



**The
Companies
Act, 1956**

Separate Legal Entity

Salomon Vs Salomon & Co Ltd.

Meaning

A company in the eyes of law is separate from its members. The company at law is a different person altogether from the subscribers to the memorandum. The company is an independent legal entity.

Facts

Aron Salomon, carrying on business as leather and shoe manufacturer sold his solvent business to a company. The consideration was 38,782 pounds of which Aron Salomon took 20,000 shares of 1 pound each, secured debentures worth 10,000 pounds and balance in cash. His wife, daughter and four sons took 1 share each. A year later the company wound up on which date the assets were worth 6000 pounds and liabilities were 17,000 pounds. Payment was made to Salomon first as he was a secured creditor.

Contention

The contention of the unsecured creditors was that, the vast possession of shares made him absolute master of the company which was conducted solely for him. They claimed that Salomon was liable to indemnify the company against claim of ordinary creditors.

Decision

The court held, the company was not an agent or a trustee for Salomon. The company is entirely different from the individual. The creditors contention could not be upheld.

Lee Vs Lee's Air Farming Ltd

Meaning

The company and members are different persons. A company is a separate entity and cannot be formed acting as an agent for a member.

Facts

Lee formed a company with share capital of 3,000 pounds of which he held 2,999 pounds. He was also a sole governing director. Lee exercised unrestricted control over the affairs of the company. He was also a qualified pilot and the articles provided that he would be the chief pilot of the company with a salary. He was killed in an air crash while working for the company. His wife claimed compensation since her husband died during the course of work.

Contention

The insurers contended that Lee and the company were one and the same. It refused compensation to the widow.

Decision

The court held Lee was a separate distinct person from the company he formed. As a pilot with a salary Lee was considered as employee of the company. Hence the widow was entitled to claim compensation.

**Company owns property in its
own name**

Macaure Vs Northern Assurance Co.Ltd

Meaning

Company is a legal person. It holds and owns property in its own name. The property of the company is not the property of the shareholders.

Facts

Macaure was the holder of all but one share of a timber company. He was also a substantial creditor. Considering his interest in terms of shareholding and creditorship he insured the company's timber in his own name. Later the timber was destroyed by fire, for which he claimed insurance.

Contention

The insurers contended that the company was not a property of an individual. It refused to compensate.

Decision

The court held that the property of the company cannot be an individual shareholders property irrespective of the quantum of shares he possesses. The insurance company was not liable.