

## CHAPTER 6- THE COMPANIES ACT, 2013

### INCORPORATION OF COMPANY AND MATTERS INCIDENTAL THERETO

#### Question 1

*XY Ltd. has its registered office at Mumbai in the State of Maharashtra. For better administrative conveniences the company wants to shift its registered office from Mumbai to Pune (within the State of Maharashtra). What formalities the company has to comply with under the provisions of the Companies Act, 2013 for shifting its registered office as stated above? Explain.*

#### Answer

The Companies Act, 2013 under section 13 provides for the process of altering the Memorandum of a company. Since the location or Registered Office clause in the Memorandum only names the state in which its registered office is situated, a change in address from Mumbai to Pune, does not result in the alteration of the Memorandum and hence the provisions of section 13 (and its sub sections) do not apply in this case.

However, under section 12 (5) of the Act which deals with the registered office of company, the change in registered office from one town or city to another in the same state, must be approved by a special resolution of the company. Further, presuming that the Registrar will remain the same for the whole state of Maharashtra, there will be no need for the company to seek the confirmation to such change from the Regional Director.

#### Question 2

*The persons (not being members) dealing with the company are always protected by the doctrine of indoor management. Explain. Also, explain when doctrine of Constructive Notice will apply.*

#### Answer

##### Doctrine of Indoor Management

According to this doctrine, persons dealing with the company need not inquire whether internal proceedings relating to the contract are followed correctly, once they are satisfied that the transaction is in accordance with the memorandum and articles of association.

Stakeholders need not enquire whether the necessary meeting was convened and held properly or whether necessary resolution was passed properly. They are entitled to take it for granted that the company had gone through all these proceedings in a regular manner.

The doctrine helps to protect external members from the company and states that the people are entitled to presume that internal proceedings are as per documents submitted with the Registrar of Companies.

The doctrine of indoor management is opposite to the doctrine of constructive notice. Whereas the doctrine of constructive notice protects a company against outsiders, the doctrine of indoor management protects outsiders against the actions of a company. This doctrine also is a safeguard against the possibility of abusing the doctrine of constructive notice.

**Exceptions to Doctrine of Indoor Management (Applicability of doctrine of constructive notice)**

- (i) **Knowledge of irregularity:** In case an 'outsider' has actual knowledge of irregularity within the company, the benefit under the rule of indoor management would no longer be available. In fact, he/she may well be considered part of the irregularity.
- (ii) **Negligence:** If, with a minimum of effort, the irregularities within a company could be discovered, the benefit of the rule of indoor management would not apply. The protection of the rule is also not available where the circumstances surrounding the contract are so suspicious as to invite inquiry, and the outsider dealing with the company does not make proper inquiry.
- (iii) **Forgery:** The rule does not apply where a person relies upon a document that turns out to be forged since nothing can validate forgery. A company can never be held bound for forgeries committed by its officers.

**Question 3**

*Alfa school started imparting education on 1.4.2010, with the sole objective of providing education to children of weaker society either free of cost or at a very nominal fee depending upon the financial condition of their parents. However, on 30th March 2018, it came to the knowledge of the Central Government that the said school was operating by violating the objects of its objective clause due to which it was granted the status of a section 8 company under the Companies Act, 2013. Describe what powers can be exercised by the Central Government against the Alfa School, in such a case?*

**Answer**

Section 8 of the Companies Act, 2013 deals with the formation of companies which are formed to promote the charitable objects of commerce, art, science, education, sports etc. Such company intends to apply its profit in promoting its objects. Section 8 companies are registered by the Registrar only when a license is issued by the Central Government to them. Since, Alfa School was a Section 8 company and it had started violating the objects of its objective clause, hence in such a situation the following powers can be exercised by the Central Government:

- (i) The Central Government may by order revoke the licence of the company where the company contravenes any of the requirements or the conditions of this sections subject to which a licence is issued or where the affairs of the company are conducted fraudulently, or violative of the objects of the company or prejudicial to public interest, and on revocation the Registrar shall put 'Limited' or 'Private Limited' against the company's name in the register. But before such revocation, the Central Government must give it a written notice of its intention to revoke the licence and opportunity to be heard in the matter.

- (ii) Where a licence is revoked, the Central Government may, by order, if it is satisfied that it is essential in the public interest, direct that the company be wound up under this Act or amalgamated with another company registered under this section.

However, no such order shall be made unless the company is given a reasonable opportunity of being heard.

- (iii) Where a licence is revoked and where the Central Government is satisfied that it is essential in the public interest that the company registered under this section should be amalgamated with another company registered under this section and having similar objects, then, notwithstanding anything to the contrary contained in this Act, the Central Government may, by order, provide for such amalgamation to form a single company with such constitution, properties, powers, rights, interest, authorities and privileges and with such liabilities, duties and obligations as may be specified in the order.

#### **Question 4**

*The object clause of the Memorandum of Vivek Industries Ltd., empowers it to carry on real-estate business and any other business that is allied to it. Due to a downward trend in real-estate business the management of the company has decided to take up the business of Food processing activity. The company wants to alter its Memorandum, so as to include the Food Processing Business in its objects clause. Examine whether the company can make such change as per the provisions of the Companies Act, 2013?*

#### **Answer**

##### **Alteration of Objects Clause of Memorandum**

The Companies Act, 2013 has made alteration of the memorandum simpler and more flexible. Under section 13(1) of the Act, a company may, by a special resolution after complying with the procedure specified in this section, alter the provisions of its Memorandum.

In the case of alteration to the objects clause, Section 13(6) requires the filing of the Special Resolution by the company with the Registrar. Section 13 (9) states that the Registrar shall register any alteration to the Memorandum with respect to the objects of the company and certify the registration within a period of thirty days from the date of filing of the special resolution by the company. Section 13 (10) further stipulates that no alteration in the Memorandum shall take effect unless it has been registered with the Registrar as above.

Hence, the Companies Act, 2013 permits any alteration to the objects clause with ease. Vivek Industries Ltd. can make the required changes in the object clause of its Memorandum of Association.

#### **Question 5**

*Explain in the light of the provisions of the Companies Act, 2013, the circumstances under which a subsidiary company can become a member of its holding company.*

**Answer**

In accordance with the provisions of Section 19 of the Companies Act, 2013, a subsidiary company cannot either by itself or through its nominees hold any shares in its holding company and no holding company shall allot or transfer its shares to any subsidiary companies. Any such allotment or transfer of shares in a company to its subsidiary is void. The section however does not apply where:

- (1) the subsidiary company holds shares in its holding company as the legal representative of a deceased member of the holding company, or
- (2) the subsidiary company holds such shares as a trustee, or
- (3) the subsidiary company was a shareholder in the holding company even before it became its subsidiary.

**Question 6**

*Explain the provisions of the Companies Act, 2013 relating to the 'Service of Documents' on a company and the members of the company.*

**Answer**

Under section 20 of the Companies Act, 2013 a document may be served on a company or an officer thereof by sending it to the company or the officer at the registered office of the company by registered post or by speed post or by courier service or by leaving it at its registered office or by means of such electronic or other mode as may be prescribed. However, in case where securities are held with a depository, the records of the beneficial ownership may be served by such depository on the company by means of electronic or other mode.

Under section 20 (2), save as provided in the Act or the rule thereunder for filing of documents with the registrar in electronic mode, a document may be served on Registrar or any member by sending it to him by post or by registered post or by speed post or by courier or by delivering at his office or address, or by such electronic or other mode as may be prescribed. However, a member may request for delivery of any document through a particular mode, for which he shall pay such fees as may be determined by the company in its annual general meeting.

**PROSPECTUS AND ALLOTMENT OF SECURITIES****Question 1**

*Unique Builders Limited decides to pay 2.5 percent of the value of debentures as underwriting commission to the underwriters but the Articles of the company authorize only 2.0 percent underwriting commission on debentures. The company further decides to pay the underwriting commission in the form of flats. Examine the validity of the above arrangements under the provisions of the Companies Act, 2013.*

### **Answer**

Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to a number of conditions which are prescribed under *Companies (Prospectus and Allotment of Securities) Rules, 2014*. In relation to the case given, the conditions applicable under the above Rules are as under:

- (a) The payment of such commission shall be authorized in the company's articles of association;
- (b) The commission may be paid out of proceeds of the issue or the profit of the company or both;
- (c) The rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent (2.5 %) of the price at which the debentures are issued, or as specified in the company's articles, whichever is less;

Thus, the Underwriting commission is limited to 5% of issue price in case of shares and 2.5% in case of debentures. The rates of commission given above are maximum rates.

In view of the above, the decision of Unique Builders Ltd. to pay underwriting commission exceeding 2% as prescribed in the Articles is invalid.

The company may pay the underwriting commission in the form of flats as both the Companies Act and the Rules do not impose any restriction on the mode of payment though the source has been restricted to either the proceeds of the issue or profits of the company.

### **Question 2**

*Examine the validity of the following statement referring to the provisions of the Companies Act, 2013 and/or Rules:*

*"The Articles of Association of X Ltd. contained a provision that upto 4% of issue price of the shares may be paid as underwriting commission to the underwriters. The Board of Directors of X Ltd. decided to pay 5% underwriting commission."*

### **Answer**

Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to the number of conditions which are prescribed under *Companies (Prospectus and Allotment of Securities) Rules, 2014*. Under the *Companies (Prospectus and Allotment of Securities) Rules, 2014* the rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less.

In the given problem, the articles of X Ltd. have prescribed 4% underwriting commission but the directors decided to pay 5% underwriting commission.

Therefore, the decision of the Board of Directors to pay 5% commission to the underwriters is invalid.

### Question 3

*TDL Ltd., a public company is planning to bring a public issue of equity share in June, 2018. The company has appointed underwriters for getting its shares subscribed. As a Chartered Accountant of the company appraise the Board of TDL Ltd. About the provisions of payment of underwriter's commission as per Companies Act, 2013.*

*The provisions of the Companies Act, 2013 regarding the payment of underwriter's commission are as follows:*

**Payment of commission:** A company may pay commission to any person in connection with the subscription to its securities, whether absolute or conditional, subject to such conditions as given in Rule 13 of the *Companies (Prospectus and Allotment of Securities) Rules, 2014*.

#### **Conditions for the payment of commission:**

- (1) the payment of such commission shall be authorized in the company's articles of association;
- (2) the commission may be paid out of proceeds of the issue or the profit of the company or both;
- (3) **Rate of commission:** The rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent of the price at which the debentures are issued, or as specified in the company's articles, whichever is less.
- (4) **Disclosure of particulars:** the prospectus of the company shall disclose the following particulars -
  - a. the name of the underwriters;
  - b. the rate and amount of the commission payable to the underwriter; and
  - c. the number of securities which is to be underwritten or subscribed by the underwriter absolutely or conditionally.
- (5) **No commission to be paid:** there shall not be paid commission to any underwriter on securities which are not offered to the public for subscription;

**Copy of contract of payment of commission to be delivered to registrar:** a copy of the contract for the payment of commission is delivered to the Registrar at the time of delivery of the prospectus for registration.

#### Question 4

*What is meant by “Abridged Prospectus”? Under what circumstances an abridged prospectus need not accompany the detailed information regarding prospectus along with the application form? What are the penalties in case of default in complying with the provisions related to issue of abridged prospectus?*

#### Answer

- (1) **Meaning of Abridged Prospectus:** - According to Section 2(1) of the Companies Act, 2013, an abridged prospectus means a memorandum containing such salient features of a prospectus as may be specified by the Securities and Exchange Board by making regulations in this behalf.
- (2) **Circumstances under which the abridged prospectus need not accompany the application forms:** Section 33 (1) of the Companies Act, 2013 states that no application form for the purchase of any of the securities of a company can be issued unless such form is accompanied by an abridged prospectus. In terms of the Proviso to section 33 (1) an abridged prospectus need not accompany the application form if it is shown that the form of application was issued:
  - (i) In connection with a bona fide invitation to a person to enter into an underwriting agreement with respect to such securities; or
  - (ii) Where the securities are not offered to the public.
- (3) If a company makes any default in complying with the provisions of this section, it shall be liable to a penalty of fifty thousand rupees for each default.

#### Question 5

*State in what way does the Companies Act, 2013 regulate and restrict the following in respect of a company going for public issue of shares:*

- (i) *Minimum Subscription, and*
- (ii) *Application Money payable on shares being issued?*

#### Answer

The Companies Act, 2013 by virtue of provisions as contained in Section 39 (1) and (2) regulates and restricts the minimum subscription and the application money payable in a public issue of shares as under:

##### **Minimum subscription [Section 39 (1)]**

No Allotment shall be made of any securities of a company offered to the public for subscription; unless; -

- (i) the amount stated in the prospectus as the minimum amount has been subscribed; and

- (ii) the sums payable on application for such amount has been paid to and received by the company-

**Application money:** Section 39 (2) provides that the amount payable on application on each security shall not be less than 5% of the nominal amount of such security or such amount as SEBI may prescribe by making any regulations in this behalf.

Further section 39 (3) provides that if the stated minimum amount is not received by the company within 30 days of the date of issue of the prospectus or such time as prescribed by SEBI, the company will be required to refund the application money received within such time and manner as may be prescribed.

In case of any default under sub-section, the company and its officer who is in default shall be liable to a penalty, for each default, of one thousand rupees for each day during which such default continues or one lakh rupees, whichever is less.

Section 40 (3) provides that all moneys received on application from the public for subscription to the securities shall be kept in a separate bank account maintained with a scheduled bank.

#### **Question 6**

*After receiving 80% of the minimum subscription as stated in the prospectus, a company allotted 100 equity shares in favour of Akash. The company deposited the said amount in the bank but withdrew 50% of the amount, before finalisation of the allotment, for the purchase of certain assets.*

*Akash refuses to accept the allotment of shares on the ground that the allotment is violative of the provisions of the Companies Act, 2013. Comment.*

#### **Answer**

**Allotment of Shares:** The company has received 80% of the minimum subscription as stated in the prospectus. Hence, the allotment is in contravention of section 39(1) of the Companies Act, 2013 which prohibits a company from making any allotment of securities until it has received the amount of minimum subscription stated in the prospectus. Under section 39 (3), it is required to refund the money received (i.e. 80% of the minimum subscription) to the applicants. It has no other option available.

Therefore, in the present case Akash is within his rights refuses to accept the allotment of shares which has been illegally made by the company.

#### **Question 7**

*The Board of Directors of Reckless Investments Ltd. have allotted shares to the investors of the company without issuing a prospectus with the Registrar of Companies, Mumbai. Explain the remedy available to the investors in this regard.*



### **Answer**

According to Section 23 of the Companies Act, 2013, a public company can issue securities to the public only by issuing a prospectus. Section 26 (1) lays down the matters required to be disclosed and included in a prospectus and requires the registration of the prospectus with the Registrar before its issue.

In the given case, the company has violated with the above provisions of the Act and hence the allotment made is void. The company will have to refund the entire moneys received and will also be punishable under section 26 (9) of the Act.

### **Question 8**

*An allottee of shares in a Company brought action against a Director in respect of false statements in prospectus. The director contended that the statements were prepared by the promoters and he has relied on them. Is the Director liable under the circumstances? Decide referring to the provisions of the Companies Act, 2013.*

### **Answer**

Yes, the Director shall be held liable for the false statements in the prospectus under sections 34 and 35 of the Companies Act, 2013. Whereas section 34 imposes a criminal punishment on every person who authorises the issue of such prospectus, section 35 more particularly includes a director of the company in the imposition of liability for such mis statements.

The only situations when a director will not incur any liability for mis statements in a prospectus are as under:

- (a) No criminal liability under section 34 shall apply to a person if he proves that such statement or omission was immaterial or that he had reasonable grounds to believe, and did up to the time of issue of the prospectus believe, that the statement was true or the inclusion or omission was necessary.
- (b) No civil liability for any mis statement under section 35 shall apply to a person if he proves that:
  - (1) Having consented to become a director of the company, he withdrew his consent before the issue of the prospectus, and that it was issued without his authority or consent; or
  - (2) The prospectus was issued without his knowledge or consent, and that on becoming aware of its issue, he forthwith gave a reasonable public notice that it was issued without his knowledge or consent.

Therefore, in the present case the director cannot hide behind the excuse that he had relied on the promoters for making correct statements in the prospectus. He will be liable for mis statements in the prospectus.

## **SHARE CAPITAL AND DEBENTURES**

### **Question 1**

*VRS Company Ltd. is holding 45% of total equity shares in SV Company Ltd. The Board of Directors of SV Company Ltd. (incorporated on January 1, 2017) decided to raise the share capital by issuing further Equity shares. The Board of Directors resolved not to offer any shares to VRS Company Ltd, on the ground that it was already holding a high percentage of the total number of shares already issued, in SV Company Ltd. The Articles of Association of SV Company Ltd. provides that the new shares be offered to the existing shareholders of the company. On March 1, 2017 new shares were offered to all the shareholders except VRS Company Ltd. Referring to the provisions of the Companies Act, 2013 examine the validity of the decision of the Board of Directors of SV Company Limited of not offering any further shares to VRS Company Limited.*

### **Answer**

The legal issues in the presented problem in the question is covered under Section 62 (1) of the Companies Act, 2013.

Section 62 (1) (a) of the Companies Act, 2013 provides that if, at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares should be offered to the existing equity shareholders of the company as at the date of the offer, in proportion to the paid up capital on those shares. Hence, the company cannot ignore a section of the existing shareholders and must offer the shares to the existing equity shareholders in proportion to their holdings.

As per facts of the case, the articles of SV company Ltd. provided that the new shares should first be offered to the existing shareholders. However, the company offered new shares to all shareholders excepting VRS company Ltd., which held a major portion of its shares. Also, under the Companies Act, SV company Ltd. had no legal authority to do so.

Therefore, in the given case, SV Ltd.'s decision not to offer any further shares to VRS Co. Ltd on the ground that VRS Co. Ltd already held a high percentage of shareholding in SV Co. Ltd. is not valid for the reason that it is violation of the provisions of Section 62 (1) (a).

### **Question 2**

*The Directors of Mars India Ltd. desire to alter capital clause of Memorandum of Association of their company. Advise them, under the provisions of the Companies Act, 2013 about the ways in which the said clause may be altered.*

### **Answer**

**Alteration of Capital:** Under section 61 (1) a limited company having a share capital may, if authorized by its Articles, alter its Memorandum in its general meeting to:

- (i) increase its authorized share capital by such amount as it thinks expedient;

- (ii) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares

However, no consolidation and division which results in changes in the voting percentage of shareholders shall take effect unless it is approved by the Tribunal on an application made in the prescribed manner.

- (iii) convert all or any of its paid-up shares into stock and reconvert that stock into fully paid shares of any denomination
- (iv) sub-divide the whole or any part of its shares into shares of smaller amount than is fixed by the Memorandum
- (v) cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

Further, under section 64 where a company alters its share capital in any of the above mentioned ways, the company shall file a notice in the prescribed form with the Registrar within a period of thirty days of such alteration or increase or redemption, as the case may be, along with an altered memorandum. The memorandum shall be altered by a special resolution and in compliance with other relevant provisions of section 13 of the Companies Act, 2013.

### Question 3

*Ramesh, who is a resident of New Delhi, sent a transfer deed, for registration of transfer of shares to the company at the address of its Registered Office in Mumbai.*

*He did not receive the shares certificates even after the expiry of four months from the date of dispatch of transfer deed. He lodged a criminal complaint in the Court at New Delhi. Decide, under the provisions of the Companies Act, 2013, whether the Court at New Delhi is competent to take action in the said matter?*

### Answer

**Jurisdiction of Court, now Tribunal, the Companies Act, 2013:** According to Section 56 (4) of the Companies Act, 2013 every company, unless prohibited by any provision of law or of any order of court, Tribunal or other authority, shall deliver the certificates of all shares transferred within a period of one month from the date of receipt by the company of the instrument of transfer.

Further under section 56 (6), where any default is made in complying with the provisions of sub-sections (1) to (5) of section 56 (which deals with transfer and transmission of shares), the company shall be punishable with fine which shall not be less than 25,000 rupees but which may extend to 5 lakh rupees and every officer of the company who is in default shall be punishable with fine which shall not be less than 10,000 rupees but which may extend to one lakh rupees.

