

Know who you're dealing with



A guide to
company types

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A Riskdisk guide to helping you deal with different kinds of companies.

In your business, you will inevitably deal with lots of different companies – but also be aware that they are not all necessarily the same type of company, and as such have different legal statuses. As a business owner, you should know the difference, and how it may impact on your company when you deal with them, either as a customer or as a supplier. This guide is designed to give you a quick summary of the various types of company that exist in the UK, and how they differ.

Not only is it important, but it is your right by law to be able to establish the legal status of the concern with which you are to deal. If you use a formal credit application form, this should enable you to discover the correct legal status of your applicant and determine whether you can obtain financial information upon the organisation from public record. This is of course essential if you are to protect yourself against the possibility of non-payment.

Private limited company (Ltd)

A private limited company is a legal entity in its own right - a body corporate which has been funded by those to whom shares in the company are allocated. The personal liability of the shareholders and directors is normally limited to the amount represented by the nominal value of their issued shares.

For a company, the equivalent of bankruptcy is insolvency and whilst a director is obliged to liquidate an insolvent company, he or she will face no personal loss or stigma, apart from any contribution to the share capital, should the company fail. A limited company, like a person, can be sued in the civil courts but any financial penalty imposed will normally be paid from the company's funds and not from the directors' /shareholders' pockets.

Unlike a person, a limited company can never die; it can only terminate when it is wound up. If one of the directors or shareholders were to die, the company would continue, with new directors and shareholders.

The main advantage of operating a limited company is that of the limitation of the liability enjoyed by its shareholders with regard to the company's debts.



The original idea behind the first Joint Stock Companies Act of 1844 was to enable business promoters to set up limited companies more conveniently. Prior to that date, it had been necessary to obtain an Act of Parliament to do so.

Nowadays, the small private limited company is a vehicle, which enables a businessman to set up with little or no risk to himself and thus encourages enterprise. He is protected from the company's creditors by way of the limited status (unless of course he has provided personal guarantees) and is afforded more manoeuvrability. He knows that if all else fails, his personal property will be protected from seizure.

By its proliferation however, the limited company has lost its former unassailable status of respectability and the words "limited company" do not necessarily indicate stability or financial wellbeing.

Public limited company (PLC)

The public limited company is one whose shares may be purchased by the public and traded freely on the open market. It must be emphasised that, despite the elevated status often accorded to a limited company merely because it is prefixed by the word public, it is only the very largest of these entities which are actually quoted on the Stock Exchange. Confirmation of their number can be obtained by reference to the financial pages of a daily newspaper.

There is however a growing number of insignificant PLCs, whose public share dealing status is reserved more for a matter of convenience than actuality. The words "public limited company" do not necessarily indicate respectability or financial well-being.

Filing of documents for private and public limited companies

Annual documents must be filed with the Companies' Registry, revealing the financial state of the company as well as the names and addresses of those engaged in its management and involved in its ownership. An example of these documents can be viewed with the aid of Riskdisk.com.

How easy is it nowadays to form a private or public limited company?

With respect to company formation, one can arrange for a limited company to be set up from scratch and, indeed, it is possible to wade through the formalities oneself by obtaining the necessary forms relating to the memorandum of association and the articles, from Companies House. However, for the sake of a hundred £ or so, the task can be undertaken by an accountant or solicitor.

Another method of forming a limited company, public or private, is simply to walk into a shop and buy one, much as one would purchase an "off the peg" suit. This can be done through any company formation agent and the process is instantaneous. Companies purchased in this manner are referred to as "shelf" or "ready made" companies. The articles of which are fairly all-embracing and hold, as it were, something for everyone.

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In theory, it is possible to purchase a “shelf” company on Monday and to trade with it on Tuesday and whilst this is not necessarily true in practice, it does mean that one does not have to wait up to say six weeks or so in order to obtain Registry approval and formal registration.

Drawbacks to “shelf” companies...

The name can be an odd sounding one, often produced by a computer program, or clearly revealing the company's ready-made origins, with names such as: “Shelf Company 191 Ltd” or “Ready Made Company 191 Ltd” (indicating that they are the one hundred and ninety first company in that particular series to have been registered !). Obviously, there is no reason whatsoever why the above named limited companies should not be proprietors of a trading style “Shelf Company 191 Ltd” trading as “Smarts Caterers”.

Sole proprietorship

A sole proprietor or sole trader is a single individual, who trades on their own account, either in their own name or under a trading style. Whilst the sole proprietor can trade in his own name without too much difficulty, some care has to be taken in the selection of a trading name, firstly by insuring that one is not treading on any local toes in selecting too similar a style to one already in existence and secondly by insuring compliance with the laws of the land, which prohibit the use of such words as “Royal” and “English” in a trading style - a complete list of prohibited names is available upon request from Companies House.

