**Subject : Commerce**

**Lesson : Kinds of Companies**

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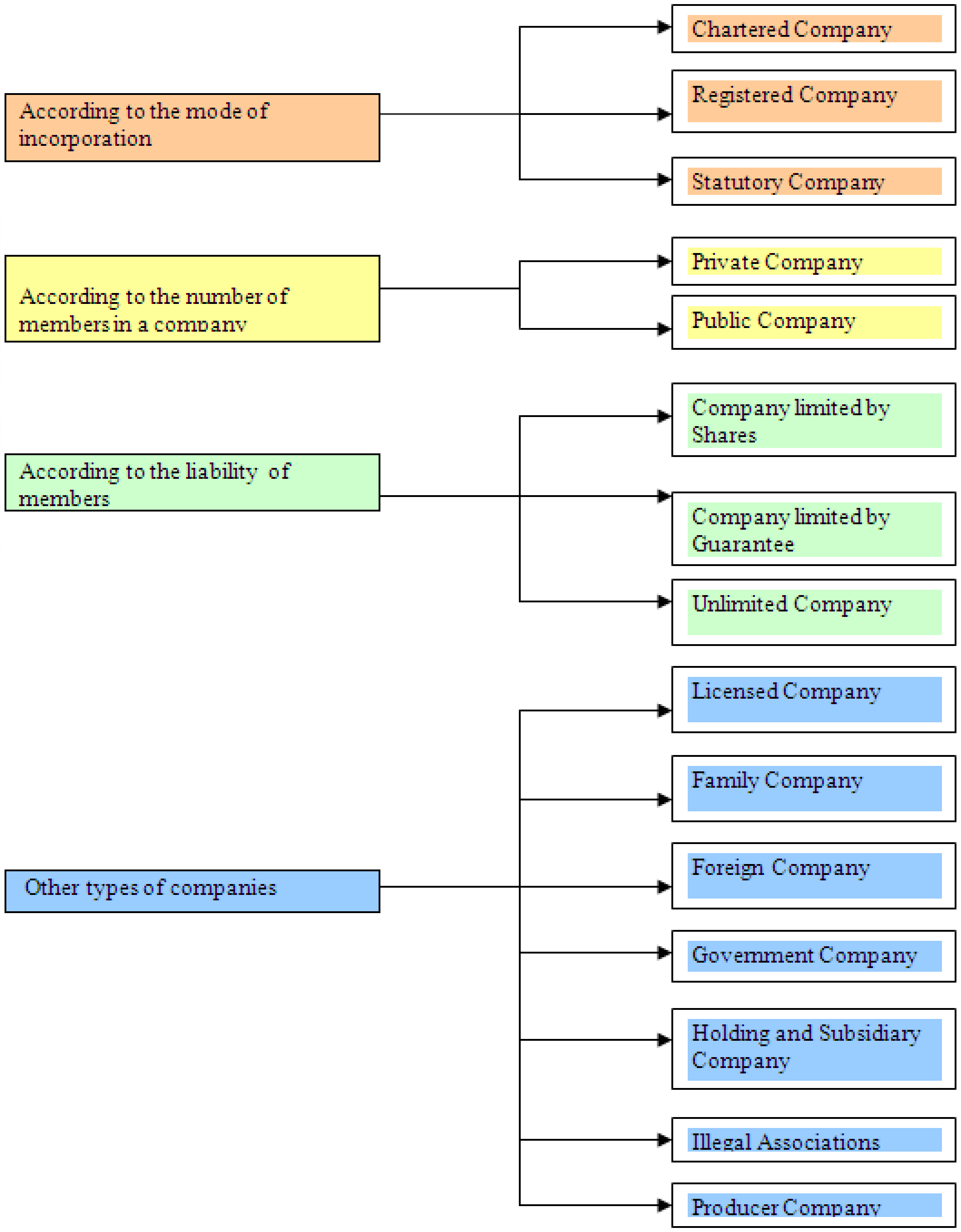
# Table of Contents

# Kinds of Companies

## Introduction

The questions: what is a Company and what are its characteristics have already been discussed in the previous lesson. There are various kinds of companies: Private Company, Public Company, One Man Company and a Foreign Company. This lesson discusses the various types of companies in detail. A Company can be classified on the basis of the mode of incorporation as Statutory and Registered Company, on the basis of the number of members as Private Company and Public Company and on the basis of the liability of members as Company Limited by Shares, Company Limited by Guarantee and Unlimited Company. Various other types of companies, such as Licensed Company, Family Company, Foreign Company, Government Company, Holding Company and Illegal Company are also discussed in detail in this lesson.