The jurisdiction binding on the company is that of the state in which the registered office of the company is situated. Hence, in the given case the Delhi court is not competent to take action in the matter.

#### **Question 4**

*Mr. 'Y', the transferee, acquired 250 equity shares of BRS Limited from Mr. 'X', the transferor. But the signature of Mr. 'X', the transferor, on the transfer deed was forged. Mr. 'Y' after getting the shares registered by the company in his name, sold 150 equity shares to Mr. 'Z' on the basis of the share certificate issued by BRS Limited. Mr. 'Y' and 'Z' were not aware of the forgery. State the rights of Mr. 'X', 'Y' and 'Z' against the company with reference to the aforesaid shares.*

#### **Answer**

According to Section 46(1) of the Companies Act, 2013, a share certificate once issued under the common seal, if any, of the company or signed by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary, specifying the shares held by any person, shall be prima facie evidence of the title of the person to such shares. Therefore, in the normal course the person named in the share certificate is for all practical purposes the legal owner of the shares therein and the company cannot deny his title to the shares.

However, a forged transfer is a nullity. It does not give the transferee (Y) any title to the shares. Similarly, any transfer made by Y (to Z) will also not give a good title to the shares as the title of the buyer is only as good as that of the seller.

Therefore, if the company acts on a forged transfer and removes the name of the real owner (X) from the Register of Members, then the company is bound to restore the name of X as the holder of the shares and to pay him any dividends which he ought to have received.

In the above case, 'therefore, X has the right against the company to get the shares recorded in his name. However, neither Y nor Z have any rights against the company even though they are bona fide purchasers.

However, since X seems to be the perpetrator of the forgery, he will be liable both criminally and for compensation to Y and Z.

#### **Question 5**

*Data Limited (listed on Stock Exchange) was incorporated on 1<sup>st</sup> October, 2018 with a paid-up share capital of ₹ 200 crores. Within this small time of 4 months it has earned huge profits and has topped the charts for its high employee friendly environment. The company wants to issue sweat equity to its employees. A friend of the CEO of the company has told him that they cannot issue sweat equity shares as 2 years have not elapsed since the time company has commenced its business. The CEO of the company has approached you to advise them about the essential conditions to fulfilled before the issue of sweat equity shares especially since their company is just a few months old.*

### Answer

#### Sweat equity shares of a class of shares already issued.

According to section 54 of the Companies Act, 2013, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely—

- (i) the issue is **authorised by a special resolution** passed by the company;
- (ii) the **resolution specifies** the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- (iii) where the equity shares of the company are **listed on a recognised stock** exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as prescribed under Rule 8 of the *Companies (Share and Debentures) Rules, 2014*,

The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *pari passu* with other equity shareholders.

Data Limited can issue Sweat equity shares by following the conditions as mentioned above. It does not make a difference that the company is just a few months old.

### Question 6

*Walnut Limited has an authorized share capital of 1,00,000 equity shares of ₹ 100 per share and an amount of ₹ 3 crores in its Share Premium Account as on 31-3-2018. The Board of Directors seeks your advice about the application of share premium account for its business purposes. Please give your advice.*

### Answer

According to section 52 of the Companies Act, 2013, where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium received on those shares shall be transferred to a "securities premium account" and the provisions of this Act relating to reduction of share capital of a company shall, except as provided in this section, apply as if the securities premium account were the paid-up share capital of the company.

The securities premium account may be applied by the company—

- (a) towards the issue of unissued shares of the company to the members of the company as fully paid bonus shares;
- (b) in writing off the preliminary expenses of the company;

- (c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;
- (d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company; or
- (e) for the purchase of its own shares or other securities under section 68

#### **Question 7**

*OLAF Limited, a subsidiary of PQR Limited, decides to give a loan of ₹ 4,00,000 to the Human Resource Manager, who is not a Key Managerial Personnel of OLAF Limited, drawing salary of ₹ 30,000 per month, to buy 500 partly paid-up Equity Shares of ₹ 1000 each in OLAF Limited. Examine the validity of company's decision under the provisions of the Companies Act, 2013.*

#### **Answer**

##### **Restrictions on purchase by company or giving of loans by it for purchase of its share:**

As per section 67 (3) of the Companies Act, 2013 a company is allowed to give a loan to its employees subject to the following limitations:

- (a) The employee must not be a Key Managerial Personnel;
- (b) The amount of such loan shall not exceed an amount equal to six months' salary of the employee.
- (c) The shares to be subscribed must be fully paid shares

Section 2 (51) of the Companies Act, 2013 defines the "Key Managerial Personnel" (KMP) whereby a KMP includes the Chief Executive, Company Secretary, Whole Time Director, Chief Financial Officer, such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and such other officer as may be prescribed.

In the given instance, Human Resource Manager is not a KMP of the OLAF Ltd. He is drawing salary of ₹ 30,000 per month and loan taken to buy 500 partly paid up equity shares of ₹ 1000 each in OLAF Ltd.

Keeping the above provisions of law in mind, the company's (OLAF Ltd.) decision is invalid due to two reasons:

- i. The amount of loan being more than 6 months' salary of the HR Manager, which should have restricted the loan to ₹ 1.8 Lakhs.
- ii. The shares subscribed are partly paid shares whereas the benefit is available only for subscribing fully paid shares.

### Question 8

*Mr. Siddharth holds 400 shares of Gauri Ltd. He intends to nominate these shares to his son Ambar. Discuss the provisions of the Companies Act, 2013 in relation to facility of nomination.*

### Answer

Nomination is a facility whereby a holder of any financial asset (bank a/c, FD, securities etc.) could nominate the name of person who would be entitled to that financial asset in case of his or her death. Generally, such nomination overrides any will. It is a very logical thing to do to avoid legal, procedural tangles related to transmission at a later stage for the near and dear ones.

As per Section 72 of the Companies Act, 2013-

- (1) every holder of securities of a company may, at any time, nominate, in the prescribed manner, any person to whom his securities shall vest in the event of his death.
- (2) Where the securities of a company are held by more than one person jointly, the joint holders may together nominate, in the prescribed manner, any person to whom all the rights in the securities shall vest in the event of death of all the joint holders.
- (3) Notwithstanding anything contained in any other law for the time being in force or in any disposition, whether testamentary or otherwise, in respect of the securities of a company, where a nomination made in the prescribed manner purports to confer on any person the right to vest the securities of the company, the nominee shall, on the death of the holder of securities or, as the case may be, on the death of the joint holders, become entitled to all the rights in the securities, of the holder or, as the case may be, of all the joint holders, in relation to such securities, to the exclusion of all other persons, unless the nomination is varied or cancelled in the prescribed manner.
- (4) Where the nominee is a minor, it shall be lawful for the holder of the securities, making the nomination to appoint, in the prescribed manner, any person to become entitled to the securities of the company, in the event of the death of the nominee during his minority.

Thus, Mr. Siddharth can nominate the shares held by him in Gauri Ltd. to his son.

### Question 9

*Mars India Ltd. owed to Sunil ₹1,000. On becoming this debt payable, the company offered Sunil 10 shares of ₹100 each in full settlement of the debt. The said shares were fully paid and were allotted to Sunil. Examine the validity of this allotment in the light of the provisions of the Companies Act, 2013*

### Answer

Under section 62 (1) (c) of the Companies Act, 2013 where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, either

for cash or for a consideration other than cash, such shares may be offered to any persons, if it is authorised by a special resolution and if the price of such shares is determined by a valuation report of a registered valuer, subject to the compliance with the applicable provisions of Chapter III and any other conditions as may be prescribed.

In the present case, Mars India Ltd is empowered to allot the shares to Sunil in settlement of its debt to him. The issue will be classified as issue for consideration other than cash must be approved by the members by a special resolution. Further, the valuation of the shares must be done by a registered valuer, subject to the compliance with the applicable provisions of Chapter III and any other conditions as may be prescribed.

#### **Question 10**

*What are the provisions of the Companies Act, 2013 relating to the appointment of 'Debenture Trustee' by a company? Whether the following can be appointed as 'Debenture Trustee':*

- (i) A shareholder who has no beneficial interest.*
- (ii) A creditor whom the company owes Rs.499 only.*
- (iii) A person who has given a guarantee for repayment of amount of debentures issued by the company?*

#### **Answer**

**Appointment of Debenture Trustee:** Under section 71 (5) of the Companies Act, 2013, no company shall issue a prospectus or make an offer or invitation to the public or to its members exceeding five hundred for the subscription of its debentures, unless the company has, before such issue or offer, appointed one or more debenture trustees and the conditions governing the appointment of such trustees shall be such as may be prescribed.

The rules framed under the Companies Act for the issue of secured debentures provide that before the appointment of debenture trustee or trustees, a written consent shall be obtained from such debenture trustee or trustees proposed to be appointed and a statement to that effect shall appear in the letter of offer issued for inviting the subscription of the debentures.

Further according to the rules, no person shall be appointed as a debenture trustee, if he-

- (i) Beneficially holds shares in the company;
- (ii) Is a promoter, director or key managerial personnel or any other officer or an employee of the company or its holding, subsidiary or associate company;
- (iii) Is beneficially entitled to moneys which are to be paid by the company otherwise than as remuneration payable to the debenture trustee;
- (iv) Is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company;



- (v) Has furnished any guarantee in respect of the principal debts secured by the debentures or interest thereon;
- (vi) Has any pecuniary relationship with the company amounting to two percent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;
- (vii) is a relative of any promoter or any person who is in the employment of the company as a director or key managerial personnel;

**Thus, based on the above provisions answers to the given questions are:**

- (i) A shareholder who has no beneficial interest, can be appointed as a debenture trustee.
- (ii) A creditor whom company owes Rs.499 cannot be so appointed. The amount owed is immaterial.
- (iii) A person who has given guarantee for repayment of principal and interest thereon in respect of debentures also cannot be appointed as a debenture trustee.

#### **Question 11**

*Mr Nilesch has transferred 1000 shares of Perfect Ltd. to Ms. Mukta. The company has refused to register transfer of shares and does not even send a notice of refusal to Mr. Nilesch or Ms. Mukta respectively within the prescribed period. Discuss as per the provisions of the Companies Act, 2013, whether aggrieved party has any right(s) against the company for such refusal?*

#### **Answer**

The problem as asked in the question is governed by Section 58 of the Companies Act, 2013 dealing with the refusal to register transfer and appeal against refusal.

In the present case the company has committed the wrongful act of not sending the notice of refusal of registering the transfer of shares.

Under section 58 (4), if a public company without sufficient cause refuses to register the transfer of securities within a period of thirty days from the date on which the instrument of transfer is delivered to the company, the transferee may, within a period of sixty days of such refusal or where no intimation has been received from the company, within ninety days of the delivery of the instrument of transfer, appeal to the Tribunal.

Section 58 (5) further provides that the Tribunal, while dealing with an appeal made under sub-section (4), may, after hearing the parties, either dismiss the appeal, or by order—

- (a) direct that the transfer or transmission shall be registered by the company and the company shall comply with such order within a period of ten days of the receipt of the order; or

- (b) direct rectification of the register and also direct the company to pay damages, if any, sustained by any party aggrieved;

In the present case Ms. Mukta can make an appeal before the tribunal and claim damages.

### **Question 12**

*Shree Ltd. is engaged in the manufacture of consumer goods and has got a good brand value. Over the years, it has built a good reputation and its Balance Sheet as at March 31, 2017 shows the following position:*

*Authorized Share Capital (25,00,000 equity shares of face value of ₹ 10/- each) ₹ 2,50,00,000*

*Issued, subscribed and paid-up capital (10,00,000 equity shares of face value of ₹10/- each, fully paid-up) ₹ 1,00,00,000*

*Free Reserves ₹ 3,00,00,000*

*The Board of Directors are proposing to declare a bonus issue of 1 share for every 2 shares held by the existing shareholders. The Board wants to know the conditions and the manner of issuing bonus shares under the provisions of the Companies Act, 2013. Discuss.*

### **Answer**

According to Section 63 of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of -

- (i) its free reserves;
- (ii) the securities premium account; or
- (iii) the capital redemption reserve account.

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

Conditions for issue of Bonus Shares: No company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares, unless—

- (i) it is authorised by its Articles;
- (ii) it has, on the recommendation of the Board, been authorised in the general meeting of the company;
- (iii) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- (iv) it has not defaulted in respect of payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;

- (v) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up; (f) it complies with such conditions as may be prescribed.

But the company has to ensure that the bonus shares shall not be issued in lieu of dividend.

Hence, after following the above compliances on issuing bonus shares under the Companies Act, 2013, Shree Ltd. may proceed for a bonus issue of 1 share for every 2 shares held by the existing shareholders.

### **ACCEPTANCE OF DEPOSITS BY COMPANIES**

#### **Question 1**

*Atul Ltd. has passed a resolution in its general meeting regarding accepting deposits from its members. Can this company accept deposits from its members under the Companies Act, 2013? If yes, state the conditions to be fulfilled in this regard.*

#### **Answer**

According to Section 73 ( 2 ) of the Companies Act, 2013, a company may, subject to the passing of a resolution in general meeting and subject to such rules as may be prescribed in consultation with the Reserve Bank of India, accept deposits from its members on such terms and conditions, including the provision of security, if any, or for the repayment of such deposits with interest, as may be agreed upon between the company and its members, subject to the fulfilment of the following conditions, namely :

- (i) issuance of a circular to its members including therein a statement showing the financial position of the company, the credit rating obtained, the total number of depositors and the amount due towards deposits in respect of any previous deposits accepted by the company and such other particulars in such form and in such manner as may be prescribed;
- (ii) filing a copy of the circular along with such statement with the Registrar within 30 days before the date of issue of the circular;
- (iii) depositing, on or before the thirtieth day of April each year, such sum which shall not be less than twenty per cent. of the amount of its deposits maturing during the following financial year and kept in a scheduled bank in a separate bank account to be called deposit repayment reserve account;
- (iv) certifying that the company has not committed any default in the repayment of deposits accepted either before or after the commencement of this Act or payment of interest on such deposits and where a default had occurred, the company made good the default and a period of five years had lapsed since the date of making good the default ; and
- (v) providing security, if any for the due repayment of the amount of deposit or the interest thereon including the creation of such charge on the property or assets of the company:

Where a company does not secure the deposits or secures such deposits partially, then, the deposits shall be termed as “unsecured deposits” and shall be so quoted in every circular, form, advertisement or in any document related to invitation or acceptance of deposits .

Hence, Atul Ltd. can accept deposits from its members by following the above condition and regulations.

## **Question 2**

*What is the meaning of Eligible company for the purpose of Chapter V of the Companies Act, 2013.*

### **Answer**

“Eligible company” means a public company as referred to in sub-section (1) of section 76, having a net worth of not less than one hundred crore rupees or a turnover of not less than five hundred crore rupees and which has obtained the prior consent of the company in general meeting by means of a special resolution and also filed the said resolution with the Registrar of Companies before making any invitation to the Public for acceptance of deposits:

However, an eligible company, which is accepting deposits within the limits specified under clause (c) of sub-section (1) of section 180, may accept deposits by means of an ordinary resolution.

## **Question 3**

*Referring to the provisions of the Companies Act, 2013, examine the validity of the following:*

*ABC Limited having a net worth of 120 crore rupees wants to accept deposit from its members. They have approached you to advise them regarding that if they fall within the category of eligible company, what special care has to be taken while accepting such deposit from members.*

### **Answer**

“Eligible company” means a public company as referred to in sub-section (1) of section 76, having a net worth of not less than one hundred crore rupees or a turnover of not less than five hundred crore rupees and which has obtained the prior consent of the company in general meeting by means of a special resolution and also filed the said resolution with the Registrar of Companies before making any invitation to the Public for acceptance of deposits:

However, an eligible company, which is accepting deposits within the limits specified under clause (c) of sub-section (1) of section 180, may accept deposits by means of an ordinary resolution.

An eligible company shall accept or renew any deposit from its members, if the amount of such deposit together with the amount of deposits outstanding as on the date of acceptance or renewal of such deposits from members exceeds ten per cent. of the aggregate of the Paid-up share capital, free Reserves and securities premium account of the company.

ABC Limited is having a net worth of 120 crore rupees. Hence, it can fall in the category of eligible company.

Thus, ABC has to ensure that acceptance deposits from members should not exceed 10% of the aggregate of the Paid-up share capital, free Reserves and securities premium account of the company.

### **REGISTRATION OF CHARGES**

#### **Question 1**

*How will a copy of an instrument evidencing creation of charge and required to be filed with the Registrar be verified?*

#### **Answer**

**Verification of instrument evidencing creation or modification of Charge:** A copy of every instrument evidencing any creation or modification of charge and required to be filed with the Registrar in pursuance of section 77, 78 or 79 shall be verified as follows-

- (a) where the instrument or deed relates solely to the property situated outside India, the copy shall be verified by a certificate issued either under the seal, if any, of the company, or under the hand of any director or company secretary of the company or an authorised officer of the charge holder or under the hand of some person other than the company who is interested in the mortgage or charge;
- (b) where the instrument or deed relates, whether wholly or partly, to the property situated in India, the copy shall be verified by a certificate issued under the hand of any director or company secretary of the company or an authorised officer of the charge holder.

#### **Question 2**

*Explain briefly the provisions relating to registration of charges.*

#### **Answer**

##### **Registration of charges:**

Under section 77 (1) of the Companies Act, 2013 it shall be the duty of every company creating a charge :

- a. within or outside India,

- b. on its property or assets or any of its undertakings,
- c. whether tangible or otherwise, and
- d. situated in or outside India,

to register the particulars of the charge signed by the company and the charge-holder together with the instruments, if any, creating such charge in such form, on payment of such fees and in such manner as may be prescribed, with the Registrar within thirty days of its creation.

Provided that the Registrar may, on an application made by the company, allow such registration to be made within a period of three hundred days of such creation on payment of such additional fees as may be prescribed.

Provided further that if registration is not made within a period of three hundred days of such creation, the company shall seek extension of time in accordance with section 87 which empowers the Central Government to grant extension of time for filing of charges on an application made to it and under specified circumstances.

Provided also that any subsequent registration of a charge shall not prejudice any right acquired in respect of any property before the charge is actually registered.

Provided also that this section shall not apply to such charges as may be prescribed in consultation with the Reserve Bank of India.

Section 77 (2) provides that where a charge is registered with the Registrar under sub-section (1) (as explained above), he shall issue a certificate of registration of such charge in such form and in such manner as may be prescribed to the company and, as the case may be, to the person in whose favour the charge is created.

Section 77 (4) further provides that nothing shall prejudice any contract or obligation for the repayment of the money secured by a charge. This means that the obligation of a company to repay the debt is not affected by the non registration of the charge.

Section 78 further provides that if the company fails to register the charge within the period of 30 days referred to in sub-section (1) of section 77, the same can be done by the person in whose favour the charge is created by following the prescribed conditions.

### **Question 3**

*Define the term “charge” and also explain what is the punishment for default with respect to registration of charge as per the provisions of the Companies Act, 2013.*

### **Answer**

The term charge has been defined in section 2 (16) of the Companies Act, 2013 as an interest or lien created on the property or assets of a company or any of its undertakings or both as

security and includes a mortgage.

Every company is under an obligation to keep at its registered office a register of charges and enter therein all charges specifically affecting property of the company and all floating charges on the undertaking or any property of the company.

**Punishment for contravention** – According to section 86 of the Companies Act, 2013, if a company makes any default with respect to the registration of charges covered under chapter VI, a penalty shall be levied, ranging from ₹ 1 lakh to 10 lakhs.

Every defaulting officer is punishable with imprisonment for a term not exceeding 6 months or fine which shall not be less than 25,000 rupees, but not exceeding 1 lakh rupees or both.

#### **Question 4**

*MNC Limited realised on 2nd May, 2017 that particulars of charge created on 12th March, 2017 in favour of a Bank were not filed with Registrar of Companies for Registration. What procedure should the company follow to get the charge registered with the Registrar of Companies? Would the procedure be different if the charge was created on 12th February, 2017 instead of 12th March, 2017? Explain with reference to the relevant provisions of the Companies Act, 2013.*

#### **Answer**

The prescribed particulars of the charge together with the instrument, if any by which the charge is created or evidenced, or a copy thereof shall be filed with the Registrar within 30 days after the date of the creation of charge [Section 77 (1)]. In this case particulars of charge have not been filed within the prescribed period of 30 days.

