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**FINANCIAL AND ECONOMIC FACULTY**

**DEPARTMENT "FINANCE"**

**FINANCES of JOINT-STOCK COMPANIES**

**(For students majoring in economics)**

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The monograph examines the issues of substantiation and identification of the essence of the finances of joint-stock companies in the Republic of Tajikistan. Based on the study of the existing world practice, as well as the study of domestic and foreign scientists, materials have been collected to reveal the essence of the finances of joint-stock companies in the conditions of the Republic of Tajikistan. The development of joint-stock companies in Tajikistan, the coordination of its operating conditions with international joint-stock companies, as well as ensuring their financial stability requires high-quality training of specialists.

The monograph is intended for students, undergraduates, postgraduates, teachers, and other interested persons.

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**TOPIC 1. CONTENT AND SIGNIFICANCTT OF THE SUBJECT. FINANCE OF JOINT STOCK COMPANIES AND THEIR TYPES**

1. **Content and significance of the JSC’s finance.**
2. **Legal basis for JSC’s activities**
3. **Finance of joint stock companies and their types**

**1**

The content and significance of the finances of AOB in countries with developed market economies in the 90s the greatest impact on the finances of joint-stock companies and enterprises was exerted by the internationalization of economic life, the globalization of business operations and the expansion of the use of computer technology.

 The system of implementing the functions of finance of joint-stock companies is the most complex. Joint-stock companies unite a wide range of legal entities and individuals - shareholders Consideration of the objectivity and target certainty of financial relations already as specialized redistributive processes leads to their differentiation into two relatively separate economic categories, finance and credit proper. Credit is studied by an independent science, since its subject is relations that develop on the terms of payment, repayment, urgency and material security. Credit (bank and commercial) is a specialized area of ​​corporate finance. Credit resources are formed on the basis of distributed parts of the cost.

Distribution, as noted, is mediated by the general economic category of finance. In the field of corporate finance, a set of financial relations has also developed, which are formed to ensure reproductive proportions not only by attracting credit resources, but also at the expense of corporations' own funds, depreciation funds and profits. This is a special system of corporate financial relations - finance of joint stock companies, financial and industrial groups, private enterprises and other organizational and legal forms of economic activity.

The finances of banks and other financial institutions, such as insurance organizations, non-state pension funds, etc., also belong to the sphere of corporate finance. Financial management of private national and multinational corporations. In countries with developed market economies in the 1990s, the greatest impact on the finances of joint stock companies and enterprises is exerted by the internationalization of economic life, the globalization of business operations and the expansion of the use of computer technology.

The finances of a joint-stock company are monetary relations that arise at all stages of the creation, activity, reorganization and liquidation of a joint-stock company.

The role of finance in joint-stock companies is multifaceted, they cover monetary relations with the founders of the company, the workforce, suppliers, buyers, the budget, banks, extra-budgetary, insurance and other organizations. Manager, manager, endowed with the rights to dispose of the property and finances of a legal entity (firm, joint stock company) in the process of operational management of its activities.

In developed foreign countries, an important area of ​​financial relations is the finance of private national and transnational corporations. By their organizational structure, corporations are joint stock companies. The joint-stock form of enterprises in countries with developed market economies has received exceptional broad development. Equity issuance is one of the most powerful forms of capital mobilization that transforms savings into productive investments.

Without stocks, bonds, bank loans and other elements of the financial market, corporations would have to be self-financing, which would sharply limit their growth opportunities. The financial side of the activities of joint-stock companies and enterprises of other forms of ownership is becoming increasingly important.

**2. Legal basis for JSC activities Tajikistan**

A joint stock company (hereinafter referred to as JSC) is a commercial organizational and legal form of an association formed by a voluntary agreement of legal entities and individuals (including foreign ones) who have pooled their funds and issued shares in circulation in order to make a profit. JSCs on the territory of RT are created and operate in accordance with the Federal Law of March 5, 2007, No. 237"On Joint Stock Companies" (hereinafter referred to as the Law on Joint Stock Companies. This law recognize an invalid the Law of the Republic of Tajikistan dated December 23, 1991 "About joint-stock companies" (Sheets of the Shuroi Oli of the Republic of Tajikistan, 1992, No. 4, Art. 39; Akhbori Majlisi Oli of the Republic of Tajikistan, 1996, No. 23, Art. 362; 1998, No. 10, Art. 131; 2005, No. 12, Art. 643).

This law defines the main provisions on JSCs, following issues of JSC:

* Basic concepts and types;
* Legal status of joint-stock company
* The procedure for formation,
* Establishes the general principles of organizing jsc management and financial management.
* Authorized capital of joint-stock company
* Events, bonds and other securities joint-stock company
* Funds and net assets of joint-stock company
* Placement of stocks i of bonds by joint-stock company
* Dividends of joint-stock company
* Shareholder register of joint-stock company
* Management of joint-stock company
* Control of financial and economic activity of joint-stock company
* Acquisition and redemption by joint-stock company of placed shares
* Large deals (contracts)
* Interest in commission by joint-stock society of the transaction
* Accounting and reporting, documents of joint-stock company. Information on joint-stock company
* Reorganization and liquidation of joint-stock company.

The peculiarities of the creation and functioning of joint-stock companies of various types lead to the specifics of financial relations within these societies. JSC can be open and closed. The differences between them are that the authorized capital of an open-type JSC is formed by selling shares in the form of an open subscription, while in a closed-type JSC the authorized capital is formed only through the contributions of the founders, i.e. the shares do not go public. Each JSC has full economic independence, both in remuneration and in setting prices, the procedure for distributing net profit and other types of entrepreneurial activity. At the same time, the JSC is responsible for its obligations with all property, but is not responsible for the obligations of shareholders. JSC, being a legal entity, has a company name, a round seal and is valid for an unlimited period. A JSC has the right to carry out any types of economic activity in accordance with the law.

1. JSCs Finance and their types

What is the JSCs finance?

In the western countries the subject of JSC finances called corporate finance.

Corporate finance departments are charged with governing and overseeing their firms' financial activities and capital investment decisions. Such decisions include whether to pursue a proposed investment and whether to pay for the investment with equity, debt, or both.

KEY TAKEAWAYS

* Corporate finance is often associated with a firm's decision to undertake capital investments and other investment-related decisions.
* Corporate finance manages short-term financial decisions that affect operations.
* In addition to capital investments, corporate finance deals with sourcing capital.

It also includes whether shareholders should receive dividends. Additionally, the finance department manages current assets, current liabilities, and inventory control.

Types of Corporate Finance:

Capital Investments

Corporate finance tasks include making capital investments and deploying a company's long-term capital. The capital investment decision process is primarily concerned with [capital budgeting](https://www.investopedia.com/terms/c/capitalbudgeting.asp). Through capital budgeting, a company identifies capital expenditures, estimates future cash flows from proposed capital projects, compares planned investments with potential proceeds, and decides which projects to include in its capital budget.

Making capital investments is perhaps the most important corporate finance task that can have serious business implications. Poor capital budgeting (e.g., excessive investing or under-funded investments) can compromise a company's financial position, either because of increased financing costs or inadequate operating capacity.

 Corporate financing includes the activities involved with a corporation's financing, investment, and capital budgeting decisions.

Capital Financing

Corporate finance is also responsible for sourcing capital in the form of debt or equity. A company may borrow from commercial banks and other financial intermediaries or may issue debt securities in the capital markets through[investment banks (IB)](https://www.investopedia.com/terms/i/investmentbank.asp). A company may also choose to sell stocks to equity investors, especially when need large amounts of capital for business expansions.

Capital financing is a balancing act in terms of deciding on the relative amounts or weights between debt and equity. Having too much debt may increase default risk, and relying heavily on equity can dilute earnings and value for early investors. In the end, capital financing must provide the capital needed to implement capital investments.

Short-Term Liquidity

Corporate finance is also tasked with short-term financial management, where the goal is to ensure that there is enough liquidity to carry out continuing operations. Short-term financial management concerns current assets and current liabilities or working capital and operating cash flows. A company must be able to meet all its current liability obligations when due. This involves having enough current liquid assets to avoid disrupting a company's operations. Short-term financial management may also involve getting additional credit lines or issuing commercial papers as liquidity back-ups.

TOPIC 2. NECESSITY OF FINANCIAL DISCIPLINE OF JOINT STOCK COMPANIES

1. Corporate Finance Content
2. History of CF
3. Outline (Main goal of CF) Origin of joint stock companies in modern conditions
4. Formation of joint stock company finance in RT
5. Corporate Finance Content

Corporate finance is the area of [finance](https://en.wikipedia.org/wiki/Finance) that deals with sources of funding, the [capital structure](https://en.wikipedia.org/wiki/Capital_structure) of corporations, the actions that managers take to increase the [value](https://en.wikipedia.org/wiki/Value_investing) of the firm to the [shareholders](https://en.wikipedia.org/wiki/Shareholder), and the tools and [analysis](https://en.wikipedia.org/wiki/Analysis) used to allocate financial resources. The primary goal of corporate finance is to [maximize](https://en.wikipedia.org/wiki/Shareholder_value) or increase [shareholder value](https://en.wikipedia.org/wiki/Valuation_%28finance%29).

Correspondingly, corporate finance comprises two main sub-disciplines: [Capital budgeting](https://en.wikipedia.org/wiki/Capital_budgeting) is concerned with the setting of criteria about which value-adding projects should receive investment funding, and whether to finance that investment with [equity](https://en.wikipedia.org/wiki/Ownership_equity) or [debt](https://en.wikipedia.org/wiki/Debt) capital. [Working capital](https://en.wikipedia.org/wiki/Working_capital) management is the management of the company's monetary funds that deal with the short-term [operating](https://en.wikipedia.org/wiki/Business_operations) balance of [current assets](https://en.wikipedia.org/wiki/Current_asset) and [current liabilities](https://en.wikipedia.org/wiki/Current_liability); the focus here is on managing cash, [inventories](https://en.wikipedia.org/wiki/Inventory), and short-term borrowing and lending (such as the terms on credit extended to customers).

The terms corporate finance and corporate financier are also associated with [investment banking](https://en.wikipedia.org/wiki/Investment_banking). The typical role of an investment is to evaluate the company's financial needs and raise the appropriate type of capital that best fits those needs. Thus, the terms "corporate finance" and "corporate financier" may be associated with transactions in which capital is raised in order to create, develop, grow or acquire businesses. Recent legal and regulatory developments in the U.S. will likely alter the makeup of the group of arrangers and financiers willing to arrange and provide financing for certain highly leveraged transactions.

Although it is in principle different from [managerial finance](https://en.wikipedia.org/wiki/Managerial_finance) which studies the financial management of all firms, rather than[corporations](https://en.wikipedia.org/wiki/Corporations) alone, the main concepts in the study of corporate finance are applicable to the financial problems of all kinds of firms. [Financial management](https://en.wikipedia.org/wiki/Financial_management) overlaps with the financial function of the [accounting profession](https://en.wikipedia.org/wiki/Accounting_profession). However, [financial accounting](https://en.wikipedia.org/wiki/Financial_accounting) is the reporting of historical financial information, while financial management is concerned with the deployment of capital resources to increase a firm's value to the shareholders.

1. History of CF

Corporate finance (CF) for the pre-industrial world began to emerge in the [Italian city-states](https://en.wikipedia.org/wiki/Italian_city-states) and the [low countries](https://en.wikipedia.org/wiki/Low_Countries) of Europe from the 15th century. Public markets for investment securities developed in the [Dutch Republic](https://en.wikipedia.org/wiki/Dutch_Republic) during the 17th century. By the early 1800s,[London](https://en.wikipedia.org/wiki/London) acted as a center of corporate finance for companies around the world, which innovated new forms of lending and investment. The twentieth century brought the rise of managerial capitalism and common stock finance. Modern corporate finance, alongside [investment management](https://en.wikipedia.org/wiki/Investment_management), developed in the second half of the 20th century, particularly driven by innovations in theory and practice in the United States and Britain.

1. Outline (Main goal of CF) Origin of joint stock companies in modern conditions

The primary goal of financial management is to maximize or to continually increase shareholder value.[[15]](https://en.wikipedia.org/wiki/Corporate_finance#cite_note-McMenamin2002-15) Maximizing shareholder value requires managers to be able to balance capital funding between investments in ["projects"](https://en.wikipedia.org/wiki/Project) that increase the firm's long term profitability and sustainability, along with paying excess cash in the form of dividends to shareholders. Managers of growth companies (i.e. firms that earn high rates of return on invested capital) will use most of the firm's capital resources and surplus cash on investments and projects so the company can continue to expand its business operations into the future. When companies reach maturity levels within their industry (i.e. companies that earn approximately average or lower returns on invested capital), managers of these companies will use surplus cash to payout dividends to shareholders. Managers must do an analysis to determine the appropriate allocation of the firm's capital resources and cash surplus between projects and payouts of dividends to shareholders, as well as paying back creditor related debt.

Choosing between investment projects will be based upon several inter-related criteria:

 (1) Corporate management seeks to maximize the value of the firm by investing in projects which yield a positive net present value when valued using an appropriate discount rate in consideration of risk.

(2) These projects must also be financed appropriately.

(3) If no growth is possible by the company and excess cash surplus is not needed to the firm, then financial theory suggests that management should return some or all of the excess cash to shareholders (i.e., distribution via dividends).

This "[capital budgeting](https://en.wikipedia.org/wiki/Capital_budgeting)" is the planning of value-adding, long-term corporate financial projects relating to investments funded through and affecting the firm's [capital structure](https://en.wikipedia.org/wiki/Capital_structure). Management must allocate the firm's limited resources between competing opportunities (projects).

Capital budgeting is also concerned with the setting of criteria about which projects should receive investment funding to increase the value of the firm, and whether to finance that investment with equity or debt capital. Investments should be made on the basis of value-added to the future of the corporation. Projects that increase a firm's value may include a wide variety of different types of investments, including but not limited to, expansion policies, or [mergers and acquisitions](https://en.wikipedia.org/wiki/Mergers_and_acquisitions). When no growth or expansion is possible by a corporation and excess cash surplus exists and is not needed, then management is expected to pay out some or all of those surplus earnings in the form of cash dividends or to repurchase the company's stock through a share buyback program.

1. Formation of joint stock company finance in RT

The joint-stock company is legal entity and performs the duties necessary for implementation of the any kinds of activity which are not prohibited by the legislation of the Republic of Tajikistan.

The joint-stock company can be engaged in separate types of activity which list is defined by the Law of the Republic of Tajikistan "About licensing of separate types of activity" only on the basis of the license.

The joint-stock company is considered created as the legal entity from the moment of its state registration in the order established by the legislation. The joint-stock company is created without restriction of term if other order is not established it by the charter. The joint-stock company has the right to open in accordance with the established procedure bank accounts for territories of the Republic of Tajikistan and beyond its limits.

The joint-stock company is legal entity and has the isolated property considered on its separate balance, can purchase and perform on its own behalf the property and personal non-property rights, perform duties, to be a claimant and the defendant in court.

The joint-stock company has to have the round stamp containing its full trade name in a state language. In a seal the trade name of joint-stock company in any other language can be also specified.

The joint-stock company can have stamps and forms with the name, and also the trademark and other means of visual identification registered in the order established by the law.

Features of creation and reorganization of joint-stock companies in spheres of a banking, investing and insurance activity are defined by this Law and other laws of the Republic of Tajikistan.

Features of a legal status of the joint-stock companies created at privatization of the state enterprises and concerning which the special participation right of the Republic of Tajikistan in management of the specified joint-stock companies ("golden share") is used are defined by the Law of the Republic of Tajikistan "About privatization of state-owned property". (Law of the RT dated 5.08.09, No. 541).