## 2.1 Companies According to Mode of Incorporation

A company may be incorporated[1] either by a charter or by a special Act of legislation or under the Companies Act 1956. If a company is incorporated by issuing a charter it is called a Chartered Company. If a Special Act of Legislation incorporates the company then it is called a Statutory Company and if it is incorporated under the Companies Act then it is called an Incorporated Company.

### 2.1.1 Chartered Company

A company when incorporated by issuing a charter by the King or the Queen it is called a Chartered Company. Some of the chartered companies are The East India Company, B.B.C. (British Broadcasting Corporation) and The Bank of England

### 2.1.2 Statutory Company

These companies are formed with the objective of carrying out businesses, which are in the interest of the nation as a whole. The Reserve Bank of India, The Unit Trust of India and Life Insurance Corporation of India are examples of statutory companies. They have been incorporated by Special Acts passed by the legislature. The Acts define the powers to be exercised by the company; therefore these Companies are not required to have a Memorandum of Association, nor do they have to use the word 'limited' as part of their name. The provisions of their respective Acts govern them. Their accounts are audited under the supervision and control of The Auditor General of India.


Figure 2.2: STATUTORY COMPANY

### 2.1.3 Registered / Incorporated Company

An Incorporated Company can also be called a Registered Company. These companies are registered under the Companies Act, 1956. The registered companies can further be classified into various types. They can be classified either on the basis of the number of members or on the basis of the liability of members.

## 2.2 Companies on the Basis of the Number of Members

A registered company can be classified as a private company or a public company on the basis of the number of members.

2.2.1 Private Company

According to section 3(1) (iii), a 'private company' is a company which has a minimum paid up capital of Rs. One lakh or such higher paid up capital as may be prescribed, and by its articles of association:

a. Restricts the right of the members to transfer shares.
b. Limits the number of its members to 50. The members do not include persons who are in the employment of the company or were previously in the employment of the company.


Figure 2.3: Minimum Paid up Capital: Rs 1, 00, 000/-

c. Prohibits inviting public to subscribe for shares or debentures.
d. Prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.

According to The Companies (Amendment) Act, 2000 'every private company existing on the date of commencement of this Amendment Act and having a paid up capital of less than Rs. one lakh shall, within a period of two years, increase its paid up c

### 2.2.2 Public Company

According to section 3(1) (iv), as amended by the Companies (Amendment) Act, 2000, a "public Company" means:

a. A company, which is not a private company.In other words a public company is one which:
    1. Does not restrict the transfer of shares.
    2. Does not limit the number of members.
    3. Invites the public for the subscription of its shares and debentures.

4. Invites or accepts deposits from the public.

Figure 2.4: Public Company

b. A company, which has a minimum paid up capital of Rs. five lakhs or such higher paid up capital as may be prescribed from time to time. According to The Companies (Amendment) Act 2000, 'every public company existing on the date of commencement of this amendment and having a paid up capital of less than Rs. five lakh shall, within a period of two years, increase its paid up capital to Rs five lakh. In case the company fails to enhance the paid up capital to Rs. five lakh, the company shall be deemed to be a 'defunct company' under section 560 and its name shall be struck off from the register of companies maintained by the Registrar of Companies'.

c. A private company which is a subsidiary of a public company. By becoming the subsidiary of a public company the basic characteristic of a private company are not altered. The private company is treated as a public company in relation to the other provisions of the Act but not with reference to its basic characteristics. All the provisions in terms of section 3 (1) (iii) continue to govern the affairs of the company even though it is a subsidiary of a public company.[2]

Illustration:
Meeta Private Limited was a subsidiary of Geet International Ltd., which was a public limited company. Seeta, who was a member of Meeta Company, held 50 shares of the company and wanted to transfer her shares to her friend Anu. Although Meeta's company, by virtue of being a subsidiary of Geet International, was a public company, its characteristics were still those of a private company. Hence Seeta could not transfer her shares to her friend Anu.

