Small business idea research paper examples

Business, Company

The advantages and disadvantages of the four different forms of business organization, when starting a business, there are several issues to consider as to the kind of business one aspires to start. The kind of business that someone can start varies in structure and has a big bearing on the operation of the business. There are other implications that vary from taxation to legal implication and accounting processes. Each of these businesses has its own advantages and disadvantages.

Sole proprietorship

This is most common and simplest form of business to start. This is because an individual can easily start, own and manage a business, and this type makes the majority of the businesses in the United States. The owner has the freedom of making all the decisions and thereby enjoys all the profits from the business

Advantages of Sole proprietorship

One of biggest advantage that a sole proprietorship business enjoys is the fact that the owner enjoys complete control and decisions making processes of the business. Every major decisions regarding the business rests on the owner of the business and the owner practices full discretion. Secondly, the sale or transfer of ownership of the business is also at the discretion of the owner. The third advantage is that Sole proprietorship businesses do not pay corporate taxes which are usually higher. Finally, sole proprietorship businesses have fewer legal and formal business requirements as compared to other forms of businesses.

Disadvantages

In Sole proprietorship, the owner of the business can be held personally accountable for the debts and obligation that arise from the business. Moreover, the responsibility for actions of the employees of the business can also be transferred to the business, which in this case is the owner. A second disadvantage is securing investment from external investors as no investor is willing to invest in a sole proprietorship unless they are promised a portion of the ownership.

Partnership

A partnership is a kind of business that involves two or more people coming together to form a business. However, the maximum number of partners is usually limited to only about 20 but with some exceptions. In partnership, the ownership of the business is usually joint and thus assets and liabilities is usually divided among the partners. Thus such shared ownership and responsibility of the business is usually defined in a legally binding partnership agreement.

Advantages of Partnership

A major advantage that comes from doing a partnership business is the fact that the management and responsibility of running of the business is usually shared among the partners. In this sense, the partners share the tax implication, losses, debt and liabilities and thus not one of the partners is victimized individually. It is a simple and inexpensive kind of business to start since the partners contribute to the capital of the business. Additionally, partners are usually people of differentiated life skills and professional qualifications, thus each partner brings to the business different ideas and skills to the business which is good for the business.

Disadvantages

A corporation is a kind business which is recognized by law to be separate and distinct from its owners. Thus the ideal definition of a corporation is that whose legal entity, obligation and responsibility are separate and distinct from its founders. In this sense, the founders establish a board that governs the affairs of the business.

Advantages

One of the greatest advantages that corporations enjoy is the limited liability for the owners. This implies that since the corporation is defined as a separate legal entity from its owners, any liability arising from the business cannot affect the assets of the owners. Secondly, if the corporation has its shares publicly traded, selling and buying such shares is rather easy. Finally, corporations have continuity in business due to its existence different from that of the owners.

Disadvantages

The definition of corporate entities as distinct and separate from its owners creates an organization and regulation complexity. Several government regulations and capital authority requirements have been put on corporations in order for them to operate within the law. A second disadvantage is the double taxation in which the corporations are taxed corporation taxes and in cases of dividends pay out to the shareholders, such payouts are taxed.

Limited Liability Company

A Limited Liability Company combines both the advantages of a full corporations and a single taxation system of a sole proprietorship. A limited liability company is one that is owned by the members however, liability towards the members is limited.

Advantages

As ealier mentioned a limited liability company can be taxed as a corporation, a sole proprietorship or a partnership. Secondly, members of a limited liability company are not liable for the debt of the business. Finally, the continuity of the business is guaranteed by creating an operation agreement.

The different types of financial statements associated with each form of business organization

Each of these different kinds of businesses prepares different kinds of financial statements. Sole proprietorships have four basic kinds of financial statements. These are the balance sheet, statement of financial performance (commonly referred to as income statement or trading account), and statement of changes in owner’s equity and cash flow statements. Each of these financial statements is important for the smooth running however sole proprietorships are not required by law follow international financial reporting standards.

Partnerships also present similar financial statements. A partnership business presents the balance sheet, income statement and cash flow. In addition to these financial statements a partnership is required to disclose statement of partners' capital.

Corporate and limited liability businesses also present similar financial records. These are the Income statement, balance sheet, statement of cash flows and statement of retained earnings. The only difference is that financial statements from corporate must follow strict provisions of international financial reporting standards that require external auditing.

The following consequences associated with each form of business organization

Each business organization has different a taxation model. Sole proprietorships are taxed as individual earnings and thus owners return taxes as individuals. This taxation model applies to all individuals as those working in jobs and other forms of professional practices. Partnerships also pay taxes as individuals in their annual tax returns. Each partner has the responsibility of paying taxes from the income resulting from partnership business.

Corporation businesses on the other hand have a different taxation model. The taxation model under corporation is sometimes referred to as double taxation. The first tax is one corporate profit before the dividends are share out. Upon a dividend payout, shareholders have to pay taxes on dividend earned.

An explanation of the unique product or service your small business provides

The business I would seek to have is an information technology company that provides cyber security products such as new firewalls and encryption codes. The IT field is now threatened by constant cyber attacks thus providing security products is unique business option.

The kind of business organization that I would prefer is partnership

The main reason for choosing a partnership is that for a business to grow, one would need the input ideas of several individuals but with vested interests. In this sense having partners interested in such business would provide good business model.

References

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