Private limited companies advantages and disadvantages

Financial Accounting Is the information to make decisions related to the organizations, it begins with the principles, concepts, and applications of financial accounting.

Financial Accounting follows a set of rules and legislation known as accounting concepts, accounting policies, and procedures like the entity and prepayments.

Financial Accounting explains for us what are the financial statements, tells us what are the rules of legislation while they are getting prepared, shows us how the financial accounts are prepared, helps us to understand how the various fields of business work together. It also keeps tracks of company's financial business like the cash flow and cash inflow.

It provides stakeholders with official information like for Example: balance sheet account, profit and loss account, trading account.

Sole Trader: It is owned by only one person, that has no exact legislation and has one or more employees, their main aim is to make profit.

Sole Trader Advantages:

- They can make decisions easily and quickly
- Owner can control anything.
- Less legal formalities.
- It is simple to set up

Sole Trader Disadvantages:

1. Lack of capital.

2. They have to work and think hard because For Example: If the owner is sick, they will not be able to work.
3. Unlimited liability.

Partnership: is between 2 to 20 partners or shareholders that works together and easy to setup, the owners share with each other the profits or losses of their business, and their main aim is to make profit.

Advantages of a Partnership:

- It is easy to setup by the deed of partnership
- More capital is available.
- There are few paper to work on

Disadvantages of a Partnership:

- Lack of goals to be achieved
- Unlimited liability
- Profits have to be divided between the partners

Private Limited Company: Is known as (LTD), it must have one or more director, they do not need a trading diploma, and it offers limited liability to its shareholders but it places certain limits on its ownership.

Advantages of Private Limited Company:

- Limited liability.
- More serious than the status of a sole trader.

Disadvantages of Private Limited Company:

- The corporation tax has to be paid.

- Cannot sell shares to public.

Public Limited Company: Is known as ” PLC “, it’s a company whose shares may be purchased by the public and whose share capital is not less than a statutory minimum, and must have minimum 2 directors.

Advantages of a Public Limited Company:

- greater borrowing power
- the shareholders have limited liability
- shareholders can sell their shares freely to public

Disadvantages of A Public Limited Company:

- The personal touch may be lost
- Published accounts have to be prepared
- Difficult to control and manage
- Too many legal formalities

Clubs: It is the business that is connected from two or more people that has the same goal that they want to achieve.

Their main objective is to provide services to the community

Charities: It is known as the charities that we know for foundation like Dubai cares.

Their main objective is to help other peoples or countries that are unable to pay for their needs and wants.

The Advantages of being a Charity

- The Charity task can provide advice and information to assist a charity administration.
- Charities are not liable to pay Corporation Tax which is charged on clubs, societies and voluntary organisations.

The Disadvantages of Being a Charity

- Limited rules that are carried on by charities.
- Trustees are not generally allowed to benefit financially from the charity.

Companies Act (1985)

Is the act of the congress of the UK, which will help the companies to register and to set responsibilities of the companies, their secretaries and directors.

The act was the instance of consolidation of many other pieces of company legislation, and was one constituent part of the rules governing companies, it was governed by its own articles of relationship.

The act is applied only to companies that will form into a legal corporation under it, or under older company's acts.

In the act limited liability partnerships, sole traders, and partnerships were not governed by it.

Companies Act (1989)

Is an act to amend the law relating to the accounts of company, to make new provisions, to amend the companies act 1985 with respect of powers to get information, to create new provision with respect to the registration of charges in the company and to modify the law related to companies, to rephrase the fair trading act 1973, to allow provision to be made.

Partnership Act (1890)

It’s the relation which exists between persons holding on a business in common with the view of profit.

No interest is to be charged on drawings.

Profits and losses are shared equally among partners.

The relation between members of any company like:

1. It is not a partnership within the meaning of this act
2. Registered as a company under the companies act 1862

Rules for Determining Existence of Partnership

To determine whether a partnership does or does not exist, you should follow the rules:

1. “ Joint property, Joint tenancy, tenancy in common, common property, or part ownership does not of itself create a partnership, whether the owners do or do not share any profits made by the use”
2. “ The sharing of gross does not create a partnership, whether the persons sharing returns have or have not a common right or interest in any property”

Accounting Concepts

Business Entity Concepts:

- It is a separated business and completely different from the owner at that business. It also can be applied to limited business like the charities.

The owner’s personal spending is not recorded in the books at the business. The owners personal transaction appear in the book is when the introductions capital or makes drawings.

Materiality:

- It is a rule which applies to the materials that are not always included in accounting rule; it’s applied to sole traders, partnership, limited companies, clubs and charities.

Going Concern Concepts:

- It is the statement that business will continue operating in the future except if there a strong evidence or if there a weak evidence, the value is not taken from their ” break-up” value which is the amount that they can sell it in a slow way.

In final accounts of a business one of them prepares on the basis that there is no intension to close down the business.

Accruals (Matching) Concepts:

- It is the income that will be received in some trading, lost profit and loss accounts. They should be given out from time to time to be paid. It also allows some people to go against other accounts if the amounts were so small that will be misled, in another words it’s when we have use something in a period of time. E. g.: bill phone, gas bill, and water bill.