[2] *A company which controls the management of another company is called a holding company and the company whose management is controlled is called the subsidiary com*

## 2.2.3 Exemptions and Privileges of a Private Company

There are certain advantages which a private company has over a public company. According to the Companies Act 1956, these advantages are called exemptions and privileges which are enjoyed by a private company. These privileges and exemptions are as follows:

1. Just two persons can form themselves into a company (section 12)
2. The Company can commence business immediately on incorporation as it does not require to obtain the certificate for the commencement of business to start business (Section 149(7)).
3. It can function with only two directors (section 252 (2))


Figure 2.5: Exemptions & Privileges

4. At the time of incorporation the directors are not required to file with the Registrar of Companies, their consent in writing to act as directors and their undertaking to take up qualification shares, if any (section 266 (5)).
5. The company need not prepare and file 'prospectus' or 'statement in lieu of prospectus' with the Registrar (section 70 (3)).
6. It can proceed to allot shares without waiting for a 'minimum subscription' (section 69).
7. It need not hold a statutory meeting and file a statutory report (section 165).
8. The right of pre-emption does not apply to it. It is free to allot new issues (further shares) to outsiders and not to its existing shareholders.
9. It need not comply with the provisions and restrictions applicable to the management (directors, managing directors or managers) of a public company.
10. A life Director appointed on or before 1st April, 1952, cannot be removed by the company in a general body meeting (section 284).
11. The restrictions on inter-corporate loans and investments do not apply to it (section 372A).
12. It can keep its accounts secret. The copies of the Profit and Loss Account and the Balance Sheet filed with the Registrar are not open for inspection to a non-member (section 220).
13. It need not follow the provisions of section 171 to 186 relating to general meetings, procedure of voting etc. but can make its own regulations by its articles in these respects (section 170).
14. The quorum for a general meeting of shareholders is two persons personally present, unless provided otherwise in the articles (section 174 (1)).
15. It need not keep an index of members (section 151).

For more information on privileges and exemptions of private companies, go to thefollowing link:http://www.yourcompanysecretary.com/Corporate/Exemptions.htm (downloaded on 30th July 2009 at 6 P.M)

## 2.2.4 Distinction between a Private and a Public Company

**There are several distinctions between a private and a public company which are given in Table 2.1**

**Table 2.1**

| Basis of Distinction | Private Company | Public Company |
|---|---|---|
| **Minimum number of members** | Two | Seven |
| **Maximum number of members** | Fifty | No limit |
| **Minimum number of directors** | Two | Three |
| **Transfer of shares** | Restriction on transfer of shares | Shareholders can transfer shares freely without restriction |
| **Public subscription** | Prohibits invitation to the public to subscribe for any shares or debentures | Invites the public for subscription to its shares and debentures |
| **Public deposits** | Prohibits invitation or acceptance of deposits from the public | Invites deposits from the public |
| **Commencement of business** | Can commence business soon after getting the Certificate of Incorporation | Can commence business only after getting the Certificate of Commencement of Business |
| **Prospectus** | Need not prepare and file a prospectus or a statement in lieu of the prospectus | Has to prepare and file a prospectus or a statement in lieu of the prospectus |
| **Minimum subscription** | Can allot shares to the public without waiting for a minimum total amount of subscription | Can allot shares to the public only after raising a minimum total amount of subscription |
| **Statutory meeting** | Is not required to hold a statutory meeting | Is required to hold the statutory meeting after one month and before six months from the date of obtaining the certificate to commence business |
| **Management (Managerial personnel)** | Has freedom with regard to the appointment of management (managerial personnel) | Has to comply with certain provisions and restrictions relating to the appointment of the management |
| **Managerial Remuneration** | No restriction on the remuneration of the personnel | The maximum remuneration is fixed at 11 % of the annual profits |
| **Index of members** | Not required to keep an index of members | Has to keep an index of members if the number of members exceeds fifty |

## 2.2.5 Conversion of a Private into a Public Company

A private company can be converted into a public company by either of the following two ways:

a. Automatically
b. Deliberately

*Automatic conversion:* A private company automatically converts into a public company, by the operation of law when it makes a default in complying with the essential statutory requirements as laid down in section 3 (1) (iii) of the Companies Act 1956. The default can be made in any one of the following circumstances:

1. The company's membership exceeds 50.
2. The company gives permission for free transfer of shares.

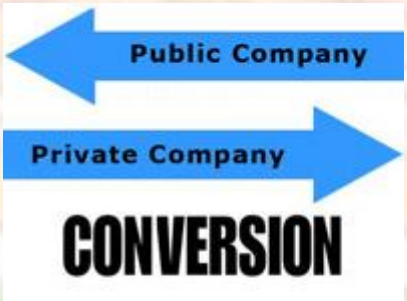



Figure 2.6: Conversion of Private into a Public Company

3. The company invites the public to subscribe to its shares or debentures.
4. The company invites or accepts deposits from the public.

