**Chapter 27: The Nature of a Corporation and Its Formation**

**Legal Person** – an entity recognized at law as having its own legal rights, duties and responsibilities

A corporation is a person in the eyes of the law; it is a *legal person*.

**Corporation** – a legal person formed by incorporation according to a prescribed legal procedure

**Limited Liability** – the liability of shareholders is limited to the amount of their capital contributions  
- an advantage of incorporation

Transfer of Ownership  
- a partner cannot release herself unilaterally from her liabilities (her partners, the firm and clients) simply by retiring  
- may even be liable for debts contracted after her retirement  
- a shareholder has no liability for corporate debt

**Associated Corporations** – corporations that are related either (a) vertically, as where one corporation controls the other (parent-subsidiary), or (b) horizontally, as where both corporations are controlled by the same person (affiliates)

**Royal Charter** – a special licence given by the Crown to form a corporation for the purpose of carrying on a particular activity

**Special Acts of Parliament** – legislative acts creating a specific corporation

**Memorandum of Association** – a document setting out the essential terms of an agreement to form a corporation

**Certificate of Incorporation** – a certificate that a corporation has come into existence

**Letters Patent** – a document incorporating a corporation, issued by the appropriate authority, and constituting the “charter” of the corporation

**Articles of Incorporation** – founding corporate document, often referred to as the charter or constitution of the corporation

Content of the Articles of Incorporation  
- name of the corporation  
- place where the registered office is situated  
- classes and any maximum number of shares that the corporation is authorized to issue  
- any restrictions of the business that may be carried on  
- number of directors

**Private Company** – a corporation with a restricted number of shareholders prohibited from issuing its shares to the general public

**Distributing Corporation** – a corporation that issues its securities to the public; also referred to as issuing corporations, reporting issuers, and publicly traded corporations

**Professional Corporation** – a special type of business corporation that may be formed by members of a profession

**Authorized Capital** – the maximum number (or value) of shares that a corporation is permitted by its charter to issue

**Issued Capital** – the shares that have been issued by a corporation

**Paid-Up Capital** – the shares that have been issued and fully paid for

**Stated Capital Account** – the amount received by a corporation for the issue of its shares

**Share** – a member’s proportionate interest in the capital of a corporation

**Par Value** – a nominal value attached to a share at the time of issue

**No Par Value Share** – a share that has no nominal value attached to it

**Preferred Share** – a share carrying preferential rights to receive a dividend and/or to be redeemed on the dissolution of the corporation

**Bond** – a document evidencing a debt owed by a corporation

**Common Share** – a share carrying no preferential right

**Cumulative Right** – the right of the holder of a preferred share to be paid arrears from previous years before any dividend is paid on the common shares

**Participating Right** – the right of a holder of a preferred share to participate in surplus profits or assets of the corporation in addition to the amount of the preferred dividend or redemption price

Priority of Payment on Liquidation of a Corporation  
1) Secured Creditors  
2) Unsecured Creditors  
3) Preferred Shareholders  
4) Common Shareholders