JOINT STOCK COMPANY/ LIMITED LIABILITY COMPANY

INTRODUCTION

In a sole proprietorship or partnership firm we know that the number of partners cannot exceed 20. So there is a limit to the contribution of capital. Secondly, even if the partners could contribute a large amount of capital, they would hesitate to do so considering the risk involved in business and their unlimited liability. Mainly to take care of these two problems, a limited liability or joint stock company came into existence.

WHAT IS A JOINT STOCK COMPANY

Joint Stock Company is a legally established entity formed by persons who contribute capital to carry on a business with intention of making profits. This form of business organisation has a legal existence separate from its members, which means even if its members die, the company remains in existence. The total capital of a joint stock company is called share capital and it is divided into a number of units called shares. Thus, every member has some shares in the business depending on the amount of capital contributed by him. Hence, members are also called shareholders.

FEATURES OF JOINT STOCK COMPANY

(a) Incorporated Association: A joint stock company comes into existence only when it has been registered after

completion of all formalities required by the law. Unlike sole proprietorship and partnership for which registration is not compulsory, a joint stock company is deemed to be established only after registration. In Ghana, companies are registered and regulated under the *Companies Act 1963 (ACT 179).*

(b) ***Separate Legal Entity***: A company is regarded as separate entity distinct from its members. The company as an artificial person can own properties, can sue and be sued can enter into contract in its own name. The shareholders are not the owners of the property owned by the company. Also, the shareholders cannot be held responsible for the acts of the company.

(c) ***Perpetual existence***: a joint stock company has an unending or perpetual lifespan independent of the life of its members. The death, lunacy, insolvency or retirement of its members does not affect the continuity of the operation of the company. Law creates it and law alone can dissolve it. Members may come and go but the company can go on forever.

(d) ***Limited Liability***: Unlike sole proprietorship and partnership, liabilities of members or shareholders of a company are limited to the value of shares held by the

member. This means that in case of debt payment, personal properties of shareholders shall not be used.

(e) ***Separation of ownership and management***: There is clear distinction between owners of a company and its management. Management of companies is in the hands of Board of Directors who are elected by the shareholders. Members of the board of directors are generally professional, experience and qualified people who act independent of the owners.

TYPES OF JOINT STOCK COMPANY

Generally we have many forms and types of companies but on the basis of ownership and size we can classify joint stock companies into two main types. They are ***Private*** and ***Public Limited Liability Company***.

a. ***PRIVATE COMPANY***: A private company satisfies three main description:
   (i) It limits the number of members or shareholders from minimum of two to maximum of fifty members.
   (ii) It restricts the right to transfer shares to another person.
   (iii) It is not allowed to send invitation to the public to purchase or subscribe its shares.
b. **PUBLIC COMPANY**: A public company also has the following three main description:

(i) Its can have a minimum of seven members and there is no restriction on maximum number of members.
(ii) Members are free to trade their shares on the stock market. It means that shares can be transferred to another person.
(iii) It can make a public offer to issue shares or debentures of the company.

ADVANTAGES OF JOINT STOCK COMPANY

There are many advantages which this form of business organisation enjoys over other forms of business organisation. The main advantages of Joint Stock Company are:

a. **Large financial resources:** A joint stock company is able to mobilise large amount of capital through small contributions from a large number of people. In public limited liability company shares can be offered to the general public to raise capital. They can also issue debentures to the public to raise funds.

b. **Limited liability:** In the case of a joint stock company, the liability of its members is limited to the extent of the value of shares held by them. Private property of members cannot be attached for debts of the company. This advantage attracts many people to invest their

savings in the company and it encourages the owners to take more risk.

c. **Better management:** Management of a company is vested in the hands of directors, who are elected by the members or shareholders. These Directors manage the affairs of the company and are accountable to all the members. So members elect capable persons having sound financial, legal and business knowledge to the board so that they can manage the company efficiently.

d. **Large scale production:** Due to the availability of large financial resources and technical expertise it is possible for the companies to have large-scale production. It enables the company to produce more efficiently and at lower cost.

e. **Contribution to society:** A joint stock company offers employment to a large number of people because of its size. Again most Joint stock companies also donate money and other resources towards education, health and community services.

LIMITATIONS OF JOINT STOCK COMPANY

In spite of many advantages of the company form of business organisation, it also suffers some limitations. Let us note the limitations of Joint Stock Companies.

a. **Difficult to form:** One disadvantage of a joint stock company is the complex and lengthy procedure for its formation. This can take up to several weeks and is very costly as well. A number of legal documents and formalities have to be completed before a company can start its business. It requires the services of specialists such as Chartered Accountants, Company Secretaries, etc.

b. **Delay in policy decisions:** Generally policy decisions are taken at the board meetings of the company which normally take place monthly or quarterly. Also the company has to fulfill certain procedural formalities. These procedures are time consuming and therefore, may delay making of policy decisions and actions.

c. **Lack of secrecy:** According to the Company Act, all public companies have to provide their financial data and other related documents to the registrar. These documents are then public documents, which any member of the public can access. This leads to a complete lack of secrecy for the company.

d. **Conflict of interest:** A company has many stakeholders like the shareholder, board of directors, employees,

debenture holders etc. All these stakeholders look out for their benefit and it often leads to a conflict *of interest.*

e. **Dual taxation**: Firstly the profit earned by the company is taxed. This is called corporate tax. Secondly the shareholders pay tax on the dividend they receive. This means that the profit earned by the joint stock company is taxed twice or there is dual taxation.