The joint-stock company has the trade name and has to have the words "Open Joint Stock Company (OJSC)" or "Private Company (PC)" in the name.

The location of joint-stock company is determined by its constituent documents.

The joint-stock company has to have the postal address to which with it communication is performed.

A joint stock company unites a wide range of legal entities - shareholders. Respect for the rights of shareholders is one of the conditions for the financial activities of joint-stock companies. The property of a joint stock company is formed from the income received, the sale of shares in the form of an open or private subscription and other sources.

A joint stock company is a commercial organization, the authorized capital of which is divided into a certain number of shares, certifying the obligations of the participants in relation to the company. Shareholders are not liable for the company's obligations and bear the risk of losses associated with its activities, within the value of the shares they own.

Shareholders who have not paid in full for the shares are jointly and severally liable for the company's obligations within the unpaid part of the value of the shares they own.

The joint-stock company has its own corporate name, which contains an indication of its organizational and legal form and type: closed or open. JSCs create branches and open representative offices in the territory of the RT and abroad. The financial characteristics of a branch are determined by the fact that it is a separate subdivision of a JSC, located outside the location of the company and performing all its functions or part of them. The financial features of a representative office are determined by the fact that it is a separate subdivision of a JSC, located outside the location of the company, representing its interests and protecting it.

Subsidiaries and dependent companies with the rights of a legal entity have significant financial features.

A JSC is created by establishing or by reorganizing an existing legal entity and is considered to be created from the moment of its state registration. The decision to establish a company, approve its charter and approve the monetary value of securities, property rights, as well as other rights that have a monetary value, contributed by the founder as payment for shares, is taken by the founders unanimously. Changes related to a decrease in the authorized capital are made to the charter only on the basis of a decision on this adopted by the general meeting of shareholders. Changes related to an increase in the authorized capital by increasing the par value of shares or placing additional shares are made to the charter on the basis of a relevant decision of the general meeting of shareholders or the board of directors.

An increase in the authorized capital by placing additional shares is registered at the par value of the outstanding shares.

TOPIC 3. FINANCIAL MANAGEMENT OF JOINT STOCK COMPANIES IN THE REPUBLIC OF TAJIKISTAN. AUTHORIZED CAPITAL OF JOINT STOCK COMPANIES

1. Financial Management Of Joint Stock Companies (In the Rest Of World)
2. Authorized capital of joint-stock company (article 17 of Law of RT “On JSC”).
3. Financial resources of JSC

[Financial Management](http://education.svtuition.org/2011/08/financial-management-notes.html) provides all the advance techniques for efficient use of any organization capital fund. In joint stock company, all capital is not of one person. It is collected from large number of shareholders who buys the shares and invest their money in the company. All want to increase the value of their shares. All want to get highest return on their invested capital in the company. How will it be possible? All these things can easily be possible by effective use of financial management. We are explaining following points where financial management can be used in joint stock company.



1. Get Fund at Low Risk, Low Cost and Without Compromising Control on Company
Financial management can easily be used for getting fund at low risk, low cost and without compromising control on company.  For this, finance manager will[plan best capital structure](http://www.svtuition.org/2010/05/importance-of-capital-structure.html) of company by optimizing it. Second, finance manager will also[measure the cost of capital](http://www.svtuition.org/2009/06/cost-of-capital-and-methods-of.html) for finding which source of capital will be cheap in current situation. For reducing the risk, finance manager has to[use leverage technique](http://www.svtuition.org/2011/08/video-tutorial-impact-of-leverage-on.html).

2. Use the Fund Like an Intelligent and Smart Finance Manager
If you have learned financial management and want to use it. You should learn to use your capital fund effective ways. One company invest all his money in one project and within a year, it finds that all capital fund became zero. So, now, shareholders can weep only. But, you are so smart and intelligent finance manager and in the home of financial manager. You will not waste your capital fund. You will do investment decisions on the basis of capital budgeting. Through [capital budgeting](http://www.svtuition.org/2009/06/capital-budgeting-and-its-importance.html), you will find, in which investment project, you will get highest return at current time.

3. Application of Financial Management for Proper Use of Working Capital
Not just equity capital or debt, financial management will help you to proper use of your working capital. For stopping wastage of working capital, you can easily calculate [optimum working capital](http://www.svtuition.org/2010/05/optimal-level-of-working-capital.html). You can also use your[investment in working capital](http://www.svtuition.org/2011/08/investment-in-working-capital.html) effective way. Instead of falling down in well like a mad person, you will [forecast your working capital](http://education.svtuition.org/2011/08/working-capital-forecasts.html) in advance before disturbing the work due to money problem in current time.

2. Authorized capital of joint-stock company (article 17).

The authorized capital of a JSC is made up of the par value of shares acquired by shareholders. The par value of all common shares must be the same. The authorized capital determines the minimum size of the company's property.

The authorized capital of a JSC can be increased by increasing the par value of shares or by placing additional shares. Additional shares can be placed only within the number of authorized shares determined by the charter of the JSC.

Authorized capital of joint-stock company is formed from the nominal value of the placed shares of joint- stock company acquired by shareholders.

The nominal value of all events of joint-stock company has to be identical.

Authorized capital of joint-stock company determines the minimum property size guaranteeing interests of creditors.

The minimum size of authorized capital of open joint stock company has to make not less than five thousand somoni and private company not less than one thousand somoni.

The joint-stock company places common shares and has the right to place one or several types of preferred shares. At establishment of a joint-stock company all its shares have to be placed among founders. Events of joint- stock company are nominal and to bearer.

Increase in authorized capital of joint-stock company

1. Authorized capital of joint-stock company can be increased by increase in share par value or issue of additional stocks.
2. The joint-stock company has no right to increase the authorized capital if it is completely not paid.
3. The decision on increase in authorized capital of joint-stock company by increase in share par value or issue of additional stocks is accepted by General shareholder meeting.
4. Additional shares can be placed by joint-stock company only within the number of the declared events established by charter of joint-stock company.
5. The decision of a question of increase in authorized capital of joint-stock company by placement of additional stocks can be made by General shareholder meeting along with the decision on entering into charter of joint-stock company of regulations on the declared events necessary according to this Law for adoption of such decision, or on change of regulations on the declared events.
6. In the decision on increase in authorized capital of joint-stock company by placement of additional stocks the number of the placed additional common shares and preferred shares of each type within the number of the declared events of this type (type) have to be defined, the placement method, the price of placement of the additional shares placed by means of a subscription or an order of its determination, including the price of placement or an order of determination of the price of placement of additional stocks to the shareholders having the privilege of acquisition of the placed shares a payment method of the additional shares placed by means of a subscription and also can be defined other conditions of placement.
7. Increase in authorized capital of joint-stock company by placement of additional stocks can be performed at the expense of property of joint-stock company. Increase in authorized capital of joint-stock company by increase in share par value is performed only at the expense of property of joint-stock company.
8. The amount by which authorized capital of joint-stock company at the expense of property of joint-stock company increases should not exceed a difference between the net assets value of joint-stock company and the amount of authorized capital and the reserve capital of joint-stock company.
9. At increase in authorized capital of joint-stock company at the expense of its property by placement of additional stocks these events are distributed among all shareholders. At the same time to each shareholder events of the same type (type), as a share which it owns, in proportion to the number of the stocks owned by it is distributed.
10. Increase in authorized capital of joint-stock company by issue of additional stocks in the presence of the share block providing more than 25 percent of votes at General shareholder meeting and fixed according to the legislation of the Republic of Tajikistan on privatization of state-owned property can be performed during fixing term only if at such increase the share of the state remains.
11. Shareholders or authorized bodies of society in accordance with the established procedure submit the application for increase in authorized capital of society to the body performing state registration for entering of data into the Unified state register of legal entities and individual entrepreneurs after making decision on such increase. (Law of the RT dated 29.12.10, No. 657)

3.Financial resources of JSC

The sources of the formation of financial resources of the JSC can be divided into two groups - internal and external.

External - imply the flow of funds from the outside, i.e. financial resources are not a direct result of the company's economic activity and are not formed in the process of this activity, although its indicators, of course, affect the ability and completeness of attracting external financial resources. The sources of external financial resources include the financial market and budgets of different levels.

Credit resources (except for bonded loans) provided by banks and other creditors, JSCs receive on the terms of urgency, repayment and payment. But it should be noted that the market of bills for which loans are granted by legal entities is poorly developed, the sphere of long-term and medium-term lending to enterprises by banks has sharply narrowed, the loan term is limited by a loan agreement, and the interest for using a loan is sometimes beyond the strength of enterprises.

The issue of securities provides much more room for maneuver in mobilizing resources.

The issue of securities of JSCs allows to mobilize the amount of financial resources that significantly exceeds the possible bank loan, and the effective investment of these funds - to get a profit sufficient for the further development of the company. At the same time, the issue of shares increases the authorized capital of the company, expands the number of shareholders, and the funds received from the sale of shares become the JSC's own funds. This is a feature of the joint-stock form of capital. Bonds, unlike stocks, are issued for a certain period, their value must be redeemed, so the financial resources mobilized by issuing bonds are borrowed.

Funds received as a result of the placement of securities are also not received free of charge. Issuing stocks and bonds is a fairly expensive way to raise funds.

The number of external financial resources can be attributed to the share premium received by OJSC from the placement of securities, in the amount of the excess of the price of the security in comparison with its par value. Share premium from the sale of shares is accounted for separately as reserve capital. The accumulated share premium is temporarily used as a source of financing the needs of the company, but in reality it is spent to cover the difference in the issue and sale of shares at prices below their par value. If the share premium was received during the placement of bonds, then it is accounted for as deferred income. During the entire term of the bonded loan, the share premium is credited in equal shares to the profit of the company within the terms established for the payment of interest on loans.

Internal financial resources of a joint-stock company are formed in the course of its economic activity, and the amount of resources depends on the scale and results of this activity. These include depreciation and profit.

Depreciation deductions as cash reflect the amount of depreciation of fixed assets and intangible assets. They are included in the cost of goods manufactured and, after their sale, as part of the proceeds, are transferred to the settlement account of the enterprise. By their economic nature, depreciation deductions provide a simple reproduction of depreciable values, but nevertheless they refer to financial resources.

Profit as a net income of a joint-stock company is formed in the course of its economic activities and is realized after the sale of manufactured products, performance of work, and rendering of services. Its value depends on the results of the society's work, the efficiency of using the attracted financial resources. The generalizing result of the economic activity of the JSC is the balance sheet profit, which is calculated in accordance with the generally established procedure. The net profit remaining at the disposal of the company after taxes is used as a financial resource.

A feature of the distribution of profits is the formation of the reserve fund of JSC, which is created by each company in accordance with the legislatively established procedure. Contributions to the reserve fund are made from the profit, first of all, before its taxation.

When planning the distribution of net profit, it is mandatory to provide for the payment of dividends to preferred shares. The issue of the payment of dividends on ordinary shares is decided depending on the financial results of the company, the prospects for its development, and the financial condition in the reporting year. In case of insufficient profit, a decision may be made to reinvest dividends on ordinary shares and non-payment of income to their owners.

The distribution of profits to the invested part and dividends is the most important moment of financial planning, since the development of the joint-stock company and its ability to pay dividends in the future depend on it. Too high dividends paid for advertising purposes lead to the “consumption” of fixed capital. At the same time, non-payment of dividends lowers the market price of the company's shares and creates difficulties when placing the next issue.

The decision to reinvest dividends must be reasonably justified to guarantee a large profit in the future. In a sense, this is more beneficial to society as an economic entity - part of the profit that is not paid in the form of dividends is not subject to profit tax, and additional financial resources are directed to the development of production. In addition, there are no costs associated with the issue and placement of new shares.

Profits intended for dividend payments can be capitalized - paid to shareholders in the form of new shares, which also makes it possible to obtain additional financial resources and reduce the cost of distributing shares.

TOPIC 4. GOVERNING BODIES and CAPITAL FORMATION OF JSC

1.Governing bodies of joint stock companies

2. Competence of General shareholder meeting

3.Capital formation of joint stock companies

4.Principles of financial organization of joint stock companies

1. Governing bodies of joint-stock company

According to thr law of RT “On Joint stack companies” (article 43) the governing bodies of joint-stock company are:

* the highest body - General shareholder meeting;
* governing body - Board of Directors (Supervisory board) of joint-stock company;
* executive body - the director, the CEO, board, administration;
* regulatory authority - audit committee (auditor);
* other bodies according to the charter and laws of the Republic of Tajikistan.

General shareholder meeting

Article 44 of Law of RT on JSC defined:

1. General shareholder meeting is the supreme body of management of joint-stock company.
2. The joint-stock company is obliged to hold annual General shareholder meeting annually.

**Annual general shareholder meeting** is carried out to the terms established by charter of joint-stock company, but not earlier than in 2 months and not later than in 6 months after the termination of a financial year. The General shareholder meetings held in addition to annual are extraordinary. **(Law of the RT dated 12.01.2010, No. 585).**

1. In joint-stock company which all voting shares are owned by one shareholder decisions on the questions which are within the competence of General shareholder meeting are accepted by this shareholder solely and are made out in writing. At the same time the provisions of this chapter defining an order and terms of preparation, convocation and holding General shareholder meeting are not applied, except for the provisions concerning terms of holding annual General shareholder meeting. **(Law of the RT dated 12.01.2010, No. 585).**

2. Competence of General shareholder meeting

1. Are within the competence of General shareholder meeting:
* modification and additions in charter of joint-stock company;
* voluntary reorganization of joint-stock company;
* liquidation of joint-stock company, appointment of liquidation commission and statement of intermediate and final liquidation balance sheets;
* determination of quantitative structure of Board of Directors (Supervisory board) of joint-stock company, election of his members and early termination of their powers;
* determination of quantity, nominal value, a type (type) of the declared stocks and bonds and the rights granted by these events and bonds;
* increase in authorized capital of joint-stock company by increase in share par value or by placement of additional stocks;
* reduction of authorized capital of joint-stock company by reduction of share par value, by acquisition by joint-stock company of part of events for the purpose of reduction of their total quantity, and also by repayment of the events purchased or redeemed by joint-stock company;
* formation of governing bodies of joint-stock company, the statement of their provisions, early termination of their powers **if the solution of these questions is not carried by charter of joint-stock company according to this Law to competence of Board of Directors (Supervisory board) of joint-stock company**; **(Law of the RT dated 12.01.2010, No. 585).**
* statement of the auditor of joint-stock company and amount of its remuneration. Election of Audit committee;
* the approval of annual reports, annual accounting records, including profits and loss statements (profits and loss account) of joint-stock company, and also profit distribution, including payment (announcement) of dividends, and losses of joint-stock company by results of a financial year;
* approval of regulations of work of General shareholder meeting;
* election of members of counting board and early termination of their powers;
* decision making about approval of transactions in the cases provided by articles 81 and 85 of this Law;
* acquisition of placed shares by joint-stock company in the cases provided by this Law;
* making decision on participation of joint-stock company in creation or activity of other legal entities by transfer of part or several parts of assets, in the amount of components of 25 and more percent from all assets belonging to joint-stock company;
* the approval of internal documents of joint-stock company, and also other internal documents of joint-stock company which approval is carried by charter of joint-stock company to competence of General meeting of joint- stock company;
* dividend payout;
* other questions carried by this law to competence of General shareholder meeting.
1. The questions carried to competence of General shareholder meeting cannot be transferred to the decision to executive body of joint-stock company.

General shareholder meeting has no right to consider and make decisions on the questions which are not carried to its competence by this Law.

