

## Outline of how to buy a limited company

Firstly it can be done directly with Companies House in Cardiff or Edinburgh by calling them and they will send you the forms to fill out. The advantage of this route is that it is relatively low cost, costing around £20. The main disadvantage is the paperwork involved and the danger that it might not be done properly if you aren't familiar with what's involved. Although the paperwork is not difficult, it is time-consuming and requires a solicitor to witness some documents, I will go into more detail about the paperwork later on in the letter.

Secondly there are also companies which specialise in forming companies, called registration agents which you can find in the Yellow Pages, they will charge you anything between £50 and £150 so it's a bit more expensive. The main advantage of this route is that such a company should ensure all necessary paperwork is handled and the company is properly set up, saving you time and hassle.

Finally plenty of accountants or lawyers will handle the formation for you. In many cases this will tend to be the most expensive route with many professionals charging anything from £100 to £250 for forming a company, although this should ensure your company is formed correctly. Existing companies can be brought out by owning 51% of their shares and thus having controlling command of their affairs. Limited companies shares can be brought on the stock market.

There is a substantial amount of paperwork involved in setting up a limited company. For starters you will have to draw up a memorandum of association and articles of association which set out the background details of the company such as its name, how many members it can have, what the management structure will be, and so on. These documents need to be drawn up for submission to the companies house to register as a limited company. The other paperwork you will have to supply are the statutory registers and record books such as a register of members, directors and secretary and a register of charges. Bear in mind all this information needs to be kept up to date on an ongoing basis, there is a lot of red tape associated with limited companies relative to sole traders.

In order to set up a limited company you have to do the following:

Before you do anything you need to work out the true value of your company in order for you to divide it into shares, as shares are what limited companies are about. This would be calculated by looking at how well your business performed in the past and how well it is expected to do in the future, this is normally done by a merchant bank and so you would need to appoint one. Once this information has been obtained you then need to decide the number of people and the percentage of shares that should be divided up between the shareholders. You need to consider ownership carefully, as the shareholder with the largest share of the business has the greatest control. The remaining shares can be sold to family and friends if you become a private limited company(LTD) or to the public if you become a public limited company(PLC). The second step in setting up a limited company is to draw up articles of association. The articles of association states the rules of how the company is to be run, and it must conform with guidelines set out in the Companies act 1985. These state that the following must be included: the number of members the company can have, who can become a member, the management structure to be imposed, how the management will be elected and its powers and activities, and finally how meetings are to be conducted.

The third step to be undertaken is to draw up a memorandum of association. The memorandum of association sets out the basic facts about the company, of which there are a number of facts you must make sure it shows. The facts the memorandum of association must shown are: the name of the company, the location it is registered to, the constituents of the company (all its parts), the liability of the members of the business with respect to debts, members signed signatures in agreement to the contents of the memorandum (signatures must be witnessed), and finally the amount each member will contribute if the company ceases to run.

Fourthly you will have to decide who the members of the company will be and appointing of directors and secretary. This is known as the statement of first directors and secretary. A limited company should have a minimum of one director and a company secretary, as well as one shareholder. You would normally be the director and shareholder in the company. The company secretary role can be held by anyone you nominate and doesn't mean that person must have any relevant skills to hold that position.

The next step is to submit copies of all the items I have just listed above to the Companies house. The copies of the memorandum and articles of association must be

signed by at least two members. Also include the statement of first directors and secretary and intended situation of your registered office, showing: the name of the company, the address it is registered to, a point of correspondence to enable queries to be made, the details of the companies directors and secretary along with their signatures. A declaration of the companies compliance with requirements on application for needs to be included to confirm that all the requirements of registering a company have been met. It needs to be signed by a solicitor, secretary or director and it must be dated earlier than the other documents. Along with the documents the fee for registration needs to be included and sent to the companies house.

You will now have to decide when the companies financial year will end. Then you will have to display the company's certificate of incorporation at the registered office, which you will obtain from registering with the documents that you sent to the companies house. Next you have to sort out the statutory registers and record books which are the responsibility of the company secretary. Ensure that you have all the necessary statutory registers and record books, and a register of members, directors and secretary. A register of charges is also needed (i.e. all mortgages and secured loans which the company creates over its assets) and lastly minute books for general meetings which are a type of written account or record.

The final thing you will have to do is ensure all the companies stationary such as invoices and cheques meet the companies act requirements by including in them the fact you are a registered company with your registration number.

So in summary, the things you need to do to set up a limited company are:

1. Work out share values
2. Draw up articles of association
3. Draw up memorandum of association

Which together spell out the objects of the company (in broad terms, what kind of business it will be engaged in)

4. Appoint members of company and directors and secretary
5. Submit your documents to the Companies house for registration as a limited company
6. Decide your financial year
7. Display your certificate of incorporation from registration at your companies registered address

8. Ensure you have and comply with all the statutory registers and record books
9. Ensure your company complies with the companies act requirements.

People who can hold shares in the company depend on what type of limited company it is. A private limited company can only sell shares to family members and friends but cannot sell shares to the general public, where as public limited companies shares are traded on the stock exchange and thus can be brought by the public.

A sole trader has unlimited liability in the business this means there is no distinction between the assets of the business and the owners personal assets such as home, car or other belongings, what this means is if the business goes bankrupt the owner may have to sell of some of their personal belongings in order to pay off the debts of the business. A sole trader differs from a limited company in the respect that directors only have limited liability, which means they are only responsible for the debts up to the value of their shareholdings. Limited companies have a warning to people dealing with them that their debts might be left outstanding if the company goes bankrupt, the warning is the name of the company LTD for a private limited company and PLC for a public limited company.

In response to your question about differences in sole trader and limited company accounts, I can tell you there are a number of differences which I will now outline for you. A sole trader must prepare accounts every year purely for submission with its income tax return and for personal use in the business. The accounts are much simpler and less costly to create than limited company accounts which have to be audited. Also limited companies must file a summary of their audited accounts with the companies registration office.

Limited companies also have to pay corporation tax which must be recorded in the final accounts, sole traders do not pay this tax they pay through income tax instead. The corporation tax is charged on a limited companies profits at 25 per cent of the first £50,000 and 32 per cent of everything above that. Income tax is charged to sole traders at varying rates, up to 46% on the profits earned by the business in any year, regardless of money taken out of the business for that year. The first £3,150 earned is tax-free, the next £10,000 is at a rate of 24 percent and everything above this is at 46 percent. Another difference is that a limited company can have any year end it

chooses for its final accounts where as a sole trader must submit its income before January 31<sup>st</sup> each year and is liable also to a 10 percent surcharge for late submission.