



Long Answer Type Questions

Question 1. What is meant by the word 'Company'? Describe its characteristics.

Answer According to Section 3 (1) (i) of the Company Act of 195

“Company means a company formed and registered under this Act or existing company.”

In general, a company is an artificial person, created by law that has separate legal entity, perpetual succession, and common seal and limited liability. It is a voluntary association of person who together contribute in the capital of the company to do business.

Generally, the capital of a company is divided into small parts known as shares, the ownership of which is transferable subject to certain terms and conditions.

Characteristics of Company

(i) Incorporated Association A company comes into existence through the operation of law. Therefore, its incorporation under the Companies Act is must. Without such registration, no company can come into existence. Being created by law, it is regarded as an artificial legal person.

(ii) Separate Legal Entity A company has a separate legal entity, which is not affected by changes in the membership. Therefore being a separate entity, a company can contract, sue and be sued in its corporate name and capacity.

(iii) Artificial Person A company is an artificial and juristic person that is created by law.

(iv) Limited Liability Every shareholder of a company has limited liability. His liability is limited to the extent of the unpaid value of the shares held by him. If such shares are fully paid up, he is subject to no further liability.

(v) Perpetual Existence The existence of a company is not affected by the death, retirement, and insolvency of its members. That is, the life of a company remains unaffected by the life and the tenure of its members in the company. The life of a company is infinite until it is properly wound up as per the Companies Act.

(vi) Common Seal The company is not a natural person and has no physical existence. Hence, it cannot put its signature. Thus, the common seal acts as an official signature of a company that validates the official documents.

(vii) Maintenance of Books A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.

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