

**ICSA COFA**

**Trust and Company Principles**

**Exam Buster Cards**

# ICSA COFA Trust and Company Principles

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## Preface

We hope you enjoy your Onestudy “On The Move” Pocket Cards.

We feel that they will assist you in completing your goal because:

- They are just the size for pockets or bags, enabling you to study whilst travelling;
- The chapters are summarised, enabling you to revise and recall your knowledge of each area in bite size chunks;
- They provide space for you to jot down any valuable notes;
- They contain exam guidance.

*Use the cards as often as you can, to ensure you have all the information in your memory ready to transfer to the exam paper!*

# Chapter 1 - Trading Entities

# Types of Trading Entity

- **Sole Trader - Person trading alone;**
- **Partnerships - Defined in Partnership Act 1890 as, “Persons carrying on business with a view to profit”;**
- **Limited Liability Partnerships;**
- **Limited Companies.**

# Limited Liability Partnerships

Available April 2001 per The Limited Partnership Act 2000.

## **Characteristics**

- Partners are members;
- Combines the flexibility and tax status of a partnership with limited liability for its members;
- Formed by an incorporation document which is registered by the Registrar;
- The rights and duties of the members of the LLP to one another and to the LLP are governed by an agreement between the members.

## **Advantages**

- Liability is limited to amount agreed to contribute;
- Popular with lawyers and accountants;
- Similar to Limited Companies.

## **Disadvantages**

- Disclosure requirements;
- Filing and regulation requirements.

# Definition and Features of a Company

## A Company - The Legal Position

- Many businesses are carried on in the form of Limited Companies. The owners of a limited company are its shareholders, who may be few in number, being a small family-owned company or numerous, being a large public company with shares quoted on the stock exchange.
- The law recognises a company as a legal entity, quite separate from its owners.

# Limited Company – Advantages and Disadvantages

## **Advantages**

- Limited Liability – only liable for amount outstanding on shares or guarantee;
- Perpetual succession – If the members die, the company can keep going;
- May be easier to expand;
- Company may sue and be sued in its own name;
- Ownership can be easily transferred;
- Ownership of property.

## **Disadvantages**

- Government regulation;
- Publicity;
- Administration burden.

# Types of Registered Company

- Limited by Shares – Private and Public
- Limited by Guarantee – Private only
- Unlimited – Private only
- Holding and Subsidiary Companies

# Characteristics

<p><b>Private Limited Company</b></p> <ul style="list-style-type: none"><li>• Any company not a public company</li><li>• Cannot be quoted on stock exchange</li><li>• Shares can only be taken by invitation – not offered to the public</li><li>• Limited after name</li><li>• Can have one member (single member private Companies)</li><li>• One director and Secretary (minimum)</li></ul>	<p><b>Unlimited</b></p> <ul style="list-style-type: none"><li>• Have to contribute unlimited amount that is required to pay debts in the event of liquidation.</li><li>• Relaxed filing requirements.</li><li>• Do not have to file annual accounts.</li><li>• Not popular.</li><li>• Can buy back own shares.</li><li>• Can be useful to hold assets.</li></ul>
<p><b>Limited By Guarantee</b></p> <ul style="list-style-type: none"><li>• Members agree per the Memorandum of Association to contribute a fixed amount on winding up (no working capital). Usually non-profit making.</li><li>• Only a private companies.</li><li>• Does not have share capital and shareholders.</li></ul>	<p><b>Public</b></p> <ul style="list-style-type: none"><li>• Name must end in Public Limited Company (PLC).</li><li>• Issued share capital must be at least £50,000, of which 25% must be paid up.</li><li>• Can be quoted on stock exchange.</li><li>• Shares can be offered to the public.</li><li>• Two directors and a Secretary.</li><li>• Must obtain trading certificate before commencing business (S117).</li><li>• Must have minimum of two members.</li></ul>