Company law 1

A Partnerships

A **partnership** is a business arrangement in which several people work together, and share the risks and profits. In Britain and the US, partnerships do *not* have limited liability for debts, so the **partners** are fully liable or responsible for any debts the business has. Furthermore, partnerships are not legal entities, so in case of a legal action, it is the individual partners and not the partnership that is taken to court. In most continental European countries there are various kinds of partnership which *are* legal entities.

A **sole trader** business – an enterprise owned and operated by a single person – also has unlimited liability for debts.

B Limited liability

A **company** is a business that is a **legal entity**. In other words, it has a separate legal existence from its owners, the shareholders. It can enter into contracts, and can be sued or taken to court if it breaks a contract. A company can (in theory) continue for ever, even if all the staff and owners change. Most companies have **limited liability**, which means that the owners are not fully **liable for** – or responsible for – the business's debts. These companies are known as **limited companies**. Their liability is limited to the value of their **share capital**: the amount of cash that the shareholders have contributed to the company. This limitation of liability encourages investors to risk their money to become part owners of companies, while leaving the management of these companies to qualified managers and senior managers, known as **directors**.

These managers and full-time **executive directors** run the company for its owners. There are standard procedures of **corporate governance** – the way a company is run by the management for the shareholders, and how the managers are accountable to the shareholders. These include separating the job of **chairman** from that of **managing director**, and having several **non-executive directors** on the **board of directors** who do not work full-time for the company but can offer it expert advice. Non-executive directors are often more **objective**: less influenced by their opinions and beliefs. There is also an **audit committee**, containing several non-executive directors, to which the auditors report.

BrE: chairman; AmE: president BrE: managing director; AmE: chief executive officer (CEO)

C Founding companies

When people **found** or start companies, they **draw up** or prepare **Articles of Association** and a **Memorandum of Association**. The Articles of Association state:

the rights and duties of the shareholders and directors the

- relationships among different classes of shareholder (See Unit 29)
- the relationships between shareholders and the company and its
- directors.

The Memorandum of Association states:

- the company's name the location of the company's **registered office** –
- where to send official documents the company's **purpose** – its aims or
- objectives the **authorized share capital** – the maximum share capital it

can have.

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BrE: Articles of Association; AmE: Bylaws
BrE: Memorandum of Association; AmE: Certificate of Incorporation



5.1 Are the following statements true or false? Find reasons for your answers in A and B opposite.

1 In case of a legal dispute, people can take a company's shareholders to court.
_____ _____

2 The owners of limited companies have to pay all the company's debts. ____
_____

3 Many companies are not owned by their managers. _____
_____

4 External directors can usually give more objective advice than full-time directors. _____ _____

5 Partners in British and American businesses are not liable for the partnership's debts._____ _____

6 **6** In case of a dispute, people can take British companies and partnerships to court. _____
_____



5.2 Make word combinations using a word from each box. Then match the word combinations to the definitions below. Look at A opposite to help you.

corporate	**committee**
audit	**directors**
limited	**governance**
non-executive	**capital**
share	**liability**

1 ....: a group of directors to whom the external auditors present their report

2 ....: members of a board of directors who are not full-time managers of the company

3 ....: owners' money invested in a company

4 ....: responsibility for debts up to the value of the company's share capital

5 ....: the way a company is managed for its owners

5.3 Complete the document . Look at C opposite to help you.



(a) _____ of Association

1. The name of the Company is Language Services Pty Limited.
2. The (b) _____ of the Company will be in Australia.
3. The (c) _____ for which the Company is established is to provide translation and interpreting services to international companies.
4. The (d) _____ of the company is made up of ordinary shares divided into five thousand (5,000) shares of A$1.00 par value each with one vote for each share.

LIVEWORKSHEETS