

**Course: M.Com Part II**

**Paper IX**

**Topic: Kinds of Companies**

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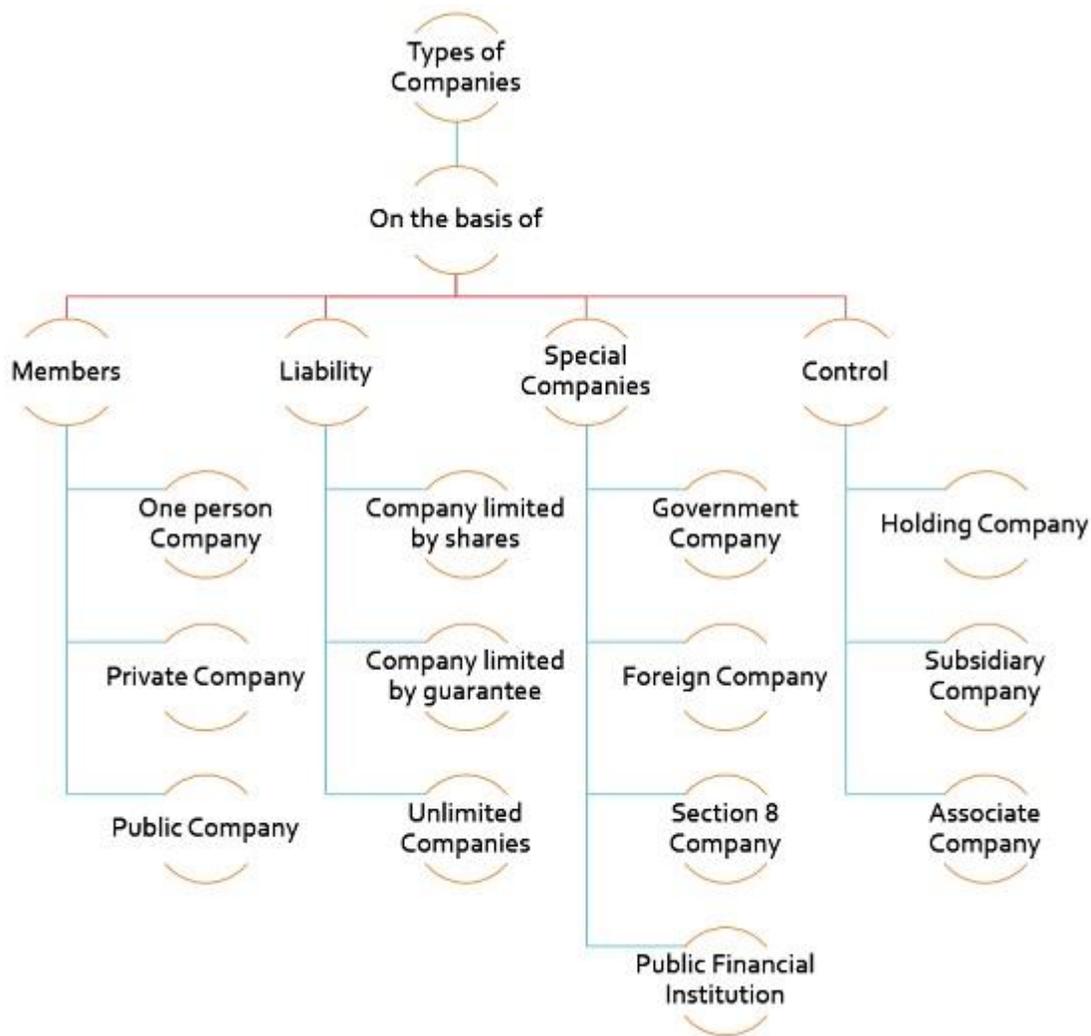
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## **Kinds of Companies**

A company is that form of business organization, which is created by law. It refers to an association of persons, created to undertake business activities, having a separate legal existence, perpetual succession and a common seal.

It is a legal entity incorporated under the Companies Act, 2013 or any other previous acts, prevalent in the country.

Types of Company



1. *On the basis of members*

1. One person Company: OPC or one person company is a new category of company introduced to encourage startups and young entrepreneurs wherein a single person can incorporate the entity. It also promotes the concept of corporatization of the business. It should be noted that it is not the same as a sole proprietorship firm, in a way that OPC has separate legal existence with limited liability.
2. Private Company: A private company is one in which two or more persons get the company registered under the Companies Act. The securities of such a company are not listed on a

recognised stock exchange, and they cannot invite the public to subscribe for the shares/debentures. The members of a private company are restricted from transferring the shares.

The maximum number of members in a private company is 200.

3. **Public Company:** A company which is formed by a minimum number of seven members with a lawful object is termed as a public company. Its securities are listed on a recognized stock exchange, and its shares are freely transferable. Further, there is no limit on the maximum number of members in such a company. The subsidiary of the public company is also considered as a public company.

## 2. *On the basis of liability*

1. **Company limited by shares:** Company limited by shares is one in which memorandum of association of the company specifies that the liabilities of the shareholders are limited to the amount unpaid on shares which they own. Hence, the shareholders are liable only to the extent of the amount that is not paid on their holdings.
2. **Company limited by guarantee:** A company in which the liability of members is limited to a definite sum stated in the memorandum of association of the company. Meaning that the liability of the members is confined by the MoA to a stipulated sum, as they have guaranteed to contribute to the company's assets, in the event of winding up of the company.
3. **Unlimited Company:** An unlimited company is a company whose liability does not have any limit. In this type of company, the liability of the member ends when he/she ceases to be a member of that company.

## 3. *Special companies*

1. **Government Company:** The company whose at least 51% paid up share capital is owned by Central Government/State Government, or partly by central and partly by the state government. Further, it also covers a company whose holding company is a government company.
  2. **Foreign Company:** Any company registered outside the country that has a business place in India or by way of an agent traditionally or electronically and undertakes business operations in the country in any manner.
  3. **Section 8 Company:** A company formed for a charitable object, i.e. to encourage commerce, science, sports, art, research, education, social welfare, environment protection religion, etc. comes under the category of Section 8 company. These companies are given special license by the Central Government. Further, they use the money earned as profit for the promotion of the object and thus, dividend to members is not paid.
  4. **Public Financial Institution:** The companies, which are engaged in financial and investment business and whose 51% or more paid up share capital is held by Central Government and are established under any act are termed as public financial institutions. It includes LIC, ICICI, IDFC, IDBI, UTI etc.
4. *On the basis of the control*
1. **Holding Company:** A parent company that owns and controls the management and composition of the Board of Directors of another company (i.e. subsidiary company) is termed as a holding company.
  2. **Subsidiary Company:** A company whose more than 51% of its total share capital is owned by another company, i.e. a holding company either itself or together with its subsidiaries, as well as the holding company also governs the composition of Board of Directors is called the subsidiary company.

3. Associate Company: A company in which another company possess a considerable influence over the company, then the latter is called as an associate company. The term considerable influence implies controls a minimum 20% of total share capital, or business decisions, as per an agreement.

Apart from the list given above, there are many other companies such as listed company, unlisted company, dormant company and Nidhi company.