3.Capital formation of joint stock companies

**Authorized capital and events of joint-stock company**

Authorized capital of joint-stock company is formed from the nominal value of the placed shares of joint- stock company acquired by shareholders.

The nominal value of all events of joint-stock company has to be identical.

Authorized capital of joint-stock company determines the minimum property size guaranteeing interests of creditors.

The minimum size of authorized capital of open joint stock company has to make not less than five thousand somoni, and private company not less than one thousand somoni.

The joint-stock company places common shares and has the right to place one or several types of preferred shares. At establishment of a joint-stock company all its shares have to be placed among founders. Events of joint- stock company are nominal and to bearer.

Founders of joint-stock company

1. Founders of joint-stock company are the natural and (or) legal entities who made the decision on its organization and the adoption of the charter.

State bodies cannot act as founders of joint-stock company if other is not established by the laws.

The state unitary enterprises can be founders of joint-stock company only with the consent of the state on behalf of authorized state body on management of state-owned property.

1. The joint-stock company cannot have other joint-stock economic company consisting of one person as the only founder (shareholder).
2. Founders of joint-stock company bear subsidiary responsibility according to the obligations connected with its creation and arising to state registration of this joint-stock company.
3. Principles of financial organization of joint stock companies

Joint stock company -

A form of business organization that falls between a [corporation](https://financial-dictionary.thefreedictionary.com/corporation) and a [partnership](https://financial-dictionary.thefreedictionary.com/partnership). The [company](https://financial-dictionary.thefreedictionary.com/company) sells [stock](https://financial-dictionary.thefreedictionary.com/stock), andits [shareholders](https://financial-dictionary.thefreedictionary.com/Shareholder) are free to sell their stock, but shareholders are liable for all [debts](https://financial-dictionary.thefreedictionary.com/debt) of the company.

International definition of JSC: A company that [issues](https://financial-dictionary.thefreedictionary.com/Issue) [stock](https://financial-dictionary.thefreedictionary.com/stock) and requires [shareholders](https://financial-dictionary.thefreedictionary.com/shareholders) to be held liable for the company's [debt](https://financial-dictionary.thefreedictionary.com/debt). In other words, ajoint stock company combines features of a [general partnership](https://financial-dictionary.thefreedictionary.com/general%2Bpartnership), in which owners of a company split [profits](https://financial-dictionary.thefreedictionary.com/profit) andliabilities, and a [publicly-traded company](https://financial-dictionary.thefreedictionary.com/Publicly-Traded%2BCompany), which issues stock that shareholders are able to [buy](https://financial-dictionary.thefreedictionary.com/buy) and [sell](https://financial-dictionary.thefreedictionary.com/sell) on an[exchange](https://financial-dictionary.thefreedictionary.com/exchange)

Definition of JSC according to Tajik legislation: **joint-stock company** - the commercial organization which authorized capital is divided into a certain number of events their participants (shareholders) do not bear responsibility according to obligations of joint-stock company and bear probability of losses from its activity within cost of the stocks owned by them;

 Also look at Article 4 The LRT on LSC.

**Principles of a Joint Stock Company are:**

*1] Artificial Legal Person*

A company is a legal entity that has been created by the statues of [law](https://www.toppr.com/guides/civics/understanding-laws/understanding-laws-of-india/). Like a natural person, it can do certain things, like own property in its name, enter into a [contract](https://www.toppr.com/guides/business-laws/indian-contract-act-1872-part-i/types-of-contract-based-on-performance/), borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its[board of directors](https://www.toppr.com/guides/business-law-cs/elements-of-company-law-ii/board-of-directors-composition/).

However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

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*2] Separate Legal Entity*

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

*3] Incorporation*

For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

*4] Perpetual Succession*

The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company’s life.

*5] Limited Liability*

This is one of the major points of difference between a company and a [sole proprietorship](https://www.toppr.com/guides/business-studies/forms-of-business-organisations/sole-proprietorship/) and [partnership](https://www.toppr.com/guides/business-studies/forms-of-business-organisations/partnership/). The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the [debts](https://www.toppr.com/guides/economics/government-budget-and-the-economy/debt/) of a company.

A shareholders [liability](https://www.toppr.com/guides/accounting-and-auditing/preparation-of-final-accounts-of-sole-proprietor/classification-of-assets-and-liabilities/) is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this. Only the companies assets can be sold off to repay its own debt. The members cannot be made to pay up.

*6] Common Seal*

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an [agreement](https://www.toppr.com/guides/business-laws/the-sale-of-goods-act-1930/sale-and-agreement-of-sale/), the approval is indicated via a common seal. A common seal is engraved seal with the company’s name on it.

So no document is legally binding on the company until and unless it has a common seal along with the signatures of the [directors](https://www.toppr.com/guides/business-law-cs/elements-of-company-law-ii/board-of-directors-composition/).

*7] Transferability of Shares*

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a [public company](https://www.toppr.com/guides/business-studies/forms-of-business-organisations/types-of-companies/), there are some restrictions, but the transfer cannot be prohibited.

Advantages of a Joint Stock Company

One of the biggest drawing factors of a joint stock company is the *limited liability of its members*. their liability is only limited up to the unpaid amount on their shares. Since their [personal wealth](https://www.toppr.com/guides/fundamentals-of-economics-and-management/basic-concepts-of-economics/concept-of-wealth-welfare-and-investments/) is safe, they are encouraged to invest in joint stock companies

The [shares of a company](https://www.toppr.com/guides/business-laws/companies-act-2013/types-of-shares/) are *transferable.* Also, in the case of a listed public company they can also be sold in the market and be converted to cash. This ease of ownership is an added benefit.

*Perpetual succession* is another advantage of a joint stock company. The death/retirement/insanity/etc does affect the life of a company. The only liquidation under the Companies Act will shut down a company.

A company hires a board of directors to run all the activities. Very proficient, talented people are elected to the board and this results in effective and efficient management. Also, a company usually has large resources and this allows them to hire the *best talent and professionals*.

Disadvantages of a Joint Stock Company:

One disadvantage of a joint stock company is the complex and lengthy procedure for its *formation*. This can take up to several weeks and is a costly affair as well.

According to the [Companies Act, 2013](https://www.toppr.com/guides/business-laws/companies-act-2013/) all public companies have to provide their [financial records](https://www.toppr.com/guides/principles-and-practice-of-accounting/accounting-concepts/financial-statements/) and other related[documents](https://www.toppr.com/guides/business-laws/companies-act-2013/registration-and-incorporation-of-a-company/) to the registrar. These documents are then public documents, which any member of the public can access. This leads to a complete *lack of secrecy* for the company.

And even during its day to day functioning a company has to follow a numerous number of laws, *regulations*, notifications, etc. It not only takes up time but also reduces the freedom of a company

A company has many [stakeholders](https://www.toppr.com/guides/accountancy/financial-statements/stakeholders-and-their-information-requirement/) like the shareholders, the promoters, the[board of directors](https://www.toppr.com/guides/business-law-cs/elements-of-company-law-ii/board-of-directors-composition/), the employees. the [debenture](https://www.toppr.com/guides/business-studies/sources-of-business-finance/debentures/) holders etc. All these stakeholders look out for their benefit and it often leads to a [conflict](https://www.toppr.com/guides/fundamentals-of-economics-and-management/organizational-conflicts/strategies-for-conflict-management-in-workplace/) *of interest.*

**TOPIC 5. THE ROLE of JSC’s FINANCE IN THE DEVELOPMENT OF THE COUNTRY'S ECONOMY. SHARES AND SHAREHOLDERS OF JSCs**

**1. The role of JSC’s finance in the development of the country's economy**

**2.Shares and shareholders of JSCs**

The basic, initial link of the financial system is the finances of JSCs of material production, where net income is created - the main source of the formation of financial resources of the remaining links of the financial system. According to the sectoral focus, the finances of this link are subdivided into the finances of JSCs in industry, agriculture, construction, freight transport, trade and public catering, forestry and water management.

The finances of institutions and organizations of non-production links are characterized by the fact that profit is not pursued here, with the exception of a number of institutions operating on a commercial basis (passenger transport, housing and communal services, consumer services, insurance and credit structures). Also, recently, part of state institutions and organizations of non-production level operates on a partly commercial basis, using the income received for their development and material incentives for employees (university, medical institutions, sports and health institutions).

Thus, enterprise finance is an important component of the state financial system, which is a relatively independent area of ​​the financial system.

JSCs have financial relationships with the following entities:

The state (payment of taxes and fees to budget and extra-budgetary funds, payment of financial sanctions in cases of violation of tax legislation, financing from targeted budget and extra-budgetary funds, receipt and repayment of budget loans and loans);

employees (wages and payments from the consumption fund, withholding taxes, contributions and other deductions in accordance with the law);

business entities (non-residents and residents regarding the purchase and sale of products, the implementation of export and import operations); financial and credit institutions (regarding the attraction - placement of free funds);

subsidiaries (regarding intra-corporate redistribution of funds);

founders (owners) - regarding the management of property and equity capital.

Financial relations of JSCs cover the processes of distribution and redistribution of gross domestic product and national income. These relations arise in the process of formation, distribution, redistribution and use of financial resources of the enterprise.

Thus, financial relations are formed in the process of the circulation of its funds on the basis of cash flows generated by various activities. All financial relations of JSCs are regulated by the state. The state of the finances of JSCs affects the provision of national and regional monetary funds with financial resources.

There is a direct relationship between general state finance and enterprise finance: the more stable the financial position of JSCs, the more fully the socio-cultural, investment and other needs and programs of the state are satisfied.

In modern market conditions, JSCs independently manage their finances, but in accordance with the laws and regulations of the state.

**2.Shares and shareholders of JSCs**

General provisions on events

1. The event is the security released by joint-stock company and certifying the following shareholder rights depending on its type and category:
* on receipt of dividends;
* on participation in management of joint-stock company if other is not provided by this Law;
* on part of property of the joint-stock company which remained after its liquidation.

Share par value is defined in national currency if other is not established by the legislation, and has to be uniform for events of all releases of joint-stock company.

1. The joint-stock company has the right to let out nominal and demand shares. The joint-stock company

issues stocks in a documentary and paperless form

**TOPIC 6. DEVELOPMENT OF JOINT STOCK COMPANIES FINANCES IN TAJIKISTAN. TYPES OF SHARES IN THE ECONOMY**

**1. Main financial tasks of joint stock companies**

2.Types of events (Shares)

Any joint stock company involves shares, which are also encountered in public companies. Joint stock companies trade these shares on a registered exchange. The holders can either buy or sell the shares after their own liking. After understanding what is a joint stock company, it is important to mention that the shares in these types of organizations come with obligations.

Compared to ordinary or preferred shares, where there are no obligations involved, joint stock company shares require the holders to vote directly in the company’s management decisions. More than that, the holders can intervene in how the company’s outstanding debts are handled.

**The artificial legal person**

A joint stock company is created by law, which means it received the attribute of an artificial legal person. This makes it a legal entity that respects all laws and regulations. Just as in the case of a normal person, an artificial legal person can own properties, can sign contracts, borrow money, sue other companies and so on. Moreover, the artificial legal person is controlled through a board of directors, which gives it rights. Not all rules and rights apply to artificial legal persons such as joint stock companies though.

**The separate legal entity**

Compared to a partnership or a proprietorship, joint stock companies have separate legal identities and members. When a company becomes joint stock, it receives a legal identity, as mentioned before. No member of the joint stock company is not liable for it directly. In addition, the joint stock company won’t depend on its members in terms of financial or business activities, as they are led by a board of directors.

**Democratic management**

Joint stock companies are managed democratically, by the representatives chosen from the shareholders, which form the board of directors.

**Maximum number of members**

The Companies Act specify that there must be a minimum number of two members to form a joint stock company. The maximum number of members reaches 50. This is a considerable difference considering that for public limited companies the minimum number of members is 7, while the maximum number is not specified.

**Incorporating the company**

In order to recognize the company as a separate legal entity, the company must be incorporated. Registering a joint stock company transforms it into an artificial legal person. Not registering it means it doesn’t exist legally.

**Perpetual succession**

Because joint stock companies are a result of the law, it is normal that they function within the law only. The life of a joint stock company is not related to how long the members are part of it. Even after the death of all members, the company will still exist and can be passed on to others.

**The shareholder’s liability**

The shareholder’s liability represents the difference between a proprietorship or a partnership and a joint stock company. The assets that belong to the members of the company can’t be liquidated in order to pay the debt of the company. A shareholder’s liability is limited, and the amount of debt has no role here.

### ****The common seal****

Because a joint stock company is an artificial legal person, its roles are controlled by the board of directors, which means that the approvals given are common. Common seals are engraved and contain the company’s name, but the decisions are taken by the board of directors. The common seal and the signatures of the directors are the only ones that can bind the company to a document.

### ****The transferability of the shares****

All shares are transferable units in the case of a joint stock company. In public companies, people may encounter restrictions when transferring the shares, but the transfers can’t be prohibited in any way.

### ****How is it formed?****

The [Companies Act 1956](https://www.netlawman.co.in/ia/companies-act-1956) specifies that a joint stock company must be formed by a group of members (promoters). The group of members must respect all the formalities which are prescribed in this act.

### ****What advantages joint stock companies have?****

* The main advantage of joint stock companies is that all members have limited liability. Their liability is limited to the unpaid amount of their shares, which is a considerable benefit.
* All shares of a joint stock company are transferable. This means that if a person wants to sell them in the market or in a public listing, they can do it and convert the shares into cash.
* Perpetual succession can be considered a great advantage of joint stock companies, as the shares can be passed on.
* Most joint stock companies are very well managed, considering that all activities are run by a board of directors.
* Joint stock companies have large resources, which means they can hire professionals to run the activities related to them.

**What disadvantages joint stock companies have?**

* Forming a joint stock company is a very lengthy process that takes a lot of time and resources. The usual period lasts between a few weeks to a few months, it is a costly process and it represents the main disadvantage of such companies.
* The Companies Act require all public companies to make their financial records public. This means that owning a joint stock company involves a major lack of secrecy, as all documents will be public.
* Joint stock companies have to follow a series of strict rules and regulations that reduce its freedom tremendously. The activity of joint stock companies is thus limited.
* The stakeholders in a joint stock company are very numerous and extremely diverse. They range from shareholders to promoters and debenture holders. The diversity often leads to conflicts of interest.

**Conclusion**

To sum up, a joint stock company is a type of organization where shareholders have the same responsibilities and benefits as a partner. The functioning of a joint stock company is not much different from others, but it offers great privileges for the people who want to join one.

Increase and decrease of authorized capital (ISW)

**The Role Of A Shareholder**

The shareholders are the owners of the company and provide financial backing in return for potential dividends over the lifetime of the company. A person or corporation can become a shareholder of a company in three ways:

* By subscribing to the memorandum of the company during incorporation
* By investing in return for new shares in the company
* By obtaining shares from an existing shareholder by purchase, by gift or by will

Subscribers are usually the party who initiate the incorporation of a company and automatically become the first shareholders after incorporation.

While it is possible for shareholders to transfer their shares, it is also possible for private companies to place restrictions on this process in the articles of the company.

### ****Shareholders Duties****

A shareholder doesn’t manage the day to day business of the company as this is handled by the board of directors.

However, decisions in relation to the company’s goals and overall performance often require shareholder approval, which include (but are not limited to) the following:

* Changes to the constitution of the company
* Declaring a dividend
* Approving the financial statements of the company
* Winding up of the company by way of voluntary liquidation

Shareholder decisions can be made by resolution or at general meetings, where shareholders discuss the company’s performance and vote on relevant resolutions. There are two types of general meetings, [annual (AGM)](https://www.pearse-trust.ie/blog/irish-private-companies-the-business-of-the-agm), which are held once a year and [extraordinary (EGM)](https://www.pearse-trust.ie/blog/a-guide-to-convening-extraordinary-general-meetings), which take place when required.

