



# INTRODUCTION TO CORPORATE LAW

---

**PREPARED BY:  
PROF. PRIYA SINGH  
ASSISTANT PROFESSOR,  
SCHOOL OF COMMERCE AND MANAGEMENT  
SANJIVANI UNIVERSITY.**

# Corporate Law

---

**Corporate Law** (also known as **Company Law**) is a branch of law that governs the formation, operation, and dissolution of corporations. It focuses on the legal framework within which businesses operate, ensuring they comply with legal standards, protect stakeholders' rights, and promote good governance.

# Meaning of Company

---

COMPANY- it's meaning definition and characteristics Companies' = 'comp' and 'panies'

MEANING: 'Comp' means together and 'panies' means breed. Company means a group of persons who ate together. In ancient times, men of business thought, discuss the affairs of business over lunch or dinner. But nowadays, by company is meant an association in which there is a joint investment of capital. In modern age a company is the voluntary association of persons formed for the purpose of earning a profit with the investment of capital which is transferable in shares of limited liability. It is incorporated and registered as an artificial person' under the Company Act.

# **Features of Corporate Law**

---

**Separate legal entity**

**Limited Liability**

**Transferability of shares**

**Perpetual Succession**

**Can own and sell property**

**Can sue and be sued**

**Common Seal**

# Definition

---

Definition:- Sec 3(1) of the Indian Company Act 1956 company means a company formed and registered under this act or an existing company. Existing company means a company formed and registered under any of the previous company acts.

According to L.H.Honey- ‘A company is an incorporated association which is an artificial person created by law having a separate entity with a perpetual succession and a common seal.’

A company is a voluntary association of persons which is formed with the specific objectives of establishing a business. It has a separate entity from its members who can freely transfer their interest as they desire.

# Development of Indian Company Law

---

The first Companies Act was passed in India in 1850.

The amending act of 1857 conferred the right of registration with or without limited liability.

The Companies Act, of 1956 repealed all the previous Acts and is in force at present.

The Companies Bill, 2009 is introduced in the Lok Sabha:

- (a) to revise and modify the existing Act
- (b) to delete redundant provisions and regroup the provisions
- (c) to re-write various provisions for easy interpretation; and
- (d) to adapt to the changing economic and technical environment.

# What is a Company?

---

Company is a voluntary association of persons formed for the purpose of doing business having a name and limited liability. It is a juristic person having a separate legal entity distinct from the members who constitute it, capable of rights and duties of its own with the potential of perpetual succession's. 3(1)(i) of The Companies Act, 1956, states that 'company' includes a company formed and registered under the Act or an existing company i.e. a company formed or registered under any of the previous company laws.

# Body corporate A company is a corporate body.

---

The word corporation is derived from the Latin term 'corpus' which means 'body'. Company is called a body corporate because the persons composing it are made into one body by incorporating it according to the law and clothing it with legal personality, and so turn it into a corporation.

