

Partnership firms

[Life, Relationships](#)



A Sole Trader is a set up, fully owned and run by a single individual. This is the simplest among business establishments, in as much as one can start business by getting registered through a simple formality. No legal formalities are involved. (Registration of a Partnership firm involves legal formalities and registration of a Company involves many more formalities).

The advantages of running a business as a Sole Trading firm are:

- Easy to set up with a name and also change the name when needed
- Accounts can be maintained in a simple form and it is not necessary to prepare Balance sheets as required in the case of a Company

- Liability to pay taxes is decided on total income of the individual and not at a fixed rate linked to the profit as in the case of a Company. There are disadvantages as well, such as in most cases these establishments are small and are not able to get as much recognition as a Company gets. There is a credibility gap. A Company is set up as per provisions in The Companies Act-1985. A company is a legal entity with its shareholders pooling the “ Equity” part of the investments. The shareholders are no more liable than the amount invested in shares, should the company get into debts.

(Unlike the cases of Sole Trader and Partnership firms) Companies have to pay corporation taxes on profits as per statutes. Preparation of Balance Sheets is essential. Shareholders of a Company expect to receive Dividends commensurate with the amounts invested in shares. Dividends are declared by the company as a percentage of the “ face value” to the extent such amounts can be given out, when profits are generated. Types of Expenditure in an Establishment

Money spent in an establishment can be broadly

identified into two blocks, namely, " Capital Expenditure" and " Revenue Expenditure.

" Capital expenditures are those amounts spent for large purchases for creating assets that will be put to repetitive or continued use over a period of time. Revenue expenditures are those spent on a regular basis on things that are needed to sustain business activities and are " used up" in the business activity. Revenue expenditures are recurring expenditures, unlike capital expenditures that are " one off" payments. Finances are required to meet capital as well as revenue expenditures. In an ongoing situation, the following three types of finances are applied.

1) Own funds 2) Borrowed funds 3) Funds retained as profits The third item is not relevant to a new establishment until profits are available. The available finances are applied for creating Fixed Assets and for creating Current Assets. Fixed assets are those spent on items such as Machinery, Buildings, and Furniture etc. , which can be used throughout the life cycle of these assets. Current assets comprise essential requirements of maintaining cash as well as for maintaining stock of inward goods and outward products. Type and nature of current assets can vary depending on the nature of business.