર
Share Underwriting	: શેર બાંધધરી
Private Placement	: ખાનગી નિયુક્તિ
Abridged Prospectus	: લઘુ/સંક્ષિપ્ત વિજ્ઞાપનપત્ર



7

Share Capital and Types of Shares

What will you learn in this chapter ?

- 7.1 Meaning and definition of 'Share'
- 7.2 Characteristics of shares
- 7.3 Classification of share capital
 - 7.3.1 Authorized capital
 - 7.3.2 Issued capital
 - 7.3.3 Subscribed capital
 - 7.3.4 Called up capital
 - 7.3.5 Paid up capital
- 7.4 Types of shares
 - 7.4.1 Equity shares
 - 7.4.1.1 Ordinary Equity shares
 - 7.4.1.2 Other Equity shares
 - 7.4.1.3 Sweat Equity share
 - 7.4.2 Preference share
- 7.5 Difference between Equity share and Preference share
- 7.6 Share certificate
 - 7.6.1 Meaning
 - 7.6.2 Details included in the share certificate
 - 7.6.3 The provision of Company Act regarding Share Certificate
- 7.7 Dematerialization of share
 - 7.7.1 Requirement of DEMAT Accounts
 - 7.7.2 Dematerialization – DEMAT
 - 7.7.3 How and where DEMAT account can be opened ?
 - 7.7.4 Expenses for DEMAT account
 - 7.7.5 Advantages of DEMAT account
 - 7.7.6 Limitation of DEMAT account
- 7.8 Various ways to issue shares
 - 7.8.1 Share Issued at a face value or at par
 - 7.8.2 Share Issued at a premium
 - 7.8.3 Share Issued at a discount

- 7.9 Bonus shares
 - 7.9.1 Meaning
 - 7.9.2 Conditions
 - 7.9.3 From what can be bonus share be given
 - 7.9.4 Procedure to issue bonus share
- 7.10 Right shares
 - 7.10.1 Meaning
 - 7.10.2 Provisions
 - 7.10.3 Duties of secretary regarding the right shares

Introduction

The promoters of newly established company estimate the requirements of capital for short term, midterm and long term. To purchase fixed assets like land, building machinery, furniture long term fixed capital is required. After commencement of business working capital is required for day to day administration and production expenses. Company issues share for requirements of long term capital and working Capital.

7.1 Meaning and Definition of Share

Meaning : In general terms proportion of owner capital is large which is divided into smaller parts. This smaller part is known as 'Share'.

Share means shareholder's implacable interest in Company. Share means implacable interest in monetary terms or responsibilities.

The company offers proposal to public to collect capital by publishing prospectus, as per the provisions of Companies Act. The person who holds share is known as a shareholder of a company.

Definition : As per the Company act 2013 'Share' means one part of capital which also includes stock. Company divides its capital in small parts. That part is known as share.

7.2 Characteristics of Share

(1) **Part of a Share Capital** : Share is a part of a Share capital of the company. It is divided into equal small parts.

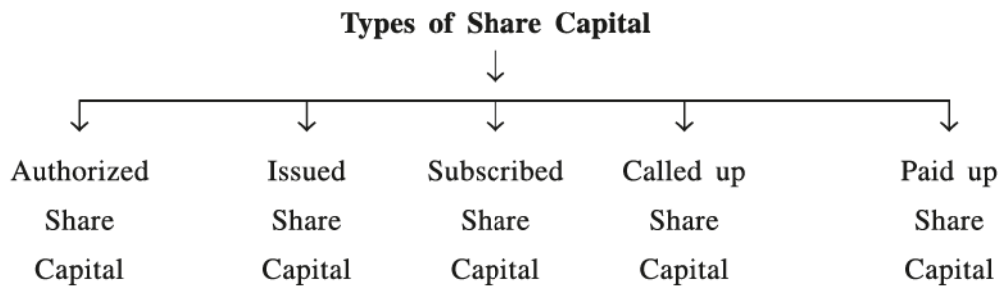
(2) **Interest in Company** : Share represents shareholders' financial interest in the company.

(3) **Movable Assets** : Share is a movable asset which can be sold or purchased. It can be given as gift or donation.

