Four forms of business organization

Business, Organization

This is an analysis of the four different forms of business organization. It is a review of the advantages and disadvantages of each form, including the tax, legal, and, accounting implications that surround them. The different type of financial statements associated with each form of business organization is also discussed. In this paper, based upon the synopsis that the government has released funds for creating small businesses, a form of business is chosen by the class member in explaining his business idea. It then concludes with why that particular form of business was selected.

Introduction There are four types of business organizations that relate with the various businesses and their range in size and functions. The owners or partners establishing a company might share tax or legal liability with the business entity depending on how the business is formed.

When one is tasked with starting a business, various options must be considered regarding what form of business organization is best suited to the operational plan of the perceived business and to what degree of liability one wish to assume. It is with this notion that I evaluated the four forms of business organization and hence made a choice that best suit my business aspiration. Below is an analysis of the various forms of business.

Sole Proprietorship This is a form of business run by an individual, who owns the business, and has all of the profits and losses of that business. The owner also has all the control and all the liability from the business operations. The business normally with have an income statement and a balance sheet. All taxes for the business are paid by the owner through personal income tax return.

The advantages are: (1) It is easy to organize because financial capital is small and registration requirements are not difficult to comply with. (2) The owner makes all decisions and enjoys substantial freedom of action. Possible conflicts are minimized. (3) The owner has added incentive to make the business grow because all profits are acquired by him.

The disadvantages are: (1) Financial resources are not enough to transform the business into a large-scale business and because of its small assets and high mortality rate, banks are reluctant to grant big loans. (2) The owner has unlimited liability; in case of a loss, all personal assets are subject to claims by creditors. (3) It has no benefit from specialization in business management.

General Partnership This is a business formed by two or more individuals to generate a shared profit. Just like the Sole Proprietorship, the taxes of the partnership are identical to the personal taxes of its partners. The partners agree to combine their resources, (money, management, and material) and also to share their profits and losses. The financial statements associated with this form of business are, the statement of partner’s equity, income statement, and, a balance sheet.

A General Partnership can have silent partners, who provide financial capital, but do not participate in management, and also industrial partner, who does not contribute financially but is responsible for its management.

Advantages are: (1) It is easy to organize. The legal requirements to its registration are not many. (2) There is better management due to the presence of more participants in the business operations. (3) Possibility of bigger resources than the sole proprietorship, hence financial institutions may grant bigger loans upon taking into consideration the combined resources of the partners.

Disadvantages are: (1) It lacks stability. The death or withdrawal of a partner dissolves the partnership, and it needs complete reorganization to continue nits operations. (3) The partners are subject to unlimited liability, except limited partners, who liabilities are confined to their share of capital contributions.

C Corporation This is a business established as a separate legal entity from its owners. The operational decisions of the business are made by the board of directors. The owners are not held liable for the liabilities of the organization and the business pays its own taxes, known as the corporate income tax. Hence, a corporation is recognized by law as a body with its own powers and liabilities separate from its individual members. There are four financial statements required of this form of business; income statement, balance sheet, cash flow statement, and the statement of owner’s equity.

Advantages: (1) Owners have no liability. All personal properties of the shareholders are excluded from financial claims of the creditors. (2) It has the most effective means of raising cash for the purpose of operations by selling stocks and bonds. (3) It has permanent existence. Hence, the transfer of ownership can take place anytime with the transfer of stocks, but yet it has no bearing on the continuity of the organization. (4) Inept capability of obtaining the most efficient management due to its huge resources.

Disadvantages: (1) The process of incorporation requires more time and money than the other forms of business. (2) They are monitored and subject to rules of federal, state, and, local entities, hence may have to meet many more requirements and administrative documents to demonstrate compliance. (3) They are subject to paying more taxes. Dividends paid to shareholders are not deductible as a business expense, hence, such income may be subject to double taxation.

S Corporation This is a regular corporation with features that similar to a partnership, but is classified as a S Corporation to have liability protection of corporate status but is however taxed at individual rates. The corporation must have at least one shareholder but cannot have more than 100. A shareholder providing services to the business must be paid a reasonable salary, separate from distributions of profits or losses. Financial statements are the same as a C Corporation. The advantages and disadvantages are also the same with the exception of taxes.

Business Idea Upon viewing the merging global market, I selected the S Corporation to be a perfect fit for my business endeavor. My business will provide sales and service of fire solutions to Liberia with hopes of expanding throughout West Africa.

I am a descendant of Liberian heritage and myfamilystill own properties there. The country recently signed a contract with Chevron for oil to be drilled off its shore. All oil drilling sites need a fire solutions company that will monitor and solve fire problems. This will be theresponsibilityof my service division of the corporation. In the contract was a provision that mandated Chevron to hire only a fire solutions company owned by Liberians. However, there is no Liberian owned fire solutions company in the country and my goal is to establish one.

The corporation sales division will be the primary distributor of all fire solutions products such as nontoxic fire extinguishers, fire alarms, sprinkler systems, flame retardant paints and will venture into fire engines when the need arise.

Thus far there are three shareholders involved. My brother, who is presently a sales representative of a company that specializes in fire solutions and I hold the majority share and the third person is a professional that previously worked with oil companies in the middle east providing fire solutions service.

Conclusion The S Corporation is a perfect business form for my company. It minimizes my tax burdens and liabilities but however give me an opportunity to raise capital by selling shares. It will give my company an opportunity to grow. It will be viewed as a fully functioning corporation by financial institutions, which will allow the corporation an opportunity to obtain bigger loans.