However, the Registrar is empowered under proviso to section 77 (1) to extend the period of 30 days by another 300 days on payment of such additional fee as may be prescribed. Taking advantage of this provision, MNC Limited, should immediately file the particulars of charge with the Registrar and satisfy the Registrar that it had sufficient cause, for not filing the particulars of charge within 30 days of creation of charge.

There will be no change in the situation if the charge was created on 12th February, 2017.

#### **Question 5**

*Mr Antriksh entered into an agreement for purchasing a commercial property in Delhi belonging to NRT Ltd. At the time of registration, Mr Antriksh comes to know that the title deed of the company is not free and the company expresses its inability to get the title deed transferred in the name of Mr Antriksh saying that he ought to have had the knowledge of charge created on the property of the company. Explain with the help of 'Notice of a charge', whether the contention of NRT LTD. is correct?*

### Answer

**Notice of Charge :** According to section 80 of the Companies Act, 2013, where any charge on any property or assets of a company or any of its undertakings is registered under section 77 of the Companies Act, 2013, any person acquiring such property, assets, undertakings or part thereof or any share or interest therein shall be deemed to have notice of the charge from the date of such registration.

Thus, the section clarifies that if any person acquires a property, assets or undertaking for which a charge is already registered, it would be deemed that he has complete knowledge of charge from the date the charge is registered.

Thus, the contention of NRT Ltd. is correct.

### Question 6

*Explain the provisions of the Companies Act, 2013 relating to Rectification by Central Government in register of Charges.*

### Answer

**(1) Rectification by Central Government in register of charges:** Section 87 of the Companies Act, 2013 empowers the Central Government to make rectification in register of charges. According to the provision-

(I) The Central Government on being satisfied that—

- (i) (a) the **omission to file with the Registrar the particulars of any charge** created by a company or any charge subject to which any property has been acquired by a company or any modification of such charge; or
- (b) the **omission to register any charge within the time** required under this Chapter or the omission to give intimation to the Registrar of the payment or the satisfaction of a charge, within the time required under this Chapter; or
- (c) the **omission or mis-statement of any particular** with respect to any such charge or modification or with respect to any memorandum of satisfaction or other entry made in pursuance of section 82 or section 83,
  - was accidental or due to inadvertence or some other sufficient cause or
  - it is not of a nature to prejudice the position of creditors or shareholders of the company; or



(ii) **on any other grounds**, it is just and equitable to grant relief,

- it may on the application of the company or any person interested and on such terms and conditions as it may seem to the Central Government just and expedient, direct that the time for the filing of the particulars or for the registration of the charge or for the giving of intimation of payment or satisfaction shall be extended or, as the case may require, that the omission or mis-statement shall be rectified.

(II) Where the Central Government extends the time for the registration of a charge, the order shall not prejudice any rights acquired in respect of the property concerned before the charge is actually registered.

**(2) Condonation of delay and rectification of register of charges.**

- (1) Where the instrument creating or modifying a charge is not filed within a period of 300 hundred days from the date of its creation (including acquisition of a property subject to a charge) or modification and where the satisfaction of the charge is not filed within 30 days from the date on which such payment of satisfaction, the Registrar shall not register the same unless the delay is condoned by the Central Government.
- (2) The application for condonation of delay and for such other matters covered in sub-clause (a), (b) and (c) of clause (i) of sub-section (1) of section 87 of the Act shall be filed with the Central Government along with the fee.
- (3) The order passed by the Central Government under section 87(1) of the Act shall be required to be filed with the Registrar along with the fee as per the conditions stipulated in the said order.

**Question 7**

*What are the powers of Registrar to make entries of satisfaction and release of charges in absence of intimation from company. Discuss as per the provisions of the Companies Act, 2013.*

**Answer**

Section 83 of the Companies Act, 2013 provides powers to the registrar to make entries with respect to the satisfaction and release of charges where no intimation has been received by him from the company.

- (i) The Registrar may, on evidence being given to his satisfaction with respect to any registered charge,—
  - (a) that the debt for which the charge was given has been paid or satisfied in whole or in part; or

- (b) that part of the property or undertaking charged has been released from the charge or has ceased to form part of the company's property or undertaking,
- enter in the register of charges a memorandum of satisfaction in whole or in part, or of the fact that part of the property or undertaking has been released from the charge or has ceased to form part of the company's property or undertaking, as the case may be, despite the fact that no intimation has been received by him from the company.
- (ii) The Registrar shall inform the affected parties within thirty days of making the entry in the register of charges kept under section 81(1).
- According to the *Companies (Registration of Charges) Rules, 2014* with respect to the satisfaction of charge-
- (1) A company shall within a period of thirty days from the date of the payment or satisfaction in full of any charge registered, give intimation of the same to the Registrar along with the fee.
- (2) Where the Registrar enters a memorandum of satisfaction of charge in full in pursuance of section 82 or 83, he shall issue a certificate of registration of satisfaction of charge.

#### **MANAGEMENT AND ADMINISTRATION**

##### **Question 1**

*In a General meeting of Alpha Limited, the chairman directed to exclude certain matters detrimental to the interest of the company from the minutes, Mukesh, a shareholder contended that the minutes of the meeting must contain fair and correct summary of the proceedings thereat. Decide, whether the contention of Mukesh is maintainable under the provisions of the Companies Act, 2013 ?*

##### **Answer**

Under Section 118 (5) of the Companies Act, 2013, there shall not be included in the Minutes of a meeting, any matter which, in the opinion of the Chairman of the meeting :

- (i) is or could reasonably be regarded as defamatory of any person;
- (ii) is irrelevant or immaterial to the proceeding; or
- (iii) is detrimental to the interests of the company;

Further, under section 118(6) the chairman shall exercise absolute discretion in regard to the inclusion or non-inclusion of any matter in the Minutes on the grounds specified in sub-section (5) above.

Hence, in view of the above, the contention of Mukesh, a shareholder of Alpha Limited is not valid because the Chairman has absolute discretion on the inclusion or exclusion of any matter in the minutes for aforesaid reasons.

### **Question 2**

*A General Meeting was scheduled to be held on 15<sup>th</sup> April, 2018 at 3.00 P.M. As per the notice the members who are unable to attend a meeting in person can appoint a proxy and the proxy forms duly filled should be sent to the company so as to reach at least 48 hours before the meeting. Mr. X, a member of the company appoints Mr. Y as his proxy and the proxy form dated 10-04-2018 was deposited by Mr. Y with the company at its registered Office on 11-04-2018. Similarly, another member Mr. W also gives two separate proxies to two individuals named Mr. M and Mr. N. In the case of Mr. M, the proxy dated 12-04-2018 was deposited with the company on the same day and the proxy form in favour of Mr. N was deposited on 14-04-2018. All the proxies viz., Y, M and N were present before the meeting.*

*According to the provisions of the Companies Act, 2013, who would be the persons allowed to represent at proxies for members X and W respectively ?*

### **Answer**

A Proxy is an instrument in writing executed by a shareholder authorizing another person to attend a meeting and to vote thereat on his behalf and in his absence. As per the provisions of Section 105 of the Companies Act, 2013, every shareholder who is entitled to attend and vote has a statutory right to appoint another person as his proxy. It is not necessary that the proxy be a member of the company. Further, any provision in the articles of association of the company requiring instrument of proxy to be lodged with the company more than 48 hours before a meeting shall have effect as if 48 hours had been specified therein. The members have a right to revoke the proxy's authority by voting himself before the proxy has voted but once the proxy has voted the member cannot retract his authority.

Where two proxy instruments by the same shareholder are lodged of in such a manner that one is lodged before and the other after the expiry of the date fixed for lodging proxies, the former will be counted.

Thus, in case of member X, the proxy Y will be permitted to vote on his behalf as form for appointing proxy was submitted within the permitted time.

However, in the case of Member W, the proxy M (and not Proxy N) will be permitted to vote as the proxy authorizing N to vote was deposited in less than 48 hours before the meeting.

### **Question 3**

*M. H. Company Limited served a notice of general meeting upon its shareholders. The notice stated that the issue of sweat equity shares would be considered at such meeting. Mr. 'A', a*

*shareholder of the M. H. Company Limited complains that the issue of sweat equity shares was not specified fully in the notice. Is the notice issued by M. H. Company Limited regarding issue of sweat equity shares valid according to the provisions of the Companies Act, 2013? Explain in detail.*

**Answer**

Under section 102 (2) (b) of the Companies Act, 2013, in the case of any meeting other than an Annual General Meeting, all business transacted thereat shall be deemed to be special business.

Further under section 102 (1) a statement setting out the following material facts concerning each item of special business to be transacted at a general meeting, shall be annexed to the notice calling such meeting:

- (a) the nature of concern or interest, financial or otherwise, if any, in respect of each items, of every director and the manager, if any or every other key managerial personnel and relatives of such persons; and
- (b) any other information and facts that may enable members to understand the meaning, scope and implications of the items of business and to take decision thereon.

Thus, the objection of the member is valid since the complete details about the issue of sweat equity should be sent with the notice. The notice is, therefore, not a valid notice under Section 102 of the Companies Act, 2013.

**Question 4**

*M/s. Tulip Ltd. maintains its Register of Members at its registered office in Mumbai. A group of members residing in Kolkata want to keep the register of members at Kolkata.*

- (i) *Explain with provisions of Companies Act, 2013, whether the company can keep the Registers and Returns at Kolkata.*
- (ii) *Does Mr. Rich, holding 400 shares of total worth ₹ 4000 only, has the right to inspect the Register of Members?*

**Answer**

- (i) **Maintenance of the Register of Members etc.:** As per section 94(1) of the Companies Act, 2013, the registers required to be kept and maintained by a company under section 88 and copies of the annual return filed under section 92 shall be kept at the registered office of the company:

Provided that such registers or copies of return may also be kept at any other place in India in which more than one-tenth of the total number of members entered in the register of

members reside, if approved by a special resolution passed at a general meeting of the company.

So, Tulip Ltd. can also keep the registers and returns at Kolkata after compliance with the above provisions, provided more than one-tenth of the total number of members entered in the register of members reside in Kolkata.

- (ii) As per section 94(2) of the Companies Act, the registers and their indices, except when they are closed under the provisions of this Act, and the copies of all the returns shall be open for inspection by any member, debenture-holder, other security holder or beneficial owner, during business hours without payment of any fees and by any other person on payment of such fees as may be prescribed.

Accordingly, a director Mr. Rich, who is a shareholder of the company, has a right to inspect the Register of Members during business hours without payment of any fees, as per the provisions of this section.

#### **Question 5**

*Examine the validity of the following with reference to the relevant provisions of the Companies Act, 2013:*

*The Board of Directors of Shrey Ltd. called an extraordinary general meeting upon the requisition of members. However, the meeting was adjourned on the ground that the quorum was not present at the meeting. Advise the company.*

#### **Answer**

According to section 100 (2) of the Companies Act 2013, the Board of directors must convene a general meeting upon requisition by the stipulated minimum number of members.

As per Section 103 (2) (b) of the Companies Act, 2013, if the quorum is not present within half an hour from the appointed time for holding a meeting of the company, the meeting, if called on the requisition of members, shall stand cancelled. Therefore, the meeting stands cancelled and the stand taken by the Board of Directors to adjourn it, is not proper.

#### **Question 6**

*Zorab Limited served a notice of General Meeting upon its members. The notice stated that a resolution to increase the share capital of the Company would be considered at such meeting. A shareholder complained that the amount of the proposed increase was not specified in the notice. Is the notice valid?*

### **Answer**

Under section 102(2)(b) in the case of any meeting other than an AGM, all business transacted thereat shall be deemed to be special business.

Further under section 102 (1), a statement setting out the following material facts concerning each item of special business to be transacted at a general meeting, shall be annexed to the notice calling such meeting, namely:—

- (a) the nature of concern or interest, financial or otherwise, if any, in respect of each items, of:
  - (i) every director and the manager, if any;
  - (ii) every other key managerial personnel; and
  - (iii) relatives of the persons mentioned in sub-clauses (i) and (ii);
- (b) any other information and facts that may enable members to understand the meaning, scope and implications of the items of business and to take decision thereon.

Thus, the objection of the shareholder is valid since the details on the item to be considered are lacking. The information about the amount is a material fact with reference to the proposed increase of share capital. The notice is, therefore, not a valid notice under Section 102 of the Companies Act, 2013.

### **Question 7**

*Examine the validity of the following decisions of the Board of Directors with reference of the provisions of the Companies Act, 2013.*

- (i) *In an Annual General Meeting of a company having share capital, 80 members present in person or by proxy holding more than 1/10<sup>th</sup> of the total voting power, demanded for poll. The chairman of the meeting rejected the request on the ground that only the members present in person can demand for poll.*
- (ii) *In an annual general meeting, during the process of poll, the members who earlier demanded for poll want to withdraw it. The chairman of the meeting rejected the request on the ground that once poll started, it cannot be withdrawn.*

### **Answer**

Section 109 of the Companies Act, 2013 provides for the demand of poll before or on the declaration of the result of the voting on any resolution on show of hands. Accordingly, law says that:-

Before or on the declaration of the result of the voting on any resolution on show of hands, a poll may be ordered to be taken by the Chairman of the meeting on his own motion, and shall be ordered to be taken by him on a demand made in that behalf:-

- (a) In the case a company having a share capital, by the members present in person or by proxy, where allowed, and having not less than one-tenth of the total voting power or holding shares on which an aggregate sum of not less than five lakh rupees or such higher amount as may be prescribed has been paid-up; and
- (b) in the case of any other company, by any member or members present in person or by proxy, where allowed, and having not less than one tenth of the total voting power.

**Withdrawal of the demand:** The demand for a poll may be withdrawn at any time by the persons who made the demand.

Hence, on the basis on the above provisions of the Companies Act, 2013:

- (i) The chairman cannot reject the demand for poll subject to provision in the articles of company.
- (ii) The chairman cannot reject the request of the members for withdrawing the demand of the Poll.

#### **Question 8**

*Sirhj, a shareholder, gives a notice for inspecting proxies, five days before the meeting is scheduled and approaches the company two days before the scheduled meeting for inspecting the same. What is the legal position relating to his actions (as per the provisions of the Companies Act, 2013)?*

#### **Answer**

Under section 105 (8) of the Companies Act, 2013 every member entitled to vote at a meeting of the company, or on any resolution to be moved thereat, shall be entitled during the period beginning twenty-four hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting, to inspect the proxies lodged, at any time during the business hours of the company, provided not less than three days' notice in writing of the intention so to inspect is given to the company.

In the given case, Sirhj has given proper notice.

However, such inspection can be undertaken only during the period beginning 24 hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting. So, Sirhj can undertake the inspection only during the above mentioned period and not two days prior to the meeting.

#### **Question 9**

*Miraj Limited held its Annual General Meeting on September 15, 2018. The meeting was presided over by Mr. Venkat, the Chairman of the Company's Board of Directors. On September*

*17, 2018, Mr. Venkat, the Chairman, without signing the minutes of the meeting, left India to look after his father who fell sick in London. Referring to the provisions of the Companies Act, 2013, examine the manner in which the minutes of the above meeting are to be signed in the absence of Mr. Venkat and by whom.*

**Answer**

Section 118 of the Companies Act, 2013 provides that every company shall prepare, sign and keep minutes of proceedings of every general meeting, including the meeting called by the requisitionists and all proceedings of meeting of any class of shareholders or creditors or Board of Directors or committee of the Board and also resolution passed by postal ballot within thirty days of the conclusion of every such meeting concerned. Minutes kept shall be evidence of the proceedings recorded in a meeting.

By virtue of Rule 25 of the Companies (Management and Administration ) Rules 2014 read with section 118 of the Companies Act, 2013 each page of every such book shall be initialled or signed and the last page of the record of proceedings of each meeting or each report in such books shall be dated and signed by, in the case of minutes of proceedings of a general meeting, by the chairman of the same meeting within the aforesaid period of thirty days or in the event of the death or inability of that chairman within that period, by a director duly authorized by the Board for the purpose.

Therefore, the minutes of the meeting referred to in the case given above can be signed in the absence of Mr Venkat, by any director who is authorized by the Board.

**Question 10**

*Infotech Ltd. was incorporated on 1.4.2016. No General Meeting of the company has been held till 30.4.2018. Discuss the provisions of the Companies Act, 2013 regarding the time limit for holding the first annual general meeting of the Company and the power of the Registrar to grant extension of time for the First Annual General Meeting.*

**Answer**

According to Section 96 of the Companies Act, 2013, every company shall be required to hold its first annual general meeting within a period of 9 months from the date of closing of its first financial year.

The first financial year of Infotech Ltd is for the period 1st April 2016 to 31st March 2017, the first annual general meeting (AGM) of the company should be held on or before 31st December, 2017.

The section further provides that the Registrar may, for any special reason, extend the time within which any annual general meeting, other than the first annual general meeting, shall be held, by a period not exceeding three months.



Thus, the first AGM of Infotech should have been held on or before 31st December, 2017. Further, the Registrar does not have the power to grant extension to time limit

#### **Question 11**

*The Articles of Association of DJA Ltd. require the personal presence of 7 members to constitute quorum of General Meetings. The company has 965 members as on the date of meeting. The following persons were present in the extra-ordinary meeting to consider the appointment of Managing Director:*

- (i) A, the representative of Governor of Uttar Pradesh.*
- (ii) B and C, shareholders of preference shares,*
- (iii) D, representing Y Ltd. and Z Ltd.*
- (iv) E, F, G and H as proxies of shareholders.*

*Can it be said that the quorum was present in the meeting?*

#### **Answer**

According to section 103 of the Companies Act, 2013, unless the articles of the company provide for a larger number in case of a public company, five members personally present if the number of members as on the date of meeting is not more than one thousand, shall be the quorum.

In this case the quorum for holding a general meeting is 7 members to be personally present (higher of 5 or 7). For the purpose of quorum, only those members are counted who are entitled to vote on resolution proposed to be passed in the meeting.

Again, only members present in person and not by proxy are to be counted. Hence, proxies whether they are members or not will have to be excluded for the purposes of quorum.

If a company is a member of another company, it may authorize a person by resolution to act as its representative at a meeting of the latter company, then such a person shall be deemed to be a member present in person and counted for the purpose of quorum. Where two or more companies which are members of another company, appoint a single person as their representative then each such company will be counted as quorum at a meeting of the latter company.

Further the President of India or Governor of a State, if he is a member of a company, may appoint such a person as he thinks fit, to act as his representative at any meeting of the company. A person so appointed shall be deemed to be a member of such a company and thus considered as member personally present.

In view of the above there are only three members personally present.

'A' will be included for the purpose of quorum. B & C have to be excluded for the purpose of quorum because they represent the preference shares and since the agenda being the appointment of Managing Director, their rights cannot be said to be directly affected and therefore, they shall not have voting rights. D will have two votes for the purpose of quorum as he represents two companies 'Y Ltd.' and 'Z Ltd.' E, F, G and H are not to be included as they are not members but representing as proxies for the members.

Thus, it can be said that the requirements of quorum has not been met and it shall not constitute a valid quorum for the meeting.

## CHAPTER-13: ESSENTIALS OF COMMUNICATION

### Question 1

Explain the factors which are responsible *for the growing importance of communication of an organization.*

### Answer

The importance of communication in the industrial organization has increased immensely in these days. The following factors are responsible for the growing importance of communication:

- (a) **Growth in the size and multiple locations of organizations:** Most of the organizations are growing larger and larger in size. The people are working in the country and abroad, of these organizations. Keeping in touch, sending directions across and getting feedback is possible only when communication lines are kept working effectively.
- (b) **Growth of trade unions:** Over the last so many decades, trade unions have been growing strong. No management can be successful without taking the trade unions into confidence. Effective communication will create relationship between the management and the workers.
- (c) **Growing importance of human relations:** Workers in an organization are not like machines. They have their own hopes and aspirations. Management has to recognize them and should work with the spirit of integration so that human relations may be maintained. This may only be achieved through effective communication.
- (d) **Public relations:** Every organization has a social responsibility towards customers, government, suppliers and the public at large. Communication is the only way an organization can project a positive image of itself.
- (e) **Advances in behavioral sciences:** Modern management is deeply influenced by exciting discoveries made in behavioral sciences like psychology, sociology, transactional analysis etc. All of them throw light on suitable aspects of human nature and help in developing a positive attitude towards life and building up meaningful relationship. This is possible only through communication.
- (f) **Technological advancement:** The world is changing very fast, owing to scientific and technological advancements. These advancements deeply affect not only the methods of work but also the compositions of groups. In such a situation, proper communication between superiors and subordinates becomes very necessary.