When a shareholder is unable to attend a general meeting it is possible for them to [appoint a proxy](https://www.pearse-trust.ie/blog/the-role-of-a-proxy) in their place.

Though it is not possible for shareholders to amend decisions made by directors or interfere with the running of the company, they can convene a general meeting and raise a motion to remove a director, or the full board, or they can amend the articles to restrict the director’s powers.

[**Related: Irish Private Companies - The Business of the AGM**](https://www.pearse-trust.ie/blog/irish-private-companies-the-business-of-the-agm)

### ****Shareholder Decisions****

There are two types of shareholder resolutions, ordinary and special, and both have distinct rules and requirements.

An ordinary resolution requires a simple majority of the members present to vote in favour of the resolution and this is acceptable for the majority of shareholder decisions.

For UK and Irish private limited companies, special resolutions require the approval of 75% or more of its members

[Votes at general meetings](https://www.pearse-trust.ie/blog/having-your-say-votes-at-general-meetings-explained) can be cast either by way of a show of hands or by poll.  A show of hands results in every shareholder or proxy present having one vote only, while a poll allows each shareholder to have one vote for each share they hold.

[**Related: Having Your Say – Votes At General Meetings Explained**](https://www.pearse-trust.ie/blog/having-your-say-votes-at-general-meetings-explained)

### ****Shareholder Liability****

A shareholder’s liability is limited as the company’s debts are the responsibility of the company itself. The shareholder is liable only for the price they paid for the shares however it should be noted that if the shares are partially paid, the shareholder will be required to pay the remaining balance, either when the directors or an administrator (if the company is in financial difficulty) call up the unpaid amount.

2.Types of events (Shares)

 The joint-stock company issues **common** and **preferred** shares. The total nominal value of the placed preferred shares should not exceed 25 percent from authorized capital of joint-stock company.

 By charter of joint-stock company or the decision of General shareholder meeting release of preferred shares of different types according to this Law can be provided.

Common shares

1. The common share provides to each shareholder owning it identical volume is right.
2. Shareholders are common shareholders of joint-stock company according to this Law and charter of joint-stock company have the right:
3. on receipt of dividends from activity of society;
4. on receiving part of property of the joint-stock company which remained after its liquidation in the order established by the legislation of the Republic of Tajikistan;
5. on participation in General shareholder meeting with voting power at the solution of all questions which are brought up for vote;
6. to protect judicially the rights, to take legal action in protection of the interests, interests of shareholders and the society according to transactions in which commission there is an interest of the persons specified in article 83 of this Law;
7. on obtaining information on activity of society in the order determined by the legislation of the Republic of Tajikistan.
8. The shareholder – the common shareholder of joint-stock company in the order determined by the legislation of the Republic of Tajikistan and the charter of society can have both other property and non - property rights. (Law of the RT dated 19.05.09, No. 510).
9. Converting of common shares in preferred shares and bonds is not allowed.

Preferred shares of joint-stock company

The shareholders holding preferred shares have the privilege before owners of common shares to receipt of dividends in advance determined guaranteed size established by a prospectus of the issue, and also on part of the property which remained after liquidation of joint-stock company in the order established by this Law and other laws.

**TOPIC 7. OBJECTIVES, TASKS AND FINANCIAL OPERATIONS OF JOINT STOCK COMPANIES IN SECURITY MARKET**

1. **Objectives and tasks of joint stock companies**

### Benefits of Joint-Stock Companies

### Limited Liability Companies (LLCs)

### Financial operations of joint stock companies: Management Buyout (MBO)?

1. **Minority Interest**

Joint-stock companies are generally formed to enable a company to thrive. If only a few shareholders participated, the company wouldn’t be able to fund itself. But by banding together, the individuals make it possible to build a thriving business, with each shareholder then expecting to profit from the company’s success. Each member gives and each member takes.

### ****Summary:****

* **Joint-stock companies are businesses that combine the structure of a corporation with the flexibility and freedoms of a partnership/limited liability company.**
* **Joint-stock companies are built to benefit all shareholders; each investor owns a piece of the company – in accordance with the amount they’ve invested – and takes a percentage of the company’s profits.**
* **Shareholders get multiple voting rights, electing a board of directors to manage the company on their behalf, while still having a say in every part of how the company is run.**

### 2.Benefits of Joint-Stock Companies

Joint-stock companies allow a solid business to form and thrive with many working together. Each shareholder invests in the company and is able to benefit from the business. Every shareholder owns a piece of the company, up to the amount that they’ve invested.

Ownership comes with additional privileges. Shareholders have a say in everything that happens with a joint-stock company, without actually having to run the company. Shareholders elect a[board of directors](https://corporatefinanceinstitute.com/resources/careers/jobs/board-of-directors/) to manage the company on their behalf. Positions are usually filled – through elections – once a year, though the specifics may be different for each company.

Shareholders not only vote for the board of directors, but also vote to approve or deny [annual reports](https://www.sec.gov/edgar/searchedgar/companysearch.html), budgets, and how accounts are set up. In some instances, specific shareholders may be asked to step into a role if the role is not filled or becomes unoccupied. The practice isn’t common, but, when it does happen, individuals are usually chosen by consensus among those filling the other positions and the rest of the company’s shareholders.

### 3.Limited Liability Companies (LLCs)

Today’s corporate law usually makes joint-stock companies synonymous with[limited liability companies (LLCs)](https://corporatefinanceinstitute.com/resources/knowledge/strategy/limited-liability-company-llc/). What does this mean? LLCs are private companies. They are a sort of hybrid; they combine a pass-through taxation partnership with all the benefits of a [corporation](https://corporatefinanceinstitute.com/resources/knowledge/finance/what-is-corporation-overview/).

The best part of an LLC is the fact that it’s incredibly flexible and beneficial to all members. Each party involved in the company (each shareholder) is liable for the debts of the company but only equivalent to the amount that they’ve invested in the entity. It falls in line with the idea discussed above – that each shareholder owns and is responsible/liable for the percentage of shares they hold in the joint-stock company.

### 4.Financial operations of joint stock companies: Management Buyout (MBO)?

## What is a Management Buyout (MBO)?

A management buyout (MBO) is a corporate finance transaction where the management team of an operating company acquires the business by borrowing money to buy out the current owner(s). An MBO transaction is a type of [leveraged buyout (LBO)](http://107.170.57.214/leveraged-buyout-lbo) and can sometimes be referred to as a leveraged management buyout (LMBO).

In an MBO transaction, the management team believes they can use their expertise to grow the business, improve its operations, and generate a return on their investment. The transactions typically occur when the owner-founder is looking to retire or a majority shareholder wants out.

Lenders often like financing management buyouts because they ensure continuity of the business’ operations and executive management team. The transition often sits well with customers and clients of the business, as they can expect the quality of service to continue.

### Why a Management Buyout?

* Management buyouts are preferred by large companies seeking the sale of unimportant divisions or owners of private businesses who choose to withdraw.
* They are undertaken by management teams because they want to get the financial incentive for the company’s potential growth more explicitly than they can otherwise do so as employees.
* Business owners find management buyouts appealing, as they can be assured of the commitment of the management team and that the team will provide downside protection against negative press.

### How to Approach a Management Buyout?

If you’re part of the management team that wants to buy out the current owner(s), then you’ll need to be thoughtful in your approach (or you may be approached by the owner).

Put together a thoughtful proposal outlining why you want to buy the business, what you think it’s worth, and how you would finance the purchase.

Be sure to do your due diligence, including building a [financial model](http://107.170.57.214/what-is-financial-modeling) and performing a thorough [valuation analysis](http://107.170.57.214/valuation-methods).

It’s important to know which members of management will participate in the buyout and which members will not. From there you will need to choose a fair way of distributing equity in the transaction.

### How to Finance an MBO (or LMBO)?

Generally, substantial funding is required for management buyouts. The financing for management buyouts can come from the following sources:

#### 1. Debt financing

A company’s management does not necessarily have the resources at its fingertips to buy the business itself. One of the primary options is to borrow from a bank. However, banks consider management buyouts as too risky, and hence may not be willing to take the risk.

Management teams are usually expected to spend a significant sum of capital, depending on the source of funding or the bank’s determination of the management team’s resources. Then, the bank lends the remaining portion of the amount required for the buyout.

#### 2. Seller/Owner financing

In certain cases, the seller may agree to finance the buyout through a note, which is amortized over the loan period. The price charged at the time of sale would be nominal, with the real amount being charged out of the company’s earnings over the following years.

#### 3. Private equity financing

If a bank is reluctant to lend, the management may usually look to private equity funds to finance most buyouts. Private equity funds may lend capital in exchange for a proportion of the company’s shares, though the management will also be given a loan. The private equity firms may require the managers to invest as much as they can afford to tie-in the vested interest of the managers with the company’s success.

#### 4. Mezzanine financing

[Mezzanine financing](https://corporatefinanceinstitute.com/resources/knowledge/finance/mezzanine-financing/), a combination of debt and equity, will enhance the equity investment of a management team by pooling certain debt financing and equity financing features without ownership dilution.

Mezzanine financing is additional debt financing that can be raised in addition to regular lending, thus increasing the total available amount or partially replacing the own funds required by the lender. Mezzanine financing, on the one hand, has a number of advantages over classic bank loan products, and on the other hand, it allows the borrower to get a strategic partner who will take on some of the risks and will be interested not only in the return of funds, but also in the growth of the project capitalization.

### Top 10 Things to Consider When Planning a Management Buyout

Here are some of the most important points to consider when planning an MBO:

1. Research the feasibility of the transaction
2. Be open and transparent with executives and shareholders
3. Cut key employees in on the deal (share the equity)
4. Formulate a strong employee and customer retention plan
5. Develop a thorough understanding of the value of the business (financial modeling and valuation)
6. Get your financing all lined up
7. Don’t get hostile, remain friendly
8. Design a well-thought-out shareholders agreement
9. Keep the buyout low key until the deal is signed
10. Don’t neglect the operations of the business while working on the deal
11. **Minority Interest**

## What is Minority Interest?

Minority interest refers to having a stake in a company that is less than 50% of the total shares in terms of voting rights. Essentially, minority investors don’t exercise control over a company by way of [votes](https://corporatefinanceinstitute.com/resources/knowledge/finance/what-is-proxy-vote/), leaving them with little influence in the overall decision-making process. In most cases, minority interest stakes range between 20% to 30%.

On the balance sheet of a company with controlling interests, minority shares are usually shown as [non-current liabilities](https://corporatefinanceinstitute.com/resources/knowledge/accounting/types-of-liabilities/), and they represent the portion of its minor companies owned by minor controlling interests.

### Passive vs. Active Minority Interest

Minority interest can be classified as active or passive. In passive interest, the controlling stake is usually below 20%. Under passive interest, a subsidiary company does not exert influence over the major company. On the other hand, the controlling stake of an active interest ranges between 21% to 49%, and a [subsidiary](https://corporatefinanceinstitute.com/resources/knowledge/finance/subsidiary-definition/), in this case, enjoys voting rights to influence the major company.

### Financial Reporting

For minority interest, financial reporting occurs only when the major company prepares a separate set of financial statements and consolidated financial documents. Adjustments in the minority interest take place when the major company owns a less than 100% stake in the minor company.

In terms of profit and loss account, minority interest is that part of consolidated profit and loss that comes under ordinary activities after taxation. According to [IFRS regulations](https://corporatefinanceinstitute.com/resources/knowledge/accounting/what-are-ifrs-standards/), the minority stake falls under equity. However, in the US, GAAP imposes slightly relaxed rules on reporting.

GAAP allows minority interest to be shown under the equity or liability section.  On a balance sheet, minority interest is shown as a separate line item. In such a way, users of the financial statement can see clearly all the controlling interests in the parent company. Users can make informed choices based on the comparison of patterns in the different minor companies.

### Valuation of Minority Interest

Valuation of a company needs proper forecasting of financial statements to understand future trends using certain parameters and assumptions. Nearly all the figures used in forecasting are directly related to net profit and revenue. Unfortunately, making forecasts based on these two parameters can generate data subject to multiple interpretations. Thus, to deal with the issue, analysts developed four methods that can be used to carry out accurate computations.

#### 1. Constant Growth

The constant growth method is seldom used because the assumption is that there is hardly any decline or growth in the performance of a minor company.

#### 2. Numerical Growth

In the numerical growth method, previous figures are analyzed to ascertain existing trends. The model predicts growth of a subsidiary at a uniform rate based on past trends.  Also called statistical growth, numerical growth uses a number of important tools to forecast trends such as time series analysis, moving averages, and regression-based analysis. However, the analysis method is not applicable to companies experiencing dynamic growth such as [FMCG](https://www.globaldata.com/20186-2/).

#### 3. Modeling Subsidiaries Individually

This analysis method evaluates each subsidiary on its own and then adds up the individual interests of each minor company to achieve a consolidated value. This method is much more flexible, and the results are very accurate. Unfortunately, it does not work in all cases, because it results in cost and time constraints. In addition, it won’t work where there are very many subsidiaries to evaluate.

One important thing to remember is that when it comes to valuation of minority interest, there are many factors to consider, both external and internal, that are applicable to a company and its industry of operation. The factors need careful assessment as their impact is different for each company.

#### 4. Ratio Analysis in Minority Interest

One of the questions many people ask is whether minority interest is relevant when it comes to ratio analysis. The short answer is yes, it is very relevant. Why? Well, any financial ratio that involves investment structures should take into consideration the implication of a minority stake. Some of the ratios that are affected include return on equity, debt-to-equity ratio, and capital gearing ratio.

### Minority Interest: Liability or Asset?

Liability is the compulsion of a company due to previous undertakings resulting in an outflow of resources. For example, provisions on uncleared debts, employee wages, and dues, as well as creditor balance. The examples indicate and involve the outflow of a company’s resources in the form of cash or other equivalents in due course.

However, since cash won’t be paid out to clear the interests, they are not considered a liability. On the other hand, an asset is something with value attached to it. Assets can be converted to cash or its equivalent. While an asset possesses value, the controlling company exercises no control over the value.  Thus, minority interest is a non-controlling stake in a company, meaning it is neither a liability nor an asset.

### Minority Interest: Equity or Obligation?

Certainly, minority interest is not a debt because a company is not obligated to repay. In other words, there are no fixed or binding payments. Thus, because minority interest is not a payable quantity, it can’t be considered a debt. Although minority interest does not meet the preconditions that would qualify it as equity, assets on a consolidated balance sheet receive some form of contribution from minority assets.

### Minority Interest in Tthe Computation of Enterprise Value

Enterprise value represents a company’s valuation. In most cases, enterprise value is usually greater than a company’s market capitalization because part of it is debt. Nevertheless, a pertinent question that people can’t seem to agree on is whether minority interest should be included in the computation of a company’s enterprise value. Yes, it should be included because enterprise value is a significant portion of a company’s stake in the market. Thus, minority interest is part of the enterprise value.

### Final Word

Minority interest provides users with important information when reading a financial statement. It also helps users explore and make informed investment choices. The percentage of controlling stake determines the influence and voting rights of minority interests over the decision-making process. In the past, the concept of minority interest was known as equity, liability, or sometimes, neither of the above. Today, very little guidance is available on the presentation and treatment of non-controlling interest.

## What is Stockholders Equity?

Stockholders Equity (also known as Shareholders Equity) is an account on a company’s [balance sheet](https://corporatefinanceinstitute.com/resources/knowledge/accounting/balance-sheet/) that consists of share capital plus retained earnings. It also represents the residual value of assets minus liabilities. By rearranging the original accounting equation, Assets = Liabilities + Stockholders Equity, it can also be expressed as Stockholders Equity = Assets – Liabilities.