(4) **Free Transfer** : Share can be transferred freely. It is an important characteristic.

(5) **Right and Responsibility** : The equity share holders have a right to get notice of meeting, to remain present in the meeting and have power to exercise voting rights. The shareholder has also responsibility to pay face value.

7.3 Types of Share Capital



7.3.1 Authorized Share Capital : The amount of share capital is mentioned in the Capital clause of company's Memorandum of Association is an authorized capital. This capital is also known as Registered Capital or Total Capital.

The company cannot issue shares more than the authorized capital. If in future it is required to collect more capital, there should be provision in Articles of Association. More over, consent is essential in the share holders' meeting and resolution is to passed.

7.3.2 Issued Share Capital : The company can issue share and collect share capital as and when it requires money. So the amount collected by issuing shares is termed as the **Issued capital**.

7.3.3 Subscribed Share Capital : The application received by a company for the issued share and the capital received for the same is termed as the **Subscribed capital**. If the amount is received more than the amount of issued share capital, still the applications accepted will be in accordance to the amount of issued share capital, rest of the amount is returned to applicants. So such accepted share capital can only be termed as the Subscribed share capital.

7.3.4 Called up Share Capital : In accordance with the face value as and when required, the company goes on calling for money in instalments. So in this way the amount of money called is **called up capital**. Now a days usually company calls for a full amount of face value of share.

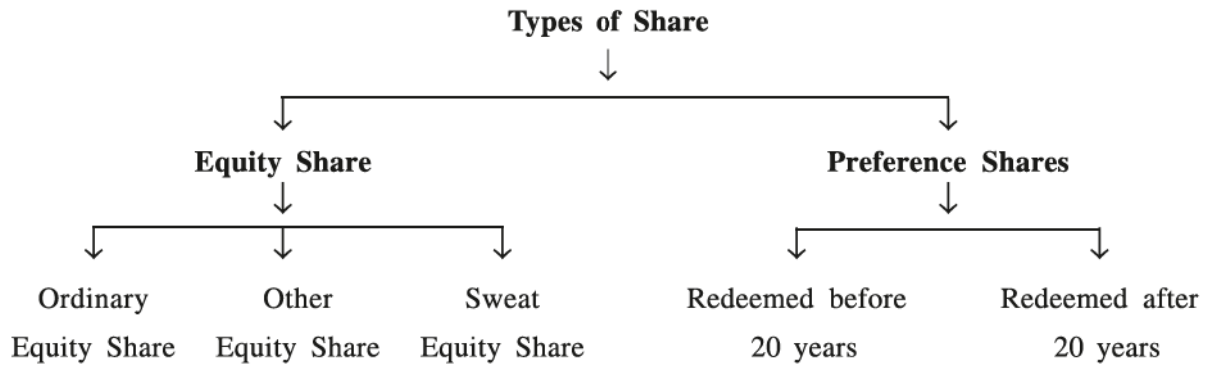
7.3.5 Paid up Share Capital : The amount received in 'called up capital' from shareholder is known as "paid up Share capital"

In the above sequence the capital mentioned in the lower order can not exieed the capital in higher order..

Special Information

Reserved Capital : When the management of a company feels that called up capital is sufficient for business and in future there will be no requirement of such capital, special resolution is resolved in the shareholders meeting to keep reserved capital. It is known and **Reserved Capital**. In case of winding up of a company, Company can called such reserved capital from the shareholders.

7.4 Types of Share



7.4.1 Ordinary Equity Share :

7.4.1.1 Ordinary Equity Share :

Meaning : In a general term the ordinary equity share means which have right to receive dividend after preference share and getting refund of share capital after preference share in case of dissolution of company.

Characteristic of Equity Share :

- (1) **True owners :** Such type of shareholders are known as true owners or faithful companion because they bear more risk than preference share holders.
- (2) **Voting rights :** The equity share holders have a right to vote in the meeting of the company.
- (3) **Dividend :** Equity shareholders' dividend and rate of dividend is uncertain.
- (4) **Link with Profit :** The dividend on equity share is directly related with the profit of the company. The dividend varies with the increase or decrease of profit.
- (5) **General Meeting :** The equity shareholders have a right to remain present in the general meeting. They have the power to exercise voting rights and right to select directors.
- (6) **Refund of Capital :** Equity shares are nonrefundable until the existence of the company.
- (7) **Dissolution :** At the time of dissolution, the equity shareholders are refunded after paying the preference share capital.
- (8) **Benefits and Returns :** On this type of share various benefits and returns are like rights shares, bonus shares and benefits of rise in the price of the share in the market.
- (9) **Registration of Share :** Such equity share is registered in a recognized share market. So these shares can be purchased and sold at the market price easily.

