

Principles of Accounting-II

Class 12

COMPANY FORMATION

1) Differentiate between the public and private limited company

Feature	Public Company	Private Company
Ownership	Owned by the general public through shares traded on a stock exchange.	Owned by a small group of people, such as founders, family, or private investors.
Share Trading	Shares are listed on stock exchanges and can be bought/sold by anyone.	Shares are not listed on stock exchanges; transfer is restricted and usually requires approval.
Number of Shareholders	Can have unlimited shareholders.	Usually limited, often up to 50–200 members (depends on local laws).
Disclosure Requirements	Must publicly disclose financial statements and operations (strict regulations).	Less strict; financial information is private and not disclosed to the public.
Raising Capital	Can raise capital from the public by issuing shares or debentures.	Capital is raised privately from members, friends, or investors.
Regulation	Heavily regulated by government	Less regulated compared to public

Feature	Public Company	Private Company
	and securities authorities.	companies.
Continuity	Has perpetual succession; not affected by changes in ownership.	Also has perpetual succession, but ownership changes are more restricted.
Examples	NTC (Nepal Telecom), Nabil Bank, Unilever (global)	Chaudhary Group companies, local private start-ups

The difference between public company and private company can be explained on the following basis:

Numbers of members: In a public company, the minimum number of member is 7 whereas the maximum number is not specified. On the other hand, private company can be established by a single person and maximum member is specified. Transfer of share: The shareholder of a public company can freely transfer their shares. But shareholder of private company cannot transfer their shares without consent of other shareholders.

Issue of Shares: Public company's share can be issued openly for all people whereas shares are not openly distributed to public in private company.

Use of word 'limited': A public limited company has compulsory to use the word 'limited' to the end of its name. For example, Nepal Bank Limited. In case of private companies, it is for them to attach 'private limited' as the last word in its name.

2) Mention any three features of the company

The main three features of a company are as follows:

a) Limited liabilities: The shareholder liability is limited to the face value of the shares that they have purchased.

b) Artificial Legal Person: A company is identified as an artificial person recognized by law. It can hold and deal with any type of property of which it is the owner in any way it likes, can enter into contracts, open bank account in its own name.

c) Transfer of shares: The shareholders of the public limited company can transfer their shares freely without the consent of the company and other shareholders. But for the transfer of the shares of a private company, permission has been taken from other shareholders.

3) Define Public Limited Company.

A public limited company is one which requires at least 7 members for its incorporation. There is no restriction on issue or transfer of its shares and this type of company can invite the public to purchase its shares and debentures.

4) Memorandum of Association (MOA)

Memorandum of Association (MOA) is the main document of a company. It is the legal document that has to be filed with the registrar of companies at the time of incorporation of the company. It is often called as a memorandum and is comprised of fundamental conditions on the basis of which a company operates. The memorandum of association shall include the following matters

- The name of the company,

The registered address of the company,

- The objectives of the company,

The figure of the authorized capital of the company and the figure of the share capital to be issued by the company for time being and the figure of undertaken to be paid by the promoter of the company,

- Types of shares of the company, the rights, and powers inherent in such shares, the value of each share and number of shares of different types.

- Number of shares which the promoters have undertaken to subscribe for the time being,

- Terms of payments of share amounts,

- Statements that the liability of shareholders shall be limited,

- The maximum number of shareholders in case of a private company etc.

5) Article of Association (AOA)

Article of Association (AOA) is the document containing all the rules and regulations to run a company. It defines the overall company's purpose. It is the document which tells what is the procedure for appointing the board of directors, recording the financial transaction, conducting a general meeting, issuing shares and so on. It is comprised of rules and regulations that govern the company's internal affairs. It includes:

- Share capital, call of share, forfeiture of share, conversion of share into stock, transfer of shares, share warrant, the surrender of shares, etc.
- Directors, their qualifications, appointment, remuneration, powers, and proceedings of the board of directors meetings.
- Voting rights of shareholders, by poll or proxies and proceeding of shareholders general meetings.
- Dividends and reserves, accounts and audits, borrowing powers and winding up.

6) Prospectus

A company's prospectus is a formal legal document designed to provide information and full details about an investment offering for sale to the public. A public company shall publish its prospectus prior to issuing its securities publicly. It contains:

The details of introduction, objectives and management of the company.

- Capital Structure of the company

Estimated income of the company for at least three years.

Condition of issue of share i.e. par, premium or discount and mode and terms of payment. Etc.

7) Define Registered Company.

These are those companies, which are formed by registration under the Company Act. The provision of Company Act, Memorandum of Association and Articles of Association represent the activities of such companies. Private company and public company are the examples of Registered company.