

# TOPIC NAME: TYPES OF COMPANY

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- A company is a third legal business structure and has entirely a different organizational structure from the sole proprietorship or partnership. Its formation is due to firstly, the sole proprietorship and partnership cannot meet the increased capital demand of industry and commerce. Secondly, the company ensures the protection of limited liability to the shareholders and investors
- According to Prof. L.H. Haney, “Company is an artificial person created by law having separated entity with a perpetual succession and common seal”.

# TYPE OF COMPANY

## **(A) On the basis of incorporation:**

- (i) Chartered companies
- (ii) Statutory companies
- (iii) Registered companies

## **(B) On the basis of liability:**

- (i) Companies limited by shares
- (ii) Companies limited by guarantee
- (iii) Unlimited companies.

## **(C) On the basis of number of members:**

(i) Private company:

(ii) Public company:

## **(D) According to Domicile:**

(i) Foreign company:

(ii) Indian Companies:

## **(E) Miscellaneous Category:**

(i) Government Company:

(ii) Holding and subsidiary companies:

(iii) One man Company:

## (A) ON THE BASIS OF INCORPORATION :

On the basis of incorporation, companies can be classified as:

**(i) Chartered companies:**

- ▶ The crown in exercise of the royal prerogative has power to create a corporation by the grant of a charter to persons assenting to be incorporated. Such companies or corporations are known as chartered companies. Examples of this type of companies are Bank of England (1694), East India Company (1600). The powers and the nature of business of a chartered company are defined by the charter which incorporates it. After the country attained independence, these types of companies do not exist in India.

## **(ii) Statutory companies:**

- A company may be incorporated by means of a special Act of the Parliament or any state legislature. Such companies are called statutory companies, Instances of statutory companies in India are Reserve Bank of India, the Life Insurance Corporation of India, the Food Corporation of India etc. The provisions of the Companies Act 1956 apply to statutory companies except where the said provisions are inconsistent with the provisions of the Act creating them. Statutory companies are mostly invested with compulsory powers.

## **(iii) Registered companies:**

- Companies registered under the Companies Act 1956, or earlier Companies Acts are called registered companies. Such companies come into existence when they are registered under the Companies Act and a certificate of incorporation is granted to them by the Registrar.

## (B) ON THE BASIS OF LIABILITY

On the basis of liability the company can be classified into:

**(i) Companies limited by shares:**

- When the liability of the members of a company is limited to the amount if any unpaid on the shares, such a company is known as a company limited by shares. In a company limited by shares the liability of the members is limited to the amount if any unpaid on the shares respectively held by them. The liability can be enforced during existence of the company as well as during the winding up. Where the shares are fully paid up, no further liability rests on them.

## **(ii) Companies limited by guarantee:**

- It is a registered company in which the liability of members is limited to such amounts as they may respectively undertake by the memorandum to contribute to the assets of the company in the event of its being wound up. In the case of such companies the liability of its members is limited to the amount of guarantee undertaken by them. Clubs, trade associations, research associations and societies for promoting various objects are various examples of guarantee companies.

## **(iii) Unlimited companies:**

- A company not having a limit on the liability of its members is termed as unlimited company. In case of such a company every member is liable for the debts of the company as in an ordinary partnership in proportion to his interest in the company. Such companies are not popular in India.

## (C) ON THE BASIS OF NUMBER OF MEMBERS :

### (i) Private company:

▶ A private company means a company which by its articles of association:

(i) Restricts the right to transfer its shares

(ii) Limits the number of its members to fifty (excluding members who are or were in the employment of the company) and

(iii) Prohibits any invitation to the public to subscribe for any shares or debentures of the company.

(iv) Where two or more persons hold one or more shares in a company jointly, they are treated as a single member. There should be at least two persons to form a private company and the maximum number of members in a private company cannot exceed 50. A private limited company is required to add the words “Private Ltd” at the end of its name.

### (ii) Public company:

▶ A public company means a company which is not a private company. There must be at least seven persons to form a public company. It is of the essence of a public company that its articles do not contain provisions restricting the number of its members **or excluding generally the transfer of its shares to the public or prohibiting any invitation** to the public to subscribe for its shares or debentures. Only the shares of a public company are capable of being dealt in on a stock exchange.



## (D) ACCORDING TO DOMICILE :

### **(i) Foreign company:**

- ▶ It means a company incorporated outside India and having a place of business in India.
- ▶ According to Section 591 a foreign company is one incorporated outside India:
  - (a) Which established a place of business within India after the commencement of this Act or
  - (b) Which had a place of business within India before the commencement of this Act and continues to have the same at the commencement of this Act.\

### **(ii) Indian Companies:**

- ▶ A company formed and registered in India is known as an Indian Company.



THANK YOU