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ed to Anna University, Chennai

Department of Automobile Engineering

III YEAR/ VI SEMESTER

19MEE301 / Engineering Economics and cost Analysis

UNIT-3

Joint stock Company

A company which has some features of a corporation and some features of a partnership. The company sells fully transferable stock, but all shareholders have unlimited liability.

Characteristics and features of a joint stock company

Separate legal existence:

A company has a distinct and separate legal entity, independent of its members. It means that the company can own property, make contracts, and file suits in it own name. Shareholders are not the joint owners of the company's property. A shareholder cannot be held liable for the acts of the company. A creditor of th company is not the creditor of its members. This is one of the important characteristics of joint stock companies that has made it very popular form of business.

Perpetual succession:

Perpetual succession means continuous existence. A company is creation of the law and only law can bring it to an end. Its life does not depend on the life of its members. The death, insolvency or lunacy of a member does not affect the life of the company. It continues to exist even if all its members dies. Members may come and go but the company goes on till it is wound up.

Limited liability:

As a separate legal entity, its members cannot be held liable for the debts of the company. The liability of every member is limited to nominal value of the shares bought by him or the amount of the guarantee given by him. For instance, if a member has 50 shares of Rs 10 each, hi liability is limited to Rs.500 only. Even if the assets of the company are found to be insufficient to satisfy the claims of the creditors, no member can be called to pay anything more than what is due to him.

Transferability of shares:

The capital of a company is divided into parts each part called a share. These share are generally transferable. A shareholder is free to withdraw his membership from the company by transferring his shares.

Common seal:

Being an artificial entity, a company cannot act and sign itself. Therefore, it acts through human beings. All the acts of the company are authorized through its common seal. The common seal is affixed on all important documents as a token of the company's approval. The common seal is an official signature of the company. This common seal is valid only if signed by at least two members

of the Board of Directors.Without these features of joint stock companies, it would have been better to call it a firm rather than a company form of organization.

Advantages of

joint stock

company Large

capital:

A company can collect huge capital for the business through shares and debentures, public deposits, loans etc. Due to huge capital the company can conduct business on a large scale.

Limited liability:

Usually the liability of members of a company is limited to the extent of uncalled or unpaid shares held by them. Their personal property cannot be seized to meet the company’s liability beyond the above mentioned liability.

Continuity and stability:

Death, insolvency or insanity of any member of the company will not affect its life and existence. Men may come and they may go but a company remains forever. It can be wound up under the provision of the act.

Professional management:

The Company appoints experienced, competent and expert to manage the business. Their services lead to managerial and administrative efficiency and accuracy.

Economies of scale:

A company operates on a high scale and so it enjoys economies in production, distribution, management and financing.

Bargaining power:

Compared to other forms of organization, a joint stock company is a strong power in buying as well as in selling of goods because of its large scale production.

Legal status:

Since the company is created by law, it has separate legal existence compared to its members. Therefore the members cannot be personally held responsible for the acts of company and company cannot be held liable for the acts of the members.

Large membership:

The Company is owned by a large number of members- maximum of 50 in the case of private limited company and unlimited number of member in the case of public limited company.

Transferability of shares:

Shares of Joint Stock Company, especially public companies, are freely transferable. A member who wants to sell his shares can easily do so in the stock market. This encourages the public and other to invest in shares.

Employment:

Joint Stock Company provides employment to a large number of people directly and indirectly. This leads to higher national income for the country and higher living standard of living for the people.

Government revenue:

Joint Stock Companies provide revenue to the government in the form of taxes charged directly and indirectly.

Research and development:

Joint Stock Companies undertakes R&D continuously thus bringing about new and improved products which benefits people.

Economic development:

Because of Joint Stock Companies there is all round development of trade, commerce and industry. The society in general gains the benefit of the industrial development. Large capital, government revenue, economic development etc. are the advantages of Joint Stock Companies.

Disadvantages of

Joint Stock

Company Difficult

formation:

Formation of Joint Stock Company is an expensive and time consuming process as a number of legal formalities have to be undertaken in order to register the company.

Lacks flexibility:

The working of a Joint Stock Company is less flexible s compared to other organizations. For very small thing they either have to follow a detailed procedure or obtain sanctions from various authorities. This results in lack of flexibility.

No business secrecy:

This form of organization lacks business secrecy because it is compulsory for the company to publish accounts and other records

Excessive government regulation:

The Company is a subject to excessive government control. It has to follow the numerous provision of the companies act. This makes working difficult.

Delay in decision:

The Joint Stock Company is completely not free to take all decisions and to implement the decisions. Due to excessive government control and democratic set up all decisions are taken in meetings and some decisions require shareholder’s approval. All this leads to delay in decisions.

Lack of contact with customer:

A company can’t be in a position to maintain intimate contacts with customers. It cannot be able enter to the requirements of each and every customer. Then there is no close personal touch which decreases the competitive strength of the business due to large scale operation.

Lack of contact with employees:

The top management may not have contact with their employees. This may cause friction and disputes among the management and the employees with may affect the worker's and employee's morale.

Conflict of interest:

Many persons are the owners of Joint Stock Company. There can be misunderstanding and jealousy among them and these cause problems in operation of business and profit making

Not suitable for all type of business:

This type of organization is nousiness where personalized services are required