Prudence Concepts:

- It states that the inventory and the profits should not be expected but also included in the profit and loss account.

This concept is known as conservation, If we applied this concept ensures that the account present a practical pictures of the state of the business. This concept is applied for making provisions for reduction of debts and stock valuation.

Consistency Concepts:

- It is a way that accounting method uses it to there business, and the business has to keep on using it from time to another.

In some areas of accounting a choice of method is available, and when it will be chosen, then they should apply it consistently from years to years.

Money Measurement Concepts:

- It shows the transactions that can be used in monetary terms and in using measuring unit for financial reports.

The account at a business only records the information which can be expressed in monetary terms. The value of a good manager that contains loyal work force, high stall morale, will make great benefits to the business.

Historical Cost Concepts:

- It is the account that asset the price and the balance sheet that is based to an original cost when the company require it.

Duality (Double Entry) Concepts:

- It is only one account that is joined together.

For every transaction there is aspect in accounting that is made on the basis. A giving and a receiving is known as Dual Concept of all transaction. This is known as double entry.

Principles of Relevance Concepts:

- It is a fact that is known to be gathered from one point of view and keep it.

Reliability:

- It is a degree of person, measure, or object.

It is important that profit is only recorded when it has actually been earned. Profits are not regarded as being earned when a customer places an order for goods. Profit is regarded as being earned at the time of goods or services pars to the customers.

Comparability:

- It is the quality of the things that is used in business.

Information in financial statements in a business can be more useful. it is compared with similar information about the same business for some other period of time or with other similar information about other business.

Understand ability:

- It’s how you understand the others and be able to talk and communicate to them.

Information should not be omitted from the financial statements because it is believed it is too complex for users to understand financial statements must be capable of being understood by the users of those statements.

Principles:

They have two types in UK and US

In US they have a lot of rules but when they prepare for their account they use the rule book and if it doesn't cover the rules, the rule book is approved to be used.

In UK there is a general law applied to the accounting practice, but the only difference between US and UK that in UK they have an over riding requirements, the account has to be required it is called " true and fair views"

Conventions:

- It is rules and procedures which are followed by all the organization it also guides the organization for the preparation of their accounts.

Rules and Procedures Which Apply To Financial Statements:

- Financial statement shows only the business that can be given in a monetary terms.

Depreciation:

- It is a company that has the free choice in choosing the company policies, procedures, and also it will affect on the reduction of the money amount that is used in your normal time in life.

The organization has two methods to choose from:

the straight line depreciation

reducing balances

Each method of them will result with a different amount of depreciation being charged against the profits.

Bad Debts:

The balance sheet reflects the amount of the money that the organizations owing it from sales, there is a lot of debtors that may not be able to pay the full amount. So

The organizations need to allow a percentage of bad depts.

The organization can choose what percentage they want and when to write the bad debts to make a provision, at the end it will affect the over all profit recorded.

Provision for Doubtful Debts:

- It is a small amount that is set aside for something very expensive or something will happen later in the future (Debtors who may not pay their bills to the company) , they usual state the percentage of the great trade debtors.

In future accounting, the profit periods would be twisted if the entity suffered a whole series of bad debts. So it seems cautious to allow for the chance that some debts may become bad.

Accruals:

- It is an amount due for a service provided during a particular accounting period but still not paid for at the end of it.

We should include them in our accounting before the year ends to show the " true and fair views " the organization need to ensure that this accounts is complying with accounting concepts.

The addition will be included in the amount charged to the profit and loss account for the period as part of the cost of the service provided.

Prepayments:

- It is an amount paid in cash during an accounting period for a provision that will be provided in a later period.

Prepayments made will be deducted from the amount charged to the profit and loss account.

Valuation of Stock:

- It should be valued at the lower cost and to be on the net value to observe with the conservative and caution concept.

It has three main methods of valuing stock:

FIFO

LIFO

AVCO

Each will lead to different value and will affect the profit level.

The Similarities and Differences of Sole Trader and Partnership

Sole Traders:

It is owned by only one person.

One has to keep careful evidence if he is self-employed.

If the business falters; his personal assets are likely to be liquidated.

They don't need to divide there profit.

It's easy to set up.

Partnerships:

It's owned by two or more people together.

Profits are shared either equally or as per the terms given.

If profits are to be shared, so are the liabilities too.

Partners can profit from limited liability and collect tax advantages.

Application of Accounting Conventions and Regulations

We have in accounting a concept called " true and fair view " which help to ensure that accounting information is presented accurately and consistently.

The most commonly encountered convention is the " historical cost convention"

This requires transactions to be recorded at the price ruling at the time, and for assets to be valued at their original cost.

Under the “ historical cost convention”, therefore, no account is taken of changing prices in the economy.

And there are other conventions in accounting we can summarize as follows:

Monetary Measurement: Like workforce skill, morale, market leadership, brand recognition, quality of management…And the accountants should not account for items unless they can be quantified in monetary terms.

An important convention.. The concept of “ materiality” is an important issue for auditors of financial accounts.