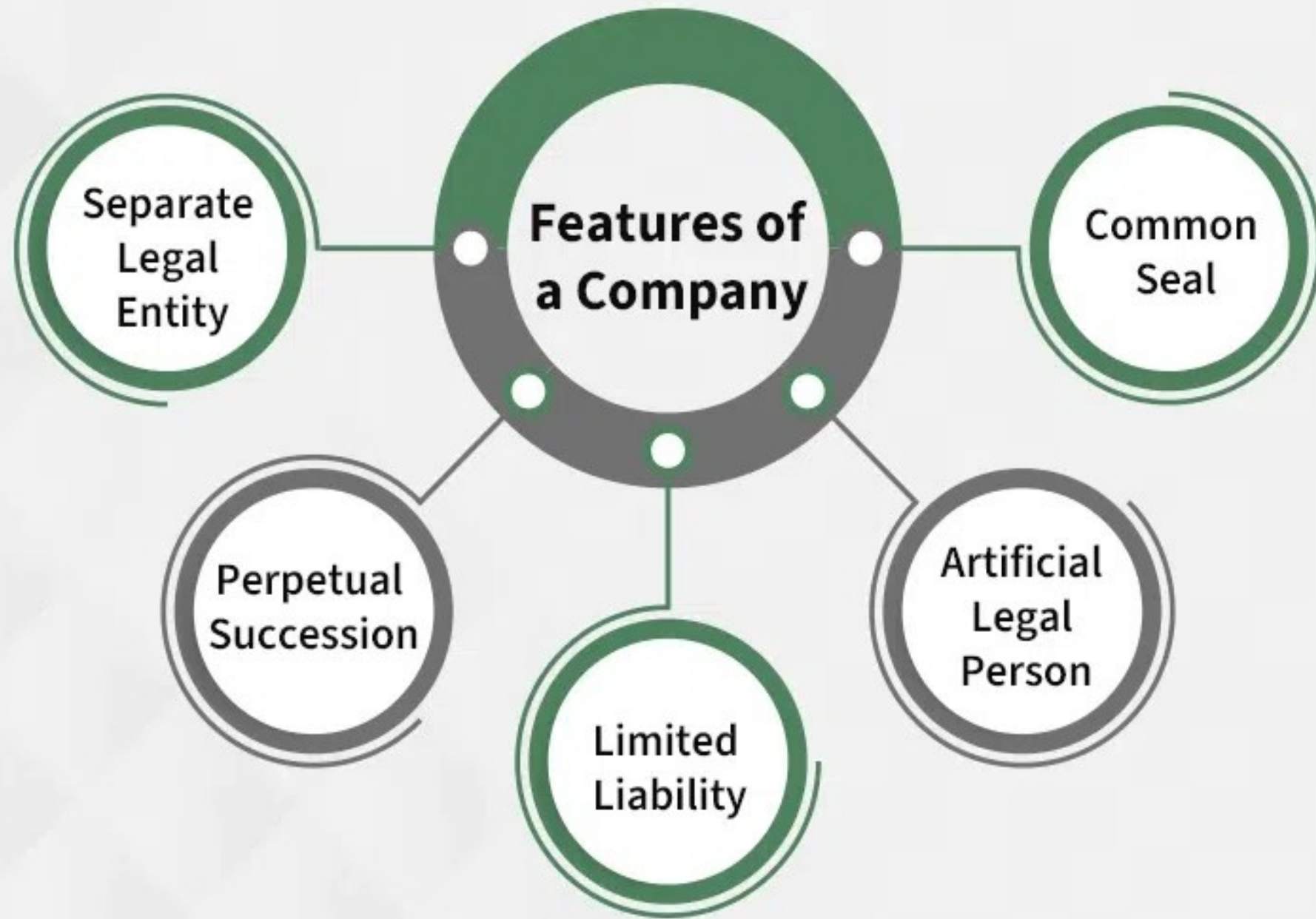
Section 2(7): "body corporate" or "corporation" includes a company incorporated outside India but does not include- (a) a corporation sole; (b) a co-operative society registered under any law relating to co-operative societies; and (c) any other body corporate not being a company as defined in this Act which the Central Government may, by notification in the Official Gazette, specify in this behalf.



# Corporation

---

Corporation is legal person created by the process other than natural birth. It is for this reason something called artificial legal person. As a legal person, this corporate being is capable of enjoying many of the rights, and incurring many of the liabilities of a natural person- a human being. But the company is not merely a legal institution. It is rather a legal device for the attainment of any social or economic end. It is therefore a combined political, social, economic and legal institution.



# Separate Legal Entity

---

- A company is considered a distinct legal person, separate from its members (owners) and directors.
- It can own property, enter contracts, sue, and be sued in its own name.
- Example: The landmark case *Salomon v. Salomon & Co Ltd* established the principle of corporate personality.

# Limited Liability

---

- The liability of the company's shareholders is limited to the amount unpaid on their shares.
- Personal assets of shareholders are not at risk if the company faces financial distress or legal action.
- Promotes investment as individuals face reduced financial risk.

# Transferability of Shares

---

Shares in a company can be transferred from one person to another with ease, subject to the company's Articles of Association.