The Company Law Board, if it so wishes, can relieve the company from being treated as a public company on an application made by the company or any interested person if it is of the opinion that the default was made due to an accident or some other justifiable cause.

Further, a the private company which becomes a public company need not comply with any legal formality, and if the company so wishes, it can still retain the characteristics of a private company, i.e. it can continue to have only two members and two directors.

Deliberate conversion: When a private company deletes from its articles the four compulsory restrictions (as per section 3 (1) (iii)) by passing a special resolution[3] , it becomes a public company, and within thirty days of passing the resolution, a copy of the altered articles and a copy of the prospectus or a statement in lieu of prospectus has to be filed with the Registrar. Further the company has to increase the number of its members to at least seven and the number of directors to at least three. Also it has to increase its paid up capital to at least five lakhs rupees if its existing capital is less than that and has to delete the word private from its name.

For further information on the procedure for conversion from private to public go to the following link:

http://india.smetoolkit.org/india/en/content/en/35484/A-Private-Limited-Company-wants-to-convert-into-a-Public-Limited-Company-Kindly-let-us-know-the-procedure-12-3-2005-

[3] A decision reached by a majority i.e. members three times in favor than those in disfavor voting in person or by proxy at a general meeting.

## 2.2.6 Conversion of a Public into a Private Company

A public company has to pass a special resolution to alter its articles of association in order to incorporate the four restrictions imposed upon a private compa

section 3 (1) (iii). A copy of the altered articles has to be filed with the Registrar of Companies within 30 days of the passing of the resolution and the sanction of the central government has to be obtained for the altered article. The company becomes a private company from the date on which the Central Government gives the order of approval of the altered articles. Within thirty days of the receipt of the approval from the Central Government, copies of the altered articles and the Central Government's letter of approval have to be filed with the Registrar.

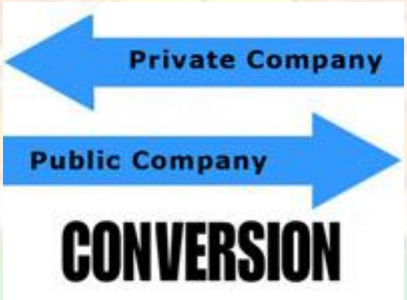



Figure 2.7: Conversion of Public into a Private Co

Further the company has to reduce its members if the total number of its members is more than fifty and has to add the word 'Private' to its existing name.

For further information on the procedure of conversion from public to private go to the following link: http://business.gov.in/closing_business/public_pvt.php (downloaded on 30th July 2009 at 5:30 P.M.)

To see an example of the conversion of a company, go to the following link: http://www.publicnotice.in/show_notice_details.php?id=6937 (downloaded on 30th July 2009 at 5 P.M.). In this case a public company by the name of Kristal Projects (India) Limited converts itself into a private company and sends a notice to all its shareholders informing them about the conversion.

## 2.3 Companies on the Basis of the Liability of Members

On the basis of liability, companies can be classified into three types, as follows:

1. Company limited by shares
2. Company limited by guarantee
3. Unlimited company

### 2.3.1 Company Limited by Shares

Most of the companies in India are companies limited by shares. According to section 12(2)(a) of the Companies Act, "a company having the liability of its members limited by the memorandum, to the amount, if any, unpaid on the shares respectively held by them is termed a company limited by shares. In such companies the extent of its liability is determined by the face value of its shares. Unless the articles provide for it there is no liability on the shareholders to pay any balance amount due on the shares, except when the calls are duly made while the company is still in existence or when t he company is being wound up.

**Illustration**

Ram Gopal purchases 50 shares of Rs.100 each of ABL Company Ltd. He pays the application money of Rs. 40 per share and the allotment money of Rs. 20 per share. The company makes the first call and Ram Gopal pays the first call money of Rs. 20 per share. In all he pays Rs 80 per share for the 50 shares held by him. Ram Gopal is not liable to pay the balance of Rs. 20 per share unless the company makes the final call. After 20 years the company makes the final call of Rs. 20. Being a shareholder, Ram Gopal is liable to pay Rs. 20 for all 50 shares as his final call money. After paying the final call, Ram Gopal is not liable to pay any more money to the company because his liability is only Rs. 100 for each of the 50 shares held by him.

