

were taken out of the public sector and made a registered company in the private sector. An Act of Parliament was necessary. Because of its size and importance and because the shares were offered to the public, it became a **public limited company**. Thus, a public limited company is a corporation, but not a public corporation.

Registration under Acts

The most common sort of corporation created by registration is the registered **company**. The relevant Act is the Companies Act of 1985 as amended. Building societies are created by registration under the Building Societies Act 1986 as amended.

As 'ordinary' people can set up registered companies, and these are the most important sort of business organisation, we shall examine these in more detail.

Types of registered company

It should be noted that the word company does not in itself indicate more than a collection of people gathered together for a common purpose. Indeed, the word used in a name of a business is misleading, e.g. Jones & Company Builders, or Jones & Co. Builders. Both of these examples are *not* limited companies (see below). They will probably be either sole traders or partnerships (although they could also be unlimited companies, but these are unusual).

Companies registered under the Companies Act may be either unlimited liability or limited liability companies. The liability is that of the members (shareholders) and refers to whether or not they have to pay the company's debts if the company is unable to do so.

Unlimited liability

Here, the members have to pay the debts of the company if its assets are insufficient. There is **no** limit on the amount they have to contribute until all the debts are satisfied. The company has the ordinary characteristics of a corporation, however. Also, there are a number of other special

advantages. For example, there is no necessity to publish accounts annually.

Limited liability by shares

Here, the members' or shareholders' liability is limited to the amount they have left unpaid on their shares. This is best illustrated by an example.

Tiny Construction Company Ltd has been set up with a share capital of £1,000 divided into £1 ordinary shares. There are four members holding a quarter of the shares each. Three of them have paid for their shares immediately; the fourth, just out of college, has been allowed by the others to pay only half.

Nominal Share Capital	£1,000	in £1 shares	
Issued Share Capital	£1,000	Tom	250 shares
		Dick	250 shares
		Harry	250 shares
		Ringo	250 shares
			1000
Paid-up Share Capital	£875	Tom	250
		Dick	250
		Harry	250
		Ringo	125
			875
Uncalled Share Capital	£125		

The company never becomes profitable and ceases trading owing substantial amounts to many creditors.

Tom, Dick and Harry lose all the value of their shareholding, but **no** more, as their liability was limited by shares. Ringo, on the other hand, is called upon to pay the extra £125, on top of losing the value of the £125 he has already paid. But, he still benefits from the limited liability in that he need contribute no more than £125.

It should be remembered that the company **must** pay its debts – if it can. But, if it cannot, the members will *not* have to put their hands in their pockets, unless they have not paid for their shares.

For this reason, all 'limited' companies must warn potential clients and creditors of the members' limited liability, by incorporating the word limited into its name. Public limited companies