MBA –III Semester,
MB 302, LEGAL ASPECTS OF BUSINESS
Unit: 3
Topic: Types of Company
Dr. Faryas Kausar Ansari

As per Company Act, the company is defined as a person, artificial, invisible, intangible and existing only in the contemplation of law. Hence it has properties which are characteristics of its creation confers upon or is either expressed in its existence. It is a group of people who contributes towards it in terms of money and share the profit or loss arising as a result. It is a kind of investment which comes with its own risks.

Big businesses have higher risks and come with two kind of limitations that is limited resources and unlimited liabilities of the partners. Various multinational companies have their investors spread across the world and need to maximize and utilize their organizational and managerial abilities effectively in order to support not only its own organs but also the regulations imposed on it. There are three principal categories of business organizations; that is; sole proprietorship, partnership and a company.

Private Company:

A private company allows its shareholders to transfer its shares. In such a case the company limits the number of its members to 50 and do not entertain any kind of invitation to public to subscribe of its shares. The private companies are of limited liability and have some restriction on the ownership of its shareholders. It can have maximum of fifty member and minimum two members are required in order to form a private company which do not include its employees and shareholders. It is usually a company which is formed with an intend to have all the advantages of a corporate world and have limited liability and control of business is with very few people. In a private company a single individual can enjoy the complete control of its entire business firm.

Public Company:

A public company requires at least seven members to come into existence. There is no cap on how many members a public company could have. In fact, a prospectus is issued by the public companies in order to invite people to buy its shares. However, the liability of members of a public company is limited to their shareholding. The shares of a public company are sold and caught without any kind of restrictions in stock market.

Companies Limited by Guarantee:

In such companies, every member has promised to a fixed amount towards commencement of the company, in case it needs to be liquidated. This amount is known as guarantee. There is no liability of any sort other than the values of share and guarantee towards the members of such a company. Some examples of such companies are charities, community projects, clubs, societies etc. Most of such companies are formed into non-profit making companies and are mostly considered to be a private company which offers limited liability to its members. A guarantee company can substitute the share capitals with guarantors who are willing to pay the guarantee amount on its liquidation.

Companies Limited by Share:

In such companies, the shareholders pay a nominal amount as his contribution towards the share capital and this payment can be done either at single instance or in installments. The members do not pay anything more than a fixed value towards the shares and companies are limited by its shares are most popular among the registered companies. These kinds of companies are required to have Limited at the end of the name of their organization so that people intending to vest into them know the liability of its members is limited.

Unlimited Company:

An unlimited company are such which have unlimited liability of its shareholders like case of a partnership firm. Such companies are only in books and are not known to exist in physical form. Shareholders of such a company are liable to donate whatever sum are required as outstanding debts of the company while its liquidation in order to meet insufficient funds of the company to pay its liabilities. However, members or shareholder do not have a direct liability towards its creditors or security holders.