Stockholders Equity provides highly useful information when analyzing financial statements. In events of liquidation, equity holders are last in line behind debt holders to receive any payments. This means that bondholders are paid before equity holders. Therefore, debt holders are not very interested in the value of equity beyond the general amount of equity to determine overall solvency. Shareholders, however, are concerned with both liabilities and equity accounts because stockholders equity can only be paid after bondholders have been paid.

### Components of Stockholders Equity

Stockholders Equity is influenced by several components:

1. **Share Capital** – amounts received by the reporting entity from transactions with its owners are referred to as [share capital](https://corporatefinanceinstitute.com/resources/knowledge/accounting/share-capital/).
2. **Retained Earnings** – amounts earned through income, referred to as Retained Earnings and Accumulated Other Comprehensive Income (for IFRS only).
3. **Net Income & Dividends** – Net income increases retained earnings while dividend payments reduce retained earnings.

#### 1. Share Capital

Share Capital (contributed capital) refers to amounts received by the reporting company from transactions with shareholders. Companies can generally issue either common shares or preferred shares. Common shares represent residual ownership in a company and in the event of liquidation or dividend payments, common shares can only receive payments after preferred shareholders have been paid first.

If a company were to issue 10,000 common shares for $50 each, the contributed capital would be equal to $500,000. The journal entry would be:

DR Cash          500,000

CR   Common Shares             500,000

In addition to shares being sold for cash as in the previous example, it is also common to see companies selling shares on a subscription basis. In these situations, the buyer usually makes a down payment on purchasing a certain number of shares and agrees to pay the remaining amount at a later date. For example, if XYZ Company sells 10,000 common shares for $10 each on a subscription basis that requires the buyer to pay $3 per share when the contract is signed and the remaining balance 2 months later, the journal entry would appear as follows:

DR Cash                                              30,000

DR Share Subscriptions Receivable               70,000

CR Common shares subscribed          100,000

The share subscriptions receivable functions similar to the accounts receivable (A/R) account. Once the receivable payment is paid in full, the common shares subscribed account is closed and the shares are issued to the purchaser.

DR Cash                      70,000

CR Share Subscriptions Receivable   70,000

DR Common shares subscribed          100,000

CR Common Shares                           100,000

#### More Share Terminology

A few more terms are important in accounting for share-related transactions. The number of shares authorized is the number of shares that the corporation is allowed to issue according to the company’s articles of incorporation. The number of shares issued refers to the number of shares issued by the corporation and can be owned by either external investors or by the corporation itself.

Finally, the number of shares outstanding refers to shares that are owned only by outside investors, while shares owned by the issuing corporation are called treasury shares.

The relationship can be visualized as follows:

**Shares Authorized ≥ Shares Issued ≥ Shares outstanding**

Where the difference between the shares issued and the shares outstanding is equal to the number of treasury shares.

#### 2. Retained Earnings

Retained Earnings (RE) are business’ profits that are not distributed as dividends to stockholders (shareholders) but instead are allocated for investment back into the business.  Retained Earnings can be used for funding [working capital](https://corporatefinanceinstitute.com/resources/knowledge/finance/what-is-net-working-capital/), fixed asset purchases, or debt servicing, among other things.

To calculate retained earnings, the beginning retained earnings balance is added to the net income or loss and then dividend payouts are subtracted. A summary report called a statement of retained earnings is also maintained, outlining the changes in retained earnings for a specific period.

The Retained Earnings formula is as follows:

**Retained Earnings = Beginning Period Retained Earnings + Net Income/Loss – Cash Dividends – Stock Dividends**

Learn more in CFI’s [Retained Earnings guide](https://corporatefinanceinstitute.com/resources/knowledge/accounting/retained-earnings/).

#### 3. Dividend Payments

Dividend payments by companies to its stockholders (shareholders) are completely discretionary. Companies have no obligation whatsoever to pay out dividends until they have been formally declared by the board. There are four key dates in terms of dividend payments, two of which require specific accounting treatments in terms of journal entries. There are various kinds of dividends that companies may compensate its shareholders, of which cash and stock are the most prevalent.

|  |  |  |
| --- | --- | --- |
| **Date** | **Explanation** | **Journal Entry** |
| Declaration Date | Once the board declares a dividend, the company records an obligation to pay, through a dividend payable account | DR Retained EarningsCR Dividends Payable |
| Ex-dividend Date | The date on which a share trades without the right to receive a dividend that has been declared. Prior to the ex-dividend date, an investor would be entitled to dividends. | No Journal Entry |
| Date of Record | The date when the company compiles the list of shareholders to receive dividends | No Journal Entry |
| Payment Date | When the cash or other form of dividend is actually paid to the shareholder | DR Dividends PayableCR Cash |

## What are the Types of Businesses?

There are different types of businesses to choose from when forming a company, each with its own legal structure and rules. Typically, there are four main types of businesses: [Sole Proprietorships](https://corporatefinanceinstitute.com/resources/knowledge/strategy/sole-proprietorship/), Partnerships,[Limited Liability Companies (LLC)](https://corporatefinanceinstitute.com/resources/knowledge/strategy/limited-liability-company-llc/), and [Corporations](https://corporatefinanceinstitute.com/resources/knowledge/finance/what-is-corporation-overview/). Before creating a business, [entrepreneurs](https://corporatefinanceinstitute.com/resources/knowledge/other/entrepreneur/) should carefully consider which type of business structure is best suited to their enterprise.

This article will provide a quick overview of these four basic types of businesses to help entrepreneurs make one of their most important decisions.

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### #1 Sole Proprietorship

A sole proprietorship is an unincorporated company that is owned by one individual only. While it is the most simple of the types of businesses, it also offers the least amount of financial and legal protection for the owner. Unlike partnerships or corporations, sole proprietorships do not create a separate legal identity for the business. Essentially, the owner of the business shares the same identity as the company. Therefore, the owner is fully liable for any and all [liabilities](https://corporatefinanceinstitute.com/resources/knowledge/finance/liability/) incurred by the company.

An entrepreneur may choose this option if they want to retain full control of the company. Additionally, it is a relatively easy and inexpensive process to establish a sole proprietorship. There are also tax benefits, as income is considered the owner’s personal [income](https://corporatefinanceinstitute.com/resources/knowledge/finance/taxable-income/) and therefore only taxed once. Finally, there are relatively few regulation requirements for sole proprietorships.

### #2 Partnership

As the name states, a partnership is a business owned by two or more people, known as partners. Like sole proprietorships, partnerships are able to take advantage of flow-through taxation. This means that the income is treated as the owners’ incomes so it is only taxed once. Owners in partnerships are responsible for the liabilities of the firm. However, there are some nuances to this. There are different types of partnerships: general partnerships, limited partnerships, and limited liability partnerships.

[**General Partnerships**](https://corporatefinanceinstitute.com/resources/knowledge/deals/general-partnership/)**:** This is the easiest type of partnership to form, with few upkeep costs. Every partner is considered as participating in the operations of the business, and there is unlimited liability for every partner. This means that every partner’s personal assets can be used to repay the liabilities of the partnership. This also means that each partner is responsible for every other partner’s actions.

For example, John and Dave are in a general partnership. If John is sued for malpractice, Dave’s personal assets may also be claimed against in the lawsuit.

**Limited Partnerships:** This type of partnership has at least one general partner. This general partner takes on unlimited liability for the partnership and manages the operations of the company. Additionally, there are also limited partners in limited partnerships. Limited partners only take on as much liability as their financial stake in the business. However, as limited partners, they are not involved in management decisions and do not have any direct control over the company.

**Limited Liability Partnerships (LLP):** LLPs are similar to general partnerships, where multiple partners are each responsible for the operations of the business. However, partners in LLPs are not personally responsible for the actions of other partners or the debts of the business. Unfortunately, not all businesses can be LLPs. This type of business is often restricted to certain professions, such as lawyers or [accountants](https://corporatefinanceinstitute.com/resources/knowledge/accounting/accountant/).

In general, as compared to other types of businesses, partnerships offer more flexibility but also have greater exposure to risk.

### #3 Limited Liability Company (LLC)

Limited liability companies (LLCs) are one of the most flexible types of businesses. LLCs combine aspects of both partnerships and corporations. They retain the tax benefits of sole proprietorships and the limited liability of corporations. LLCs are able to choose between different tax treatments. As long as the LLC chooses not to be treated as a C corporation, it retains its flow-through taxation status.

Additionally, LLCs benefit from limited liability status. In LLCs, the company exists as its own legal entity. This protects the owners of the LLCs from being personally liable for the operations and debts of the business.

### #4 Corporation

Corporations are a separate legal entity created by shareholders. Incorporating a business protects owners from being personally liable for the company’s debts or legal disputes. A corporation is more complicated to create, as compared to the other three types of businesses. Articles of incorporation must be drafted, which include information such as the number of [shares](https://corporatefinanceinstitute.com/resources/knowledge/valuation/diluted-shares/) to be issued, the name and location of the business, and the [purpose of the business](https://corporatefinanceinstitute.com/resources/knowledge/strategy/mission-statement/).

In sole proprietorships and partnerships, if one of the owners passes away or declares bankruptcy, the company is dissolved. Corporations exist as a legally separate entity. Therefore, they are protected from this situation and will continue to exist even if the owner of the business passes away.

There are three main types of corporations:

**C Corporation:** This is the most common form of incorporation. The corporation is taxed as a business entity and owners receive profits that are then also taxed individually.

**S Corporation:** This is similar to a C corporation but may only consist of up to 100 shareholders. S corporations are pass-through entities like partnerships, so profits are not taxed twice.

**Non-Profit Corporation:** Often used by charitable organizations, non-profit corporations are tax exempt. All forms of incoming cash flow must be utilized to spend on the organization’s operations or[future plans](https://corporatefinanceinstitute.com/resources/knowledge/strategy/non-profit-business-plan/).

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### Examples of Types of Businesses

Many businesses begin as sole proprietorships, as this type of business is great for many new, small businesses. As they grow and expand, many businesses tend to convert to corporations. [eBay](https://www.ebay.ca/) is a very famous example of a sole proprietorship that eventually converted into a corporation.

[Hewlett-Packard (HP)](https://www8.hp.com/us/en/home.html) is an example of an incredibly successful and famous partnership. Like eBay, as they grew, they eventually incorporated in 1947. However, the company began as a business partnership between two friends.

[Chrysler](https://www.chrysler.com/) is one of the largest automobile manufacturers in the United States. Since its inception, Chrysler has maintained its status as a limited liability corporation (LLC).

Finally, among the most famous of companies is [Apple](https://www.apple.com/). Like most large companies that are listed on stock exchanges, Apple, otherwise known as Apple Inc., was incorporated soon after the company began its operations. To this day, Apple remains one of the largest companies in the world. It has continued to exist despite one of its co-founders, Steve Jobs, passing away.

**TOPIC 8. FINANCIAL OPERATIONS OF THE JOINT-STOCK COMPANY TYPES OF SECURITIES IN JOINT STOCK COMPANIES AND METHODS OF THEIR ISSUANCE**. **CONTRIBUTION OF COMMERCIAL BANKS OF RT**

**1. Financial operations of the joint-stock company**

**2. Formation of financial relations in a joint stock company**

A key aspect that differentiates joint stock companies (JSC) from [limited liability companies (LLC)](https://www.mondaq.com/redirection.asp?article_id=662496&company_id=27252&redirectaddress=http%3A//www.jusprivatum.com/practice_areas/limited-liability-company-llc-formation-registration-russia.cfm) and other business entities is the ability of a JSC to issue securities to raise capital. When issuing securities, a JSC is subject to federal laws governing the securities market and regulations of the Central Bank of the Russian Federation. We will discuss these regulations and the procedures for issuing the various types of securities here.

### Joint Stock Companies

To review a bit, there are many advantages to [forming a joint stock company](https://www.mondaq.com/redirection.asp?article_id=662496&company_id=27252&redirectaddress=http%3A//www.jusprivatum.com/practice_areas/joint-stock-company-incorporation-formation-russia.cfm) to conduct business in Russia. A JSC allows for ownership of a business entity while protecting the owners from some level of liability. For shareholders of a JSC, their risk is generally limited to their investment and they are not personally liable for the company's debts.

A joint stock company must convene a general meeting of its shareholders at least once a year. This meeting is considered to be their higher management body. A public joint stock company must have a board of directors consisting of at least five members. The company's executive body may be collegiate (board, directorate) and/or "one-person" (director, general director). A joint stock company's executive body carries out the day-to-day management of operations and reports to the board of directors and the general meeting of shareholders. Once the required initial capital is satisfied, a JSC may issue securities to raise funds for the business.

### Types of Securities

A joint stock company may issue bonds and issuer's option bonds to raise capital, but most commonly issues shares. If the JSC is a non-public company, the shares are only offered to a closed group of investors. If it is a public company, however, the shares are offered to the general public. The main types of shares and how they function are as follows:

* **Common shares.** The initial value of each common share must be equal. In general, each common share carries one vote for the shareholder at the annual shareholders' meeting.
* **Preferred shares.** JSCs may issue preferred shares, which may have different nominal values and offer the holder priority over holders of common shares for receiving dividends. Preferred shareholders do not have voting rights, however.
* **Fractional shares.** Under particular circumstances, such as a consolidation of shares, shares may be divided into fractions of a whole share. Fractional share holders have the same rights as common shareholders, but in proportion to their ownership.

A JSC may issue any combination of these type of shares, but are limited to no more than 25 percent of their shares being of the preferred type.

### Regulations for Issuing Securities

The issuance of any type of security must be registered with the Central Bank of Russia. Public and non-public JSC should apply to the Central Bank of Russia with a resolution on share issuance and also attach certain documents to the application. The registration of resolution on share issuance with the Central Bank of Russia takes 30 days. The registration of report on share issuance takes additionally 15 days.

Even JSCs with minimal amount of charter capital are obliged to register the issuance of their shares within one year upon incorporation. All shares issued due to increase of company's capital, conversion of shares, reorganization of JSC, etc. should also be registered with the Central Bank of Russia.

When the securities are to be offered to the general public, as with a public JSC, the issuer must register a prospectus and disclose financial information about the company, including quarterly reports, financial statements, and other important information as required by the Central Bank. This information must be made public through an approved news agency or website.

Moscow Exchange is the largest exchange group in Russia. The exchange was established in December 2011 by merging the Moscow Interbank Currency Exchange (MICEX) which was used to trade bonds and the Russian Trading System (RTS) that was used for trading shares and was Russia's leading stock exchange then.

Both public and non-public JSCs must maintain a shareholders' register in which the holdings of the shareholders are noted. This function must be performed by a licensed registrar.

**2.** **Formation of financial relations in a joint stock company**

Business financing is a term used to describe capital in a business, the way it is obtained and used. Financing is related to other business functions in a variety of ways. In fact, financing underpins many of those functions in a very real way, not all of which are immediately apparent.

## Establishment

First, financing relates to other business functions through its role in establishment. Without financing, the business most likely would not exist, to say nothing of other business functions. Financing is what enables the purchase of the equipment, the leasing of the property, the buying of materials, employee’s salaries, marketing, etc.

## Production in Anticipation of Demand

Financing enables production in anticipation of demand. This is a necessary aspect of many businesses. For example, a store has products on its shelves, not merely a storefront with catalogs. Likewise, a carpenter does not wait until he gets a project to buy his tools.

