

Limited Company: How Do They Work, Really?



Introduction

A limited company, abbreviated as LC, is a general form of organisation or incorporation that limits the liability of the company's shareholders. Sounds a bit too technical, right?

Alright, let me explain a little.

So, like any other form of company, an LC also comes with a legal business structure. But, as it is "limited," it usually exists as a separate entity from its shareholders or owners.

This means that the organisation itself will be responsible for its debts and liabilities, not the individuals who own it. It's like creating a business persona that can enter into

contracts, own property, and sue or be sued. And you, as the owner, won't be held responsible for anything.

Types of Limited Companies

There are different types of limited companies that might be established as a whole. However, here, we'll focus on the two most common ones –

1: Private Limited Company (Ltd)

This is the most common form of limited company. Nevertheless, it's more suitable for small to medium-sized businesses and offers more flexibility, due to the less number of liabilities.

Due to the same reason, the ownership is restricted to a specific number of shareholders, and shares can't be publicly traded. So, you won't get any outside help during the dire situations.

2: Public Limited Company (PLC)

PLCs are typically larger companies whose shares might be traded on the stock market. They have more stringent regulations and often require a higher level of public disclosure.

In a way, almost anyone who buys the stock of a PLC can be considered as its shareholder. So if the company continues to improve, it will be beneficial for the stakeholders as well.

Limited Company Accounting: The Financial Backbone

As it's different from any other type of organisation, the accounting segment of an LC tends to differ too. The financial

backbone of a limited company is regulated by six elements.

These may include –

1: Bookkeeping

This is the core foundation of [limited company accounting](#). It involves recording all financial transactions, such as sales, expenses, and payroll, in an organised manner. Bookkeeping ensures that the company's financial records are accurate and up to date.

2: Financial Statements

Limited companies are required to create financial statements, including the income statement (also known as the loss and profit statement) and the balance sheet. These statements provide an overview of the company's financial health and performance.

3: Income Statement

This statement shows the company's revenue, expenses, and profit or loss over a specific period, usually a year. It's like a report card for how well the company is doing financially.

4: Balance Sheet

The balance sheet provides a snapshot of the company's financial position at a specific point in time. It lists –

- The company's assets (what it owns),
- Liabilities (what it owes), and
- Shareholders' equity (the difference between assets and liabilities).

It's like a financial snapshot of the company's health.

5: Taxation

Limited companies have their own tax obligations. They must pay corporation tax on their profits. It is somewhat separate from personal income tax, and the rates might vary depending on the company's profit levels.

6: Annual Reports

Limited companies must prepare and file annual reports with the relevant government authorities. These reports include –

- Financial statements,
- Details about the company's activities, and
- Information about the directors and shareholders.

It's all about transparency and accountability.

7: Auditing

In many jurisdictions, limited companies are required to have their financial statements audited by independent auditors. Auditors ensure that the financial statements are accurate and comply with accounting standards and regulations.

The Bottom Line

Due to how much flexibility it offers, the limited companies have become a quite popular or effective way of structuring a business.

They provide tax advantages, limited liabilities, and the ability to increase your capital in the safest way possible. But, it also comes with administrative burdens and expenses.

So, if you're considering following the path of an LC, I think it's best to consider both sides of the coin. If possible, you can also talk to someone who has some sort of expertise about

it.

Hopefully, that would help you out!