

Module 1: Introduction to Companies Act 2013

1. Companies Act 2013-Objects – Features of the Act

Companies Act 2013

The Companies Act, 2013 is the principal law governing companies in India. It replaced most provisions of the Companies Act, 1956 and introduced modern regulations to improve corporate governance, transparency, accountability, and investor protection.

The Act provides rules regarding the incorporation, management, operation, and winding up of companies.

Objects of the Companies Act 2013

The main objectives of the Act are:

Promote Good Corporate Governance

The Act ensures that companies are managed responsibly and ethically.

Protect Investors

It safeguards the interests of shareholders and investors.

Increase Transparency

Companies are required to disclose important financial and operational information.

Prevent Fraud and Mismanagement

The Act introduces strict provisions against corporate fraud and misconduct.

Encourage Ease of Doing Business

It simplifies several procedures relating to company formation and management.

Strengthen Corporate Social Responsibility (CSR)

Certain companies are required to spend on social welfare activities.

Example: Large companies such as those in the manufacturing and IT sectors undertake CSR activities like education support and environmental protection.

Features of the Companies Act 2013

One Person Company (OPC)

The Act introduced the concept of a company that can be formed by a single person.

Corporate Social Responsibility (CSR)

Specified companies must spend a portion of their profits on social development activities.

Independent Directors

Certain companies must appoint independent directors to improve governance.

E-Governance

Many company-related procedures can be completed electronically.

Class Action Suits

Shareholders can collectively take legal action against company mismanagement.

Enhanced Disclosure Requirements

Companies must provide more detailed information in financial reports.

Stricter Audit Regulations

The Act strengthens the role and accountability of auditors.

Example: Companies now file many statutory documents online through government portals, making compliance more efficient.

2. Meaning and Definition of Company-Features

Meaning and Definition of Company

A company is an artificial legal person created by law. It is formed by a group of individuals for carrying on business activities and achieving specific objectives.

According to Section 2(20) of the Companies Act, 2013:

"A company means a company incorporated under this Act or under any previous company law."

A company has a separate legal identity from its owners.

Example: If a company owns property, the property belongs to the company and not to its shareholders.

Features of a Company

Separate Legal Entity

A company has its own legal existence independent of its members.

Example: A company can own property and enter into contracts in its own name.

Artificial Person

A company is created by law and has legal rights and duties, but it is not a natural person.

Perpetual Succession

The existence of a company is not affected by the death, insolvency, or retirement of its members.

Example: Even if all shareholders change, the company continues to exist.

Limited Liability

The liability of shareholders is limited to the amount unpaid on their shares.

Common Seal (Traditional Concept)

A company acts through its authorized officers and may use a common seal as its official signature where applicable.

Transferability of Shares

Shares can generally be transferred according to legal provisions.

Separate Property

The assets of the company belong to the company itself and not to the shareholders.

Capacity to Sue and Be Sued

A company can initiate legal proceedings and can also be sued in its own name.

3. Kinds of Companies

Private Company

A private company is a company that restricts the transfer of shares and limits the number of members as prescribed by law.

Features

- Restricts share transfer
- Cannot invite the public to subscribe for shares
- Usually closely held

Example: Many family-owned businesses operate as private companies.

Public Company

A public company is a company that allows the public to subscribe to its shares and debentures.

Features

- Shares may be publicly offered
- Larger capital base
- Greater regulatory compliance

Example: Listed companies on stock exchanges are public companies.

Associate Company

An associate company is a company in which another company has significant influence but which is not its subsidiary. Significant influence generally means control of at least 20% of total voting power or participation in business decisions.

Example: A company holding 25% shares in another company may exercise significant influence over it.

Dormant Company

A dormant company is a company registered for a future project or holding assets and has no significant accounting transactions.

Purpose

- Holding intellectual property
- Future business projects
- Asset ownership

Example: A company formed to hold land for future development.

Government Company

A government company is a company in which not less than 51% of the paid-up share capital is held by the Central Government, State Government, or both.

Features

- Government ownership
- Public accountability
- Operates under company law

Example: Bharat Heavy Electricals Limited (BHEL).

One Person Company (OPC)

An OPC is a company formed by a single person. The Companies Act 2013 introduced OPC to encourage entrepreneurship and provide limited liability benefits to individual business owners.

Advantages

- Separate legal entity
- Limited liability
- Easier management

Example: A freelancer establishing a company without requiring partners.

Small Company

A small company is a private company that satisfies the limits prescribed under the Companies Act regarding paid-up capital and turnover.

Benefits

- Reduced compliance burden
- Simpler reporting requirements
- Lower administrative costs

Example: Many local startups qualify as small companies.

Producer Company

A producer company is formed by primary producers such as farmers, fishermen, artisans, and others engaged in production-related activities.

Objectives

- Improve members' income
- Facilitate marketing of products
- Provide mutual assistance

Example: A group of farmers forming a company to collectively market agricultural products.

LLP (Limited Liability Partnership)

A Limited Liability Partnership combines features of both a partnership and a company. It is governed by the Limited Liability Partnership Act, 2008.

Features

- Separate legal entity
- Limited liability
- Flexible management
- Perpetual succession

Example: Many consulting firms, law firms, and accounting firms operate as LLPs.

Comparison of Major Types of Companies

Type	Ownership	Liability	Public Share Issue
Private Company	Private members	Limited	Not allowed
Public Company	General public	Limited	Allowed
OPC	One person	Limited	Not allowed
Government Company	Government	Limited	Depends on structure
LLP	Partners	Limited	Not allowed

4. Lifting of Corporate Veil

Meaning of Corporate Veil

A company has a separate legal identity distinct from its shareholders and directors. This separation is known as the corporate veil.

Normally, members are protected from personal liability for company actions.

Meaning of Lifting of Corporate Veil

Lifting or piercing the corporate veil means disregarding the separate legal personality of the company and identifying the real persons behind it.

Courts may look beyond the company structure and hold shareholders or directors personally responsible in certain situations. This is an exception to the principle of separate legal entity.

Circumstances for Lifting the Corporate Veil

Fraud or Improper Conduct

When a company is used to commit fraud or illegal activities.

Example: A company created solely to evade taxes.

Avoidance of Legal Obligations

When individuals use a company to avoid legal responsibilities.

Protection of Public Interest

Courts may lift the veil to safeguard public welfare.

Enemy Character

During wartime, courts may identify the actual controllers of a company.

Tax Evasion

When a company structure is used to evade taxes unlawfully.

Agency Relationship

When the company acts merely as an agent of its members.

Importance of Lifting the Corporate Veil

- Prevents misuse of company structure
- Protects creditors and investors
- Prevents fraud
- Promotes justice and fairness
- Ensures accountability

Example: If directors use a company to hide illegal transactions, the court may lift the corporate veil and hold them personally liable.

Quick Summary

Concept	Meaning
Company	Artificial legal person created by law
Separate Legal Entity	Company exists separately from members
Limited Liability	Members' liability is limited
Perpetual Succession	Company continues despite member changes
Corporate Veil	Legal separation between company and members
Lifting Corporate Veil	Ignoring separate identity to identify responsible persons