

Course: BBA Part I
Paper: VI
Topic: Joint Stock Company
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Joint Stock Company and Characteristic

A Joint Stock Company is a voluntary association of persons to carry on the business. It is an association of persons who contribute money which is called capital for some common purpose. These persons are members of the company. The proportion of capital to which each member is entitled is his share and every member holding such share is called shareholders and the capital of the company is known as share capital. The Companies Act 1956 defines a joint stock company as an artificial person created by law, having separate legal entity from its owner with perpetual succession and a common seal. Shareholders of Joint Stock Company have limited liability i.e liability limited by guarantee or shares. Shares of such company are easily transferable. From the above definition the following characteristics of a Joint Stock Company can be easily identified:

- 1. Artificial Person :** A Joint Stock Company is an artificial person as it does not possess any physical attributes of a natural person and it is created by law. Thus it has a legal entity separate from its members.
- 2. Separate legal Entity :** Being an artificial person a company has its own legal entity separate from its members. It can own assets or property, enter into contracts, sue or can be sued by anyone in the court of law. Its shareholders can not be held liable for any conduct of the company.
- 3. Perpetual Existence :** A company once formed continues to exist as long as it is fulfilling all the conditions prescribed by the law. Its existence is not affected by the death, insolvency or retirement of its members.
- 4. Limited liability of shareholders :** Shareholders of a joint stock company are only liable to the extent of shares they hold in a company not more than that. Their liability is limited by guarantee or shares held by them.
- 5. Common Seal :** Being an artificial person a joint stock company cannot sign any documents thus this common seal is the company's representative while dealing with the outsiders. Any

document having common seal and the signature of the officer is binding on the company.

6. **Transferability of Shares :** Members of a joint stock company are free to transfer their shares to anyone.

7. **Capital :** A joint stock company can raise large amount of capital by issuing its shares.

8. **Management :** A joint stock company has a democratic management which is managed by the elected representatives of shareholders, known as directors of the company.

9. **Membership :** To form a private limited company minimum number of members prescribed in the companies Act is 2 and the maximum number is 50. But in the case of public limited company the minimum limit is 7 and no limit on maximum number of members.

10. **Formation :** Generally a company is formed with the initiative of group of members who are also known as promoters but it comes into existence after completing all the formalities prescribed in Companies Act 1956.