**Illustration:**

Ram Gopal purchases 50 shares of Rs.100 each of ABL Company Ltd. He pays the application money of Rs. 40 per share and the allotment money of Rs. 20 per share. The company makes the first call and Ram Gopal pays the first call money of Rs. 20 per share. In all he pays Rs 80 per share for the 50 shares held by him. Ram Gopal is not liable to pay the balance of Rs. 20 per share unless the company makes the final call. The company does not make the final call hence Ram Gopal is not liable to pay the unpaid money of Rs. 20 per share on the 50 shares held by him.

**Illustration:**

Ram Gopal purchases 50 shares of Rs.100 each of ABL Company Ltd. He pays the application money of Rs. 40 per share and the allotment money of Rs. 20 per share. The company makes the first call and Ram Gopal pays the first call money of Rs. 20 per share. In all he pays Rs 80 per share for the 50 shares held by him. After 25 years the company is declared insolvent and undergoes winding up. At the time of winding up Ram Gopal is liable to pay the unpaid amount on the shares held by him. Hence Ram Gopal pays Rs. 20 for each of the 50 shares held by him.

2.3.2 Company Limited by Guarantee

According to section 12(2)(b) "a company having liability of its members limited by the memorandum to such amount as the members may respectively undertake by the memorandum to contribute to the assets of the company in the event of its being wound up is termed a company limited by guarantee."

**Figure 2.9: Company Limited by Gurant**

**Illustration:**

Ram Gopal is a shareholder of ABL Company Ltd. He holds fully paid up shares. This means that he has already paid Rs 5000 for 50 shares of Rs. 100 each held by him. He also gives a guarantee to the company that his liability is Rs. 6000. After 40 years the company undergoes insolvency and is wound up. As per the guarantee given by Ram Gopal, he is liable to pay Rs. 1000 more to the company.

## 3.3 Unlimited Company

According to Section 12(2)(c) " a company having no limit on the liability of its members is an unlimited company" and according to Section 27(1) the articles of association of an unlimited company must state the number of members with which the company is to be registered, and, if the company has share capital, the amount of share capital with which the company is to be registered because an unlimited company may or may not have share capital. The members of such a company are liable to pay the whole amount of the company's debts. The creditors can enforce their claim against the company by instituting the proceedings of winding up and then the official liquidator calls upon the members to discharge the debts of the company without any limit.

**Illustration:**

Ram & Shyam Company is an unlimited company consisting of 10 members. Each member holds 100 fully paid up shares of Rs. 100 each. After 5 years the company goes into liquidation. The Company owes its creditors Rs. 1 Crore. At the time of winding up, irrespective of the value of shares held by the members, they together are liable to pay Rs. 1 Crore as their liability is unlimited.

## 2.4 Other Types of Companies

There are some other types of companies which are discussed below:

### 2.4.1 Company not for profit / Licensed Company

Section 25 of the Companies Act deals with licensed companies. Such companies obtain the license from the central government and then register themselves under the Companies Act. Such companies are formed to promote art, religion or any other social and useful purpose for the welfare of the society. They do not use their profits to pay dividends to their members; instead they apply their profits (income) to promoting the objective for which the company is formed. They enjoy certain exemptions and privileges as compared to other limited companies. For example they can exclude the words 'limited' or 'private limited' from their names. Unlike other companies they need not pay the stamp duty on the memorandum and articles of association while getting themselves registered. They may be a public or a private company and may or may not have a share capital. They need not comply with the requirement of the minimum paid up capital of Rs. one lakh for a private company and Rs. five lakh for a public company. However the central government may at anytime revoke the license of the company if it finds that the fundamental conditions for which the company has been established are not being met.

**Illustration:**

Five friends Ram, Ghanshyam, Raghu, Shweta and Sweety were in their final year of MBBS and had a plan of starting their own hospital. After attaining their degrees they applied to the central government to start a hospital in a rented accommodation in Delhi by the name of 'Chikitsa'. They soon got the license and thereafter registered themselves as a private limited company without adding the name private or limited to the name 'Chikitsa'.