7.4.1.2 Other Equity Shares : They are two types, (1) Equity share with voting rights. (2) Equity share with differential rights as to dividend and voting

7.4.1.3 Sweat Equity Share :

Meaning : The company issue share to their directors, professional experts, employees with discount or without consideration of cash are known as sweat equity share. Usually these shares are offered at price lower than that prevailing in market price.

Advantages :

- (1) It can be given as rewards to the directors of the company.
- (2) The employee having such type of shares, get extra income as dividend on share along with salary. Moreover, employees get shareholders' rights so they have a feeling of ownership of a company.

Provisions as per Company Act for Sweat Equity Share :

- (1) In a general meeting special resolution is to be resolved.
- (2) In this resolutions particulars regarding share, present value of share, to whom it is to be issued - directors, employee is stated.
- (3) While issuing such share legal provisions should be followed and it is to be registered with stock exchange observing rules and regulations.
- (4) The public limited company can issue such share within one year of passing special resolution.
- (5) Usually such shares are not transferable for three years.
- (6) The company can't issue more than 15% of its paid up capital or worth five crore in a year. Moreover, the company can't issue more than 25% of total capital.

7.4.2 Preference Share :

Meaning : The types of shares which qualifies a priority in getting dividend out of the profits of the company and also priority to be refunded the capital at the time of dissolution of the company are acknowledged as the Preference share.

Characteristics of Preference Share :

- (1) **Dividend :** Preference shareholders have priority in getting dividend at fixed rate over equity shareholders.
- (2) **Refund of Share Capital :** Preference shareholders have priority in getting refund of share capital after paying all liabilities of the company over equity shareholders.
- (3) **Voting Rights :** The preference shareholders have a right to vote for those matters which are concerned with their subject.
- (4) **Preference :** The investor who wants stable fix income and safety of capital purchase such type of shares.
- (5) **Market price :** Usually market price of such share is fixed. The market price of such share changes as per the change in interest rate structure.
- (6) **Risk Factor :** In such share priority in dividend and refund of share capital over equity shareholder makes it less risk factor.

Types of Preference Share : Formerly as per the Company Act 1956 company used to issue cumulative preference share, Noncumulative preference share, Redeemable Preference share, Irredeemable Preference share , Participating preference share, Nonparticipating Preference share, Convertible Preference share, Nonconvertible Preference share etc.

As per the new Company Act 2013 there are two types of preference share.

- (1) Redeemable preference share before 20 years.
- (2) Redeemable preference share after 20 years.

7.5 Distinguish between Equity Share and Preference Share

	Point	Equity share	Preference share
(1)	Requirements	To raise the share capital it is mandatory for to issue such shares.	It is not essential to issue such share.
(2)	Rate of Dividend	The dividend rate is not fixed	The dividend rate is fixed.
(3)	Rights	The equity shareholders have a right to attend the meeting, voting rights and to select the directors of the company.	Preference shareholders have the right to vote only for the matters related to their rights.
(4)	Risk	Equity shares are more risky.	Preference shares are less risky.
(5)	Investors	The investors, who are ready to take risk and want to gain maximum return, invest in such kind of share.	The shareholder who wants stable income and safety of capital opt for preference share.
(6)	Market price	The market price of equity shares keep changing.	The rate of such share remains fixed.
(7)	Increase in capital	The value of equity shares increases due right share and bonus share.	There is no increase in capital.

7.6 Share Certificate

7.6.1 Meaning : Share certificate is a document, which is issued under the common seal of the company. Every share holder has concern in share capital of the company and for that he has a right to get share certificate. The share certificate is a primary evidence of ownership for shareholder. A company with this primary evidence accepts that the name of the individual mentioned in the share certificate is the genuine owner of the given number of shares of the mentioned value.