### Question 2

*Explain clearly the process of Communication.*

### **Answer**

**Process of Communication:** Communication is a two-way process in which there is an exchange of ideas or thoughts linking the sender and receiver towards a mutually accepted direction or goal consisting of 7 elements which are as under:

1. **Sender:** The process of communication begins with a sender, the person who has an idea and desires to exchange it.
2. **Encoding:** The sender puts his/her ideas or facts into words, symbols, pictures or gestures that the receiver can understand.
3. **Message:** A message refers to what is being communicated. It may be verbal or non-verbal.
4. **Channel:** Channel is the medium through which message is transmitted to the sender. Channel may be in oral or written forms.
5. **Receiver:** It is any person who notices and attaches some meaning to a message.
6. **Decoding:** The receiver translates the words and symbols used in the message into ideas and interpret it to attain its meaning.
7. **Feedback:** Ultimately receiver reacts or responds to the communication sent by the sender. It could be based on clear interpretation of the symbols sent or misunderstanding or misinterpretation of the symbols sent.

### **Question 3**

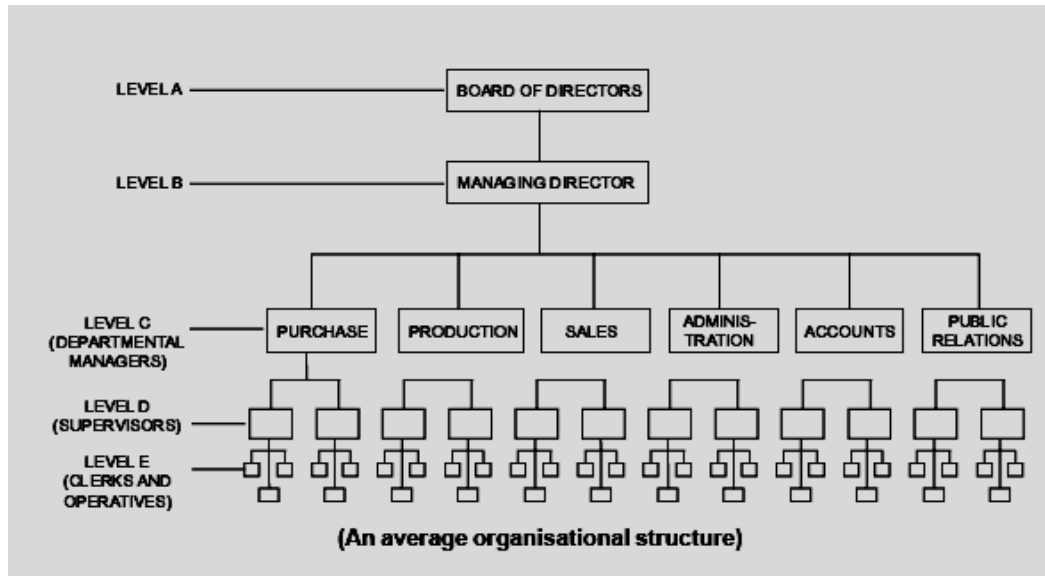
*What is formal communication? Explain in brief its major advantages.*

*Or*

*Explain clearly the advantages of a formal communication.*

### **Answer**

**Formal Communication:** A formal communication flows along prescribed channels which all organizational members desirous of communicating with one another are obliged to follow. Every organisation has a built-in hierarchical system that can be compared to a pyramid. It can, therefore, be understood that communication normally flows from top- downwards. But it is not always so. Communication in an organisation is multidimensional or multidirectional.



Following are the directions in which communications are sent:

- (a) Downward
- (b) Upward
- (c) Horizontal or Lateral
- (d) Diagonal or Crosswise

#### **Advantages of Formal Communication:**

- (a) The formal channels account for most of the effectiveness of communication. As has been said earlier, great care has to be taken in sending across any letter or report through the 'proper' formal channel.
- (b) Formal channels cover an ever – widening distance as organizations grow. Through them, it is easier to reach out to the branches of an organisation spread far and wide.
- (c) The formal channels, because of their tendency to filter information, keep the higher level managers from getting bogged down.
- (d) Formal channels of communication consolidate the organisation and satisfy the people in managerial position.

#### **Question 4**

*Explain the various forms of formal communication.*

**Answer**

A formal communication flows along prescribed channels which all organizational members desirous of communicating with one another are obliged to follow. Every organization has built-in hierarchical system, communication in an organization is multidirectional. On the basis of various directions in which communications are sent, we can classify formal communication in these forms:

- (i) Downward Communication
- (ii) Upward Communication
- (iii) Horizontal or Lateral Communication
- (iv) Diagonal or Crosswise Communication

Communication generally flows from top to bottom.

Downward communication means communication from superior to subordinate in the hierarchical system of the organization. It includes orders and instructions.

In upward communication, message flows from the subordinate to superior in the form of request, reports, instructions complaints and suggestions.

Communication between co-workers with different areas of responsibility is called horizontal (lateral) communication. Communication among the functional managers of a company is the best example of horizontal communication.

Diagonal communication means communication among the various Department/employees of the organization without any hierarchical system in case of emergency.

**Question 5**

*What are the factors that lead to grapevine communication?*

**Answer**

The grapevine becomes active when the following factors are present:

- (a) Feeling of uncertainty or lack of sense of direction when the organisation is passing through a difficult period.
- (b) Feeling of inadequacy or lack of self confidence on the part of the employee, leading to the formation of groups.
- (c) Formation of a coterie or favoured group by the manager, giving other employees a feeling of insecurity or isolation. People operating in such circumstances will be filled with all sorts of ideas and will share them with like minded companions, at whatever level they may be.

Mostly they find them at their own level, but other levels are not barred. This type of communication is being seriously studied by psychologists and management experts.

#### **Question 6**

*Explain clearly the meaning of the term “Grapevine” as applicable to Communication.*

#### **Answer**

**Grapevine: Applicable to Communication:** Communication may be oral or written for direct contact. It may be informal also. The “Grapevine” is one of the recognized channels of informal communication. According to human psychology, a person likes to form and move in groups. They interact on serious and non-serious issues and they spread it fast whether the information is correct or not. This process is known as rumour mill. The larger the organization, the more active is the rumour mill. The phenomenon of grapevine is based on generally three factors, namely: (1) formation of favoured group (2) lack of self confidence and, (3) feeling of uncertainty due to lack of directions. Four kinds of the grapevine chains have been identified and they are:

- (a) Single Strand Chain, which is the least accurate in passing on the information or message.
- (b) Gossip Chain, which is often used when information or a message regarding ‘not-on-job’ nature is being conveyed.
- (c) Probability Chain is used when information is somewhat interesting but not really significant.
- (d) Cluster Chain, which acts as liaison and spreads information with the greatest speed.

#### **Question 7**

*What are the merits and demerits of grapevine form of Communication?*

#### **Answer**

##### **Merits of the grapevine phenomenon:**

- (a) **Speedy transmission:** It transmits information very speedily. A rumour spreads like wild fire.
- (b) **Feedback value:** The managers or top bosses of an organisation get the feedback regarding their policies, decisions, memos etc.
- (c) **Support to other channels:** It is a supplementary or parallel channel of communication.
- (d) **Psychological satisfaction:** It gives immense psychological satisfaction to the workers and strengthens their solidarity.

**Demerits of the grapevine phenomenon:**

- (a) It is less credible. It cannot always be taken seriously.
- (b) It does not always carry the complete information.
- (c) It often distorts the picture or often misinforms.

**Question 8**

*Explain clearly the different types of grapevine chains in an informal communication.*

OR

Briefly explain the "Grapevine Chains" propounded by the experts in relation to informal way of communication.

**Answer**

**Grapevine Chains:** Specialists in this field have identified four types of grapevine chains in an informal communication:-

- (1) **Single Strand Chain:** In this type of chain, 'A' tells something to 'B' who tells it to 'C' and so on. This type of chain is least accurate in passing on the information or message.
- (2) **Gossip Chain:** In it, a person seeks out and tells everyone the information he has obtained. This chain is often used when information or a message regarding a 'not-on-job' nature is being conveyed.
- (3) **Probability Chain:** In it, individuals are indifferent to the persons, to whom they are passing some information. This chain is found when the information is somewhat interesting but not really significant.
- (4) **Cluster Chain:** In this type of chain, 'A' tells something to a few selected individuals and then some of these individuals inform a few other selected individuals. In fact, cluster chain is the dominant grapevine pattern in an organisation. Only few persons are 'liaison individuals' who pass on the information they have obtained and then they are likely to share it with the people they trust. Most informal communication flows through this chain.

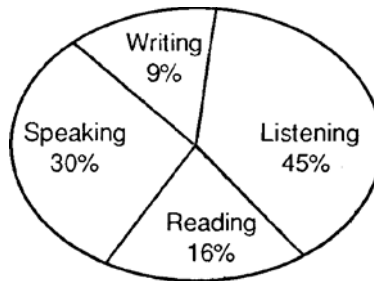
**Question 9**

*Elaborate merits and limitations of oral communication.*

**Answer**

**Oral Communication:** According to a research, an average manager in general spends only 9% of his/her time in writing, 16% in reading, 30% in speaking and 45% in listening, as shown in the following figure





Oral communication is characterized by seven Cs – Candidness, Clarity, Completeness, Conciseness, Concreteness, Correctness, and Courtesy. These act as principles for choosing the form (style) and content (matter) of oral communication. Oral communication should provide a platform for fair and candid exchange of ideas.

Oral communication, which is face-to-face communication with others, has its own benefits. When people communicate orally, they are able to interact; they can ask questions and even test their understanding of the message. In addition, people can also relate and comprehend the non-verbal, which serves far more than words. By observing facial expressions, eye contact, tone of voice, gestures, postures, etc., one can understand the message better.

The only shortcoming of oral communication is that more often than not it is spontaneous and if one communicates incorrectly, the message will not get understood. It is primarily due to this reason, one needs to develop effective oral communication skills as a message; if not understood at appropriate time, can lead to disaster

#### Question 10

*What important factors should be considered to make oral communication effective?*

OR

*What principles you would keep in mind in oral communication?*

#### Answer

**Factors to be considered for oral effective communication:** Oral communication, which is face-to-face communication with others, has its own benefits. The only shortcoming of oral communication is that it is spontaneous and if one communicates incorrectly, the message will not get understood. It is primarily due to this reason one needs to develop effective oral communication skills as a message, if not understood at appropriate time, can lead to disaster.

In order to provide a fair and candid exchange of ideas, the following factors to be considered to make the oral communication effective:

- ◆ Consider the objective
- ◆ Think about the interest level of the receiver

- ◆ Be sincere
- ◆ Use simple language, familiar words
- ◆ Be brief and precise
- ◆ Avoid vagueness and generalities
- ◆ Give full facts
- ◆ Assume nothing
- ◆ Use polite words and tone
- ◆ Cut out insulting message
- ◆ Say something interesting and pleasing to the recipient
- ◆ Allow time to respond
- ◆ To make the oral communication effective, the speaker should converse slowly with proper semantic pauses to enable the listener receive and register in mind whatever is said by the speaker and there should be a due correlation between the pace of speaking and the rate of listening.

#### Question 11

*Elaborate advantages and limitations of oral and written communication.*

#### Answer

**Advantages and limitations of oral and written communication:**

Oral Communication	Written Communication
<b>Advantages</b>	<b>Advantages</b>
More personal and informal	Better for complex and difficult subjects, facts and opinions
Makes immediate impact	Better for keeping records of messages exchanged
Provides opportunity for interaction and feedback	Provides opportunity to refer back
Helps us to correct ourselves (our messages according to the feedback and non-verbal cues received from the listener)	Can be read at receiver's convenience or pleasure
Better for conveying feelings and emotions	Can be revised before transmitting
	Can be circulated

Limitations	Limitations
Demands ability to think coherently as you speak	Never know if the message is ever read
A word once uttered cannot be taken back	Impersonal and remote
Hard to control voice pitch and tone, especially under stress, excitement or anger	Immediate feedback is not available for correction on the spot
Very difficult to be conscious of our body language	Reader is not helped by non-verbal cues that contribute to the total message

### Question 12

*State reasons for selecting the oral mode of communication instead of the written mode of communication.*

### Answer

Oral Communication is a face to face communication with others. Oral communication is characterized by seven Cs – Candidness, Clarity, Completeness, Conciseness, Concreteness, Correctness, and Courtesy. These act as principles for selecting the mode of oral communication. In addition to above seven principles it has its own benefits as under:

- (i) More personal and informal.
- (ii) Make immediate impact.
- (iii) Provides opportunity for interaction and feedback.
- (iv) Helps us to correct ourselves (our message according to the feedback and non-verbal cues received from the listener).
- (v) Better for conveying feelings and emotions.
- (vi) More effective because one can understand the message better by observing facial expressions, eye contact, tone of voice, gestures, postures etc of the sender.

It is said that it does not matter what you say, what matters is how you say it. Your way of saying includes your choice of words, your confidence and sincerity.

### Question 13

*Explain the merits and limitations of oral communication.*

### Answer

**Oral Communication** – its merits and limitations - Communication through the spoken word is known as oral communication. Some of the merits of oral communication are as under:

- (i) saves time and money;

- (ii) immediate feed back;
- (iii) saves paper work;
- (iv) an effective tool for exhortation;
- (v) builds a healthy climate;
- (vi) best tool during emergency.

Some of the limitations of Oral Communication are:

- (i) Greater chances of misunderstanding;
- (ii) Bad speaker;
- (iii) Ineffective for lengthy communication;
- (iv) Lower retention rate;
- (v) No legal validity;
- (vi) Difficult to fix responsibility.

#### **Question 14**

*“Importance of communication is increasing day-by-day in the business organizations”. State the reasons for this increasing importance.*

#### **Answer**

**Reasons for increasing importance of communication:** It is true that importance of communication is increasing day by day in the business organizations. The reasons for this growth may be stated as follows:

- (a) **Growth in the size and multiple locations of organization:** Most of the organizations are growing larger and larger in size. The people working in these organizations may be spread over different states of a country or over different countries. Keeping in touch, sending directions across and getting feedback is possible only when communication lines are kept working effectively.
- (b) **Growth of trade unions:** Over the last so many decades trade unions have been growing strong. No management can be successful without taking the trade unions in confidence. Only through effective communication can a meaningful relationship be built between the management and workers.
- (c) **Growing importance of human relations:** Workers in an organization are not like machines. They have their own hopes and aspirations. Management has to recognize

them above all as sensitive human beings and work towards a spirit of integration with them which effective communication helps to achieve.

- (d) **Public Relations:** Every organization has a social responsibility, towards customers, government, suppliers and the public at large. Communication with them is the only way an organization can project a positive image of itself.
- (e) **Advance in Behavioural Sciences:** Modern management is deeply influenced by exciting discoveries made in behavioural sciences like psychology, sociology, transactional analysis etc. All of them throw light on subtle aspects of human nature and help in developing a positive attitude towards life and building up meaningful relationships. And this is possible only through communication.
- (f) **Technological advancement:** The world is changing very fast, owing to scientific and technological advancements. These advancements deeply affect not only methods of work but also the composition of groups. In such a situation, proper communication between superiors and subordinates becomes very necessary.

#### **Question 15**

*What is Chronemics?*

#### **Answer**

Chronemics is the study of how we use time to communicate. The meaning of time differs around the world. While some are preoccupied with time, others waste it regularly. While some people function better in the morning, others perform better at night. Punctuality is an important factor in time communication. Misunderstandings or disagreements involving time can create communication and relationship problems.

#### **Question 16**

*Explain the main barriers to communication.*

#### **Answer**

A communication of the message is successful only when both the sender and the receiver perceive it in the same manner. Quite often, there is miscommunication due to one barrier or the other. Barriers or problems can arise at any stage of the communication process. It is very important to understand the causes of communication breakdown.

**Following are the main barriers to communication:**

- (a) **Noise:** Noise refers to the distracting element that breaks the concentration of the sender or receiver and prevents him/her from paying attention to the content of the message. Distraction (noise) can be either physical or psychological. Noise can lead to miscommunication and measures must be taken to overcome it.

- (b) *Semantic Barriers*: Semantic refers to the study of meanings of words and signs. Semantic barrier occurs due to:
- (i) Sender and receiver interpret same words in different manner.
  - (ii) Words carry different nuances, shades and flavours to the sender and receiver.
  - (iii) Faulty translation.
  - (iv) Poor expression power or ability.
- (c) *Cultural Barrier*: We live in a globalised world and may encounter individuals of different races, religions and nationalities. The same category of words, phrases, symbols, actions, colours mean different things to people of different cultural background e.g. in the United States of America, people like to be called by their first name, while in Britain and to a large extent also in India, people like to be addressed by their surname.
- (d) *Emotions*: Emotions play a very vital role in our life. Both encoding and decoding of messages are influenced by our emotions. A message received when we are emotionally charged up will have a different meaning for us than when we are calm and composed.
- (e) *Status Consciousness*: Subordinates are either too conscious of their low status or too afraid of being snubbed. At the same time, many executives keep distance from their juniors thinking that consulting subordinates is something below their dignity.
- (f) *Poor Listening*: Poor listening may lead to serious communication problems. Too many people are interested in talking and mostly talking about themselves. Poor listening accounts for incomplete information and also for poor retention.

#### Question 17

*What do you understand by the "Semantic Barriers" to the communication?*

OR

*Explain the term "Semantic Problems" as the source contributing towards noise factor.*

#### Answer

**Semantic Barriers to the communication**: Semantics is the systematic study of meaning. That is why the problems arising from expression or transmission of meaning in communication are called semantic problems. Oral or written communication is based on words. And words, limited in number, may be used in unlimited ways. The meaning is in the mind of the sender and also in that of the receiver. But it is not always necessary for the meaning in the mind of the sender to be the same as in the mind of receiver. Much, therefore, depends on how the sender encodes his message. The sender has to take care that the receiver does not misconstrue his message, and gets the intended meaning. Quite often it does not happen in this way. That leads to

semantic problems. It can be ensured only if we aim at clarity, simplicity and brevity so that the receiver gets the intended meaning.

#### **Question 18**

*How is “noise” a barrier to effective communication?*

#### **Answer**

**Noise as barrier to communication:** Noise is the first and foremost barrier to communication. It means “interference that occurs in a signal and prevents you from hearing sounds properly. In a factory, the continuous noise made by machines makes oral communication difficult. In the same way, same technical problems in a public address system or a static in a telephone or television cable will distort the sound signal and affect communication. Adverse weather conditions or some fault in the ultramodern telecommunications systems may also spoil the effect.

Further, the sender may resort to ambiguous or confusing signals. The receiver may mess up the message owing to inattention or may spoil decoding because of wrong or unexpected interpretation. The receiver’s prejudices may also come in the way of his understanding the message in the right spirit. Thus, the communication is always likely to be affected by ‘noise’ that stands for so many things. Some of the factors contributing towards noise factors are as follows:

- (a) **Poor Listening:** A last moment communication with deadline may put too much pressure on the receiver and may result in resentment.
- (b) **Inappropriate Channel:** Poor choice of channel of communication can also be contributory to them in understanding of the message.
- (c) **Network breakdown:** Some time staff may forget to forward a letter or there may be professional jealousy resulting in closed channel.