Max India limited is a public limited company which was founded in the year 1985. It has hospitals in Delhi and its adjoining areas by the name of 'Max Medcentre' and 'Max Hospital'.

For more information on Max Company go to the following link:

http://www.maxhealthcare.in/aboutus/index.html

Figure 2.10: Company not for Profit

### 2.4.2 One Man Company

One man company has only a single (one) shareholder who is also the director. Such companies are not formed in India. The Companies Bill 2009 has a provision on “one man company”.

### 2.4.3 Foreign Company

According to Section 591(1) of the Companies Act a foreign company is a company incorporated outside India but having a place of business in India.

The PepsiCo Company is a foreign company which was incorporated in New York, USA in the year 1898. Today it has its place of business in many countries around the globe. In India it gained entry in the year 1988 and has been doing business here since then. For information on PepsiCo go to the following link: http://en.wikipedia.org/wiki/PepsiCo - Corporate governance (Figure 2.4 downloaded from this site on 7th August at 1:00 P:M)

Figure 2.11: Foreign Company

### 2.4.4 Government Company

According to Section 617 of the Companies Act, a Government Company is defined as “any company in which not less than 51 per cent of the paid up share capital is held by the Central Government or by the State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company”. As the government owns these companies, in India such companies are called public sector undertakings or a company in the public sector (government sector).

Figure 2.12: Bharat Sanchar Nigam Limited

Some of the famous government companies in India are the BSNL and the Indian Oil Corporation. BSNL or the Bharat Sanchar Nigam Limited is a telecommunication company. It is also know as India Communications Corporation Limited. For more information on BSNL go to the following link:

http://en.wikipedia.org/wiki/Bharat_Sanchar_Nigam_Limited

Indian Oil Corporation is an Indian Public-sector petroleum company. It is India's largest commercial enterprise.For more information on Indian oil corporation go to the following link:
http://en.wikipedia.org/wiki/Indian_Oil_Corporation_Limited

Figure 2.13: Indian Oil Corporation

## 2.4.5 Holding Company and Subsidiary Company

When one company controls the management of another company the former is called a holding company and the latter is called a subsidiary company. A company is a subsidiary of another company if it fulfils any of the following conditions (Section 4):If the other company has a majority on the board of directors of this company.

**Illustration:**

Ruksar India limited, a Delhi based company, comprises five directors. Out of the five directors, three are board members of Angel Company Limited, which is a Bombay based company. Angel Company has eight directors. As the majority of the directors (three out of five) of Ruksar India Limited are also directors of the Angel Company, the former company becomes a subsidiary of the latter.

If the other company holds more than half the nominal value of this company's equity share capital.

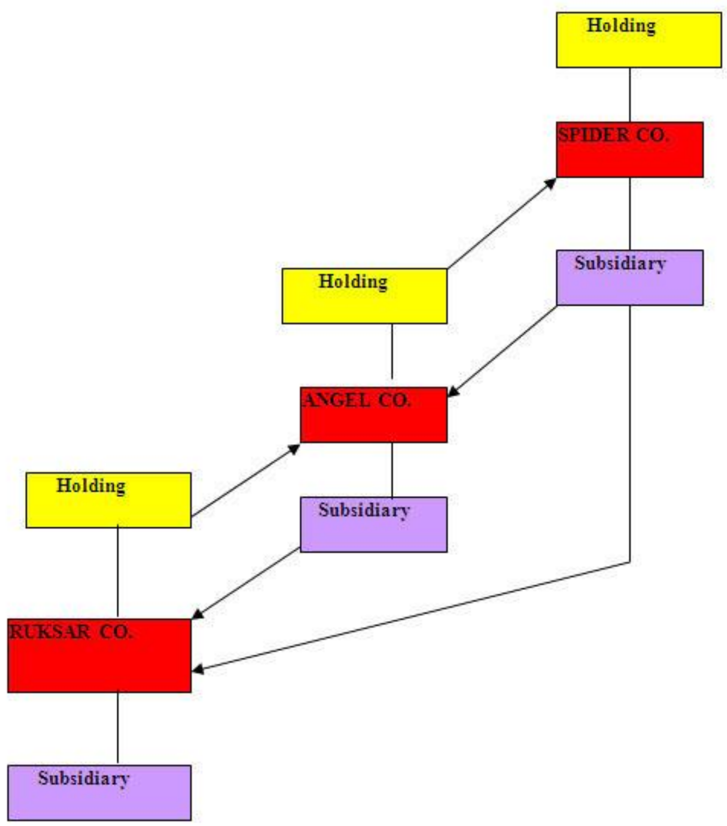
**Illustration:**

Ruksar India Limited, a Delhi based company has a share capital of Rs. 5,00,000 (5000 shares @ Rs.100 each). Angel Ltd which is a Bombay based company owns 3000 shares of Ruksar India Limited. As Angel owns 60% of the share capital of Ruksar India Limited, the latter is the subsidiary of Angel Company.

