Topic- Characteristics of a Company
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CHARACTERISTICTS OF A COMPANY

The following are the characteristics of a company:
{1} **Voluntary Association**-A company, as studies earlier, is a voluntary association of person, i.e, it can neither compel penetrate a person to become its member nor to give up its

membership. It is the personal interest of people and their lust for profit or some other object their own, which inspires them to become members of the company.

{2} **Association of Several Persons-** A company is an association of several persons. In private company, there must be at least two persons while the number of members in a public company must at least be seven. The maximum number of members in a private company should not exceed fifty, but there is no maximum on the member of a public company.

{3} **Separate Legal Existence**- A company has a distinct legal entity independent of its members. It can own property, make contracts and file suits in its own name. Shareholders are not the joint owners of the company's property. A shareholder cannot be held liable for the acts of the company. There can be contracts between a company and its members. A creditor of the company is not a creditor of its members. The separate legal entity of a company was recognised in the famous case of Salomon v. Salomon and Company Limited. The facts of the case were as: Salomon formed a company which acquired his own shoe business. He took all the shares except six shares which he distributed among his wife, daughter and four sons. Salomon also purchased some debentures of the company which gave him a charge over its assets. At the time of winding up, the company's assets were not sufficient enough to pay its debts. The creditors of the company other than Salomon, argued that their debts should be cleared before paying Salomon for his debentures because Salomon and the company were one and the same person. The Court decided that after incorporation, Salomon and Company had an identity separate from Salomon even though he owned virtually all the shares in the company.

{4} **Perpetual Succession-** A company is a creation of the law and only the law can bring an end to its existence. Its life does not depend on the life of its members. The death, insolvency or lunacy of members does not affect the life of a company. It continues to exist even if all its members die. Members may come and go but the company goes on until it is wound up.

{5} **Limited Liability**- As a company has a separate legal entity, its members cannot be held liable for the debts of the company. The liability of every member is limited to the nominal value of the shares bought by him or to the amount of guarantee given by him. For example, if a member has 100 shares of rupees 10 each, his liability is limited to Rs. 1000. Even if the assets of the company are insufficient to satisfy fully the claims of the creditors, no member can be called to pay anything more than what is due from him. However, if the members of the company so desire, they may from a company with unlimited liability.

{6} **Common Seal**- The common Seal of the company is of great importance. Though a company has been given an artificial personality, yet it acts through human being, who are called as directors. All the acts of company are authorised by its common seal. The Common seal is affixed on all important documents as a token of the company’s approval. The common seal is the official signature of the company. Any document which does not bear the common seal of the company is not binding on the company.

{7} **Transferability of Shares**- The capital of a company is divided into parts. Each part is called a share. These shares are generally transferable. A shareholder is free to withdraw his membership from the company by transferring his shares. However, in actual practice some restrictions are placed on the transfer of shares in a private company.

{8} **Separation of Ownership and Control**-Members have no right to participate directly in the day-to-day management of a company. They elect their representatives, called directors, who manage the company’s affairs on behalf of the members. Hence, the ownership of a company is distributed among the shareholders while management is vested in the board of directors.

{9} **Limitation of Work**-The field of work of a company is fixed by his charter of the memorandum of association. A company cannot do anything beyond the power defined in it. Its action is therefore, limited. In order to do the work of a company beyond the memorandum of association, there is a need for its alteration.