7.6.2 Details included in the Share Certificate : According to new company Act details in share certificate shall be according to Form No. SH 1. They are as below :

- (1) The name of the company and its authorized share capital.
- (2) Serial number of the shares.
- (3) Serial number of the share certificates.
- (4) The name and address of the shareholder.
- (5) Types of shares held and its number.
- (6) Nominal value of share and paid up amount there on.
- (7) The date and day of share allotted.
- (8) Signature of authorize director and the company secretary
- (9) Company's common seal impression.

7.6.3 The Clauses Regarding the Share Certificate as Mentioned in the Companies Act :

- (1) **Common Seal** : The share certificates should have the company's common seal.
- (2) **Signature** : The share certificates should have the signature of two directors and the secretary or the authorized signatory responsible for the same.
- (3) **Joint shareholder** : If more than one person holds the shares jointly all the shareholders do not get individual share certificate for the same shares. But on that consolidated share certificate along with the name of the first shareholder, the names of other shareholders is also mentioned.

7.7 Dematerialization of Shares

7.7.1 Requirement of Dematerialization of Share : The share certificate is a primary evidence of share ownership. If the original share certificate is lost, stolen, destroyed or torn to get the duplicate share certificate is a very long and costly procedure for a shareholder. Sometimes the signature does not match or there is a possibility of transfer by forged signature, or it is not received in time by post than there is a difficulty to purchase or sell such share. To avoid these difficulties Dematerialization of shares is started.

7.7.2 Dematerialization – demat :

Meaning : Dematerialization of share is a procedure where shareholder transfers physical form of share certificate into electronics format. For that investor has to open demat account with depository participant.

SEBI established in 1992 has its main office is at Mumbai. As per the provision of SEBI, the person who wants to purchase or sell share has to compulsory open demate account from depository participant account.

7.7.3 How and where Demat Account Can be Opened ?

- (1) **Where is it to be opened ?** Dematerialization of shares is a process where investor transfers his physical format of share into electronic format and keeps with depository participant account. There are two types of institution – NSDL and CDSL in India. These institutions take responsibility to protect shares, bonds and other securities of investors. So theses institutes are also known as Security protector agent. The Government Banks, private Banks and other financial institutions open demat account on behalf of these institutions.
- (2) **The Procedure of Opening Demat Account** : The investor has to contact bank or financial institution to open demat account. He has to provide information in the prescribed application form given by the institution. Investor has to submit following documents along with the application form to open account :
 - (1) PAN Card
 - (2) Residential proof
 - (3) Identity proof
 - (4) Income tax Return
 - (5) Passport size photo
 - (6) Investor has to give client agreement on non-judicial stamp paper along with application form.

7.7.4 Expenditure of Demat Account : Expenditure can be divided into four parts.

- (1) **Account opening expense :** Some banks charge fees and some do not for opening accounts.
- (2) **Annual Maintenance Fees :** An annual fee is charged To maintain account.
- (3) **Custodian Fees :** Fees is levied from investors according to balance of share per month in demat account.
- (4) **Transaction Fees:** : Transfer fee is charged according to number of share transaction.

7.7.5 Advantages of Demat Account :

- (1) Share transaction (sell/purchase) process becomes easy, correct and speedy.
- (2) On demat share transaction charges are, levied so trading expense is low on shares.
- (3) Demat account share can be hypothecated to bank as security to obtain loan.
- (4) Shares are transferred immediately in demat account after purchasing of share. The financial liquidity remains with investor.
- (5) The ownership is transferred immediately after purchasing the share. There is no confusion or tension for it.
- (6) The Bonus share is immediately deposited in demat account after issuance of such share by the company.
- (7) The Bank provides on line facility to demat account holder. So investor may check and know latest position of their share, stock and other particulars of account.
- (8) It can be also used for mutual funds.
- (9) It prevents transfer by forged signature, stealing of share, lost of share, shares destroyed by fire, torn share.
- (10) Share transfer is on line so it is helpful to NRI. They can invest their savings in share/stock of Indian companies easily.