#### **Question 19**

*What are “Socio-psychological Barriers” to effective communication? Explain.*

OR

*Explain the “Socio-psychological Barriers” to effective communication.*

#### **Answer**

**Socio-psychological barriers-** The attitudes and opinions, place in society and status consciousness arising from one’s position in the hierarchical structure of the organization, one’s relations with peers, seniors, juniors and family background – all these deeply affect one’s ability to communicate both as a sender and receiver. Status consciousness is widely known to be a

serious communication barrier in organizations. It leads to psychological distancing which further leads to breakdown of communication or miscommunication. Often it is seen that a man high up in an organization builds up a wall around himself. This restricts participation of the less powerful in decision making. In the same way, one's family background formulates one's attitude and communication skills.

Frame of reference is another barrier to clear communication. Every individual has a unique frame of reference formed by a combination of his experiences, education, culture, attitude, and many other elements, resulting in biases and different experiences in a communication situation.

#### **Question 20**

*You have been assigned the job of composing business messages. What check-list would you prepare for organising the message?*

*OR*

*Prepare the detailed checklist for composing business message in an organization.*

*OR*

*Prepare a check list for organizing the messages in a business firm as a job of composing business messages being assigned to you.*

#### **Answer**

##### **Check-list for organising the message:**

##### **Organisation:**

1. *Recognise good organisation*
  - (a) Subject and purpose are clear
  - (b) Information is directly related to subject and purpose
  - (c) Ideas are grouped and presented logically
  - (d) All necessary information is included
2. *Achieve good organization through outlining-*
  - (a) Decide what to say
    - (i) Main idea
    - (ii) Major points
    - (iii) Evidence
  - (b) Organise the message to respond the audience is probable reaction-



- (i) use the direct approach when audience will be neutral, pleased, interested, or eager.
- (ii) use the indirect approach when audience will be displeased, interested, or unwilling.

3. Choose the appropriate organisation plan-

- (a) Short Messages -
  - (i) Direct request
  - (ii) Routine, good news and good message
  - (iii) Bad news message
  - (iv) Persuasive Message
- (b) Longer message -
  - (i) Information pattern
  - (ii) Analytical pattern

**Question 21**

*Draft a business letter, presuming your facts that you have received the goods from the company and you are sending payments.*

**Answer**

**Business Letter – acknowledging receipt of goods:**

MEHTA CHEMICALS LIMITED

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Dated:

16, Nariman Point

Mumbai

Sir

Subject: Acknowledging the receipt of Consignment No \_\_\_\_\_

Reference: Our request 24/FD/55 – dated 1<sup>st</sup> June, 2018

We acknowledge with thanks the receipt of above consignment in our godown and we are arranging the payment of proceeds towards the said consignment by way of crossed cheque in favour of your company within a period of next 15 days.

We solicit your relationship in our future dealings.

Thanking you

Yours faithfully

For on behalf of Mehta Chemicals Ltd.

### **Question 22**

*Write short notes on the following:*

(I) *Proxemics*

(II) *Haptics*

### **Answer**

- (I) **Proxemics:** It is form of a non-verbal communication which refers to the space that exists between us when we talk or relate to each other as well the way we organize space around us. We can also call it 'space language' as the following four space zones indicate the type of communication and the relationship of the source and receiver:

Intimate – Physical contact to 18 inches.

Personal – 18 inches to 4 feet.

Social – 4 to 12 feet

Public-12 feet to as far as we can see or hear.

- (II) **Haptics:** It is communication through touch. How we use touch sends important messages about us. It reveals our perceptions of status, our attitudes and even our needs. The amount of touching we do or find acceptable is at least in part culturally conditioned.

### **Question 23**

*"There are certain barriers to effective communication. "Explain and state the role of the following types of barriers and its effects on the communication.*

(i) *Filtering and*

(ii) *Cultural Barriers*

### **Answer**

- (i) **Filtering:** Filtering means that the sender of a message manipulates information in such a way that it will be seen more favourably by the receiver. A manager, for example, likes to tell his boss what he feels his boss wants to hear. In this process, he is filtering information. The net result is that the man at the top never gets objective information. In the same way, the people at the lower levels condense and synthesise information so as to get maximum benefits for themselves. They hold back or ignore some important part of information. The more vertical levels in the organisation, the more chances there are for filtering. This is a very frequently occurring communication problem.
- (ii) **Cultural Barriers:** We live in a culturally diverse world, and so we could encounter individuals from different races, religions, and nationalities. We have to be especially careful in this regard as we have to operate in international environment. The same category of words, phrases, symbols, actions, colours mean different things to people of different countries or different cultural backgrounds. For example, in the United States people love to be called by their first names while in Britain, and to a large extent also in India, people like to be addressed by their last name. In the North American States a sign of 'O' made with the forefinger and thumb stands for 'OK' while in the Southern States it is construed as obscenity.

The desire to communicate is the first step in being effective. The desire to connect with another human being is the bond that will express itself clearly. A genuine effort to understand another person goes a long way in the path to communication. Knowing about other cultures and being proactive will help to develop these skills.

## CHAPTER-14: INTERPERSONAL COMMUNICATION SKILLS

### Question 1

*What are the principles of inter-personal communication?*

OR

*What are the basic principles of inter-personal communication?*

### Answer

**Principle of Interpersonal Communication:** The following principles are key to interpersonal communication -

**Interpersonal communication is inescapable:** We cannot keep ourselves away from communication. The very attempt not to communicate, communicates something. Not only through words but also through the tone of voice and gestures, postures, facial expressions etc, we constantly communicate to others.

**Interpersonal communication is irreversible:** It is rightly said that a word uttered once cannot be taken back.

**Interpersonal communication is complicated:** No form of communication is simple due to the number of variables involved; even simple requests can be extremely complex.

**Interpersonal communication is contextual:** Communication does not take place in isolation. They are context specific:

- **Psychological context:** It refers to who the communicators are and what they bring to the interaction? Their needs, desires, values, personality etc all form the psychological context.
- **Relational context:** This is concerning the nature of interaction and reactions and the way it all affects the communication process.
- **Situational context:** Refers to social concept of communication viz. an interaction that takes place in a classroom will be very different from one that takes place in a board room.
- **Environmental context:** It is all about the surroundings in which communication takes place e.g. Furniture location, noise level, temperature, season, time of day etc. are all examples of elements in the environmental context.
- **Cultural context:** Includes all the learned behaviours and rules that affect the interaction. If one comes from a culture where it is considered rude to establish long, direct eye contact, one will out of politeness avoid eye contact. If the other person comes from a culture where long direct eye contact signals trustworthiness, then we have a basis for misunderstanding.

### Question 2

*What are the tips for improving inter-personal skills in a business organization?*

### Answer

**Tips for improving interpersonal skills:** Lines of communication must be open between people who rely on one another to get work done. Poor interpersonal communication skills, which include active listening, result in low productivity simply because one does not have the tools needed to influence, persuade and negotiate which are necessary for workplace success. To get this success the following tips are suggested:

- (i) **Congruency in communication elements:** If the words used are incongruent with the other interpersonal communication dynamics interpersonal communication is adversely affected. Since communication is shared meaning, words must send the same message as the other interpersonal communication dynamics – body language, facial expression, posture, movement, tone of voice to help emphasize the truth, sincerity and reliability of the communication. A consistent message ensures effective communication.
- (ii) **Listening effectively:** Effective or active listening is very important skill to enhance interpersonal communication. Listening helps to build strong personal relationships. The process of communication completes when the message as intended by the sender is understood by the receiver. Most of the persons assume that listening is natural trait, but practically very few of us listen properly. One needs to give the communicator of the message sufficient attention and make an effort to understand his view point.

### Question 3

*Explain the functions of interpersonal communication.*

OR

*What functions are performed by interpersonal communication? Discuss.*

### Answer

**Functions of Interpersonal Communication:** Interpersonal communication is important because of the following functions it achieves:

- (i) **Gaining Information:** One reason, we engage in interpersonal communication, is to gain knowledge about another individual. We attempt to gain information about others so that we can interact with them more effectively.
- (ii) **Building Understanding:** Interpersonal communication helps us to understand better what someone says in a given context. Words can mean very different things depending on how they are said or in what context. **Content Messages** refer to the surface level meaning of a message. **Relationship Messages** refer to how a message is said. The two are sent simultaneously, but each affects the meaning assigned to the communication and helps us understand each other better.

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

**(iv) Interpersonal Needs:** We also engage in interpersonal communication to express interpersonal needs. William Schutz has identified three such needs: inclusion, control, and affection.

- Inclusion is the need to establish identity with others.
- Control is the need to exercise leadership and prove one's abilities.
- Affection is the need to develop relationships with people. Groups are an excellent way to make friends and establish relationships.

#### **Question 4**

*What is meant by "Active listening"? State the importance of 'Active listening' in the business communication skills.*

#### **Answer**

**Active Listening:** - Most of us assume that listening is a natural trait, but practically very few of us listen properly. What we regularly do is- "we hear but do not listen". Hearing is through ears and listening is by mind. Listening happens when we understand message as intended by sender. Many managers are so used to helping people solve problems that their first cause of action is transforming solutions and giving advice instead of listening with full attention directed towards understanding what the co-worker or staff member needs. Therefore, every employer and worker needs a listening ear.

If one does not learn how to listen, a great deal of what people are trying to tell you would be missed. In addition, appropriate response would not be possible. Active listening is important for several reasons.

- (i) It aids the organization in carrying out its missions.
- (ii) It helps individuals to advance in their careers.
- (iii) It provides information that helps them to learn about important happenings in the organization, as well as assisting them in doing their own jobs well.
- (iv) It also helps in building strong personal relationships.

#### **Question 5**

*Explain the significance of 'active listening' in inter-personal communication skills.*

### **Answer**

**Significance of active listening:** If one does not learn how to listen, a great deal of what people are trying to tell you would be missed. In addition, appropriate response would not be possible. Active listening is important for several reasons. First, it aids the organization in carrying out its mission. In addition, it helps individuals to advance in their careers. It provides information that helps them to learn about important happenings in the organization, as well as assisting them in doing their own jobs well. It also helps build strong personal relationships.

### **Question 6**

*What are the guidelines for “Active Listening”?*

### **Answer**

Guidelines for Active Listening

- ◆ Look at the person and suspend other things you are doing in order to understand the other person's concerns, intentions.
- ◆ Be interested in what the other person is saying. If you just can't make yourself interested, you will lose important information, so try taking notes. Doing so will keep your body and mind active.
- ◆ Listen to the tone of voice and inflection; look at gestures and body language – these may carry an unspoken message.
- ◆ Restate what the person said. Restating their meaning is a way for you to make sure you understand the person clearly.
- ◆ Ask questions once in a while to clarify the meaning. Doing so will keep you alert and let the other person know that you have been listening and are interested in getting all the facts and ramifications.
- ◆ Be aware of your own feelings and opinions.

### **Question 7**

*What is meant by 'Critical thinking'? How shall you develop critical thinking?*

OR

*Discuss the qualities of a critical thinker.*

OR

*What is meant by 'Critical thinking'? Suggest the measures to develop critical thinking*

### **Answer**

**Critical Thinking:** Critical thinking is the discipline of rigorously and skillfully using information, experience, observation and reasoning to guide one's decisions, actions and beliefs. Critical

thinking refers to the act of question of every step of the thinking process e.g. (i) Have you considered all the facts? Have you tested your assumptions? Is your reasoning sound? Can you be sure your judgment is unbiased? Is your thinking process logical, rational and complete?

**Developing Critical thinking:** To develop as a critical thinker, one must be motivated to develop the following attributes:

1. **Open-minded:** Readiness to accept and explore alternative approaches and ideas.
2. **Well informed:** Knowledge of the facts and what is happening on all fronts.
3. **Experimental:** Thinking through 'what if' scenarios to create probable options and then test the theories to determine what will work and what will not be acceptable.
4. **Contextual:** Keeping in mind the appropriate context in the course of analyses.
5. **Reserved in making conclusion:** Knowledge of when, a conclusion is a 'fact' and when it is not only true conclusions support decisions.

#### Question 8

*Why is 'critical thinking' important part of success and wisdom? What steps are required to make it effective in a business organisation?*

#### Answer

Critical thinking is the discipline of rigorously and skillfully using information, experience, observation and reasoning to guide our decisions, actions and beliefs. By developing the skills of critical thinking and bringing rigour and discipline to the thinking processes, a person stands at a better chance of being "right" and likely to make good judgments, choices and decisions in all areas of the life. This kind of questioning is called Socratic questions based upon logic, originated by Greek Philosopher Socrates, founder of Critical Thinking. Thus, this forms an important part of "success" and "wisdom".

Steps required to make it effective: To do critical thinking effectively, following skills need to be developed:-

1. **Analyze Cause and Effect:** One must be able to separate the motive or reason for an action or event (the cause) from the result or outcome (the effect).
2. **Classify and Sequence:** One must be able to group items or sort them according to similar characteristics.
3. **Compare and Contrast:** One must be able to determine how things are similar and how they are different.
4. **Infer:** One must be skilled in reasoning and extending logic to come up with plausible options or outcomes.
5. **Evaluate:** One must be able to determine sound criteria for making choices and decisions.



6. **Observe:** One must be skilled in attending to the details of what actually happened.
7. **Predict:** One must be able to find and analyze trends, and extend these to make sensible predictions about the future.
8. **Rationalize:** One must be able to apply the laws of reason (induction, deduction, analogy) to judge an argument and determine its merits.
9. **Prioritize:** One must be able to determine the importance of an event or situation and put it in the correct perspective.
10. **Summarize:** One must be able to distill a brief report of what happened or what has been learnt.
11. **Synthesize:** One must be able to identify new possible outcome by using pieces of information that is already known.

#### **Question 9**

*What is meant by 'Emotional Intelligence' and 'Emotional Quotient'? State social competencies associated with Emotional Intelligence.*

OR

*Discuss personal competencies that are associated with Emotional Intelligence.*

OR

*What is meant by 'Emotional Intelligence'? Explain the 'Self-Awareness and Self-Management Personal Competencies' associated with emotional intelligence.*

#### **Answer**

**Emotional Intelligence:** Emotional intelligence refers to the capacity to recognizing your own feelings and those of others, for motivating yourself, and for managing emotions well in yourself and in your relationships.

**Emotional quotient (EQ)** inventory is designed to measure a nature of constructs related to emotional intelligence. EQ is the ability to make and deeper connections at three levels: with ourselves (personal mastery), with another person (one-to-one) and within groups/teams.

Our EQ or emotional intelligence is the capacity for effectively recognizing and managing our own emotions and those of others.

Social competencies associated with emotional intelligence are as follows:

#### **Social Awareness:**

1. Empathy: Sensing others emotions, understanding their perspective and taking active interest in their concerns.
2. Organizational awareness: Leading the currents decision, networks and politics at the organizational level.

3. Service: Recognizing and meeting follower, client or customer needs.

**Relationship Management:**

1. Inspirational leadership: Guiding and motivating with a compelling vision.
2. Influence: wielding a range of tactics for persuasions
3. Developing others: Bolstering others' abilities through coaching, feedback and guidance.
4. Change catalyst: Initiating, managing, and leading in a new direction
5. Conflict management: resolving disagreements
6. Building bonds: Cultivating and maintaining a web of relationships
7. Teamwork and collaboration: Cooperation and team building

**Question 10**

*Explain the principles of "Interpersonal Communication" with reference to:*

- (i) *Situational Context*
- (ii) *Cultural Context*

**Answer**

- (i) **Situational context** deals with the "psycho-social-where" one is communicating. For example, an interaction that takes place in a classroom will be very much different from one that takes place in a Board room.
- (ii) **Cultural context** includes all the learned behaviours and rules that affect the interaction. If you come from a culture (foreign or within your own country) where it is considered rude to make long, direct eye contact, you will out of politeness avoid eye contact. If the other person comes from a culture where long, direct eye contact signals trustworthiness, then we have in the cultural context a basis for misunderstanding.

## CHAPTER-15: GROUP DYNAMICS

### Question 1

*What are features of 'groups' in an organization?*

#### Answer

Following are the salient characteristics of groups in an organization:

- (a) **Group Goal:** Every group establishes its own group goals that provide motivation for their existence.
- (b) **Group Structure:** It is based on the roles to be performed.
- (c) **Group Patterns of Communication:** It is the pattern of message flow in a group.
- (d) **Group Climate:** It is the emotional environment of a group based on:
  - (i) Bonding and trust among members
  - (ii) Participative spirit
  - (iii) Openness and
  - (iv) High performance goals

### Question 2

*What do you understand by Group Dynamics?*

#### Answer

Groups are the basic building blocks of organizations. It is now very common for groups of employers to make decisions to solve difficult problems that were once the domain of authoritarian incentives. Given below are the characteristics of group personality:

1. spirit of conformity
2. respect for group values
3. resistance to change
4. group prejudice
5. collective power

### Question 3

*Describe types of groups in organization.*

OR

*State the types of groups in an organisation which play an important role in solving the difficult problems in an organisation.*

OR

*"In business organisations various types of groups are formed." In this context discuss various types of groups.*

**Answer**

**Types of Groups in Organization:**

To run the business activities smoothly and effectively business organisations form various types of groups, some of them are as follows :-

1. **Self-directed teams** – autonomous and self-regulated groups of employees empowered to make decisions.
2. **Quality Circles** –a small group of workers from the same area who voluntarily perform quality control activities within their work area. It discusses quality problems, investigate causes, recommend solutions and take corrective actions.
3. **Committees** – are of various types (a) Standing Committee which are permanent in nature and highly empowered. (b) An advisory Committee comprises of experts in particular fields (c) An adhoc committee is setup for a particular purpose and after the goal is achieved, it is dissolved.
4. **Task Force** – Task force is like Committee but it is usually temporary. Task force has wide power to take action and properly fix responsibility for investigation, results and proper implementation of decisions.

**Question 4**

*What do you understand by 'Group conflicts'? How shall these be managed effectively? Explain.*

**Answer**

**Group conflict:** Group conflict is an 'express struggle' between two inter-dependent parties who perceive incompatible goals, scarce resources and interference from the other party in achieving their goals. There are two aspects in relation to conflict

1. **Expression:** The two sides must communicate/express about the problem for there to be conflict.
2. **Perception:** Conflict evolves perceptions in the two sides may only perceive that their goals, resources, and interference are incompatible with each other's.

**Managing conflicts:** The climate in which conflict is managed is important. It is essential to plan communications to foster a supportive climate, marked by emphasis on

- (i) Presenting ideas or options

- (ii) Problem orientation- focusing attention the task
- (iii) Spontaneity - Communicating openly and honestly
- (iv) Empathy - understanding another person's thoughts.
- (v) Equality- asking for opinion s
- (vi) Willing to listen to the ideas of others.

Successfully managed conflicts can be constructive and can strengthen relationships in an organisation.

### Question 5

*Explain Consensus Building.*

OR

*What do you mean by consensus building in a group? Briefly explain the efforts taken by mediators and facilitators in the consensus building process.*

### Answer

**Consensus Building:** Consensus means overwhelming agreement. Most consensus building efforts set out to achieve unanimity. The key indicator of whether or not a consensus has been reached is that everyone agrees with the final proposal and it is important that consensus be the product of a good-faith effort to meet the interests of all stakeholders. Thus, consensus requires that someone frame a proposal after listening carefully to everyone's interests. Before the parties in a consensus building process come together, mediators (or facilitators) can play an important part in helping to identify the right participants, assist them in setting an agenda and clarifying the ground rules by which they will operate, and persuading noncompliant parties to participate.

The following efforts are taken by mediators and facilitators for creating consensus building in the group-

- **Problem solving orientation:** It is important to be constructive and maintain a problem-solving orientation, even in the face of strong differences and personal antagonism.
- **Engage in active listening:** Participants in every consensus building process should be encouraged (indeed instructed, if necessary) to engage in what is known as active listening.
- **Disagree without being disagreeable:** Participants in every consensus building process should be instructed to “disagree without being disagreeable”.
- **Strive for the greatest degree of transparency possible:** To greatest extent possible, consensus building process should be transparent. That is the groups or mandate, its

agenda and ground rules, the list of the participants and the groups or interest they are representing, the proposals they are considering, the decision rule they have adopted, their finances, and their final report should, at an appropriate time, be open to scrutiny by anyone affected by the group's recommendations.

- **Strive to invent options for mutual gain:** The goal of a consensus building process ought to be to create as much value as possible and to ensure that whatever value is created by dividend in ways that take account of all relevant consideration. The key to creating value is to invent options for mutual gain.

