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B.Com Honours | Semester IV | Calicut University

CORPORATE REGULATIONS AND GOVERNANCE

Course Code: COM4CJ203 • Module 2 Notes

Module II: Formation of Companies & Key Documents

Covers corporate promotion, incorporation, Memorandum of Association (MOA), Articles of Association (AOA), prospectus rules, share capital, and share buyback calculations under Section 68.

Unit 5: Promotion & Incorporation Procedures

Steps: Name Reservation (RUN / SPICe+ Part A) → Incorporation Filing (SPICe+ Form INC-32 with MOA/AOA) → Certificate of Incorporation (COI) & PAN/TAN allotment → Commencement of Business (INC-20A).

Unit 6: Memorandum of Association (MOA) & Doctrine of Ultra Vires

1. Six MOA Clauses: Name, Registered Office, Objects, Liability, Capital, & Association Clauses.
2. Doctrine of Ultra Vires: Any act beyond the powers defined in the Objects Clause is null, void, and incapable of ratification by shareholders (Ashbury Railway Carriage Co. v. Riche).

Unit 7: Articles of Association (AOA), Constructive Notice, & Indoor Management

Doctrine of Constructive Notice: Outsiders are presumed to know MOA/AOA contents.
Doctrine of Indoor Management (Turquand's Rule): Outsiders dealing with a company in good faith are entitled to assume internal procedural rules have been complied with.

Unit 8: Prospectus & Civil/Criminal Liabilities for Misstatement

Types: Shelf Prospectus, Red Herring Prospectus, Abridged Prospectus. Misstatements attract civil liability (Sec 35 - compensation to investors) and criminal liability (Sec 34 - fraud under Sec 447).

Unit 9: Share Capital, Book Building, Listing, & Buyback Rules (Sec 68)

Buyback Conditions: Max 25% of Paid-up Capital + Free Reserves; Post-buyback Debt-Equity ratio ≤ 2:1.

Unit 10: Share Certificate vs. Share Warrant

Share Certificate: Prima facie title document issued to registered members. Share Warrant: Negotiable bearer instrument issued by public companies for fully paid shares.

Unit 11: Demat/Remat & Share Transfer vs. Transmission

Demat (SEBI mandatory electronic holding via NSDL/CDSL). Transfer: Voluntary sale by act of parties. Transmission: Involuntary transfer by operation of law (death/insolvency).

Practical Problem 1 (Section 68 Share Buyback Maximum Limit Test Computation): A public company presents equity balance sheet details: Paid-up Equity Share Capital = Rs. 100 Crores; Free Reserves = Rs. 60 Crores; Securities Premium = Rs. 40 Crores. Outstanding Debt = Rs. 240 Crores. Current Market Price per share = Rs. 40 (Face Value = Rs. 10).
Calculate (a) Maximum Buyback Fund Limit under 25% Board/Shareholder Test, (b) Maximum Debt-Equity Ratio Permissible Limit, and (c) Maximum Number of Equity Shares the company can buy back at Rs. 40 per share.

Step-by-Step Solved Buyback Limit Computation:

- **1. Total Net Owned Funds (NOF = Capital + Free Reserves + Premium):**
  NOF = 100 (Capital) + 60 (Reserves) + 40 (Premium) = Rs. 200 Crores
- **2. Test 1 (25% Fund Limit Test under Sec 68):**
  Max Buyback Funds Permitted = 25% of Rs. 200 Crores = Rs. 50 Crores
- **3. Test 2 (Post-Buyback Debt-Equity Ratio 2:1 Test):**
  Total Debt = Rs. 240 Crores. Minimum Post-Buyback Equity required = (240 / 2 = ext{Rs. 120 Crores}).
  Maximum Equity reduction allowed = (200 - 120 = ext{Rs. 80 Crores}).
  The lower of Test 1 (Rs. 50 Cr) and Test 2 (Rs. 80 Cr) is **Rs. 50 Crores**.
- **4. Maximum Shares Buyback Quantity at Rs. 40 Offer Price:**
  Max Shares Buyback = Rs. 50 Crores / Rs. 40 per share = 1.25 Crore Shares (12.5% of total shares)