

Company Account

Definition of a Company

A company is a legal entity formed by a group of individuals to engage in and operate a business—commercial or industrial—enterprise. The company is created through a process of incorporation, which provides it with a separate legal identity distinct from its owners (shareholders). This separation means that the company can own property, enter into contracts, sue, and be sued independently of its shareholders.

Sole Proprietorship

A sole proprietorship is a business owned and operated by a single individual. It is the simplest and most common form of business organization. The owner is personally responsible for all aspects of the business, including debts, liabilities, and operational decisions.

Key Features:

- Single Ownership: The business is owned and managed by one person.
- Unlimited Liability: The owner is personally liable for all debts and obligations of the business. This means personal assets can be used to satisfy business debts.
- Full Control: The owner has complete control over all business decisions and operations.
- Ease of Formation and Dissolution: Starting and ending a sole proprietorship is straightforward with minimal legal formalities and costs.

Partnership

A partnership is a business organization where two or more individuals share ownership and management responsibilities. Partners contribute capital, skills, and share profits, losses, and liabilities of the business.

Key Features:

- Shared Ownership: A partnership is owned by two or more individuals.
- Joint Liability: Partners are jointly liable for the debts and obligations of the business. In a general partnership, each partner's personal assets can be used to cover business debts.
- Profit and Loss Sharing: Profits and losses are typically shared among partners according to the partnership agreement.
- Combined Resources: Partners contribute various resources, such as capital, skills, and labor, to the business.



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Partnership Agreement: A formal agreement that outlines the terms of the partnership, including profit-sharing ratios, responsibilities, and procedures for resolving disputes.

Sole proprietorship and partnership forms of business organisations could not meet the growing demands of a very big business, because of their limitations such as limited capital, limited managerial ability, unlimited liability and other drawbacks.



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Therefore, a Company form of business organisation came into existence to do away with the defects of sole proprietorship and partnership forms of business organisations.



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A Company is a voluntary association of persons formed through the process of law, for the purpose of carrying on some business.

Characteristics of a Company



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(1) Separate Legal Entity: A Company is a legal person and its entity is quite distinct and separate from its members. It can purchase and sell the properties in its

own name, can open bank account in its own name and can enter into contracts. Since a Company has a legal personality distinct from that of its members, a creditor of such a Company can sue only the Company for his debts and not any of its members.



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(2) Perpetual Existence: The existence of a Company is not affected by the retirement, death, lunacy or insolvency of its members. Shareholders may come and

Shareholders may go but the Company goes on forever, unless wound up according to companies Act.



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(3) Limited Liability: The liability of the shareholder of a Company is limited to the unpaid value his shares. For example, if the face value of a share in a Company is 10 and a shareholder has already paid 7 per share, he can be called upon to pay not more than 3 per share.



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(4) Common Seal: Since the Company has no physical existence, it must act through its agents, called directors. All documents prepared by the directors must bear the seal of the Company. The common seal acts as the official signature of the Company.



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(5) Transferability of Shares: The Capital of the Company is divided into parts,

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called shares. These shares are freely transferable subject to certain conditions.

Kinds of a Company

Companies registered under the Companies Act, 2013, can be classified into various types based on different criteria such as liability, ownership, and membership. Below are the primary classifications:

1. Classification Based on Liability

1.1 Company Limited by Shares:

- Definition: The liability of the members is limited to the unpaid amount on their shares.
- Example: If a shareholder has purchased shares worth ₹1,000 and has paid ₹700, their liability is limited to the remaining ₹300.

1.2 Company Limited by Guarantee:

- Definition: The liability of the members is limited to the amount they have agreed to contribute to the company's assets in the event of its winding up.
- Example: This type is often used for non-profit organizations, where members guarantee a fixed amount they will contribute if the company is wound up.

1.3 Unlimited Company:

- Definition: There is no limit on the liability of the members. They are fully liable for the company's debts and obligations.
- Example: In practice, unlimited companies are rare due to the high risk involved.

2. Classification Based on Number of Members

2.1 Private Company:

Characteristics:

- Restricts the right to transfer its shares.
- Limits the number of members to a maximum of 200.
- Prohibits public from subscribing to its shares.
- Must include "Private Limited" at the end of its name.

Example: A family-owned business where the shares are held within the family and close associates.

2.2 Public Company:

Characteristics:

- Does not restrict the right to transfer its shares.

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- Must have a minimum of 7 members; there is no maximum limit.
- Can invite the public to subscribe to its shares.
- Must include “Limited” at the end of its name.

Example: Companies like Tata Steel and Reliance Industries, which have shares traded on stock exchanges.

2.3 One Person Company (OPC):

Characteristics:

- Owned and operated by a single individual.
- Allows a single entrepreneur to operate a corporate entity with limited liability.
- Must include “One Person Company” or “OPC” in its name.

Example: A solo entrepreneur starting a business while enjoying the benefits of a corporate structure.

3. Classification Based on Control and Ownership

3.1 Holding Company:

Definition: A company that controls another company (subsidiary) by holding majority of its shares or by controlling the composition of its board of directors.
Example: Alphabet Inc. is the holding company of Google LLC.

3.2 Subsidiary Company:

Definition: A company that is controlled by a holding company.
Example: Google LLC is a subsidiary of Alphabet Inc.

4. Classification Based on Nationality

4.1 Indian Company:

Definition: A company incorporated in India and governed by the Companies Act, 2013.
Example: Infosys Limited, an IT services company based in India.

4.2 Foreign Company:

Definition: A company incorporated outside India but has a place of business in India or conducts business in India.
Example: Microsoft Corporation, which is headquartered in the USA but operates in India through its subsidiary, Microsoft India.

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5. Classification Based on Purpose

5.1 Non-Profit Company (Section 8 Company):

Characteristics:

- Formed for promoting commerce, art, science, religion, charity, or any other useful objective.
- Profits are reinvested in the business rather than distributed to shareholders.
- Needs approval from the central government to operate.

Example: NGOs, charities, and educational institutions.

6. Classification Based on Listing

6.1 Listed Company:

Definition: A company whose shares are listed on a recognized stock exchange and can be freely traded.

Example: HDFC Bank, whose shares are listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

6.2 Unlisted Company:

Definition: A company whose shares are not listed on any stock exchange.

Example: A local manufacturing company that has not gone public.

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