#### **Question 6**

*"Once the process of consensus building has begun, mediators try to assist the parties in their efforts to generate a creative resolution of differences". Examine this statement and also state in brief the process which should be followed by mediators to resolve the differences between the parties.*

#### **Answer**

**Process which should be followed by mediators to resolve the differences between the parties-** Efforts which help to generate a creative resolution are:

- (i) Problem – solving orientation – it is important to be constructive and maintain a problem solving orientation, even in the face of strong differences and personal antagonism. It is in every participant's best interest to behave in a fashion, they would like others to follow. Concerns or disagreement should be expressed in an unconditionally constructive manner.
- (ii) Engage in active listening – Participants in every consensus building process should be encouraged (indeed, instructed, if necessary) to engage in what is known as active listening.
- (iii) Disagree without being disagreeable – Participants in every consensus building process should be instructed to 'disagree without being disagreeable'.
- (iv) Strive for the greatest degree of transparency possible – To the greatest extent possible, consensus building process should be transparent. That is, the group's mandate, its agenda and ground rules, the list of participants and the groups or interests they are representing, the proposals they are considering, the decision rules they have adopted, their finances and their final report should, at an appropriate time, be open to scrutiny by anyone affected by the group's recommendations.
- (v) Strive to invent options for mutual gain – The goals of a consensus building process ought to be to create as much value as possible and to ensure that whatever value is created be divided in ways that take account of all relevant considerations. The key to creating value is to invent options for mutual gain.

### Question 7

*What is meant by "Negotiation"? Name the various steps which can be identified in the process of negotiation from start to the completion of the process.*

### Answer

When two or more persons meet together and talk/ discuss on any business or non business matter, it is known as negotiation. When same persons discuss specific proposals in order to come to a mutually accepted solutions; whether it is with an employer, family member or business partner. It can be said that negotiation is a common way of settling things in business.

Steps in the negotiation process

1. Preparing
2. Arguing
3. Signaling
4. Packaging
5. Bargaining
6. Closing and arguing

### Question 8

*Explain the concept of "Negotiation". What are its techniques?*

### Answer

**Negotiation:** Negotiation occurs when two or more parties either individuals or groups discuss specific proposals in order to find a mutually acceptable agreement. Whether it is with an employer, family member or business associate, we all negotiate for things each day like higher salary, better service or solving a dispute with a co worker or family member Negotiation is a common way of settling conflicts in business. When handled skillfully, negotiation can improve the position of one or even both but when poorly handled; it can leave a problem still unsolved and perhaps worse than before.

### Techniques for Negotiation:

- (a) Spiraling agreements: Begin by reaching a minimums agreement even though it is not related to the objectives and build, hit by hit, on this first agreement.
- (b) Changing of position: Formulate the proposals in a different way, without changing the final result.
- (c) Gathering information: Ask for information from the other party to clarify their position

- (d) Making the cake bigger: Offer alternatives that may be agreeable to the other party, without changing the terms.
- (e) Commitments: Formalize agreements orally and in writing before ending the negotiation.

#### **Question 9**

*List out the characteristics of group personality under Group Dynamics.*

#### **Answer**

Characteristics of Group Personality: Following are the characteristics of group personality:

- (a) **Spirit of Conformity:** Individual members soon come to realize that in order to gain recognition, admiration and respect from others they have to achieve a spirit of conformity. Our beliefs, opinions, and actions are influenced more by group opinion than by an individual's opinion, even if it is an expert's opinion.
- (b) **Respect for group values:** Any working group is likely to maintain certain values and ideals which make it different from others. In order to deal effectively with a group we must understand its values which will guide us in foreseeing its programmes and actions.
- (c) **Resistance to change:** It has been observed that a group generally does not take kindly to social changes. On the other hand the group may bring about its own changes, whether by dictation of its leader or by consensus. The degree to which a group resists change serves as an important index of its personality. It helps us in dealing with it efficiently.
- (d) **Group prejudice:** Just as hardly any individual is free from prejudice, groups have their own clearly evident prejudices. It is a different matter that the individual members may not admit their prejudiced attitude to other's race, religion, nationality etc. But the fact is that the individual's prejudices get further intensified while coming in contact with other members of the group holding similar prejudices.
- (e) **Collective power:** It need not be said that groups are always more powerful than individuals, how so ever influential the individual may be. That is why individuals may find it difficult to speak out their minds in groups. There is always the risk of the one-against-many situation cropping up.

#### **Question 10**

*Negotiation is said to be an art of finding a mutually acceptable agreement between parties. What are the various approaches through which the process of negotiation can be made acceptable?*



## **Answer**

**Negotiation:** Negotiation is a common way of settling issues between two or more disagreeing parties. When handled skillfully, negotiation can improve the position of one or even both but when poorly handled; it can leave a problem still unsolved and perhaps worse than before.

**Approaches:** Negotiation can be approached in four ways. Each of these approaches produces a different outcome.

**Win-Lose Orientation:** This is the approach taken by competitive communicators. The win-lose orientation is based on the assumption that only one side can reach its goals and that any victory by that party will be matched by the other's loss. Despite the fact that it produces losers as well as winners, a win-lose orientation can sometimes be the best approach to negotiating. For example, in a one-time commercial transaction (the sale of a car, for instance), concern for helping the other party may take a back seat in getting the best possible deal, without violation of ethical values.

**Lose-Lose Orientation:** With a lose-lose orientation, a conflict plays out in a way that damages both parties to such a degree that everyone feels like a loser. Nobody starts out seeking a lose-lose outcome, of course, but sometimes when people feel that a negotiating partner is blocking them, they wind up seeking revenge. For example, if customers feel cheated, they are likely to tell others about their dissatisfaction, costing the company future business.

**Compromise:** Sometimes it seems better to compromise than to fight battles in a competitive manner and risk a lose-lose outcome. There are cases in which compromise is the best obtainable outcome-usually when disputed resources are limited or scarce. For example, if two managers, both of whom need a separate full-time secretary but budget restrictions make this impossible, they may have to compromise by sharing one secretary.

**Win-Win Orientation:** A win-win approach differs significantly from the preceding negotiating styles. It is a collaborative approach to negotiation and assumes that solutions can be reached that satisfy the needs of all the parties. Most importantly, it looks beyond the conflicting means of both parties (my way versus your way) and focuses on satisfying the ends each is seeking. The key is to avoid taking polar positions (arguing over means) and instead to identify the ends or goals of both parties.

## **Question 11**

*"Consensus means overwhelming agreement, but in reaching the consensus one has to go through a process of orientation." Discuss and explain the process for building consensus.*

## **Answer**

**Consensus Building:** Consensus means overwhelming agreement. Most consensus building efforts set out to achieve unanimity. The process of consensus building involves the following:

- ◆ *Problem-Solving Orientation*- It is important to be constructive and maintain a problem-solving orientation, even in the face of strong differences and personal antagonism. It is in every participant's best interest to behave in a fashion they would like others to follow. Concerns or disagreement should be expressed in an unconditionally constructive manner.
- ◆ *Engage in Active Listening*-Participants in every consensus building process should be encouraged (indeed, instructed, if necessary) to engage in what is known as active listening a procedure for checking to be sure that communications are being heard as intended.
- ◆ *Disagree Without Being Disagreeable*-Participants in every consensus building process should be instructed to "disagree without being disagreeable."
- ◆ *Strive for the Greatest Degree of Transparency Possible*-To the greatest extent possible, consensus building processes should be transparent. That is, the group's mandate, its agenda and ground rules, the list of participants and the groups or interests they are representing, the proposals they are considering, the decision rules they have adopted, their finances, and their final report should, at an appropriate time, be open to scrutiny by anyone affected by the group's recommendations.
- ◆ *Strive to Invent Options for Mutual Gain*-The goal of a consensus building process ought to be to create as much value as possible and to ensure that whatever value is created be divided in ways that take account of all relevant considerations. The key to creating value is to invent options for mutual gain.

## CHAPTER-16: COMMUNICATION ETHICS

### Question 1

*What do you understand by “ethical communication”? What are its elements.*

### Answer

According to the National communication Association, ethical communication is fundamental to responsible thinking, decision making and the development of relationship and communities within and across contexts, cultures, channels and media. Ethical communication enhances human worth and dignity by fostering, truthfulness, fairness, responsibility, personal integrity and respect for self and others'. While unethical communication threatens the quality of all communication and consequently the well-being of individuals and the society in which we live. In nutshell ethical communicators have a 'well developed sense of social responsibility'.

An ethical communication is one which:

- includes all relevant information
- is true in every sense and is not deceptive in any way.
- is accurate and sincere. Avoids language that manipulates, discriminates or exaggerates.
- does not hide negative information behind an optimistic attitude.
- does not state opinions as facts.
- portrays graphic data fairly.

### Question 2

*Write Short Notes On:*

- (a) *Advantages of Ethical Communication*
- (b) *Organization Values*
- (c) *Euphemisms*

### Answer

- (a) **Advantages of Ethical Communication:** Ethical communication promotes long-term business success and profit. However, improving profits isn't reason enough to be ethical. As soon as the cost of being ethical outweighed the benefits, ethical choices would no longer be possible. One advantage of ethics is long-term integrity. Surveys report that all employees want to work for organizations with high ethical standards. Competent people are likely to search for organizations that maintain high ethical standards. When competent

people migrate toward ethical firms, everyone benefits because both competence and ethics are perpetuated.

- (b) **Organization Values:** Values are the principles and ideas that people or organizations strongly believe in and consider important. When people are in doubt about decisions, they frequently rely on deep-seated values to help them make the right choice. In organizations, reliance on shared values makes setting goals easier in the face of the competing ideas, desires, and objectives of individual employees.

One can get a good idea about the values of an organization by examining its vision and mission statement. These statements are short descriptions of the purpose of organizations and the directions they try to take to achieve success. Many organizations post their vision and mission statements in several places so that employees know what the organization values are.

- (c) **Euphemisms:** By definition, a euphemism is using a less offensive expression instead of one that might cause distress. For example using the expression "passed away" instead "died" is one of the more common examples. This usage is understandable. However, people frequently use these terms to obscure the truth. For example a purchasing agent has a far easier time accepting a "consideration fee" than a "bribe." Petty office theft gets passed off as merely "permanently borrowing" the item instead of "stealing."

### Question 3

*Suggest guidelines to handle communication ethics dilemmas.*

### Answer

#### **Guidelines to handle communication ethics dilemmas:**

- (a) Maintain candour: Candour refers to truthfulness, honesty, frankness and one should stick to these elements while communicating with others.
- (b) Keep message accurate: At the time of relaying information from one source to another, communicate the original message as accurately as possible.
- (c) Secrecy: One has to maintain secrecy and confidence in communication. So one should not divulge such information to others
- (d) Ensure timeliness of communication: The timing of messages can be critical. Delay in sending messages can be assumed unethical.
- (e) Avoid deception: Ethical communicators are always vigilant in their quest to avoid deception, fabrication, intentional distortion or withholding of information in their communication.
- (f) Confront unethical behaviour: One must confront an unethical behaviour in order to ensure a consistent ethical view point.

#### **Question 4**

*State with reasons whether following statements are correct or incorrect.*

- (i) *Rumours and gossips are synonymous.*
- (ii) *Lying breaks down the trust between individuals.*

#### **Answer**

- (i) The given statement "Rumour and gossip are synonymous" is INCORRECT.

Rumours and gossip seem to be an inevitable part of everyday corporate life. Even though rumours and gossip often travel through the same network, there is a distinction between the terms. Rumours tend to focus on events and information, whereas gossip focuses on people. Even though managers usually treat the information as "yet to be confirmed", it may cloud judgments about the employee. The information has a way of creeping into performance evaluations and promotion decisions, even if unintended.

- (ii) The given statement "Lying breaks down the trust between individuals" is CORRECT.

A lie is a false statement intended to deceive. Of all the ethical dilemmas, lying would appear to be the least morally perplexing. Most would agree that "one ought not to lie". Yet lies in business are more common than many would care to admit. Lying breaks down the trust between individuals, shaking the foundation of ethical communication.

#### **Question 5**

*What are the factors influencing ethical communication? Explain them.*

#### **Answer**

**Factors influencing ethical communication: Following are the factors that influence ethical communication:**

**1. Every Communication Decision has some Ethical Aspect to it, Acknowledged or Not:**

There are countless complexities involved in the communication process, but communicators initially face three simple choices: to speak, to listen, or to remain silent. Each choice implies an ethical decision.

In a message the sender chooses to disclose information, motives, or feelings to others. That choice inevitably involves an ethical element. Clearly, some messages should not be sent, such as those involving "insider information." To do so give certain people an unfair advantage in the marketplace. But should one share a rumour about an organizational change with a colleague? Such actions are common and appear to be less objectionable than insider trading.

The timing and mode of communication add another layer of complexity to the ethical dimension.

Remaining silent might seem like the safest way to avoid ethical dilemmas. But even here there is no safe heaven. Remaining silent in the face of unlawful behavior or a potentially harmful situation presents a serious ethical decision. Silence signals consent or perhaps tacit agreement.

**2. The Ethical Nature of Communication must be Considered within the Context of Who, What, When, and Where:**

Suppose fellow employees discussed a project they were working on. This may seem perfectly ethical on the surface. After all, such discussions actually foster effective interdepartmental relationships; a worthy goal indeed. The problem may be that the discussion took place in a crowded restaurant and a competitor overheard the conversation. When the employees are confronted, they may reply, "What did we say that was wrong? We were not talking to a competitor." But this is, of course, the wrong question. The issue does not concern what was said or even who they were talking to. The ethical issue revolves around where the conversation took place. Herein lies the complexity of ethical issues - evaluations must be made on more than one dimension. Ethical communicators are not concerned with just who or what or where or when, but with all four dimensions simultaneously.

**Question 6**

*Discuss any four NCA's credo for ethical communication.*

**Answer**

**NCA's credo for ethical communication:** The National Communication Association (NCA) states: "ethical communication enhances human worth and dignity by fostering truthfulness, fairness, responsibility, personal integrity, and respect for self and other: Following are the credo for ethical communication:

- (i) Truthfulness, accuracy, honesty, and reason are essential to the integrity of communication.
- (ii) Endorse freedom of expression, diversity of perspective, and tolerance of dissent to achieve the informed and responsible decision making fundamental to a civil society.
- (iii) Strive to understand and respect other communicators before evaluating and responding to their messages.
- (iv) Access to communication resources and opportunities are necessary to fulfill human potential and contribute to the well being of families, communities, and society.
- (v) Promote communication climates of caring and mutual understanding that respect the unique needs and characteristics of individual communicators.

- (vi) Condemn communication that degrades individuals and humanity through distortion, intolerance, intimidation, coercion, hatred, and violence.
- (vii) Commit to the courageous expression of personal convictions in pursuit of fairness and justice.
- (viii) Advocate sharing information, opinions, and feelings when facing significant choices while also respecting privacy and confidentiality.
- (ix) Unethical communication threatens the quality of all communication and consequently the well being of individuals and the society in which we live.
- (x) Accept responsibility for the short- and long-term consequences for our own communication and expect the same of others.

### Question 7

*Discuss in brief any four ethical dilemmas faced while making communication.*

### Answer

Some of the ethical dilemmas faced while communicating are:

- **Secrecy:** Secrets are kept for both honourable and dishonourable reasons; may be used to guard intimacy or to invade it. Here then lies the challenge for the manager: to determine when secrets are justifiable and when they are not. When the clamp of secrecy tightens too much, the result is lack of innovation.

On the other hand, organizations have a legitimate need to protect certain information. If competitors, for example, gain access to proprietary research and development, they can produce that product for a much lower net cost because they do not have to pay the research and development expenses.

- **Whistle-blowing:** Any employee who goes public with information about corporate abuses or negligence is known as a whistle-blower. Corporations and managers legitimately expect employee loyalty. Greed, jealousy, and revenge motivate some whistle-blowers. Some are simply misinformed. Some confuse public interest with private interest. Certainly, the community has a right to know about corporate practices that are potentially hazardous, yet courting the whistle-blower too aggressively can be problematic.
- **Leaks:** A leak is like anonymous whistle-blowing; one distinction being the propriety of the leak; namely, that the person who leaks information cannot be cross-examined. This often casts doubt on the credibility of the claim. The accused does not know who or why a person has chosen to release certain information. Employees may leak information to the press for honourable or dishonourable reasons. Leaks may cause organizational plans to be altered or forgone altogether. Leaks can be a form of political manoeuvring in the organization or a way to sabotage the career of a colleague competing for a job.
- **Rumour and gossip:** Rumours and gossip seem to be an inevitable part of everyday corporate life. Even though rumours and gossip often travel through the same networks,

there is a distinction between the terms. Rumours tend to focus on events and information, whereas gossip focuses on people. Even though managers usually treat the information as "yet to be confirmed," it may cloud judgments about that employee. The information has a way of creeping into performance evaluations and promotion decisions, even if unintended.

- **Lying:** A lie is a false statement intended to deceive. Of all the ethical dilemmas discussed thus far, lying would appear to be the least morally perplexing. Most would agree that "one ought not to lie." Yet lies in business are more common than many would care to admit. Lying breaks down the trust between individuals, shaking the foundation of ethical communication.
- **Euphemisms:** By definition, a euphemism is using a less offensive expression instead of one that might cause distress. For example, using the expression "passed away" instead "died" is one of the more common examples. This usage is understandable. However, people frequently use these terms to obscure the truth. For example, a purchasing agent has a far easier time accepting a "consideration fee" than a "bribe." Petty office theft gets passed off as merely "permanently borrowing" the item instead of "stealing."
- **Ambiguity:** Ambiguity, like secrecy, can be used for ethical or unethical purposes. Language itself is made up of various words that carry values. So, by using words in certain ways, one can influence others behaviour and expectations. Communicators are to some extent held responsible for possible misinterpretations. This means that one must be aware of the probabilistic nature of communication, and need to consider not only their intentions, but also how their messages might be misunderstood.



## CHAPTER-17: COMMUNICATION CORPORATE CULTURE, CHANGE AND INNOVATIVE SPIRITS

### Question 1

*Write short notes on:*

- (a) *Corporate Culture*
- (b) *Elements of Culture*
- (c) *Resistance to change*

### Answer

- (a) **Corporate Culture:** Corporate Culture is described as the personality of an organization, or simply as “how things are done around here.” It guides how employees think, act, and feel. Corporate culture is a broad term used to define the unique personality or character of an organization, and includes such elements as core values and beliefs, corporate ethics, and rules of behavioral norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization.

Organizational values are beliefs and ideas about what kinds of goals members of an organization should pursue and ideas about the appropriate principles of behaviour, organizational members should use to achieve these goals. From organizational values develop organizational norms, guidelines or expectations that prescribe appropriate kinds of behaviour by employees in particular towards one another.

- (b) **Elements of Culture:** A number of elements that can be used to describe or influence Organizational Culture:
- ◆ **The Paradigm:** What the organization is about; what it does; its mission and values.
  - ◆ **Control Systems:** The processes in place to monitor what is going on.
  - ◆ **Organizational Structures:** Reporting lines, hierarchies, and the way that work flows through the business.
  - ◆ **Power Structures:** Who makes the decisions and how power is distributed across the organization.
  - ◆ **Symbols:** These include the logos and designs, but would extend to symbols of power, such as car parking spaces and executive washrooms.
  - ◆ **Rituals and Routines:** Management meetings, board reports and so on may become more habitual than necessary.

- ◆ **Stories and Myths:** build up about people and events, and convey a message about what is valued within the organization.
- (c) **Resistance to change:** No matter whether a change is of major proportions or is objectively rather small, the change manager must anticipate that people in the organization are going to find reasons to resist changes. It is a basic tenet of human behaviour that any belief or value that has been previously successful in meeting needs will resist change.