If this company is a subsidiary of a third company which is a subsidiary of the controlling company.

**Illustration:**

Ruksar, a Delhi based company, has a share capital of Rs. 5,00,000 (5000 shares @ Rs.100 each). Angel Ltd, a Bombay based company, owns 3000 shares of Ruksar Company. Angel Limited has a share capital of Rs 10,000,00 (10000 share @ Rs.100 each). Another company by the name of Spider Limited operating in Chennai holds 7000 shares of Angel Limited. Thus Spider Limited holds more than half of the nominal value of Angel Company's share capital and Angel Company owns more than half of the nominal value of Ruksar Company's share capital. Therefore Angel Company becomes the subsidiary of Spider Company and Ruksar Company becomes the subsidiary of Angel Company. As a result Ruksar Company becomes the subsidiary of Spider Company.



## 2.4.6 Illegal Association

According to Section 11 of the Indian Contract Act no company, association or partnership consisting of more than 20 persons (10 in case of the banking business ) may be formed to carry on any business for gain unless it is registered under the Companies Act or any other Indian Law. A partnership consisting of more than 20 members (in case of non banking business) or 10 members (in case of banking business) and not registered is an illegal association[4]. It will have no legal value. This does not apply to a Joint Hindu Family Business. In a joint Hindu Family business there is no limit to the number of members. Whatever the number of members, the business remains legal.

For information on types of companies go to the link below:

http://www.articlesbase.com/regulatory-compliance-articles/private-and-public-companies-in-india-a-comparative-analysis-540785.html (downloaded on 30th July 2009 at 5 P.M.)

[4]*See Illegal Association and Consequences of non registration in Unit 1 'Introduction'*

## 2.4.7 Holding Company

For information on holding company see lesson 9 'Emerging issues in Company Law'.

Sections

| **IMPORTANT SECTIONS** | |
|---|---|
| **SECTION** | **DESCRIPTION** |
| 3(1) (iii) | Definition of a Private Company |
| 3(1) (iv) | Definition of a Public Company |
| 12(2) (a) | Definition of a Company Limited by Shares |
| 12(2) (b) | Definition of a Company Limited by Guarantee |
| 12(2) (c) | Definition of an Unlimited Company |
| 25 | Licensed Company |
| 591 (1) | Definition of a Foreign Company |
| 617 | Definition of a Government Company |
| 4 | Subsidiary and a Holding Company |

## Summary

| Companies According to Mode of Incorporation |
|---|
| • Chartered Company<br>• Statutory Company<br>• Registered / Incorporated Company |

| Companies on the basis of the number of members |
|---|
| • Private Company<br>• Public Company |

| Private Company and Public Company |
|---|
| • Exemptions and Privileges of a Private Company<br>• Distinction between a Private and a Public Company<br>• Conversion of a Private into a Public Company<br>• Conversion of a Public into a Private Company |

| Companies on the basis of the liability of members |
|---|
| • Company limited by shares<br>• Company limited by guarantee<br>• Unlimited Company |

| Other types of Companies |
|---|
| • Company not for profit / Licensed Company<br>• One Man Company<br>• Foreign Company<br>• Government Company<br>• Holding Company and Subsidiary Company<br>• Illegal Associations<br>• Producer Company |

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# Kinds of Companies

## Exercise

**MATCH THE FOLLOWING**

| | |
|---|---|
| 1 Mode of incorporation | a Private Company |
| 2 Mode of membership | b Statutory Company |
| 3 Mode of liability | c Max Hospital |
| 4 Licensed Company | d Limited by guarantee |

**(Answer - 1b 2a 3d 4c)**

**ANSWER THE FOLLOWING BREIFLY**

Q1 Distinguish between a Private Company and a Public Company.

Q2 How is a Private Company converted into a Public Company?

Q3 What are the exemptions and Privileges of a Private Company?

