

Limited Companies

1. types of limited companies
2. sources of funds
3. financial statement extracts

A limited company is a legal entity which has a separate identity from its shareholders, whose liability for the company's debts is limited.

Nature

- **capital** of company is divided into shares
- shareholders of the company are only liable for the **debts** of the company up to the amount they agree to pay for their shares, they *do not* have to give away their personal assets if the company has to pay off debts.
- profits are distributed among shareholders in the form of **dividends**

Types of limited companies

1. private limited company
2. public limited company

1. Private limited company

A limited company which cannot offer shares to the public. Usually it is only given to people of close relations.

2. Public limited companies

A limited company which offers its shares to the public.

- **benefits** from the viewpoint of **investor**:
 - liability is limited
 - legal actions can be taken against company, and not the individual shareholders
 - easy to buy and sell shares

- **benefits** from the viewpoint of **company**:
 - greater capital available
 - loans can be obtained more easily
- **Drawbacks**:
 - **legal** requirements for forming public limited company
 - annual **financial statements** must be prepared and provided to shareholders

Share Capital

The bullet points are structured sequentially, with Authorized Capital having the largest scope, and all subsequent points falling within its category, therefore being smaller or equal to it.

- **Authorized capital**: the amount of shares a business is allowed to issue to the public
- **issued share capital**: is the amount of capital issued to the shareholders.
- **Called up capital**: is part of the issued share capital for which payment has been requested from shareholders.
- **Paid up capital**: is the amount of the called up capital which the company has actually received payment from shareholders.

Preference Shares

The preference shares are the shares which are given preference over the ordinary shares.

- receive shares before ordinary shares
- fixed amount of dividends
- do not have voting rights

They are divided into:

1. **redeemable preference shares**: these are the shares which must be bought back by the company at an agreed date and price.
2. **non-redeemable preference shares**: these are the shares which cannot be bought back by the company, however, if the company closes, these must be bought back.

preference shares in financial statements:

	redeemable	non-redeemable
income statement	<i>finance cost</i> (profit & loss section)	-
statement of financial position	<i>non-current liability</i> section & <i>current liability</i> (if accrued)	<i>equity and reserves</i> section
statement of changes in equity	-	<i>as a separate column</i>

Ordinary Shares

Also known as equity shares.

Equity: is the total funds provided by the shareholders of the company.

- receive shares after preference shares
- variable amount of dividends
- have voting rights

Debentures

A long-term loan which has a fixed rate of interest payable irrespective of the profit of the company.

- receive shares before preference shares & ordinary shares
- fixed amount of interest
- do not have voting rights

Shares & Debentures Summary

	ordinary shares	preference shares	debentures
payment priority when company closing	3	2	1
dividends/interest	dividends	dividends	interest
dividends/interest amount	variable	fixed	fixed
part of company?	yes	yes	no
voting rights	yes	no	no

Income Statement (extract)

Profit from operations	X X X
Less: <i>debentures interest</i>	
<i>redeemable preference share dividend</i>	(X X X)
Profit for the year	X X X

Statement of Financial Position (extract)

Equity and liabilities		
Current Liabilities		
other payables(redeemable preference shares)		X X X
Non-current liabilities		
redeemable preference shares	X X X	
debentures	X X X	X X X
Equity		
Ordinary share capital	X X X	
non-redeemable preference shares	X X X	
General reserve	X X X	
Retained earnings	X X X	X X X
		(total liabs.)

Statement of Changes in Equity

	ordinary share capital	general reserve	retained earnings	total
opening balance	X X X	X X X	X X X	X X X
ordinary shares issued	X X X			X X X
profit for the year			X X X	X X X
dividend paid(final)			(X X X)	X X X
dividend paid(interim)			(X X X)	X X X
transfer to general reserve		X X X	(X X X)	-
ordinary shares proposed*	-	-	-	-
closing balances	(total)	(total)	(total)	(total)

*ordinary shares proposed are not included in current year's financial position.