7.7.6 Limitation of Demat Account :

- (1) The investor faces loss due to speculation activities in certain scripts in share market.
- (2) If the volume of investment of investor is less in share market it is a costly affair for him because he has to pay fees for opening account, annual maintenance fees, custodian fees, share transfer fees.

7.8 Various Ways to Issue Share

The company can issue share with reference to its face value in any one of the following ways at a time :

7.8.1 To Issue Shares at Par or Face Value : The companies issue their shares at face value or at par. For e.g. shares with face value of Rs 10.

7.8.2 Shares Issued at Premium : When the company issues shares at the amount more than the face value or par value then it is said at premium, e.g. shares of face value of Rs 10 when issued for Rs 15 then Rs 5 is termed as the premium charged. Normally the company with good prestige and well developed companies issue share at a premium.

Share premium is a capital gain for the company. The amount of security premium can be utilized by the company as under :

- (1) To issue bonus share on fully paid up shares.

- (2) To write off preliminary expenses of the company.
- (3) To write off the amount of redeemed premium if debentures are to be redeemed with premium.
- (4) Expenses made during the issue of shares or debenture by the company, to write off discount or under writing commission or brokerage expenses.
- (5) The amount of share premium cannot be utilized to declare dividend.

7.8.3 To Issue Share at Discount : When the shares are issued by the company at the price less than its face value or par, it is said to have share issued at discount. Now, no company can issue shares at discount.

7.9 Bonus Share

7.9.1 Meaning : The company issue additional shares to existing shareholder in proportion to shares held with them, without any monetary consideration, out of its accumulated profit is termed as Bonus share.

The bonus share can be issued only if is mentioned in the Articles of Association of the Company. Usually every company makes provisions in its Articles of Association for bonus share.

7.9.2 Conditions : The Company declares Bonus shares under following conditions :

- (1) **Uncalled Amount :** For partly paid up shares bonus shares can be paid out of profit for recovering the uncalled dues.
- (2) **Reserve Funds :** The Company has large proportion of reserve capital or the excess accumulated out of the profit and loss Accounts of the company and it wants to give benefit to its shareholders.

7.9.3 From What can be Bonus Shares to be given ?

- (1) From any reserve created out of profit.
- (2) From the credit balance of the Profit and Loss Appropriation Account.
- (3) From the share premium account only fully paid up share can be distributed as Bonus shares.
- (4) After the redemption of debentures, the remaining amount of debenture redemption is transferred to General reserve.
- (5) Out of the capital gains of the company.

7.9.4 Procedure to Issue Bonus Shares :

- (1) **Articles of Association :** The Company must be authorized by its Articles of Association to issue Bonus shares.
- (2) **Resolution :** A resolution to that declaration should have been passed in general meeting.
- (3) **Closing of List of Members :** The directors must close the list of members before calling the shareholders' meeting.
- (4) **Members list :** After the closing of members list secretary prepares the list of members.
- (5) **Agreement Regarding the Declaration of Ownership :** These shares are given instead of cash amount, to shareholders for whom an agreement regarding the declaring of ownership is made.
- (6) **Sanction Letter :** After the contract is made sanctioned letter is prepared and sent to shareholders.
- (7) **Registration with Registrar of Companies :** A statement regarding the issue of bonus shares to shareholders has to be submitted to the registrar within one month of the declaration.
- (8) **SEBI :** To issue Bonus share and to decide the amount of bonus shares, the procedure should be followed in accordance with the guideline of SEBI.

7.10 Right Share

7.10.1 Meaning : In accordance with the Company Act, the company which is in existence and is issuing new equity shares in the market; has to offer first to its existing equity shareholders is known as Right share.

7.10.2 Provision :

- (1) **Time limit :** From the date of incorporation of the company till two years or one year from the share distribution date whichever date comes first the company cannot increase its paid up share capital before that.
- (2) **Notice to Shareholder :** Every shareholder who is subject to the right of getting such share has to be given a notice of minimum 15 days and not more than 30 days period with acknowledgement regarding their right of the Right share.
- (3) **Rejection of Right :** The shareholder who is authorized to get Right share may even reject the offer made to him by the company regarding the acceptance of Right share, by transferring it to some other person's name.
- (4) **Discards of Right Shares :** Any shareholder who is entitled to Right share, if gives a written application to the company for rejection of offer or does not declare his interest regarding such right shares within given time limit, the directors of the company can discard those share in the interest of company.
- (5) **Share Application Money :** The shareholder who is authorized to get right shares has to pay the necessary amount along with share application form.

