Explain the main differences between a Sole Trader, a Limited Company and a Public Limited Company, in terms of accounting and reporting requirements.

Businesses can be classified by two types in general – **Unincorporated firms** and **Incorporated firms**.

An unincorporated firm is one that is not registered with Companies House , who are the government registrar of companies, as a business and there are two main types – **sole trader** and **partnership**. A **sole trader** is the simplest form of business type. It is the business which is owned by only one person. **Partnership** is, in essence, like a sole trader but with the ownership shared between partners who can 2 or more.

An incorporated firm is a firm that a registered firm at Companies House. In this category, there are two types – a **private limited firm** and a **public limited firm**. A **private limited company** is one where the liability is limited. To form and run a limited company it needs 1 or more owners and shareholders, who own at least one share each, and it has to file Memorandum & Articles of Association and prepare annual accounts which are that the company should summit to Companies House. Private limited companies can range significantly in size. They may consist of a small family based business or a big group of companies. A **public limited company** is like a private limited company. It has some regulations to form and run the business. But public limited company can offer its shares for sale to the general public on a stock exchange. A private limited company appears the word '**Ltd**' as part of its name, and a public limited company has the abbreviation '**plc**' in its name.

As it has been briefly introduced above, the types of ownership are various by depending on the type of the business organisation. What ownership is depended on the types of the company means that the liability for the company is different by types of the organisation.

For a **sole trader**, the single owner provides capital and has total control of the company, so any income or profit that owner earns is owner's alone and the owner pays income tax on that income. Therefore, there are **few legal**

constraints and the owner has **unlimited liability** for the company. This means that any debts are the single owner's debts, not company's debts and so if the owner stops trading with large debts, the owner will be personally responsible for these debts. Creditors will have a claim on owner's properties or any other personal assets the owner may have.

A **partnership** is like sole trader, but there should be a **partner agreement**, which is a legal document drawn up to show the rights and responsibilities of all the partners. A partnership also has unlimited liability, but the main difference with the liability of sole trader is that each partner is responsible for all debts, which means the risk is shared to each partners.

A **private limited company** has the **limited liability**. Unlike a sole trader where the liability is unlimited, with a limited company the liability is limited to the value of the shares issued. Thus, any debts are **debts of the company**, **not of the owners**.

A **public limited company**, like private limited company, has shares which can be sold to the public freely on a **stock exchange**. Having shares to raise capital means that a public limited company has also limited liability. Therefore, **ownership is open to anyone who wants to buy shares**.

Both **private limited company** and **public limited company** have similarities in the character, which the company is not owned or run by a particular person. The owners of an incorporated company are shareholders, but they are **not necessarily involved in running the business** and the company is managed by directors. Shareholders make profits from **dividends** of their shares what they have invested.

It needs some legal works to form a business. By the legal works made, the company is sorted as a sole trader, partnership and etc, and also limit the liability for the owners.

To be an **unincorporated company**, such as a sole trader and a partnership, the company does not have to be registered with Companies House. This means that company is not under control of law directly. It is under **all owners'**

responsibility.

However, it is different to form an **incorporated company**. The company should be registered with **Companies House** and defined either Plc or Ltd. The **company itself presents all the legal responsibilities of the company**, which means that the company has its own separate legal identity, so the company can sue or be sued. To become incorporated, normally companies are owned by **at least two people**. The owners are usually known as **members** or **shareholders**. The members or shareholders own at least one share each. They also need to file Memorandum, which sets out the company's name, the situation of the registered office of the compan y and Articles of Association, set out the rules for the running of a company and its internal affairs, and there should be a director and a company secretary app ointed by the board of company to manage day-to-day basis of the company.

Once a company has been formed, there are **legal reporting requirements**. For **sole trader** and **partnership**, the owner or each partner has to make an **annual self-assessment** return to the **Inland Revenue**. As an incorporated company, preparation of publishing and reporting annual accounts is required in compliance with the Companies' Act. The format of accounts is defined in the **Companies' Act 1989**. These accounts are on record at Companies House in order to be available to any member of public who want to have the information of a company. In section 238, Schedule 10, The Companies' Act 1989, Publication of accounts and reports for persons who are entitled to receive copies of accounts and reports are defined as;

238.—(1) A copy of the company's annual accounts, together with a copy of the directors' report for that financial year and of the auditors' report on those accounts, shall be sent to —

(a) every member of the company,

(b) every holder of the company's debentures, and

(c) every person who is entitled to receive notice of general meetings,

It is guided that *the annual financial statements of limited companies must be verified by independent auditors*[1]. Therefore, **the account published of a limited company is one that is produced by the company and verified by the auditors and published to the public who are entitled to receive**.

The **contents of annual report** are guided by law and Accounting Standards. **By law**, an account must have;

1. **Profit and Loss Account**
2. **Balance Sheet**
3. **Accounting Policies and Notes to the accounts**
4. **Directors' Report**
5. **Auditors' Report**
6. **Voluntary -** this is not required by law e.g. chairman's Statement, any other relevant reports

Auditors are appointed by shareholders and the people to investigate accounts and report whether they present a "**True and Fair View**" of the company's results and financial position at that date. Their opinions are expressed in Auditors' report, addressed to the shareholders.

By Accounting Standards, these are required;

1. **Cash Flow Statement**
2. **Summary Financial Statement**
3. **Consolidated Accounts**

Specifically for **Public limited companies**, Stock exchange requirements are applied by **'Yellow Book'** regulation and detailed disclosure requirements.
Three main types of the company form have very distinct differences each other. Depending on the structure, a business will make a decision. A sole trader is very easy to set up a business with full control of the business by the owner, but the owner has no limit liabilities and might not be able to cover all the works. Ltd. company is easier to raise capital than a sole trader, but the company can sell shares privately only. In the aspect, Plc. company is the best one to raise fund

[1] The Companies' Act 1989

and control the business with separate powers of management, but the company needs to follow greater number of law than other types and also the owner of company might lose control.

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