

Hot tip

What a limited company can or cannot do is set out in the Articles of Association which are produced when a company is registered. The Articles are commonly very wide ranging and it is unlikely that the activities of the company will be restricted by them. However, all company directors should know what they say.

Beware

Shareholder Directors of limited companies and members of LLP's can be held responsible for the debts of limited companies/LLP's if they are guilty of fraud or wrongful trading. (knowing they traded while unable to pay the debts of the business as they become due).

Business Accounts

Businesses can be sole traders, partnerships, companies or limited liability partnerships.

- **A SOLE TRADER** is a self-employed individual who is personally financially responsible if things go wrong e.g. if the business cannot pay its debts and taxes, the individual's home or other assets may be at risk
- **A PARTNERSHIP** is more than one self-employed person working together to make a profit and sharing everything on an agreed split. Each partner is personally responsible for all debts run up by the partnership as a whole except for tax debts (individuals are responsible for their own tax debts). Again their homes or other assets may be at risk
- **A LIMITED COMPANY** is a separate legal structure where the liability of owners of the business is limited to the amount of their shares. Any legal action has to be against the Company not the shareholders and the shareholders' personal assets are often safe.
- **A LIMITED LIABILITY PARTNERSHIP (LLP)** has many of the features of a normal partnership - but it is also like a limited company in that members in an LLP cannot usually lose more than they invest.

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“Business” is the same as “trade”. Being “self-employed” means you are your own boss and answer only to yourself. The word “firm” is often used to describe a partnership. The expression “my company” is commonly used to mean any business whether a company or a sole trader or partnership.

You may hear the expression “profession” which describes people who do jobs which need special training and skill and often involve a high level of education, such as doctors or lawyers. Professional people may be self-employed as sole traders (for example as Consultants) or be Limited Companies or Limited Liability Partnerships although sometimes the rules of their governing organisation prevent them being anything other than sole traders.

However you run your business, you need to prepare accounts.

Hot tip



Running your business as a Limited Company is the most common way of protecting your personal assets.

Beware



Banks and other lenders may insist that directors of limited companies provide personal guarantees for loans to the company so that if the company goes bust, the directors still have to pay the loans back.