## Promotion

Financing also enables promotion. The promotion of a business is an expensive venture, in some cases costing just as much as the cost of goods sold or staffing. Financing is required to fund promotion. A business will not get many customers if it does not advertise its presence, its product/service offerings and its value proposition (e.g. low price, great value, special features).

## Growth

Financing also plays a role in the growth of a company. Without having advance orders and payment, growth would not be a possibility without financing. In most cases, company growth is preceded by an investment in more employees, more inventory, another location, etc.

## Contingencies

Adequate financing also ensures that the company will be able to handle any contingencies that arise. A contingency is any sort of unexpected expense. As such, examples range from busted pipes to an ordering mistake that requires rush delivery to amend, or to hiring a temporary worker to cover someone who has an extended leave from the job. Anything can happen, but without financing the company would not be able to afford it.

## Opportunities

Lastly, financing enables opportunities, which can arise at any time. Without financing, a company cannot take advantage of those opportunities. For example, if the company’s primary supplier of widgets is going out of business and liquidating its stock, if the company had access to financing, it would be able to purchase the widgets it needs at a substantially reduced cost, increasing its profit margin.

**TOPIC 9. CONTROL OVER FINANCIAL ACTIVITY OF A JOINT STOCK COMPANY**

* 1. **Control bodies on JSC and it functioning**
	2. **Audit committee of JSC**

Internal controls are the systems used by an organization to manage risk and diminish the occurrence of fraud. The internal control structure is made up of the control environment, the accounting system, and procedures called control activities. Several years ago, the Committee of Sponsoring Organizations (COSO), which is an independent, private-sector group whose five sponsoring organizations periodically identify and address specific accounting issues or projects, convened to address the issue of internal control deficiencies in the operations and accounting systems of organizations. They subsequently published a report that is known as COSO’sInternal Control-Integrated Framework. The five components that they determined were necessary in an effective internal control system make up the components in the internal controls triangle shown in [(Figure)](https://opentextbc.ca/principlesofaccountingv1openstax/chapter/define-and-explain-internal-controls-and-their-purpose-within-an-organization/#OSX_Acct_F08_03_Controls).

Here we address some of the practical aspects of internal control systems. The internal control system consists of the formal policies and procedures that do the following:

* ensure assets are properly used
* ensure that the accounting system is functioning properly
* monitor operations of the organization to ensure maximum efficiency
* ensure that assets are kept secure
* ensure that employees are in compliance with corporate policies

A properly designed and functioning internal control system will not eliminate the risk of loss, but it will reduce the risk.

Different organizations face different types of risk, but when internal control systems are lacking, the opportunity arises for fraud, misuse of the organization’s assets, and employee or workplace corruption. Part of an accountant’s function is to understand and assist in maintaining the internal control in the organization.

See the [Institute of Internal Auditors website](https://openstax.org/l/50IIA) to learn more about many of the professional functions of the internal auditor.

Internal control keeps the assets of a company safe and keeps the company from violating any laws, while fairly recording the financial activity of the company in the accounting records. Proper accounting records are used to create the financial statements that the owners use to evaluate the operations of a company, including all company and employee activities. Internal controls are more than just reviews of how items are recorded in the company’s accounting records; they also include comparing the accounting records to the actual operations of the company.

For example, a movie theater earns most of its profits from the sale of popcorn and soda at the concession stand. The prices of the items sold at the concession stand are typically high, even though the costs of popcorn and soda are low. Internal controls allow the owners to ensure that their employees do not give away the profits by giving away sodas and popcorn.

If you were to go to the concession stand and ask for a cup of water, typically, the employee would give you a clear, small plastic cup called a courtesy cup. This internal control, the small plastic cup for nonpaying customers, helps align the accounting system and the theater’s operations. A movie theater does not use a system to directly account for the sale of popcorn, soda, or ice used. Instead, it accounts for the containers. A point-of-sale system compares the number of soda cups used in a shift to the number of sales recorded in the system to ensure that those numbers match. The same process accounts for popcorn buckets and other containers. Providing a courtesy cup ensures that customers drinking free water do not use the soda cups that would require a corresponding sale to appear in the point-of-sale system. The cost of the popcorn, soda, and ice will be recorded in the accounting system as an inventory item, but the internal control is the comparison of the recorded sales to the number of containers used. This is just one type of internal control. As we discuss the internal controls, we see that the internal controls are used both in accounting, to provide information for management to properly evaluate the operations of the company, and in business operations, to reduce fraud.

It should be clear how important internal control is to all businesses, regardless of size. An effective internal control system allows a business to monitor its employees, but it also helps a company protect sensitive customer data.

**2.Audit committee of JSC**

WHAT is an Audit Committee?

An audit committee is a sub-group of a company’s board of directors responsible for the oversight of the[financial reporting](https://corporatefinanceinstitute.com/resources/knowledge/accounting/internal-vs-external-financial-reporting/) and disclosure process. To be successful, the audit committee should be aware of the processes and internal controls in the organization.

The audit committee must coordinate with the management team, independent auditor, and internal auditors to monitor the choice of accounting policies and principles and to ensure compliance with laws and regulations.

Audit Committee Regulations

As mandated by the [Sarbanes-Oxley Act of 2002](https://corporatefinanceinstitute.com/resources/knowledge/other/sarbanes-oxley-act/), the US Securities and Exchange Commission (SEC) adopted rules and requirements that a company needs to fulfill to get its securities listed on a national exchange. The requirements include the following:

The audit committee must consist of independent members.

The audit committee is given the responsibility of selecting and overseeing the company’s independent auditor.

Compensation is provided to any outside auditors or independent auditor engaged by the audit committee.

The audit committee is given the authority to engage advisors.

Processes must be in place for managing complaints related to the accounting practices.

Roles and Responsibilities of an Audit Committee

1. The audit committee assesses the analysis of important issues and judgments made by management in the financial reports. The effects of accounting and regulatory initiatives on the financial statements are also reviewed by the audit committee.
2. The audit committee ensures that appropriate policies and processes are in place for the prevention and identification of fraud, such as asset misappropriation, corruption, and financial statement fraud. The audit committee works with management to make sure that necessary steps are taken on the detection of [fraud](https://corporatefinanceinstitute.com/resources/knowledge/other/fraud/).
3. The audit committee should understand the responsibilities of management regarding laws governing anti-corruption and determine whether appropriate policies and controls are in place for the detection and mitigation of risks related to corruption. They should be aware of the laws regarding anti-corruption, such as the [U.S. Foreign Corrupt Practices Act (FCPA)](https://www.justice.gov/criminal-fraud/foreign-corrupt-practices-act).
4. The audit committee meets with management and the independent auditor to discuss the quarterly and audited annual financial statements of the company. They also review the news releases on earnings, along with the financial details and recommendations given to external rating agencies and analysts.
5. The management team assesses and manages the risk a company is exposed to. The audit committee should not be overburdened with the responsibility of risk oversights. They are only responsible for discussing and reviewing the related policies. The audit committee in some organizations may also be given the responsibility of cyber risk oversight.
6. In an M&A transaction, the insights provided by the audit committee on a company’s financials, internal controls, and risk analysis provide confidence about the accuracy and completeness of the financial information. Furthermore, according to SEC rules under the Sarbanes-Oxley Act, post-merger, companies should adopt a successful integration of the financial reporting controls and disclosure controls. Otherwise, deficiencies and control problems may exist. The audit committee is responsible for administering the integration to ensure a successful M&A transaction.
7. The audit committee appoints, oversees, and compensates the independent auditor. Several national exchanges – such as NASDAQ and [NYSE](https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/new-york-stock-exchange-nyse/) – list various ways of communications to be followed by the audit committee while overseeing independent auditors. The committee and the independent auditor usually hold quarterly meetings to discuss the financial reporting, internal controls, and audit of the firm.
8. Some national securities exchanges may require the audit committee to oversee internal auditors, evaluate their performance, and include any performance-related issues in the report presented to the board. The audit committee is required to hold separate meetings with the internal auditors.
9. The audit committee administers compliance with rules and legislation. They work with management to ensure that the company’s policies on the code of conduct and ethics satisfy the requirements.
10. The audit committee must coordinate with other committees to understand the risks and responsibilities and the effect on financial reporting. It needs to understand and address the impact of non-GAAP metrics used for compensation on risk assessment**.**

**Key Takeaways**

* The audit committee administers the financial reporting of a company and related risks, internal controls, compliances, and ethics.
* It must coordinate with management and auditors to come up with financial reporting that is compliant with [accounting principles](https://corporatefinanceinstitute.com/resources/knowledge/accounting/gaap/) and policies.
* To ensure that the financial reports are accurate, the audit committee should be aware of the processes and internal controls put in place by the company’s management.
* The audit committee is responsible for appointing individual auditors, along with evaluating their performance and compensation. In some organizations, they may oversee the internal auditors as well.

**TOPIC 10. THE ESSENCE OF FINANCIAL CONTROL AND ITS TYPES**

1. **The system of internal control of JSC and its tasks**
2. **Required Processes of Financial Controls**
3. **Importance of Financial Controls**
4. **Examples of Financial Controls**

Control activities may also be explained by the type or nature of activity. These include (but are not limited to):

* [Segregation of duties](https://en.wikipedia.org/wiki/Separation_of_duties) – separating authorization, custody, and record keeping roles to prevent fraud or error by one person.
* Authorization of transactions – review of particular transactions by an appropriate person.
* Retention of records – maintaining documentation to substantiate transactions.
* Supervision or monitoring of operations – observation or review of ongoing operational activity.
* Physical safeguards – usage of cameras, locks, physical barriers, etc. to protect property, such as merchandise inventory.
* Top-level reviews – analysis of actual results versus organizational goals or plans, periodic and regular operational reviews, metrics, and other [key performance indicators](https://en.wikipedia.org/wiki/Key_performance_indicators)(KPIs).
* IT general controls – Controls related to: a) Security, to ensure access to systems and data is restricted to authorized personnel, such as usage of passwords and review of access logs; and b) [Change management](https://en.wikipedia.org/wiki/Change_management), to ensure program code is properly controlled, such as separation of production and test environments, system and user testing of changes prior to acceptance, and controls over migration of code into production.
* IT application controls – Controls over information processing enforced by IT applications, such as edit checks to validate data entry, accounting for transactions in numerical sequences, and comparing file totals with control accounts.

Financial controls are the procedures, policies, and means by which an [organization](https://corporatefinanceinstitute.com/resources/knowledge/strategy/best-organizational-structures-for-a-business/) monitors and controls the direction, allocation, and usage of its financial resources. Financial controls are at the very core of resource management and operational efficiency in any organization.

**2.Required Processes of Financial Controls**

The implementation of effective financial control policies should be done after a thorough analysis of the existing policies and future outlook of a company. In addition, it is important to ensure the following four processes are completed before implementing financial control in a business:

**1. Detecting overlaps and anomalies**

Financial budgets, financial reports, [profit & loss statements](https://corporatefinanceinstitute.com/resources/knowledge/accounting/profit-and-loss-statement-pl/), balance sheets, etc. present the overall performance and/or operational picture of a business. Hence, while formulating financial control policies, it is very important to detect any overlaps and/or anomalies arising out of the data available. It helps in detecting any existing loopholes in the current management framework and eliminating them.

 **2. Timely updating**

Financial control is the essence of resource management and, hence, the overall operational efficiency and profitability of a business. Timely updates of all available data are very important. In addition, updating all management practices and policies concerning the existing financial control methods is also equally important.

 **3. Analyzing all possible operational scenarios**

Before implementing a fixed financial control strategy in an organization, it is important to thoroughly evaluate all possible operational scenarios. Viewing the policies from the perspectives of different operational scenarios – such as profitability, [expenditures](https://corporatefinanceinstitute.com/resources/knowledge/accounting/fixed-and-variable-costs/), safety, and scale of production or volume – can provide the necessary information. Also, it helps establish an effective financial control policy that covers all operational aspects of the organization.

**4. Forecasting and making projections**

While implementing a financial control policy, forecasting and making projections are very important steps. They provide an insight into the future goals and objectives of the business. In addition, they can help establish a financial control policy in accordance with the business objectives and act as a catalyst in achieving such goals.

**3.Importance of Financial Controls**

1. Cash flow maintenance

Efficient financial control measures contribute significantly to the cash flow maintenance of an organization. When an effective control mechanism is in place, the overall cash inflows and outflows are monitored and planned, which results in efficient operations.

2. Resource management

The financial resources of an organization are at the very core of any organization’s operational efficiency. Financial resources make available all other resources needed for operating a business. Hence, financial resource management crucial in order to manage all other resources. Effective financial control measures hence are crucial to ensure resource management in an organization.

3. Operational efficiency

An effective financial control mechanism ensures overall operational efficiency in an organization.

4. Profitability

Ensuring an organization’s overall operational efficiency leads to the smooth functioning of every organizational department. It, in turn, increases productivity. which comes with a direct, positive relationship with [profitability](https://corporatefinanceinstitute.com/resources/knowledge/accounting/profitability-index/). Hence, establishing effective financial control measures ensures improved profitability of any business.

5. Fraud prevention

Financial control serves as a preventative measure against fraudulent activities in an organization. It can help prevent any undesirable activities such as employee fraud, [online theft](https://www.iii.org/fact-statistic/facts-statistics-identity-theft-and-cybercrime), and many others by monitoring the inflow and outflow of financial resources.

**4.Examples of Financial Controls**

1. Overall financial management and implementation

Placing certain qualification restrictions and employing only certified, qualified financial managers and staff working with the formulation and implementation of financial management policies

Establishing an efficient, direct chain of communication among the accounting staff, financial managers, and senior-level managers, including the CFO

Periodic training sessions and information sessions among accounting staff, etc. to ensure being updated with the changing laws and evolving business environment concerning business finance

Periodic, thorough financial analysis and evaluation of financial ratios and statements wherever fluctuations are significant

Delegation of financial duties in a segregated and hierarchical fashion in order to establish a chain of operation and efficiency via specialization

2. Cash inflows

Stringent credit reporting policy for all customers before entering into a creditor-debtor relationship with them

Periodic reconciliation of bank statements to the general ledger in addition to annual reporting for more efficient financial control

Establishing a periodic review policy with all existing customers that the business establishes a[creditor-debtor](https://corporatefinanceinstitute.com/resources/knowledge/finance/debtor-vs-creditor/) relationship with. It ensures the ongoing creditworthiness of customers and eliminates the probability of bad debts

Support files and backups for all financial data in a separate secured database with access only permitted to senior management staff

3. Cash outflows

Automatic/subscription payments to be monitored and requiring proper authorization in order to control extravagant business expenditure

Maintaining a vendor database with detailed purchase records with restricted access in order to monitor cash outflow efficiently

Periodic reconciliation of bank statements to the general ledger

Clear and precise expense reimbursement policy to be maintained, including detailed expense reports and receipt verifications in order to curb extravagant business expenses and employee fraud

**TOPIC 11. FINANCIAL ANALYSIS OF JOINT STOCK COMPANIES IN THE REPUBLIC OF TAJIKISTAN**

1. **Financial statements of joint stock companies**
2. **Economic and financial indicators of joint stock companies**
3. **The role of financing in joint stock companies.**

Financial statements of joint stock companies includes:

* 1. Statement on financial position (Balance Sheet)
	2. Profit and loss Statement
	3. Cash Flow Statement
	4. Changes in Equity

General indicators of JSC are:

1.Total capital employed

The total of shareholders equity and total non- current liabilities engaged in the capital formation constitute this item.

Total capital employed = Shareholder's equity+ Long term secured loan+ Long term unsecured loan+ Debentures/ TFC's+ Employees benefit obligations.

