

# Classification of company

# Classification of Companies

## **Companies on the Basis of Liabilities**

- Companies Limited by Shares
- Companies Limited by Guarantee
- Unlimited Companies

## **Companies on the Basis of Members**

- One Person Companies
- Private Companies
- Public Companies

## **Companies on the Basis of Control**

- Holding and Subsidiary Companies
- Associate Companies

# Statutory Corporation

Statutory Corporation (or Public Corporation) refers to such organizations that are incorporated under the special Acts of the Parliament/State Legislative Assemblies.



# CHARTERED COMPANIES

In the 17<sup>th</sup> and 18<sup>th</sup> centuries, chartered companies could be established under a special Royal charter issued by the king. These are incorporated under a special charter by a monarch.

Example:      The East India Company and  
The Bank of England of chartered  
companies incorporated in England. The charter  
defined their powers and area of operation.

# Private Company

- According to S-2 of companies Act 1994

"private company" means a company which by its articles—

- (i) restricts the right to transfer its shares, if any;
- (ii) prohibits any invitation to the public to subscribe for its shares or debenture, if any;
- (iii) limits the number of its members to fifty not including persons who are in its employment;

# One person Company

- Company(Amendment) Act 2020



# One Person Comapany



- ➡ **Separate Legal Entity**
- ➡ **Legal Business Name**
- ➡ **Gain Status Value**
- ➡ **Limited Liability – No Risk of Personal Assets**
- ➡ **Minimum Business Requirement**
  - ➡ **1 Shareholder**
  - ➡ **1 Director**
  - ➡ **1 Nominee Director**
  - ➡ **No Minimum Share Capital**
  - ➡ **Company Name with an 'OPC suffix'**
- ➡ **No Third Party Interference**
- ➡ **Fast Decision Making**
- ➡ **Easy Transfer of Share or Ownership**
- ➡ **Owner's Death – No Disturbance in Company**

# Private limited companies

## ADVANTAGES

- Shares can be sold
  - Not advertised
  - Friends and family likely shareholders
- More capital available
  - Allows for expansion
- Limited liability for shareholders
  - Not liable for business failure
- Owners might retain control of the business
- Continuity of the business

## DISADVANTAGES

- Legal requirements
  - Add costs
  - Time-consuming
- Shareholders to approve if a shareholder sells shares
  - Less flexibility
- Less secrecy over finances
  - Accounts inspected
- Shares cannot be advertised or listed on a stock exchange



# Public Company

According to S-2 of companies Act 1994

"public company" means a company incorporated under this Act or under any law at any time in force before the commencement of this Act and which is not a private company;

# Public Limited Companies

## Advantages

- Huge amounts of money can be raised from the sale of shares to the public.
- Production costs may be lower as firms gain economies of scale.
- Because of their size, plc can often dominate the market.
- It becomes easier to raise finance as financial institutions are more willing to lend to plcs.

## Disadvantages

- Setting up costs can be very expensive.
- Since anyone can buy shares, it's possible for an outside interest to take control of the company.
- All company accounts can be inspected by members of the public.
- Because of their size they cannot deal with customers at a personal level.
- The way they operate is controlled by various company acts which aim to protect shareholders.
- There is a divorce of ownership and control which might lead to the interests of owners being ignored to some extent.
- PLCs are inflexible due to their size.

# Difference between Public And Private Company

## Public Company

- ▶ A public company can invite subscription from the public.
- ▶ A public company does not have restriction on transfer of share.
- ▶ A public company should have at least seven members.
- ▶ There is no restriction on upper limit of the members.
- ▶ A public company is required to file its account with the registrar.

## Private Company

- ▶ A private company cannot invite subscription.
- ▶ Transfer of share is restricted in a private company.
- ▶ A private company should have at least two members.
- ▶ Maximum members cannot exceed 50 members.
- ▶ Filing of account is not required by a private company.

BASIS	COMPANY	PARTNERSHIP FIRM
LEGALITY	Company is an artificial legal person.	Partnership is not a legal person.
PERPETUAL SUCCESSION	Company has perpetual succession.	Partnership firm does not have perpetual succession.
REGISTRATION	Company is created by registration under Companies Act.	For a partnership firm registration is not compulsory. It is guided by <u>Indian</u> Contract Act and Partnership Act. 1872
NUMBER OF MEMBERS	Private Limited Company shall have at least 2 members and maximum 50 members.	Partnership firm shall have at least 2 members and maximum 20 members and for banking business, maximum 10 members.
LIABILITY	In a private limited company, liability of the members can be limited by shares or by guarantee.	Liability of members is unlimited in a partnership firm.