

## **Characteristics of Company:**

**On the basis of definitions studied above, the following are the characteristics of a company:**

### **1. An Artificial Person Created by Law:**

A company is a creation of law, and is, sometimes called an artificial person. It does not take birth like natural person but comes into existence through law. But a company enjoys all the rights of a natural person. It has right to enter into contracts and own property. It can sue other and can be sued. But it is an artificial person, so it cannot take oath, cannot be presented in court and it cannot be divorced or married.

### **2. Separate Legal Entity:**

A company is an artificial person and has a legal entity quite distinct from its members. Being separate legal entity, it bears its own name and acts under a corporate name; it has a seal of its own; its assets are separate and distinct from those of its members.

Its members are its owners but they can be its creditors simultaneously as it has separate legal entity. A shareholder cannot be held liable for the acts of the company even if he holds virtually the entire share capital. The shareholders are not agents of the company and so they cannot bind it by their acts.

### **3. Perpetual Succession:**

The life of company is not related with the life of members. Law creates the company and dissolve it. The death, insolvency or transfer of shares of members does not, in any way, affect the existence of a company.

According to Tennyson-

“For men may come, men may go,

But I go on forever.”

In the case of company it may be said that members may come and members may go but the company goes on. It is a legal person having come into being by law and only law can bring its end and none else.

#### **4. Common Seal:**

On incorporation a company becomes legal entity with perpetual succession and a common seal. The common seal of the company is of great importance. It acts as the official signature of the company. As the company has no physical form, it cannot sign its name on a contract. The name of the company must be engraved on the common seal. A document not bearing the common seal of the company is not authentic and has no legal importance.

#### **5. Limited Liability:**

The limited liability is another important feature of the company. If anything goes wrong with the company his risk is only to the extent of the amount of his shares and nothing more. If some amount is uncalled upon a share, he is liable to pay it and not beyond that.

The creditors of a company cannot get their claims satisfied beyond the assets of the company. The liability of members of a company 'limited by guarantee' is limited to the amount of guarantee.

#### **6. Transferability of Shares:**

A shareholder can transfer his shares to any person without the consent of other members. Under Articles of Association, a company can put certain restriction on the transfer of shares but it cannot altogether stop it. Private company can put more restrictions on the transferability of shares.

#### **7. Limitation of Work:**

The field of work of a company is fixed by its charter. The Memorandum of Association. A company cannot do anything beyond the powers defined in it. Its action is, therefore, limited. In

order to do the work beyond the memorandum of association, there is a need for its alteration.

### **8. Voluntary Association for Profits:**

A company is a voluntary association of persons to earn profits. It is formed for the accomplishment of some public good and whatsoever profit is divided among its shareholders. A company cannot be formed to carry on an activity against the public policy and having no profit motive.

### **9. Representative Management:**

The shareholders of company are widely scattered. It is not possible for all the shareholders to take part in the management. They leave their task to the representatives the Board of Directors and the company is managed by Board of Directors.

### **10. Termination of Existence:**

A company is created by law, carries on its affairs according to law and ultimately is affected by law. Generally, the existence of a company is terminated by means of winding up.