### Question 2

*Explain those elements which can be used to influence an “Organizational Culture”.*

OR

*Explain the elements that can be used to influence an organisational culture.*

### Answer

A number of elements that can be used to describe or influence Organizational Culture and they are :-

- ◆ The Paradigm: What the organization is about; what it does; its mission; its values.
- ◆ Control Systems: The processes in place to monitor what is going on
- ◆ Organizational Structures: Reporting lines, hierarchies, and the way that work flows through the business.
- ◆ Power Structures: Who makes the decisions and how power is distributed across the organization.
- ◆ Symbols: These include the logos and designs, but would extend to symbols of power, such as car parking spaces and executive washrooms.
- ◆ Rituals and Routines: Management meetings, board reports and so on may become more habitual than necessary.
- ◆ Stories and Myths: build up about people and events, and convey a message about what is valued within the organization.

Communicating the corporate culture effectively is paramount. For example, at General Electric (GE), corporate values are so important to the company that Jack Welch, the former legendary CEO of the company, had them inscribed and distributed to all GE employees at every level of the Company.

### Question 3

*State the reasons for acceptance of change in an organization.*

Or

*State the reasons for accepting the change in the present management set-up of the corporate culture in a business organisation.*

**Answer**

Generally, people resist change in an organization. Even after there are some people who accept or welcome change due to the following reasons:

1. **Personal Gain:** People will be more likely to accept change when they see the possibility that they will gain in some of the following areas:-
  - Increased security
  - Money
  - More authority
  - Status/Prestige
  - Better Working Conditions
  - Self-Satisfaction
  - Better Personal Contracts
  - Less time and efforts
2. **Other factors:**
  - Provide a new challenge
  - Respects/like the source
  - Likes the way change is being communicated
  - Reduces boredom
  - Provides opportunity for input
  - Improve future
  - Perception, that the change is necessary.

**Question 4**

*What qualities should a sustainable innovation organization possess?*

**Answer**

A sustainable innovation organisation should have:

- (a) Vision and strategy for innovation
- (b) Culture supporting innovation
- (c) Processes, practices and systems supporting innovation
- (d) Top management team leading to innovation.

- (e) Effective cross-financial teams.
- (f) Empowered employees driving innovation.
- (g) Finding the right balance between bureaucracy and chaos.

#### **Question 5**

*Explain the key elements involved in the innovation framework of an organisation.*

#### **Answer**

The **key elements in the innovation framework** are:

- (i) **Accessibility:** The major organizational challenge is to make everyone, particularly the workers as active participants in the work process. The innovative enterprise ensures everyone is accessible to each other at all levels within the organization.
- (ii) **Recognize and reward innovation:** One of the more radical steps an organization or manager can take is to make innovation a requirement of the job.
- (iii) **Develop company programs that encourage innovation:** Some companies allow their employees to take sabbaticals to work in a new environment or teach in a college. By placing employees in different environments, they can meet new people, come across new ideas and hopefully generate their own novel approaches.
- (iv) **Foster informal communication:** The paperwork involved in proposing or even pursuing a project can be a major roadblock to innovation. Employees often feel stifled when asked to fully justify ideas; they may be working on a hunch.
- (v) **Information:** The right kind of information is called innoinformation. This type of information is critical to the vitality of the enterprises. Innoinformation consists of the plans, vision, goals and all the new ideas affecting the enterprises. The innovative enterprise is looking forward continuously changing and adapting to the needs of the customer.
- (vi) **Framework:** The innovative enterprise must constantly adapt, create and innovate. Information and communication are the wind that sails the innovative enterprise towards its destination. Information and communication pose difficult challenges for most businesses. The difficulty lies in balancing the flow of information between providing too much or too little information.

#### **Question 6**

*State the reasons for 'resistance to change' in an organization.*

OR

*Piyush Company Ltd. proposed to launch new technologies in its Annual General Meeting to accomplish from coming financial year so that their profit rate may be increased. But the strong*

*resistance was there against the change. State the reasons why people afraid of changes in the system.*

**Answer**

**Resistance to Change:** No matter whether a change is of major proportions or is objectively rather small, the change manager must anticipate that people in the organization are going to find reasons to resist changes. It is a basic tenet of human behavior that any belief or value that has been previously successful in meeting needs will resist change.

Reasons why people resent or resist change:

1. One major reason why people resist change is the potential for loss on a personal level. Objectively, there may be little threat, but people may act as if there is one. Some of the things people feel are at risk during change processes are:
  - Security
  - Friends and contacts
  - Money
  - Freedom
  - Pride and satisfaction
  - Responsibility
  - Authority
  - Good working conditions
  - Status
2. While a feeling of threat is a primary reason why people resist change, there are other factors that can mobilize people into resisting any change from a status quo. These include:
  - Change not needed – status quo is working fine
  - Proposed change does more harm than good
  - Lack of respect for person responsible for the change
  - Objectionable way of implementing the change
  - Negative attitude towards the organization before change
  - No opportunity to have input into change
  - Change perceived as implying personal criticism
  - Change simply adds more work and confusion
  - Change requires more effort to keep status quo

- Bad timing of the change
  - A desire to challenge authority
  - Hearing about the change secondhand
3. The uncertainty principle: This states that when people are faced with ambiguous or uncertain situations, where they feel they do not know what to expect, they will resist moving into those situations.

### Question 7

*What do you mean by consensus building in a group? Briefly explain the efforts taken by mediators and facilitators in the consensus building process.*

### Answer

The Term “consensus” means ‘Collective opinion’. Consensus building means a process of seeking collective opinion of group members on an issue or problem in order to reach a commonly acceptable idea or solution to a problem. Thus, consensus agreement is not necessarily a unanimous agreement. In the process of consensus, the strength of different members is pooled and brought to choose the best possible decisions from among its alternatives. Consensus means overwhelming agreement. Most consensus building efforts set out to achieve unanimity. The key indicator of whether or not a consensus has been reached is that everyone agrees with the final proposal and it is important that consensus be the product of a good-faith effort to meet the interests of all stakeholders. The following efforts are taken by mediators and facilitators for creating consensus building in the group-

- **Problem solving orientation:** It is important to be constructive and maintain a problem-solving orientation, even in the face of strong differences and personal antagonism.
- **Engage in active listening:** Participants in every consensus building process should be encouraged (indeed instructed, if necessary) to engage in what is known as active listening.
- **Disagree without being disagreeable:** Participants in every consensus building process should be instructed to “disagree without being disagreeable”.
- **Strive for the greatest degree of transparency possible:** To greatest extent possible, consensus building process should be transparent. That is the groups or mandate, its agenda and ground rules, the list of the participants and the groups or interest they are representing, the proposals they are considering, the decision rule they have adopted, their finances, and their final report should, at an appropriate time, be open to scrutiny by anyone affected by the group’s recommendations.
- **Strive to invent options for mutual gain:** The goal of a consensus building process ought to be to create as much value as possible and to ensure that whatever value is created by dividend in ways that take account of all relevant consideration. The key to creating value is to invent options for mutual gain.

## CHAPTER-18: COMMUNICATION IN BUSINESS ENVIRONMENT

### Question 1

*Draft a notice for ABC's Annual General Meeting with four ordinary business.*

### Answer

Notice is hereby given that the 15<sup>th</sup> Annual General Meeting of the members of ABC will be held on Monday the 14<sup>th</sup> day of September 2018 at the registered office of the Company ..... at 10 a.m. to present the following business:

### Ordinary Business:

To

1. Receive, consider and adopt the Audited Balance sheet of the company as on 31<sup>st</sup> March, 2018 and the Profit and Loss account for the year ended on that date and Audit's and director's response thereon.
2. To declare dividend for the year ended 31<sup>st</sup> March, 2018
3. To appoint a director in place of Mr.....
4. To appoint Statutory Auditors of the Company.

**NOTE:** A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and proxy need not be a member of the company.

For and on behalf of the Board of Directors.....

Registered Office.....

### Question 2

*Board of Directors of Prakash Traders Private Limited proposes to convene an Extraordinary General Meeting for changing the name of the company to Prakash International Private Limited. Draft the notice for calling the Extraordinary General Meeting of the Members.*

### Answer

### Notice for Extraordinary General Meeting of the Members

Notice is hereby given that extraordinary General Meeting of the members of Prakash Traders Private Limited will be held on Monday, the ..... day of 2018, at the registered office of the company at..... Mumbai at.....P.M. to transact the following business.

### Special Business

To consider and if thought fit, to pass with or without modification the following resolution as special resolution.

“RESOLVED THAT pursuant to the provisions of section 13 and other applicable provisions of the Companies Act, 2013 if any and the rules framed there under, the name of the company be and is changed from Prakash Traders Private Limited to Prakash International Private Limited.

RESOLVED FURTHER THAT Clause I of the Memorandum of Association of the Company be substituted by the following:

‘The Name of the company is \_\_\_\_\_ PRIVATE LIMITED”.

By order of the Board of Directors of Prakash Traders Private Limited.

Secretary.....

Place:.....

Date:.....

### Question 3

*MNP Limited was incorporated in September, 2018. Now the company wants to hold its first meeting of the Board of Directors. Draft a notice of the said meeting along with agenda.*

### Answer

#### Notice of the First Meeting of the Board of Directors

#### MNP Limited

To,

Date

(Director)

Dear Sir/Madam,

This is to inform you that the first meeting of the Board of Directors of MNP Limited will be held at the Registered Office of the company on 15<sup>th</sup> September, 2018 at 3 p.m. to transact the business as per the enclosed agenda.

You are requested to please attend the meeting.

Yours faithfully,

Secretary

For and on behalf of the Board of Directors



Place : .....

Date .....

**Agenda:**

- (i) Election of the Chairman of the Meeting.
- (ii) To take note of the Certificate of Incorporation issued by the Registrar of Companies.
- (iii) Election of the Chairman of the Company.
- (iv) Appointment of Managing Director.
- (v) Appointment of Secretary.
- (vi) Appointment of Auditors.
- (vii) Appointment of Bankers and approval of the opening of a Bank Account and its operation.
- (viii) Approval of the statement of preliminary expenses by the promoters and adoption of the preliminary contracts and underwriting contracts.
- (ix) Any other business with the permission of the chairman.

**Question 4**

*Seventh Annual General Meeting of the shareholders of Devrishi Limited was held on 20 August, 2018 at its registered office at Mumbai. 55 shareholders attended the meeting in person and 6 shareholders in proxy. Several ordinary businesses regarding adoption of audited balance sheet, declaration of dividend, appointment and re-appointment of directors and auditors were transacted at the meeting. Draft the minutes of the fifth Annual General Meeting of the shareholders of Devrishi Limited.*

**Answer**

**Minutes of the 7th Annual General Meeting**

Seventh Annual General Meeting held at

Place: 25th Devrishi Apartment, Andheri East, Mumbai

Date: 20<sup>th</sup> August, 2018

Time: At 11 A. M.

Present

- 1. Shri Devrishi M. D. in the chair
- 2. Shri X Director.
- 3. Shri Y Director.

4. Shri Z Director.
5. Shri T Director.
6. Shri R Director.
7. Shri Alok, representative of Alok and Co. Chartered Accountants.
8. Shri S., Secretary of the company.

55 shareholders attended the meeting in person and 6 shareholders in proxy.

1. **Notice:** The notice convening the meeting was read by the Secretary of the company.
2. **Directors' Report and Accounts:** With the consent of the members present, the Director's Report and Accounts having already been circulated to the members were taken as read.
3. **Auditors' Report:** The Auditors' Report was read
4. **Adoption of Directors' Report, etc.:**

The Chairman then invited queries from the members present on Directors' report, Accounts and Auditors' and auditor's Report, but there was no query. Thereafter, the Chairman proposed the following resolution which was seconded by some of the members namely.....

"Resolved that the Directors' Report, audited Balance Sheet as on 31st March, 2018 and Profit and Loss Account for the year ended 31<sup>st</sup> March, 2018 and Auditors' Report thereon be and the same are hereby received, considered and adopted."

Carried unanimously.

5. **Dividend:**

Proposed by Shri Devrishi M.D

Seconded by Shri X and Y Directors

"Resolved that the Dividend as recommended by the Board of Directors for the year ended 31<sup>st</sup> March, 2018 at the rate of Rs. 5/- per share on the equity share capital of the company, subject to deduction of tax at source be and is hereby declared for payment to those shareholders whose names appeared on the Register of Members as on ..... 2018."

Carried unanimously

6. **Directors:**

Proposed by .....

Seconded by .....

“Resolved that Shri Y who retires by rotation and is eligible for re-appointment to and is hereby re-appointed a director of the company.”

Carried unanimously.

**7. Auditors:**

Proposed by X Director of the Company.

Seconded by A, B Shareholders of the Company.

“Resolved that pursuant to applicable sections of the Companies Act, 2013, and pursuant to the resolution passed by members at the Sixth Annual general meeting appointing M/s Alok and Company Chartered Accountants, as the Statutory Auditors of the company to hold office till the conclusion of the 11<sup>th</sup> Annual General Meeting of the company, the company hereby ratifies and confirms the appointment of M/s Alok and Company Chartered Accountants as the Statutory Auditors of the company for the financial year ending in 31<sup>st</sup> March, 2019 at a remuneration of Rs. 2,50,000/-”

Carried unanimously.

The meeting closed with a vote of thanks to the Chair.

Dated: 2<sup>nd</sup> September, 2018

Sd/-  
Chairman

**Question 5**

*Third Annual General Meeting of ABC Limited was held on 28th September, 2018. Several business was transacted at the meeting including the adoption of annual accounts for the year ended 31st March, 2018. The meeting was attended by 30 members in person and 5 members in proxy. Draft the minutes of the Annual General meeting indicating how shall the adoption of accounts being one of the business transacted at the meeting, be recorded.*

**Answer**

Minutes of 3rd Annual General Meeting of the shareholders of ABC Ltd held at ..... p.m. on 28th September, 2018.

**Present**

1. 30 members in proxy.
2. .... Director
3. ....Chartered Accountant
4. ....Secretary.

Mr. ...., Chairman took the chair, in accordance with articles of the company. The quorum being present, chairman called the meeting to order. The notice convening the meeting was read by the Secretary. The auditors report was read by the Secretary.

### **Adoption of Accounts**

The Chairman then invited queries from the members present on Directors report, accounts and auditor and auditors, report, but there was no query. Thereafter, the Chairmen proposed the following resolution which was recoded by .....

“Resolved that the Directors' Report, Audited balance sheet as on 31st March, 2018 and Profit and Loss account for the year ended 31st March, 2018 and auditors report thereon be the same are hereby received, considered and adopted.

Carried unanimously \_\_\_\_\_

The meeting conducted ended with a vote of thanks to the Chair.

Sd/-

Dated .....2018

Chairman

### **Question 6**

*ABC Ltd. wants to hold its Annual General Meeting on 14<sup>th</sup> December, 2018 to discuss the matters relating to ordinary business. Draft a notice along with notes in brief for calling annual general meeting of its shareholders.*

### **Answer**

Draft of notice for calling annual general meeting:

### **Notice**

Notice is hereby given that the 3<sup>rd</sup> annual general meeting of the ABC Ltd. will be held on Friday, the 14<sup>th</sup> of December, 2018, at the registered office of the company at 123, Tower complex, Aminabad, Lucknow (U.P.) at 11.00 a.m. to transact the following ordinary business:

1. To receive, consider and adopt the audited balance sheet of the company as on 31<sup>st</sup> March 2018 and the profit and loss account for the year ended on the date auditor's and director's reports there on.
2. To declare dividend for the year ending 31<sup>st</sup> March 2018.
3. To appoint a director in place of Mr. A.V. Kamath, Who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a director in place of Mr. J.K. Smith, Who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint statutory auditors of the company and fix their remuneration.

Regd. Office For and on behalf of Board of Directors.

123, Tower complex

Distt. Lucknow  
(U.P.)

Sd/-

Dated: October 15, 2018

Chairman of the meeting

**Notes:**

- The members entitled to attend and vote are entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the company.
- The register of members and the shares transfer books of the company will remain closed from 7<sup>th</sup> day of December 2018 to 14<sup>th</sup> day of December 2018, both days inclusive.
- Members are requested to notify immediately change of address, if any, to the company's registered office. While communicating to the company, please quote folio number.
- Shareholders desirous of answering any information concerning the accounts the accounts and operations of the company are requested to address their questions to the company's head office, so as to reach at least 5 day before the date of the meeting so that information may be made available at the meeting to the best extent possible.

**Question 7**

*Draft a notice for calling the Board of Directors meeting of M/s. MN Limited where Mr. RS is co-opted as an Additional Director and also to consider buy-back of company's equity shares to an extent of 10% of issued share capital.*

OR

*Draft a notice for calling the meeting of the Board of Directors of a company. In this meeting, following transactions have to be proposed:-*

- (i) *Mr. X to be co-opted as an Additional Director*
- (ii) *Decision to be taken to buy-back company's equity shares*

**Answer**

**Notice: Meeting of Board of Directors:**

**Notice**

Notice is hereby given that meeting of the Board of Directors of the company will be held at the registered office on.....at.....a.m./p.m. to transact the following:

**Agenda**

1. Confirmation of the minutes of the previous Board Meeting held on.....to.....
2. Discussion of the progress in business.

3. Co-option of Mr. RS/ X as an Additional Director of the company.
4. Buy back of 10% of the equity shares of the company.
5. Any other matter with the permission of the chair.

Place:.....

By Order of the Board of Directors

Date:.....

### Question 8

*As a Secretary of AB forgings Ltd., draft a notice of a Board of Directors meeting to consider any five items as agenda of the meeting, to be held on November 15, 2018 at the registered office of the Company at Mysore.*

### Answer

#### Notice of a Board Meeting

AB forgings Limited,

Ph. No-

Saiyaji Road

Fax -

Mysore – 32

Ref. No.

October 10, 2008

Dear sir/ Madam

This is to inform you that a meeting of the Board of Director will be held on November 15, 2018 at the registered office of the company, 281 Saiyaji Road, Mysore- 32 at 11. 30 AM to consider the following:

1. To approve the minutes of the last meeting.
2. To consider matters arising out of the minutes.
3. To consider and pass the statement of accounts for payment.
4. To approve transfer of shares.
5. To sanction an interim dividend @ 10% on the equity shares of Rs 10/- each. Rs 8/- per shares paid up.
6. To consider any other matter with the permission of the chair and.
7. To fix the date and time of the next meeting.

To

.....

Yours faithfully

(Ajay Garg)

### Question 9

*Draft a circular for employees insisting on punctuality.*

#### Answer

**Jaipee Electronics Ltd.**

**Civil Lines, Kanpur.**

Circular No:

Date.....

To all employees

Recent surprise checks have revealed that there is considerable late coming and in some cases, even the standard instructions for ensuring punctual attendance are not followed. All employees are requested to strictly adhere to the arrival, departure and lunch timing of the office. Tendency to move around in the corridors and canteen would also be viewed seriously.

Cooperation of all employees is solicited.

Sd/-  
J.P.Dutta  
Manager – H.R

### Question 10

*Write Short notes on:*

- (a) *Guidelines for drafting a Pres Release*
- (b) *The Press Communiqué*
- (c) *The Press Notes*

#### Answer

- (a) **Guidelines for drafting a Press Release:** The term press release in its narrower sense is used for releases covering news. The press release contains worthwhile material which has some news value.

The press release should be written in a journalistic style. It should provide facts or information of interest to the readers and should attempt to cover all aspects of a specific subject. There should not be any loose ends. It should be on a subject which is recent or in news. The release should not be generally lengthy. It should be concise and to the point. It has not much place for subsidiary or background material.

The introduction or lead should be in a summary format as it is a news story.

The releases should have a consistent format. Generally, the name of the organization from where the release emanates is given on the top. The date and place are indicated on

the top right side. The release should have a title and a sub-title also, if necessary. It should have a suitable introductory paragraph. In the case of releases from non-official organization, it is desirable also to mention the designation of the person issuing the release and his telephone number.

- (b) **The Press Communiqué:** The press communiques are issued when some important government decisions or announcements are made such as cabinet appointments, conclusion of the foreign dignitaries' visits, international agreement, etc. The press communicate is formal in character. It carries the name of the ministry or department, the place and date at the bottom left-hand corner of the release. Generally, the press is expected to reproduce the press communicate without any substantial change. No heading or subheading is given on press communiques.
- (c) **The Press Note:** The press notes are less formal in character. They are issued on important matters, e.g. raising or lowering of tariff rates etc. The press note also carries the name of the ministry or department concerned and the place and date at the bottom left-hand corner. Heading or sub-heading are given in the press notes.