7.10.3 Duties of Secretary Regarding the Right Share : The duty of the secretary regarding the Right share is divided into two parts;

(a) Offer Made to the Existing Share Holders :

- (1) First of all the secretary has to decide about legality of arrangement of Right share within specified time limit.
- (2) The resolution for this must be passed in the meeting of the Board of Directors.
- (3) The shareholders have to be given a due notice regarding the application to be made for the Right share and payment required money to be made and minimum 15 days should be given.
- (4) The date of closing the list of members and the list of transfer of share must be decided, so that number of members entitled for getting Right share can be decided.

- #### (b) Offer Made to General Public :
- If those Right shares are not taken by members or they have not applied for those shares they are distributed or offered to the general public for subscription by issuing prospectus. All the formalities for this are very similar to the procedure for the issue of shares. Formalities done like calling for a meeting, to pass a resolution, to send letter of allotment, to send share certificate, to note down in the list of members, to prepare share allotment register etc need to be done.

What you have learned in this chapter ?

Meaning and Definition of Share : Proportion of ownership capital is large. It is divided in equal smaller parts. It is known as share.

Definition : Share means small equal parts of capital of a company.

Characteristics of Share :

Part of Share Capital : Share is a part of share capital.

Interest in Company : Share represents financial interest of a shareholder in company.

Movable Asset : It is a movable asset, can be sold, purchase, can be gifted or donated.

Free Transfer : Share can be freely transferred.

Right and Responsibility : Shareholder has rights to attend meetings, voting rights as per company act, and responsibility to pay face value of the share.

Types of Share Capital :

Authorized Capital : The maximum amount of share capital mentioned in capital clause of Memorandum of Association of company:

Issued Capital : The company issues shares from authorized capital as per its requirements.

Subscribed Capital : The application received by a company for the issued share is known as Subscribed share.

Called up Capital : As per the requirement of the company calling money in instalments is Called up capital.

Paid up Capital : The amount received in Called up capital is known as Paid up Capital.

Types of Share : (a) Equity share (i) Preference share

Ordinary Equity Share : The Ordinary Equity Share means it has a right to receive dividend and refund of capital after Preference shareholder.

Characteristics : (1) During the existence refund of capital is not possible. (2) Ordinary equity shareholders are true owners of the company. (3) They have voting rights. (4) Rate of dividend is uncertain and only after the payment to preference share holder gets. (5) More profit more dividends, less profit less dividend. (6) Right to remain present, voting rights and right to elect directors. (7) Equity share holders are paid last. (8) Equity shareholders have benefits of bonus share, right share and capital increment. (9) It is registered with recognized share market.

(ii) Other Equity Shares : Two types; (i) Equity share with voting rights, (ii) equity share with differential rights as to dividend & voting.

(iii) Sweat Equity Share : Sweat Equity Share can be issued after one year of commencement of business. These shares are issued to directors & employee at discount rate or without cash consideration. Locking period is three years for such shares.

Preference Share : Meaning: Preference share have first priority to receive dividend and refund of capital in case of dissolution of company.

Characteristics : (1) Right to get dividend in first priority. (2) Priority to get refund of capital in case of dissolution. (3) Preference shareholders have partial voting rights. (4) It is preferred by investors who want fixed income and safety of capital. (5) Market value is stable. (6) Compared to equity share risk is less.

Types of Preference Share : As per company Act 2013; (1) Redeemable Preference Share before 20 years. (2) Redeemable Preference Share after 20 years.

Distinguish between Equity Share and Preference Share : (1) Requirements (2) Rate of dividend (3) Rights (4) Risk (5) Investors (6) Market price (7) Increase in Capital
Share certificate :

Meaning : The share certificate is a document which is issued under the common seal of the company declaring ownership right of the member of the company. It is a primary evidence of shareholding.