Perhaps it should also be stressed that one cannot use the word “limited” as the last word in a trading style unless the business is incorporated and duly registered as such. Prior to the 1981 Companies Act, which abolished the Business Names Registry, it was necessary for a sole proprietor to register his trading style if he carried out the business under any name other than his own. Now however, the name of the business does not have to be registered with any body or authority and it is merely necessary, if trading is carried out other than in ones own name, for the name of the proprietor to be shown on all business stationery and in notice form on the business premises - this notice should also include an address at which documents can be served. Furthermore, although annual accounts do have to be prepared and submitted to HM Inspector of Taxes, they do not have to be presented to Companies House or made accessible to the general public.

It is a relatively simple procedure to set up in business as a sole proprietor, the major disadvantage however, being that one is personally liable for any debts incurred during the course of business. When a sole proprietor dies, his firm dies with him.

As for the possible advantages to a supplier in dealing with a sole proprietor, well, providing that one is certain about the individual's identity and whereabouts and furthermore that one is confident regarding his/her financial status, the risks should be fairly minimal. Again, the emphasis is upon “knowing who you're dealing with” and where (should things go wrong) to seek them out.

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An insight into the proprietor's payments can be gained by using Riskdisk.com to carry out a County Court Judgements check against the place of his residence and his place of business.

Partnership

Like a sole proprietorship, a partnership does not require any special formalities in order to commence business. It is an association between two or more persons carrying on a joint business venture with a view to making a profit. As with a proprietorship, care must be taken in selecting a trading name. Annual accounts do not have to be presented to Companies House or made accessible to the general public.

Like the sole proprietor, the partners risk bankruptcy if the business fails. Whilst different partnership agreements vary in relation to the apportioning of profits and the definition of the separate professional roles, it can be assumed that the partners share equally in their responsibility in discharging a debt, since all partners are jointly and severally responsible. In the last resort therefore, any one person within a partnership can be liable to pay its business debts.

Limited Liability Partnerships (LLP)

A Limited Liability Partnership (LLP) shares many of the features of a normal partnership - but it also offers reduced personal responsibility for business debts. Unlike members of ordinary partnerships, the LLP itself is responsible for any debts that it runs up, not the individual partners. The liability of the partnership is as a general rule limited to the partners' investment and assets in the partnership.

Franchises

The idea behind a "franchise" operation, is that a "good idea" or "good name" is sold complete with backup. A franchise may be operated as a limited company (private or public), a proprietorship or a partnership.

A number of well-known concerns, including The Body Shop and MacDonald's, franchise their operations. They provide to the franchiser:

- A supply of merchandise/raw materials.
- Consultancy concerning promotion of product.
- Advice on premises, refurbishment of same (using a universal scheme and colours).
- Back-up advertising.
- Various other back-up services.

The business which takes on a franchise may have nothing to lose (apart from its money) but the franchiser, whilst unlikely to lose money directly, does stand to lose goodwill and/or the value of his name or goods.

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It is therefore common practice for the franchisee to investigate closely the business acumen and financial stability of his franchisee before letting him loose upon the business. It is normal practice for the franchiser to prohibit their name being incorporated into a limited company style by those actually trading.

Bearing the above in mind, do not be misled by what is apparently a "big name." If you are in any way confused, make a polite but firm approach and ask. Remember, it is your money, your goods and in your interest to determine ownership and responsibility.

Registration numbers

Every limited company is required by law, to quote its registration number in legible characters on all business letters, order forms, emails and any web sites it operates. With respect to the allocation of registration numbers to limited companies in England and Wales, the first company to be registered held the registration number 1, the second 2 and so on – the number has now run into millions with hundreds of new companies being registered daily.

It should be noted that Scotland has its own registration system and numbers usually preceded by the letters SC. It is important to remember that whilst a company may change its name, it can never change its registration number. If you are dealing with a limited company, you must be sure that you are in possession of the company's registration number. You can easily check the number matches the name with Riskdisk.com.

Registered offices

Every limited company must have a registered office to which all communication and notices may be addressed. The address of the registered office must be listed on all business, order forms, emails and web sites.

Whilst the registered office can be situated at the company's trading address, it is very often located at an accountant's or solicitor's office, or sometimes at the home address of one of the directors.

Limited companies can and do (for a variety of reasons) change their registered office. Notice of any change in the situation of a registered office must be given within 14 days to the Registrar of Companies. For purposes of litigation, it is imperative that one possesses the correct address of the current registered office.

Summary

Knowing the kind of company you are dealing with is important, but it is of course not the only measure of a company's suitability as a supplier or customer. Regular credit checks are essential if you are to protect yourself against bad debt.

"Easy credit and identity checking for less than the cost of a daily newspaper"



Easy credit and identity checking for less than the cost of a daily newspaper

There is an easy and affordable way to check every customer. If you would like instant access to our credit checking system, you can check the validity of every new customer in seconds, helping protect you from the threat of bad debt and slow payment.

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