## CHAPTER-19: BASIC UNDERSTANDING OF LEGAL DEEDS AND DOCUMENTS

### Question 1

*State the various components which are required to draft a partnership deed.*

### Answer

**Components of the Partnership Deed:** A Partnership Deed is divided into different paragraphs. Each paragraph deals with relevant and related information in simple and intelligible language. If a particular part is not applicable in a particular case that part is omitted from the document. The important components in general are as following:-

- Heading of the document
- Date and place of execution of the document
- Names & description of Parties
- Recitals
- Terms and condition
- Special rules
- Jurisdiction
- Signature of the parties
- Signature of the witnesses

The Deed must be executed on a stamp paper of prescribed value. The copy of the deed must be sent to the Registrar of Partnership Firms along with the prescribed form duly completed for issue of acknowledgement by the Registrar of Firms. All subsequent changes must be notified to the Registrar.

### Question 2

*Draft a 'Power of Attorney' by subscribers of Memorandum of Association of the Company authorising a Chartered Accountant to appear before the Registrar of Companies to do the needful for the purpose of incorporation of the company.*

### Answer

**Before Registrar of Companies:** We the subscribers of the Memorandum and Article of Association of the Proposed Company, hereby authorize to present the memorandum of Article of Association and other connected documents for the registration of the said company before the registrar of companies, Karnataka, Bangalore and to make such corrections/ Alterations/

deletions/Additions as may be required to be done by the Registrar in the documents and also to receive the certificate of incorporation.

**General Power of Attorney:** Know we all men by their present we do hereby appoint and constitute.....son of..... (hereinafter called "chartered Accountant" who has subscribed his signature hereunder in token of identification) presently residing.....to my lawful Chartered Accountant in our name and on our behalf do it any one or all the following acts, deeds, things namely

1. to give all particulars necessary for incorporation of company.
2. to give affidavit to the Registrar of Company for the purpose of incorporation.
3. to do needful acts necessary for incorporation of the company
4. he is authorized to include promissory notes letter of declaration and indemnity for the purpose of incorporation.
5. to receive documents on behalf of the members of the company.
6. to sign forms, documents and papers required for the purpose of incorporation of the company.

Dated .....at this the ..... day of .....

(address)

Specimen signature of the Chartered Accountant above named

Notary Public

### **Question 3**

*Draft a 'Power of Attorney' by an assessee authorizing a professional to appear before the Income Tax Authorities in respect of the pending taxation matter.*

### **Answer**

#### **Power of Attorney to appear before Income Tax Authorities**

I, .....S/o....., R/o.....and partner of the firm M/s.....with registered office at....., do hereby appoint Mr....., S/o....., R/o.....as attorney of the firm above named and authorize him for the purpose hereinafter mentioned :

1. That the said attorney shall appoint an advocate of his choice and hand him over the judgement of the tribunal of Income Tax and instruct him to file the appeal against the order, for the Assessment Year .....

2. That the said attorney shall execute Vakalatnama to the Advocate appointed by him and shall sign all the related papers under the supervision of the advocate.
3. That specimen signature of the said attorney is given below of this deed.
4. The said attorney shall generally do all other lawful acts necessary for the conduct of the said case.

I hereby declare that the acts done by the said attorney in connection with the work given to him shall be deemed to have been done by me and shall be binding on the firm and its partners.

IN WITNESS WHEREOF I have signed this power of attorney in the presence of the following witnesses:

Signature  
(Holder of Power of Attorney)

WITNESSES:

1.....

2.....

#### Question 4

*M/s. Assure Investments, a firm of partners A and B, appoint and authorize Mr. X giving powers to sell and sign transfer deeds for transfer of shares and debentures by executing an instrument of the "Power of Attorney". Draft such instrument of the "Power of Attorney" of the firm.*

#### Answer

Power of Attorney to execute a deed for the transfer of shares & debentures:-

BY THIS POWER OF ATTORNEY, M/s. Assure Investments (full details), the firm hereby appoints Mr. X (full details) as Attorney of the firm, to act in his name and on his behalf and to do or execute all or any of the acts or things relating to transfer of shares and debentures, that is to say:

1. To receive from.....(Full details), the transferee the sum of ₹.....(Rupees..... only) being the price agreed to be paid to the firm by the said transferee for the purchase of (full description of shares and debentures) under an agreement dated.....and to give proper receipt and discharge for the same.
2. To execute a transfer deed of the said shares and debentures

3. To present the said transfer deed for registration before the proper registration authority, to admit the execution thereof, to do all acts, deeds and things which may be necessary for registering the said transfer deed.
4. To execute or to do all acts, things or deeds or assurance for the completion of the transfer of the said shares and debentures.

AND, the firm DO HEREBY AGREE to ratify all acts, things, deeds or proceedings lawfully done by the said Attorney on behalf of the firm and in the name of the firm by virtue of this power of attorney and the same shall be binding on firm in full force or effect.

IN WITNESS WHEREOF the firm have executed this power at .....this.....day of.....20.....

Witness:1 \_\_\_\_\_

2 \_\_\_\_\_

Signature

(Executant)

#### **Question 5**

*Explain lease deed.*

#### **Answer**

A lease is defined under Section 105 of the transfer of enjoyment of immovable property by the lesser to the lessee in consideration of a premium that means a price paid or promised on rent that may be periodical payment of money, share of crops or rendering of services. In order to constitute the valid lease, there must be a transfer of right to enjoyment of immovable property though delivery of possession of the property. However, this is not a condition preceded for operation of a lease. The term of lease including the period of lease, amount of rent etc. are contained in a leased agreement or deed duly executed and signed by both the lesser and lessee.

#### **Question 6**

*The Board of Directors of RSP Limited agrees with X to hire his (X's) flat at NOIDA on lease for ten years @ ₹ 20,000 per month for marketing office of the company. You are a senior executive of the Board and the board asks you to prepare the lease deed for the agreement. Draft a lease deed.*

#### **Answer**

**Lease Deed:** This Lease is made on this the day of 01 March 2019, between, X s/o Y, aged about 45 years, residing at Noida (hereinafter called the LESSOR); which expression shall,

whenever the context so requires or admits mean and include his heirs, executors, Administrators and permitted assignees of the one part;

And RSP Limited, Noida and herein after called the LESSEE Whereas, the lessor is the absolute owner of the property Noida (more fully described in the schedule hereunder and hereinafter referred to as 'Schedule Property') and Whereas, the Lessee is desirous of taking on lease the Schedule property for a period of 10 years and , whereas, the Lessor is agreeable for the same.

Now therefore this deed witnessed that in pursuance of aforesaid agreement and in consideration of the rent hereinafter contained, the Lessor hereby demises by way of lease who Lessee the Schedule Property for a period of from today, on the following terms and conditions:

1. That the lessee has undertaken to pay the lessor a monthly rent of ₹ 20,000/- (Rupees twenty thousand only) for the Scheduled Property on or before the 10 day of the following calendar month, and 10 months rent of ₹ 2.00 lac only deposit by the lessee on the date of execution of this lease; the receipt where of the lessor hereby acknowledges and agrees to repay the same without interest at the time of vacating the Scheduled Property, after deducting for damages, if any.
2. The lease shall commence from the 1<sup>st</sup> April 2019 and shall be in force for a period of 10 years.
3. The lessee shall use the Scheduled Property only for official purpose and shall not assign or sublease or use the Scheduled Premises for any unlawful purposes or alter the Scheduled Property without the consent of the lessor in writing.
4. During the lease period, the lessee shall pay the electricity and water charges to the respective departments promptly and obviate disconnection at any time.
5. The lessee shall permit the lessor or his agents, to enter the Scheduled Property at all reasonable times for the purpose of periodical inspection.

**Schedule:**

1500 Squares of house bearing No. 56 at Noida measuring East to West 50 eter North to South 30 eter and bounded on: East by: Road, West by: Road, North by: Plot No. 55, South by: Plot No. 57.

In witness whereof the parties hereto have their respective hands and seals to this Agreement on the day, month, year first written above.

**Witness**

1. LESSOR
2. LESSEE

### Question 7

*Explain Affidavit and its model format.*

#### Answer

##### **Affidavit**

An affidavit is a written statement used mainly to support certain applications and in some circumstances as evidence in court proceedings. A person who makes the affidavit is called the Deponent and must swear or affirm that the contents are true before a person who has the authority to administer oaths in respects of the particular kind of affidavit. The model form of affidavit is given below:

I..... son of ..... aged .....  
years, residing at .....,  
hereby declare an oath as follows:  
“ .....  
.....  
.....  
.....  
.....”  
.....”Sworn on this .....the day of  
.....  
Date:..... Signature  
Place:.....

### Question 8

*What is an Indemnity Bond? Supply a format for Indemnity Bond.*

#### Answer

##### **Indemnity Bond**

A contract of indemnity as defined under Section 124 of the Indian Contract Act, 1872 is a contract by which one party promises to save the other from laws cost to him by the contract of the promissory himself or by the contract of any other person. A person who gives the indemnity is called indemnifier and a person for whom protection is given is called the indemnity holder. The model form of indemnity bond is given below:

Name of the Assessee:

P.A.N. No. Assessment Year:

I. .... son/ wife/ daughter of ..... Resident of ..... do hereby agree to indemnify the Government of India for any loss that may occur on giving credit for the Certified Photostat copies of the TDS Certificates/ ...../...../..... for a sum of Rs..... being ... % of my share in the total TDS of ₹ .....

of ..... I further declare that the credit for consolidated TDS Certificate was not claimed in the hands of the Association of

Persons,.....

Date:

Signature:

Place:

### **Question 9**

*Mr. A has not received a dividend warrant of ₹ 1,500 for 150 shares of XYZ Ltd. Draft an indemnity bond, to be given to the company for seeking release of Dividend.*

### **Answer**

#### **Indemnity Bond**

Mr. A S/o ..... resident ..... do hereby agree to indemnify the XYZ Ltd. for any loss that may occur for seeking release of dividend for 150 shares of ₹ 1500.

I further declare that personally I have not received the dividend warrant in question.

Mr. A

Date:

Signature

Place:

### **Question 10**

*SVA Limited dispatched Bonus Share Certificate to Mr.R.R did not receive the Bonus Share Certificate as it was lost in the transit. R applied to the company to issue the Bonus share certificate in duplicate. SVA Limited asked Mr. R to submit an Indemnity Bond so that Bonus Share Certificate in duplicate may be issued to him. Draft an Indemnity Bond to be given by R to the company for seeking release of Bonus Share Certificate in duplicate.*

### **Answer**

#### **Indemnity Bond**

Mr. R S/o X resident of Mumbai do hereby agree to indemnify the SVA Limited for any loss that may occur for seeking release of Bonus Share Certificate in duplicate of 50 equity shares of Rs.10 each fully paid. I further declare that personally I have not received the Bonus Share

Certificate issued by the company for which the company is claiming that it has already been despatched.

Date.....

Place: Mumbai

Signature  
(Mr. R)

### Question 11

*Write a short note on: Gift deed*

### Answer

**Gift deed:** The law relating to gifts is provided for in the Transfer of Property Act, 1882 and Indian Succession Act, 1925. Gift is defined as the transfer of certain movable or immovable property made voluntarily and without consideration by one person called the donor to another called the donee and accepted by or on behalf of the donee. A gift to be valid must be accepted by the donee during the life time of the donor. Registration of a gift of immovable property is compulsory and that of movable property is optional.

### Question 12

*Draft a 'Gift Deed' assuming your own facts regarding parties and subject matter relating to gift.*

### Answer

#### Gift Deed

THIS DEED OF GIFT made on this 15<sup>th</sup> day of May 2018 BETWEEN 'X' an Indian aged about 70 years, son of 'A' resident of .....(hereinafter called "the Donor") of the one part AND 'Y' an Indian aged about 30 years, son of 'B', resident of .....(hereinafter called "the Donee") of the other part :

WHEREAS the Donor has no issue and the donee is the nephew of the Donor and has been living with him since childhood in the house owned by Donor.

AND WHEREAS the Donor out of natural love and affection for his said nephew, is desirous of making a gift of the said house to the donee.

NOW THEREFORE THIS DEED WITNESSETH as follows:-

1. That in consideration of natural love and affection of Donor for the Donee, the donor hereby voluntarily transfers to the Donee free from all encumbrances whatsoever of the said house with all rights of easements, privileges appurtenant thereto and to hold the same unto the donee absolutely forever.
2. That the Donor or his heirs shall have no interest in the said house hereafter.
3. That the Donee hereby accepts the said transfer made by the Donor.
4. That the value of the said house is Rs. 5,00,000/- (Rupees Five Lakhs only).



IN WITNESS WHEREOF the parties hereto have signed this deed at .....in presence of the witnesses on the day and year first hereinabove written.

SIGNED AND DELIVERED

By the within named "Donor"

In the presence of.....

1).....

2).....

SIGNED AND DELIVERED

By the within named "Donee"

In the presence of.....

1).....

2).....

### Question 13

*J desires to gift out her flat in Mumbai in City Cooperative Society registered under the Maharashtra Cooperative Societies Act, 1960, to her brother A. Stating the legal requirements to be complied with, draft a Gift Deed. Take your own data regarding date, flat no., floor area etc.*

### Answer

#### Drafting of Gift Deed:

This Deed of gift is made of.....on this.....day of.....2019. Between..... an Indian.....inhabitant residing at flat No., Cooperative Housing Society Ltd.....(city), hereinafter called 'The Doner' of the one part and , also an Indian inhabitant of (City).....Residing at ..... at.....(city) herein after called there 'Donee of the other part. Whereas the Donee .....is the..... of donor.....and whereas the Doner is the member of ..... society which is duly registered under Maharashtra Cooperative Societies Act, 1960. The donor has 5 fully paid shares of the said society. The donor has acquired a flat No. .... on the .....floor and measuring:.....sqr. mtr. In the building situated at..... (city)

Whereas the Donor has full right title and in last in their said shares/flat more particularly described in this schedule.

And whereas the donor desired to gift his right, title and interest in the said share/flat in the said building of the said society described in the schedule hereunder written to the Donee hereto.

The Donor out of natural love and affection for the donee hereby transfer by way of gift his right title and interest in the said shares and the flat absolutely forever.

The Donee accept the gift and agrees to hold that right title and interest of the Donor in said shares/flat of the societies. In the interest whose of the parties hereto have here under set and subscribed their respective hands on the day and the year.

Signed and Delivered

In the presence of.....

1. ....

2. ....

Signed and Delivered:

By the named Donee.

In the presence of.....

1. ....

2. ....

#### **Question 14**

*X desires to gift his flat to Y. Draft a gift deed.*

#### **Answer**

This Deed of Gift is made at---- (city) on this ----- day of ---- 2019 between X and Y an Indian inhabitant residing at flat No. ----- Floor, ----- Coop. Housing Society Ltd. ----(city) hereinafter called "THE DONOR" of the ONE PART and ----- also an Indian inhabitant of----- (city), residing at flat no. ----- floor ----- Coop. Housing Society Ltd. -----(city), hereinafter called "THE DONEE" of the OTHER PART.

WHEREAS the Donee Y is the ----- ( Relative) of Donor X .

AND WHEREAS the Donor is the member of ----- society which is duly registered under the Maharashtra Coop. Societies Act 1960, (hereinafter referred to as "the said society"). The donor has five fully paid up shares of the said society. The donor has acquired a flat No. ----- on the ---- floor and measuring ----- sq. meters. In the building known as "----" (hereinafter referred to as the "said building") situate at ----- (City), (hereinafter referred to as "the said flat") more particularly described in the Schedule hereunder written "said society").

WHEREAS the Donor has full right title and interest in the said shares/flat more particularly described in the Schedule hereunder written.

AND WHEREAS the Donor desires to gift his right, title and interest in the said shares/flat in the said building of the said society more particularly described in the Schedule hereunder written to the Donee hereto.

NOW THIS DEED OF GIFT WITNESSETH AS FOLLOWS:

The donor out of natural love and affection for the Donee, hereby transfers by way of gift his right, title and interest in the said shares and the said flat more particularly described in the Schedule hereunder written to the Donee absolutely for ever.

The Donee accepts the gift and agrees to hold the right, title and interest of the donor in the said shares/flat in the said building of the said society more particularly described in the Schedule hereunder written of the said flat from the Donor.

Schedule of property above referred to:

IN WITNESS WHEREOF the parties hereto have hereunder set and subscribed their respective hands on the day and the year first herein above written.

SIGNED AND DELIVERED

By the within named "Donor"

In the presence of -----

1) -----

2) -----

SIGNED AND DELIVERED

By the within named "Donee"

In the presence of

1) -----

2) -----

**Question 15**

*State the contents that are required for drafting an Annual Report of a Company.*

**Answer**

The following are the main contents are required for drafting an annual report of a company.

1. Leadership team: including top Management.
2. Directors report
3. Financial Statements - Balance Sheet and Profit and Loss Account including Auditors report
4. Corporate social responsibility
5. Graphs

### Question 16

*What is an affidavit? Draft an affidavit certifying that SF Ltd. does not have any tax dues to the Central Government.*

### Answer

**Affidavit meaning:** An affidavit is a written statement used mainly to support certain applications and in some circumstances as evidence in court proceedings. A person who makes the affidavit is called the Deponent and must swear or affirm that the contents are true before a person who has the authority to administer oaths in respect of the particular kind of affidavit.

### Affidavit having no tax dues to the Central Government:

I, Mr. MNB, son of Mr. SCD aged 50 years residing at Mandir Marg, Nagpur, Maharashtra, hereby solemnly affirm and declare on oath as under:

That SF Ltd. has cleared all tax dues of the Central Government and does not have any tax dues outstanding towards Income Tax /Service Tax/Central Excise or any other Central Government authority as on to-day, i.e., 5<sup>th</sup> November, 2018.

Sworn on this 5<sup>th</sup> day of November, 2018.

Date: 05/11/2018

Place: NAGPUR

Signature:-----

(Deponent)

### Question 17

*What is a Power of Attorney? Draft a Power of Attorney to execute a Sale Deed.*

### Answer

**Power of Attorney:** The law relating to power of attorney falls within the law of agency. A power of attorney is a written instrument empowering a specified person or persons to act for and in the name of person executing it. The instruments of power of attorney are classified into the following two categories:

- (i) Specific Power of Attorney
- (ii) General Power of Attorney

### POWER OF ATTORNEY TO EXECUTE A SALE DEED

BY THIS POWER OF ATTORNEY, I .....aged .....years, son of ....., resident of ..... hereby appoint .....aged ..... years, son of .....resident of ....., as my Attorney to act in my name and on my behalf and do or execute all or any of the acts or things hereinafter mentioned, that is to say:

1. To receive from ....., aged about.....years, son of ....., resident of .....the Purchaser, the sum of Rupees ..... (₹ ..... ) only being the price agreed to be paid to me by the said Purchaser for the purchase of (give full description of property) under an agreement dated .....and to give proper receipt and discharge for the same.
2. To execute a sale-deed of the said property.
3. To present the said sale-deed for registration before the proper registration authority, to admit the execution thereof, to do all acts, deeds and things which may be necessary for registering the said sale-deed.
4. To execute or to do all acts, things or deeds or assurance for the completion of the sale of the said property.
5. To deliver possession of the said property to the Purchaser or his nominee.

AND I DO HEREBY AGREE to ratify all acts, things, deeds or proceedings lawfully done by my said *Attorney* on my behalf and in my name by virtue of this power of attorney and the same shall be binding on me in full force or effect.

IN WITNESS WHEREOF I have executed this power at .....this .....day of .....20.....

Witness: .....

*Executant*

### Question 18

*Draft an Indemnity Bond to be given to a Nationalized Bank by its depositor for the loss of Deposit certificates.*

### Answer

#### Indemnity Bond

Mr. R, S/o Mr. X residing at ....., Mumbai do hereby agree to indemnify ABC Bank for any loss that may occur for seeking re-issue of Deposit Certificates (for a sum of Rs.....) in duplicate. I further declare that personally I have not received the Deposit Certificates issued by the bank for which the bank is claiming that it has already been dispatched.

Date.....

Place: Mumbai

Signature

(Mr. R)