Content of Share Certificate : As per Companies Act Form SH 1. (1) Name of the company and address. (2) Serial number of share. (3) Serial number of share certificate (4) The name and address of the shareholder. (5) Types of holding share and its number. (6) Nominal value of share and paid up amount there on. (7) The date and day of share allotted. (8) Signature of two directors and secretary. (9) Common seal impression.

Provisions of Company Act : (1) **Common Seal :** Certificate should have common seal impression. (2) **Signature :** The signature of two directors and a secretary is required. (3) **Joint Share Holder :** Joint shareholder's name should be on certificate. (4) **Entry in Register of Members :** Entry of share certificate in Members Register is essential.

Dematerialization of Shares (DEMAT) :

Meaning : Dematerialization is a process in which investor transfers physical format of share into electronic format. As per SEBI Act 1992 it is mandatory to open DEMAT account with depository participant for investor who is dealing in stock exchange.

Where is it to be opened ? : It can be opened with Government Bank, Private bank or other financial institution.

Procedure for Opening A/C : To open demat account following documents are to be attached to the application form : (1) PAN card (2) Residential proof (3) Identity card (4) Income tax returns (5) Passport size photo (6) Client agreement on non-judicial stamp paper.

Expenses for Demat A/C : (1) Fees for opening account (2) Annual maintenance fees (3) Custodian fees (4) Share transfer fees

Advantages of Demat A/C : (1) Share transfer process becomes speedy and easy. (2) Share trading expense is low. (3) DEMAT a/c share can be pledged for obtaining loan. (4) Share is immediately transferred to Demat a/c after purchase. (5) Ownership is speedy. (6) Bonus share is immediately transferred to a/c after disbursement. (7) Account can be observed on line. (8) Useful for mutual fund. (9) There is no fear of misplacement of share in any way. (10) Share transfer risk can be avoided. (11) It is helpful to NRI due to on line service.

Limitations : (1) Speculation activity is enhancing in some scripts. (2) It is a costly affair for investor, who invests very less amount.

Various ways to Issue Shares :

Share Issue at Par : Share issue at par or face value.

Share Issued at Premium : Company issues share at more price than face value. Extra amount known as premium is capital profit which can be used for bonus share, to write off preliminary expenses, to redeem debenture premium, to write off under commission.

Share Issued at Discount : Share issued by the company at the price less than its face value.

Bonus Share :

Meaning : The Company issues additional share in proportion to shareholders without any other consideration, out of its accumulated profit.

Conditions : (1) From uncalled amount. (2) Utilization of accumulated profit. (3) To maintain liquidity

From What can Bonus be Given ? (1) From reserve fund. (2) From the credit balance of the Profit and Loss Appropriation A/C and surplus amount of debenture redemption A/C..

Procedure to issue Bonus Share : (1) There should be provision in Articles of Association. (2) Resolution of general meeting is required. (3) There should be the name in shareholder's register. (4) Members' list is to be prepared. (5) Ownership agreement is to be prepared. (6) Sanction letter is to be sent to shareholder. (7) As per the provisions of law bonus share statement should be registered with Company Registrar. (8) Procedure should be followed as per SEBI.

Right Share :

Meaning : The existing company offering new equity share to its existing shareholder is known as Right share.

Provisions : (1) Limitation of Time : from the date of incorporation till 2 years or 1 year since the share distribution, whichever date comes first out of these dates. (2) Notice to Shareholders : Every existing share holder has to be issued notice. (3) Rejection of rights : Shareholder may reject the offer in favour of some other person. (4) Discards right share : If the shareholder does not opt for Right share, the directors discard such share. (5) Share Application Money : Necessary money is to be rendered with application.

Duties of Secretary for Right Share : Divided in two parts;

(a) Duties Towards Existing Shareholder : (1) To decide legality of Right share. (2) Resolution must be passed in Board of Directors' meeting. (3) Share holder should be informed properly. (4) To decide closing date of share transfer register and members register.

(b) Duties Towards General Public : The share not accepted as Right share is offered to general public for subscription. The secretary has to follow provision of company act to issue such share.

