

What is a Company?

Limited Liability Company

A company exists as a formal and legal entity in its own right. It is separate from its shareholder(s) or owner(s) - the person or group of people who own shares in the company). The limited liability company has proved to be the most popular and successful form of business structure. Companies help foster confidence in businesses by governing the relationships between investors (shareholders), directors and creditors and by giving stakeholders a clearer picture of who and what they are dealing with.

Advantages:

- More credibility in the marketplace
- Easier to attract funds and investment (investors can become shareholders)
- Easier to sell the business or pass it on to others as it is a separate entity
- The shareholders' liability for losses is limited to their share of ownership of the company (except when company directors have given personal guarantees for company debts or where a company has been trading while insolvent or is considered to be 'trading recklessly').

Disadvantages:

- Directors need to clearly understand their responsibilities
- Limited liability advantages are often eroded in practice by the need to provide personal guarantees to lenders or creditors.

Every company has certain basic elements:

- A name which has been reserved by the Registrar of Companies
- At least one share, one shareholder and one director
- A registered office where the company records are kept
- An address for service where legal documents can be served
- The Registrar also requests an address for communication

Liability is limited to the company

Although it is common to speak of a 'limited liability company' the company is liable in full for all obligations that it incurs. It is in fact the liability of the shareholders that is limited -

they are only liable for any unpaid money owing on their shares (subject to any personal guarantees given).

Companies, once registered, have the status of incorporated

A company comes into existence after it is incorporated under the Companies Act 1993. Once incorporated it is recognised in law as an independent legal entity (a body corporate). This means it is treated as being a separate 'person' from its directors and shareholders. It can therefore do many of the same things as a natural person – for example, hold property in its own name, enter contracts, sue and be sued, etc.