2. Total fixed liabilities It is the sum total of the items debentures (TFC‟s) and other fixed liabilities.

Total fixed liabilities = Long term secured loan+ Debentures/TFC's

3. Retention in business This is the amount that a company retains in business after netting off all possible expenses and is obtained by deducting the provision for the tax and the total dividend distributed or proposed to be distributed from the net profit for the year.

Retention in business = Net profit before taxes- Tax provision- Total amount of dividend

4. Contractual liabilities This item pertains to all secured debentures, long-term loans, finance lease, short term secured loans and bank overdraft. Contractual liabilities = Long term secured loan+ Preference shares+ TFC's + Short term secured loans.

1. **Economic and financial indicators of joint stock companies**

Economic and financial indicators of joint stock companies called Performance Indicators. Performance Indicators of JSC includes:

 ***1. Acid test or quick ratio***

The acid test or quick ratio is used to determine how quickly a company would be able to pay off its current liabilities if it needs to convert its „quick‟ assets into cash.

**Acid test or quick ratio = (Cash & bank balances + Trade debtors + Short term investments)/ Current Liabilities.**

The ideal quick ratio is 1:1, which measures the firm‟s capacity to payoff claims of current creditors immediately.

 ***2. Financial expenses to sales***

It shows the ratio of financial expenses to sales. Lowering the ratio indicates the financial discipline of the company and the increasing ratio indicates that the company is facing financial expenses burden out of its sales revenue

**Financial expense to sales = Financial expenses/ Sales**

***3. Trade debt to sales***

It is the ratio of outstanding credit (all sales receivables) to the total sale proceeds of the company. Higher the percentage, the company is increasing its debtors and credit risk and reducing its liquidity position.

**Trade debt to sales= Trade debt/ Sales**

***4. Assets turnover ratio***

It is the ratio of total sale proceeds to the total assets of the company. Higher the ratio, the company is sufficiently using its assets in generating revenues and lowers the ratio; the company is insufficient in generating revenues.

**Assets turnover ratio= Sales/ (Non-Current Assets + Current Assets)**

***5. Current ratio***

It is the ratio of total current assets to the total current liabilities. Higher current ratio shows that the company is in a well-off situation and lower current ratio shows the worsening situation.

**Current ratio= Current Assets/ Current Liabilities**

A rough guide for most companies exhibits 1.5:1 relationship between current assets and current liabilities as indication of ability to meet current obligation without recourse of special borrowings.

***6. Cost of goods sold to sales***

This ratio is derived by dividing cost of sales of goods to the total amount of sale proceeds. Higher the ratio, lower the gross profit margins and lower the ratio, higher the gross profit margins of the company.

**Cost of goods sold to sales= Cost of goods sold/ sales**

***7. Debt equity ratio***

This is a measure of company‟s financial leverage and calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its xvi assets. The higher ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense.

**Debt equity ratio = (Current Liabilities + Non-Current Liabilities)/ Shareholder’s equity**

It provides a margin safety to creditors. The smaller the ratio, the more secured are the creditors. An appropriate debt to equity ratio is 0.33. A higher ratio than this is an indication of financial risk policy.

***8. Return on assets (ROA)***

This is an indicator that reflects how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. This is calculated by dividing a company's annual earnings by its total assets. The higher the ROA, the better, because the company earns more money on less investment.

**ROA = Net profit before taxes/ Average of (Non-Current Assets + Current Assets)**

***9. Return on equity (ROE)***

It measures a firm's efficiency at generating profits from every unit of shareholders' equity. It shows how well a company uses its resources to generate earnings growth. The ROE is useful for comparing the profitability of a company to that of other firms in the same industry.

**ROE = Net profit before taxes/ Average of Shareholder’s equity**

***10. Return on capital employed (ROCE)***

ROCE compares earnings with capital invested in the company. ROCE should always be higher than the rate at which the company borrows; otherwise any increase in borrowing will reduce shareholders' earnings.

**ROCE = Net profit before taxes/ Average of Total capital employed**

***11. Dividend cover ratio***

This measures the ability of a company to pay dividends to ordinary shareholders from after tax income and measured as:

**Dividend cover ratio= (Net profit before taxes - Tax provision)/ Total amount of dividend**

If a company is operating in a sector that is reasonably unaffected by economic downturns, such as food manufacturing and retailing, the lower dividend cover is more acceptable, because the risk is lower.

***12. Inventory Turnover Ratio***

A ratio showing how many times a company's inventory is sold and replaced over a period. The inventory turnover ratio is calculated as **Inventory Turnover Ratio = Sales / Inventory**

This ratio should be compared against industry averages. A low turnover implies poor sales and, therefore, excess inventory. A high ratio on the other hand implies strong sales. High inventory levels are unhealthy because they represent an investment with a rate of return of zero. It also opens the company up to trouble should prices begin to fall.

***13. Interest cover ratio***

This ratio measures the efficiency of a company for its ability to pay its interest-payment on its borrowing from operating profit and measured as Interest cover ratio = Net profit before interest and tax payment / Interest expenses = (Net profit before taxes+ Interest expenses) / Interest expenses The higher the figure, the safer is the company. The company with interest cover ratio 2 will suffer a 50% drop in the profit and a company with a ratio less than 1 would have to dip into cash reserve.

***14. Net profit margin***

This ratio is achieved as a ratio of profit earned by a company from its sale proceeds.

**Net profit margin= Net profit before taxes/ sales**

***15. Operating cash flow to debt ratio***

This ratio is obtained by dividing the net cash flow balance from operating activities from total liabilities and mathematically it may be derived as: **Operating cash flow to debt ratio =Cash flows from operations/ (Current Liabilities+ Non -Current Liabilities)**

This ratio measures the ability of the company's operating cash flow to meet its obligations. The operating cash flow is simply the amount of cash generated by the company from its main operations, which are used to keep the business funded. The higher the ratio, the safer the company. A minimum value of 0.2 is often used as guided level.

***16. Earnings per share after tax (Rs./share)***

It is arrived at by dividing the net profit (after tax) by the number of ordinary shares.

**Earnings per share after tax (Rs.) = (Net profit before taxes - Tax provision)/ Number of ordinary shares**

***17. Break- up value shares (Rs./share)***

It is obtained by dividing the amount of shareholders equity by the number of ordinary shares.

 **Break- up value shares (Rs. /share) = Shareholder’s equity/ Number of ordinary shares**

**TOPIC** **12. SECURITIES MARKET ANALYSIS.**

**FINANCIAL CONTROL AND INSPECTION OF JOINT STOCK COMPANY**

**1.Securities (Stock) market analysis**

**2. Financial control and inspection of joint stock company**

Security is a financial instrument that can be traded between parties in the open market. Thefour types of security are debt, equity, derivative, and hybrid securities.

Stock market analysis is used to gain knowledge of the equity market to arrive at true value of a stock. It involves fundamental and technical research as its main tools. This article covers the following:

1. [What is Stock Market Analysis?](https://cleartax.in/s/stock-market-analysis#stock)
2. [Why is Stock Market Analysis important?](https://cleartax.in/s/stock-market-analysis#imp)
3. [What is Fundamental Research?](https://cleartax.in/s/stock-market-analysis#funda)
4. [Which key indicators are used in Fundamental Research?](https://cleartax.in/s/stock-market-analysis#indi)
5. [What is Technical Research?](https://cleartax.in/s/stock-market-analysis#tech)
6. [How to Invest in Equities?](https://cleartax.in/s/stock-market-analysis#invest)
	1. **What is Stock Market Analysis?**

Stock market analysis enables investors to identify the intrinsic worth of a security even before investing in it. All stock market tips are formulated after thorough research by experts. Stock analysts try to find out activity of an instrument/sector/market in future. By using stock analysis, investors and traders arrive at equity buying and selling decisions. Studying and evaluating past and current data helps investors and traders to gain an edge in the markets to make informed decisions. Fundamental Research and Technical Research are two types of research used to first analyze and then value a security.

**2. Why is Stock Market Analysis important?**

Performing a research before making an investment is a must. It is only after a thorough research that you can make some assumptions into the value and future performance of an investment. Even if you are following stock trading tips, it ideal to do some research, just to ensure that you are making an investment that’s expected to get you maximum returns. When you [invest in equity](https://cleartax.in/s/equity-investments), you purchase some portions of a business expecting to make money upon increase in the value of the business. Before buying anything, be it a car or phone, you do some degree of research about its performance and quality. An investment is no different. It is your hard earned money that you are about to invest, so you must have a fair knowledge of what you are investing in.

**3. What is Fundamental Research?**

In fundamental research, you try to find out value of an equity share using the information provided in the[financial statements](https://cleartax.in/s/financial-reports) of the company. The investor tries to analyse various aspects of the business like competitive advantage, financial soundness, quality of management and competition. The main aim is to ascertain the relative attractiveness of the underlying business. Here, it is assumed that the market price doesn’t reflect the true value of the company due to some uncontrollable external factors like investor sentiments. As the market will attain equilibrium, the real value will be equal to its market price in the long run. It believes that paying a higher price for a stock will affect return on investment adversely. Thus, by means of [financial ratios](https://cleartax.in/s/profitability-ratio), investors try to arrive at the true value at which a stock should ideally trade in the market.

**4. Which key indicators are used in Fundamental Research?**

Financial ratios form the pillars of fundamental research. Some of them are as follows:

Return On Equity (ROE)

Return On Equity tells you about how much does a company earns on shareholders’ equity. It gives you information apart from a simple profit figure. It shows whether the operation of the company are efficient or not.

Return On Equity = [(Income – Preference Dividend)/ (Average Shareholders’ Equity)]\*100 While looking for this metric, an ideal ROE is one which is consistent, high and increasing. ROE of one company can be compared with its own past performance and with performance of other companies within the same industry. You may use it irrespective of the type of industry.

**Debt-Equity Ratio (DER)**

Debt-Equity Ratio shows the proportion of assets which is being used to finance the assets of the company. It indicates how much funds have been provided by the borrowers and owners of the company. This ratio can be expressed in numbers and in percentage.

Debt-Equity (D/E) Ratio = Total Debt/Total Equity While looking for a debt-equity ratio, go for the ones which are lower than others and are decreasing in a consistent manner. You can compare D/E of one company with its own past performance and with performance of other companies within the same industry. You may use it to analyse performance of capital intensive industries like capital goods, metals, oil and gas.

**Earning Per Share (EPS)**

Earning Per Share is one such useful measure which the investors look for all the time. It shows the amount of money which the company is earning on every share. EPS of a company needs to increase in a consistent manner to show superior management performance.

Earning Per Share = (Net Income – Preference Dividend)/Weighted Average Number of Shares Outstanding EPS of one company can be compared with its past performance and with that of other companies in the same industry. It can be used to ascertain what portion of profit is the company allocating to each outstanding share. Investors usually go for companies which have steadily increasing earnings per share. It can be easily used to compare performance across industries.

**Price to Earning Ratio (PER)**

[Price to Earning Ratio](https://cleartax.in/s/price-earnings-ratio) compares the current market price of the share with the earnings per share. It tells you the price which the investors are willing to pay for the share depending on the current earnings.

Price to Earning Ratio = Current Share Price/Earning Per Share This ratio also indicates the number of years that will be required to get back the initial invested capital by way of returns. You need to look for stocks which have a low price to earnings ratio. You can easily compare P/E ratio of a company with its past performance and also with other companies operational in the same industry. Ideally, this ratio is suitable to analyse performance of companies present in FMCG, pharmaceutical and technology sector.

**5. What is Technical Research?**

Technical research relates to the study of past stock prices to predict the trend of prices in future. It shows you the direction of movement of the share prices. With the help of technical research, you can identify whether there will be sharp rise or fall in the price of share. It is not dependent on recent news or events which has already been incorporated in the price of the share. As the stock prices are dependent on investor psychology which keeps changing according to news and events, technical research emphasises the use of Stop-losses. It will save investors from suffering a big loss in future. Technical research gives meaningful results only for stocks which are high in demand and traded in huge volumes. Technical research uses different types of charts like bar chart, candlestick chart; to understand the pattern of stock prices. Daily charts are used by short term traders to examine the immediate movement in the stock prices. Weekly / monthly charts are used by medium/long term traders to ascertain the probability to earn higher more in the long run.

**6. How to invest in Equities?**

While venturing into stocks, don’t blindly believe on anyone else’s advice. Conduct a thorough analysis before buying any stock. Do not invest more than 10% in any single company. Many a time investing in equity becomes complex. In case you don’t possess enough financial knowledge and are finding difficult it too difficult to understand, then just go for ClearTax Invest. Here, instead of directly investing in equities, you can try investing in Equity Funds. You can choose hand-picked equity funds in a hassle free and paperless manner. Using the following steps, you can start your investment journey:

 Step 1: Sign in at [cleartax.in.](https://cleartax.in/save/?ref=side-cta-tree)Step 2: Enter your personal details regarding the amount of investment and period of investment Step 3: Get your e-KYC done in less than 5 minutes Step 4: Invest in your favourite debt fund from amongst the hand-picked mutual funds.

**2. Financial control and inspection of joint stock company**

Audit of joint-stock company

1. Audit of joint-stock company is performed according to the Law of the Republic of Tajikistan "About auditor activity".
2. Audit of joint-stock company can be made according to the requirement of each shareholder of this society for the shareholder account at any time. (ZRT of 19.05.09, No. 510)

The auditor of joint-stock company approves by General shareholder meeting.

 **Obligatory disclosure of information by joint-stock company**

1. The open joint stock company is obliged to open:
* annual report of joint-stock company, annual accounting records;
* a prospectus of the issue of events of joint-stock company in the cases provided by Laws;
* the message on holding General shareholder meeting in the order provided by this Law;

- information on transactions in which commission there is an interest of the persons specified in article 83 of this Law; (Law of the RT dated 19.05.09, No. 510).

* other data determined by authorized body.

 Obligatory disclosure of information by joint-stock company is performed in the volume and an order which are established by authorized body.

 Joint-stock company about all suspicious transactions / transactions and transactions which are subject to mandatory control in which there is an interest of the board member (Supervisory board) and authorized state body on regulation of security market about the suspicious transactions / transactions which became known in process of registration of issue of issued securities are obliged to provide information to authorized body on counteraction of legalization (washing) of income gained in the criminal way and financing of terrorism according to the Law of the Republic of Tajikistan "About counteraction of legalization (washing) of income gained in the criminal way and to financing of terrorism. (Law of the RT dated 14.11.16, No. 1374)

**TOPIC** **13. GOVERNMENT REGULATION ON FINANCE OF JOINT STOCK COMPANIE. FINANCIAL DIFFICULTIES OF RECONSTRUCTION AND LIQUIDATION COMPANY**

Chapter learning Objectives

Upon completion of this chapter you will be able to:

* describe the main indicators of financial distress
* discuss the limitations of corporate failure prediction models and explain other factors which need to be considered
* assess a company situation and assess the risk of corporate failure within the short to medium term using a range of appropriate financial evaluation methods, such as ratios, trends, EVA (TM) and MVA
* list and explain the factors which would suggest a financial reconstruction is the most appropriate strategy for dealing with the problem as presented
* assess a company situation and determine whether a financial reconstruction is the most appropriate strategy for dealing with the problem as presented
* explain the likely response of the capital market and/or individual suppliers of capital to any reconstruction scheme and the impact their response could have upon the value of a firm
* recommend a reconstruction scheme from a given business situation, justifying the proposal in terms of its impact upon the reported performance and financial position of the firm
* list, explain and evaluate the various strategies for unbundling (demerging) parts of a quoted company
* explain how the benefits of the concentration of growth and the maximisation of shareholder value may result from the unbundling of parts of a quoted company
* explain how benefits of the reduction of complexity and increased managerial efficiency may result from the unbundling of parts of a quoted company
* explain how the benefit of the release of financial resources for new investment may result from the unbundling of parts of a quoted company
* define and explain the reasons for a management buyout
* explain the issues to consider when evaluating a management buyout proposal
* explain the sources of finance available for a management buyout
* evaluate and advise on a management buyout proposal in a scenario question.