Q4 What are the various types of registered companies on the basis of the liability of the members?

Q5 What are the other types of companies? explain them with real life examples.

**PRACTICAL QUESTIONS**

A private company has 50 members on 1st December 2008. On 1st March 2009 one more member is included in the company making the total number of members 51. Has the company become a Public Company or has it to comply with legal formalities to become a public company?

**Answer** – Yes, it has become a public company automatically without complying with any legal formality. The company can still do business retaining the characteristics of a private company.

A private Company has 3 members on 1st December 2008. On 1st March 2009 it deletes from its articles the four restrictions imposed on a private company by passing a special resolution. It sends the copy of the resolution, the altered articles and a copy of the prospectus to the Registrar. It increases its membership to 7 members but does not increase the number of directors which is at present 2. Has the company been converted into a Public Company?

**Answer** – No, it is still not a public company. The company has to first fulfill all the legal formalities which make a company into a public company. Hence the company has to increase the total number of directors to at least three directors only then it will become a public company.

Surbhi owns 100 shares of Rs. 10 each of a Public limited company as on 1st October 2009. She has already paid the application money Rs 4 per share, allotment money Rs 2 per share. Share first call Rs 2 per share. Is she liable to pay the unpaid share capital of Rs. 2 per share?

**Answer** – Yes, Surbhi is liable to pay Rs 20 as it is the unpaid amount on the shares held by her. However her liability will arise only when the company makes the final call or when the company gets insolvent (winding up).

Shambhu a shareholder of a public limited company holds fully paid up shares of Rs 5000 (50 shares of Rs 100 each) on 30th November 2001. He has also given a guarantee of Rs 11,000 as his liability. On 1st September 2009 the company goes into liquidation. The company asks Shambhu to pay Rs. 6000 which Shambhu refuses to pay saying that his liability is limited to Rs 5000 only (50 shares of Rs. 100 each). Is Shambhu right?

**Answer** – No, Shambhu's total liability is Rs. 11000 (the amount guaranteed by him). He already holds fully paid up shares of Rs. 5000. Hence he is still liable to pay the balance of Rs. 6000 to the company on its winding up.

# Kinds of Companies

Sonu and Monu plan to open an NGO to look after stray animals such as cats and dogs in the streets of Delhi. They get the license from the central government and get their company registered as a private company with the company registrar. They name the company as 'Jaanwaron ka Dost'. They do not use the word limited or private in naming their company. Is the name appropriate for a private company?

**Answer** - Yes, a private company which is not for profit (licensed company) is not required to use the word 'limited' or 'private limited' in its name. Hence 'Jaanwaron Ka Dost' is a valid name for a private company.

# Kinds of Companies

## Glossary

| Words | Description |
|---|---|
| **Statutory Company** | Company incorporated by Special Acts passed by the legislature. |
| **Registered Company** | Company registered under the Companies act 1956. |
| **Private Company** | A company having a minimum paid up capital of Rs. one lakh or such higher paid up capital as may be prescribed, and by its articles of association, restricts transferring of shares, limits membership and prohibits invitation to public. |
| **Public Company** | A company, which has a minimum paid up capital of Rs. five lakhs or such higher paid up capital, as, may be prescribed and has no restrictions on transferring of shares and invitation to public. |
| **Company limited by shares** | A company having the liability of its members limited by the memorandum, to the amount, if any, unpaid on the shares respectively held by them is termed a company limited by shares. |
| **Company limited by guarantee** | A company having liability of its members limited by the memorandum to such amount as the members may respectively undertake by the memorandum to contribute to the assets of the company in the event of its being wound up. |
| **Unlimited Company** | A company having no limit on the liability of its members is an unlimited company |
| **Licensed Company** | Such companies obtain the license from the central government and then register themselves under the Companies Act. Such companies are formed to promote art, religion or any other social and useful purpose for the welfare of the society. |
| **One man Company** | Such a company has only one member and only one director. |
| **Foreign Company** | A company incorporated outside India but having a place of business in India. |
| **Government Company** | Any company in which not less than 51 per cent of the paid up share capital is held by the Central Government or by the State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company. |
| **Holding and Subsidiary Company** | When one company controls the management or paid up capital of another company the former is called a holding company and the latter is called a subsidiary company. |
| **Illegal Associations** | A partnership consisting of more than 20 members (in case of non banking business) or 10 members (in case of banking business) and not registered. |