- Facilitates liquidity for shareholders and investment opportunities for new investors.
- In public companies, shares are freely traded on stock exchanges.

# Perpetual Succession

---

- A company's existence is not affected by the death, retirement, or insolvency of its members or directors.
- The company continues to exist until it is legally dissolved.
- This ensures stability and continuity in business operations.

# Common Seal

---

- The common seal acts as the official signature of the company.
- It is used to authenticate legal documents, such as property deeds and contracts.
- While the use of a common seal has become optional in some jurisdictions, it still holds traditional significance in corporate transactions.

# History of Corporate Law

---

## Birth of the Corporate Entity

- **East India Company (1600):** One of the first joint-stock companies with limited liability, chartered by Queen Elizabeth I. This model became a precursor for modern corporations.
- **Joint Stock Companies Act, 1844 (UK):**
  - Allowed companies to incorporate without a royal charter.
  - Made it mandatory to register companies and file public documents.



# Limited Liability Introduction

---

- **Limited Liability Act, 1855 (UK):**
  - Introduced the concept of limited liability, protecting shareholders from being personally liable beyond their share capital.
- This paved the way for the expansion of industrial capitalism and encouraged investment.

# Modern Company Law Evolution

---

- **Companies Act, 1862 (UK):** Consolidated earlier company laws, providing a comprehensive legal framework for incorporation and operation of companies.
- **India's First Company Law (1866):** Based on the British Companies Act, it laid the foundation for company law in colonial India.

- **Indian Companies Act, 1956:**

- Replaced earlier colonial laws.
- Introduced comprehensive regulations for incorporation, management, and winding up of companies.

- **Companies Act, 2013:**

- Replaced the 1956 Act to modernize corporate governance, enhance transparency, and incorporate global best practices.
- Introduced concepts like One Person Company (OPC), corporate social responsibility (CSR), and enhanced roles for independent directors.

# Joint Stock Company

---

- **Definition:** A business entity in which the capital is divided into shares, and shareholders own these shares. It has a separate legal entity, perpetual succession, and limited liability.
- **Key Features:**
  - Separate legal entity.
  - Shares are freely transferable (in public companies).
  - Managed by a Board of Directors.
  - Liability of shareholders is limited to their investment.
- **Examples:** Reliance Industries Ltd, Tata Steel Ltd.

# Sole Proprietorship

---

- **Definition:** A business owned, managed, and controlled by a single individual. It is the simplest and oldest form of business organization.
- **Key Features:**
  - No separate legal entity; the owner and business are the same.
  - Unlimited liability (owner's personal assets can be used to pay business debts).
  - Easy to set up and dissolve.
  - Suitable for small-scale businesses.
- **Examples:** Local grocery stores, freelancers, small retail shops.

# Partnership

---

- **Definition:** A business owned and managed by two or more individuals who share profits, losses, and management responsibilities as per a partnership agreement.
- **Key Features:**
  - No separate legal entity; partners and the firm are considered one.
  - Unlimited liability (except for limited partners in certain cases).
  - Governed by the **Indian Partnership Act, 1932**.
  - Mutual trust and cooperation are essential.
- **Examples:** Law firms, medical practices, small trading firms.

# Limited Liability Partnership (LLP)

---

- **Definition:** A hybrid form of business structure combining the benefits of a partnership and a company. Partners have limited liability, and the LLP has a separate legal entity.
- **Key Features:**
  - Separate legal entity from its partners.
  - Limited liability for partners (personal assets are protected).
  - Governed by the **LLP Act, 2008** in India.
  - Easier compliance compared to a company.
  - Suitable for professionals like architects, consultants, and startups.

# Comparison Table

Aspect	Joint Stock Company	Sole Proprietorship	Partnership	LLP
Legal Entity	Separate	No	No	Separate
Liability	Limited	Unlimited	Unlimited	Limited
Ownership	Shareholders	Sole Owner	Partners	Partners
Continuity	Perpetual	Ends with owner's death	Ends with partner exit/death	Perpetual
Governance	Board of Directors	Owner	Partners	Designated Partners
Ease of Formation	Moderate	Easy	Easy	Moderate