Exercise

1. Select suitable option from the given options :

- (1) Company issues share in proportion to shareholders without consideration, out of its accumulated profit is known
(A) Equity share (B) Preference share (C) bonus share (D) right share
- (2) Which statement is incorrect with reference to Equity share ?
(A) Voting Rights (B) First Preference to get dividend
(C) Right to attend Annual General Meeting (D) Right to get Bonus shares
- (3) As per law to raise capital company issue
(A) Memorandum of Association (B) Articles of Association
(C) Prospectus (D) Share certificate
- (4) NRI means
(A) Non recruit Indian (B) Non Residential Indian
(C) National Resident Indian (D) Non Residential International
- (5) What type of asset is share ?
(A) Fix (B) Movable (C) Invisible (D) Fictitious
- (6) NSDL means
(A) National Securities Depository Limited (B) Non Securities Depository Limited
(C) National Securities Disaster Limited (D) National Securities Department Limited
- (7) The share given to Directors and employee of the company at discount price or without cash consideration is
(A) Equity share (B) Bonus share (C) Sweat equity share (D) Right share
- (8) Main office of SEBI is situated at
(A) Ahmedabad (B) Vadodara
(C) Pune (D) Mumbai

- (9) CDSL means
 (A) Central Defense Services India Limited (B) Central Direct Services India Limited
 (C) Central Depository Services India Limited (D) Central Department Services India Limited
- (10) D P means
 (A) Direct payment (B) Depository partly payments
 (C) Depository participant (D) Depository partnership
- (11) Issuing of bonus share should be registered with company registrar within...
 (A) 1 Month (B) 3 Months (C) 2 Months (D) 4 Months
- (12) Full form of SEBI is
 (A) Securities and Exports Board of India (B) Securities and Exchange Board of India
 (C) Securities and Expert Board of India (D) Special and Exchange Board of India

2. Answer the Following Questions in one Sentence :

- (1) How many types of capital is required by the company ?
- (2) In which clause of M/A, authorized capital is mentioned ?
- (3) What is the locking period for Sweat Equity share ?
- (4) What is the primary evidence of a shareholder ?
- (5) What is share premium for a company ?
- (6) What type of investors prefer to purchase preference shares ?
- (7) What is share issued at discount ?
- (8) Which type of capital is required for purchasing fixed assets ?
- (9) State the types of Preference share.
- (10) What is dematerialization ?
- (11) What is the term used for application received by a company for the issued share ?
- (12) Why does company require working capital ?

3. Answer the Following Questions Briefly :

- (1) Give the meaning and definition of Share.
- (2) Explain the statement 'Share reflects right and responsibility of shareholder to the company'.
- (3) Explain the statement-'Dividend received by equity share is linked with profit of the company'.
- (4) Write down types of other Equity share.
- (5) Write down advantages of Sweat Equity share to Directors and employee.
- (6) 'Share certificate is the primary evidence for shareholder'. Give reasons.
- (7) Write down the provisions of Company Act regarding share certificate.
- (8) Where can the DEMAT A/C be opened ?
- (9) State the expenses of DEMAT A/C.
- (10) State the condition to issue bonus share.

4. Answer the Following Questions Point Wise :

- (1) State the characteristics of share.
- (2) Give the meaning and provision for Sweat Equity share.
- (3) What is the requirement of DEMAT A/C ?
- (4) Write down the procedure to open DEMAT A/C.
- (5) From what can Bonus share be given ?
- (6) Write down duties of secretary regarding Right share.

5. Answer the Following Questions in Detail :

- (1) Explain the types of capital.
- (2) Write the meaning and characteristics of Equity share.
- (3) Write the meaning and characteristics of Preference share.
- (4) Distinguish between equity share and preference share.
- (5) What is share certificate? What contents are included in it ?
- (6) Explain advantages and limitations of DEMAT A/C.
- (7) What is meant by 'share issued at premium' ? How do companies utilize this premium amount ?
- (8) What is Bonus share? Write down procedure for Bonus share.
- (9) What is Right share? Write down provisions for Right share.

You may be Egger to Know

SEBI	:	Securities and Exchange Board of India
NSDL	:	National Securities Depository Limited
CDSL	:	Central Depository Services (India) Limited
DP	:	Depository Participant
PAN	:	Permanent Account Number
NRI	:	Non Resident Indian
M/A	:	Memorandum of Association
A/A	:	Articals of Association