1 Financial distress and corporate failure

What is corporate failure?

Corporate failure occurs when a company cannot achieve asatisfactory return on capital over the longer term. If unchecked, thesituation is likely to lead to an inability of the company to pay itsobligations as they become due.

If a company is in financial distress, corporate failure willfollow unless the company's problems can be identified and corrected.

Therefore, it is important that we can recognise the main causes of financial distress.

2 The five core causes of financial distress

The five core causes of financial distress in a business are:

* **Revenue failure**, caused by either internal or external factors. Revenue failure may be through a loss of orders (market failure) or through the acceptance of business which does not contribute to the growth of shareholder value.
* **Cost failure**, caused by weak cost control, changes in technology, inappropriate accounting policies, inadvertent or exceptional cost burdens, poor financial management or failure of effective governance.
* **Failure in asset management,** through failure to invest in appropriate technology, poor working capital management, inappropriate write off and reinvestment or poor organisation of the available assets.
* **Failure in liability management**, through failure to manage the companyâ€™s relationship with the money markets, weak control of interest rate risk and currency risk or unsustainable credit policies.
* **Failure of capital management,** through either over or under-capitalisation or poor management of the companyâ€™s relationship with the capital markets and in particular the companyâ€™s debt portfolio and the optimisation of its cost of capital.

In practice problems rarely occur in isolation. A business is aninternal and external network of relationships of assets andindividuals, so problems in one area invariably have consequenceselsewhere.

 Research into the causes of corporate failure

A major study (Grinyer, Mayes et al., 1988) examined reasons whyfirms experience decline. Chief among the reasons found (in order offrequency) in the study were:

* adverse changes in total market demand
* intensification of competition
* high cost structure
* poor financial controls
* weak management
* failure of a large project
* poor marketing effort
* poor acquisitions
* poor quality.

Clearly, some of these are not, in themselves, strategic issues.Much can be done, by strong management accounting, to reduce costs,improve financial information and controls, improve project managementand quality control systems, without changing strategy. It is alwaysworth repeating the adage that strategic management builds on goodoperations management. No strategy can compensate for operationalinefficiency in the long run.

However, many of the items listed involve changes in the marketplace, and the way that competition is carried out. Strategy is chieflyabout adapting the firm to such changes, and strategic failure resultswhen the organisation does not change as quickly as the market.

**TOPIC 14. REGULATORY BODIES ON JOINT STOCK COMPANIES IN THE REPUBLIC OF TAJIKISTAN** Problems of reconstruction and liquidation, etc

Identifying financial distress

It is possible to identify a business in financial distress by analyzing its financial statements.

* Trends in ratios (such as return on capital employed and receivables collection period) can be used to identify the first signs of distress.
* Declining levels of cash. or reducing Economic Value Added (EVA**Â®**) can be a sign of distress.
* Free cash flow analysis can also give an indication of likely problems.

Ratio analysis

A comprehensive analysis of performance will cover the following four areas: profitability, liquidity, gearing and stock market ratios.

Key ratios are listed under each of these headings below:

Profitability

**Return on capital employed (ROCE),** which can be measured aseither net operating profit before tax or net operating profit after tax(NOPAT) as a percentage of capital employed.

**EVAÂ® return** is the difference between return on capitalemployed (based on NOPAT) and the weighted average cost of capital forthe business.

**Asset turnover** is the ratio of turnover to capital employed.

**Operating profit margin** is operating profit expressed as a percentage of turnover.

Liquidity

The most basic measure of liquidity is the **current ratio**(current assets / current liabilities). However, this ratio is sosimplistic that it is difficult to use it for any meaningful analysis.Instead, it is better to focus on the individual elements of workingcapital separately.

**Debtor days** (receivables collection period) = (Receivables / Turnover) Ã— 365

**Creditor days** (payables payment period) = (Payables / Purchases) Ã— 365

**Inventory holding period** = (Inventory / Cost of sales) Ã— 365

The firm's **cash operating cycle** is calculated as

Debtor days + Inventory holding period - Creditor days

Generally, a reduction in the overall length of the cycle indicates an improvement in the entityâ€™s liquidity position.

**Gearing (leverage)**

If gearing is too high, the entity might be unable to service its debts. There are two ways of looking at gearing:

*Balance sheet (statement of financial position) gearing:*

Debt value / Equity value, or
Debt value / (Value of equity + debt)

Note that equity value in the accounts is the share capital AND the reserves.

*Income statement gearing:*

The key measure is **interest cover** = Profit before interest and tax / Interest (Finance charges)

It is usually easier to identify potential problems from the incomestatement figure, since a low figure close to unity gives an immediateand obvious cause for concern. Balance sheet gearing ratios need to becompared (to industry averages and / or prior years) before they can beproperly interpreted.

Stock market ratios

Note that if the entity being analysed is not listed, no calculations will be possible in this area.

However, if the entity is listed, this is arguably the mostimportant area, since the ratios in this area will show whether the restof the market perceives the entity positively or not.

Price-earnings (P/E) ratio = Share price / Earnings per share

Dividend cover = Earnings per share / Dividend per share

Dividend yield = Dividend per share / Share price

4 Economic Value Added (EVAÂ®)

Economic value added (EVAÂ®) is a performance measure developed byStern Stewart & Co that attempts to measure the true economic profitproduced by a company.

It is frequently also referred to as "economic profit", andprovides a measurement of a company's economic success (or failure) overa period of time. Such a metric is useful for investors who wish todetermine how well a company has produced value for its investors, andit can be compared against the company's peers for a quick analysis ofhow well the company is operating in its industry.

Trends in EVAÂ® can be helpful to analyse the performance of a firm - a declining trend may indicate financial distress.

**TOPIC** 15. **Financial planning of joint stock companies. Types of financial transactions of JSC**

1. Concept, goals and objectives of financial planning

 2. Principles of financial planning

3. Stages of financial planning

The concept, goals and objectives of financial planning One of the most important functions of management is planning, which is a procedure for developing an action plan and determining the direction of functioning and development of a market entity. Among the main types of planning in the enterprise, a special place is given to financial planning. The need for it as a special sphere of planned activity is associated with the relative independence of the movement of funds in relation to the material assets of the company.

Financial planning is the planning of actions for the formation and use of monetary resources, which provide the relationship between income and expenditure of funds for the normal functioning and development of the company.

The main goal of financial planning is to balance the income and expenses of the enterprise.

The main goal of financial planning is to balance the income and expenses of the enterprise. Also, the main goals are to determine the correspondence between the availability of financial resources and the need for them, the choice of optimal sources for the formation of financial resources and effective options for their use.

Financial planning tasks are the followings:

* Determination of reserves for increasing the company's income and ways to attract them;
* Effective use of financial resources, the establishment of the most rational directions for the development of the enterprise, which in the planning period will provide the greatest profit;
* Coordination of financial resources with the indicators of the company's production plan;
* Ensuring optimal financial relationships with the state budget, banks and other financial institutions.

*NOTE 1 The object of financial planning is financial resources.*

The subject of financial planning is the process of developing a system of financial indicators that determine the direction of the enterprise in the future for the creation and use of funds of funds.

**Principles of financial planning**

Effectiveness of financial planning depends on strict adherence to the basic principles:

1. distribution of priorities;
2. competent forecasting;
3. minimizing risks and ensuring financial security;
4. coordination and integration;
5. optimization;
6. ordering; the control;
7. documentation.

Following the first principle is necessary, since financial planning is associated with complex objects and processes. It is important to highlight the most significant connections and dependencies, to combine them into groups. This simplifies the process of developing and monitoring the implementation of the plan.

*NOTE 2 Forecasting is a key element of financial planning. The quality of the financial plan depends on its results. The forecast is based on an analysis of the factors of the external and internal environment of the enterprise.*

Taking into account the financial risks that are accompanied when making financial decisions, allows you to find ways to reduce or prevent them. This contributes to the financial security of the company.

The unification of various fields of activity and their coordination is the fourth principle of financial planning. It allows you to take into account the peculiarities of the work of all departments and structural divisions of the company. In accordance with the principle of optimization, financial planning ensures the selection of the best ones in terms of limiting the options for using financial resources. Streamlining implies the creation of a unified procedure for all company personnel. Due to financial planning, an effective system of control over the activities of the enterprise is being established. Financial planning also means documenting the process of the company's financial and economic activities.

**Financial planning stages**

The financial planning procedure is carried out in stages. It includes five stages:

1. Assessment of the financial situation;
2. Building basic forecasts;
3. Creation of current financial plans and formulation of an overall financial strategy;
4. Implementation of operational financial planning;
5. Control over the implementation of the developed financial plans.

The stages of financial planning constitute a single technology of this process, which is based on the methodology and methodology for developing a financial plan. The methodology assumes the theoretical foundations of the company's financial management, and the methodology determines the ways to increase cash savings and minimize costs. Financial planning methodology is a set of options for determining each indicator, which is included in the financial plan of the enterprise.

The first stage of financial planning implies an analysis of the financial performance of the company for the past period. This assessment is carried out on the basis of the balance sheet, profit and loss statement, statement of cash flows. The results of studying the documents are used to make a forecast. Particular attention is paid to such indicators as sales volume, costs, profit. The overall result of the analysis makes it possible to assess the financial results of the enterprise and identify problems.

At the second and third stages, based on the assessment of the company's financial condition, basic forecasts are made that relate to future financial planning. This is a cash flow forecast, balance sheet forecast, profit and loss statement.

*NOTE 3 The results of the forecast form the basis for the development of the general financial strategy of the company and the preparation of current financial plans. The strategy is formed according to the main directions of the company's activity.*

The fourth stage is the implementation of operational financial planning. It consists in creating and executing a plan and a statement of cash flows of the organization. At the last stage, control measures are taken for the current production, commercial and financial activities of the organization, which determine the final financial results.

**TOPIC 16. CURRENT FINANCIAL PROBLEMS OF JOINT STOCK COMPANIES IN TAJIKISTAN . FINANCIAL EXPERIENCE OF JOINT STOCK COMPANIES OF THE WORLD .**

Ways to solve existing financial problems of joint stock companies. Apply the experience of foreign countries in the financing of joint stock companies.

List of taxes paid by joint stock companies. Financial sources of joint stock companies.

A large joint stock company also has its weak points. The larger the firm, the more difficult it is for the administration to subordinate the actions of individual workers and work collectives to the interests of the firm. This requires an increasingly complex system of incentives and controls. This problem does not exist in enterprises where the owner himself is the only employee, and any failure or success of his has a direct impact on his financial situation.

Problems often arise in the relationship between shareholders and hired managers. Major shareholders are usually strategic investors. They are aimed at long-term ownership of shares, and therefore are interested in their high and stable market value, respectively, in maximizing the long-term profit of the company. Managers, on the other hand, strive to increase their wages and increase their prestige in the firm. Therefore, they may be interested in increasing sales, inflating the staff of subordinates to the detriment of the company's profitability. Hence the problem of owners' control over managers.

In countries with developed market economies, the best controller of the actions of managers is the securities market (stock market). If current or potential shareholders consider the management to be bad, then some begin to sell the shares of the firm, while others refuse to buy them. As a result, the share price begins to fall, which leads to a deterioration in the financial position of the firm and usually condemns ineffective management.

In the West, option programs are widely used to stimulate actions of managers in the interests of shareholders. Their essence is that managers receive options - contracts that allow them in the future, if they wish, to purchase a certain number of shares of the firms they manage at a currently fixed price. As a result, managers are interested in increasing the profitability of firms, respectively, and in the excess of the market price of shares over the price specified in the option: the difference becomes their income.

Such a system of incentives and incentives for employees of joint-stock companies appeared in the West in the late 1980s. At first, options were received mainly by top managers, but gradually ordinary employees were added to them. In 2001, more than 10 million people in the United States received options, and in 2003, 15% of American public companies offered options to all staff members.

As always, it does not do without problems. In the spring of 2006, a scandal erupted in the United States: it became known that the executives of many companies were issued options retroactively to the date when the stock price was the lowest. More than 100 companies were involved in the scandal.

On the other hand, in the United States, many corporate problems are associated with the fact that corporations somewhat simplistically use the option method of incentives, acting on the principle: give the manager a short-term option, and everything will be fine. As a result, managers often have too strong incentives to worry about an immediate appreciation of the company's stock at the expense of its long-term development.

It would be wrong, however, to believe that this behavior of managers is just a consequence of the simple thoughtlessness of corporate boards of directors. The problem is more serious, and it is connected with the fact that different groups of shareholders often pursue different goals regarding the development of joint-stock companies. Dominant (majority) shareholders usually strive for the successful development of the firm in the long term. In contrast, minority shareholders with small stakes are often interested in short-term success. For them, good-looking current reports (correspondingly high today's value of their shares) may be more important than the company's long-term prospects.

At the same time, the influence of minority shareholders on intra-corporate decision-making is growing today as mergers and acquisitions spread in the business world, as well as additional public share issues. The related consolidation of firms leads to a diffusion of ownership: the former majority shareholders become minority shareholders, with a corresponding change in their goals and interests. Researchers from the State University - Higher School of Economics see one of the reasons for the current global crisis in the inefficiency of large corporations, in the pursuit of immediate success, taking excessive risks and hiding the unsuccessful results of their projects.

RT has its own problems. Here the position of enterprises is still much less dependent on the stock market, since the shares of most firms are not subject to transactions at all. At the same time, the institution of large shareholders who control the development of companies is preserved. However, unlike foreign firms, Tajik joint-stock companies operate in a completely different environment. In this regard, it should be noted, first of all, the instability of the “rules of the game” established by the state, reaching the level of complete arbitrariness of the authorities in relation to business.

The main problem of the development of joint-stock companies, as well as of business in general, is the extremely weak legal protection of private property in our country: the current judicial system makes it possible to unreasonably deprive the owners of their property. This situation drastically shortens the time horizon within which the owner has the ability to make informed decisions, prevents long-term investors from coming to enterprises.

While the shareholders who control the company are poorly protected from the arbitrariness of the authorities, the minority shareholders are likewise insufficiently protected from encroachments on the part of large owners and managers. Moreover, very often a conflict between managers and shareholders is only a form of manifestation of contradictions between majority and minority shareholders. Majority shareholders control the activities of managers or are themselves top managers and use their power to appropriate the property of small shareholders.

The methods of expropriation of property of both small and, in some cases, and not very small shareholders are the conclusion of transactions unfavorable for the enterprise with companies controlled by unscrupulous managers, the withdrawal of assets from JSCs in favor of subsidiaries, artificial bankruptcies of quite viable enterprises, additional issue of shares, leading to reduction of the share of minority shareholders in the authorized capital.

Among other manifestations of modern Tajik corporate reality, we note raiding - the seizure of enterprises by external forces using semi-legal methods and a corrupt legal system. It persists, although its scale has decreased. Raiding is especially dangerous when it relies on the support of the authorities.

Registrars-firms that keep registers of shareholders and, in principle, are called upon to protect the interests of legal owners, are quite often involved in corporate fraud. Typical tricks of dishonest registrars are to deliberately lose the ballot paper for participation in a meeting of a company of a part of shareholders or to deliver them information about the planned meeting with delay.

Therefore, the reform of the enterprise is very urgent in our country today, designed to provide genuine protection for investors, to promote the formation of the institution of effective owners.