

Sole trader and partnership business



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http://en.wikipedia.org/wiki/Sole_proprietorship

<http://www.irs.gov/businesses/small/article/0,,id=98214,00.html>

<http://www.businesslink.gov.uk/bdotg/action/detail?type=RESOURCES&itemId=1073789609>

<http://www.myownbusiness.org/s4/>

http://www.bytestart.co.uk/content/19/19_1/what-is-a-sole-trader.shtml

<http://www.bbc.co.uk/schools/gcsebitesize/business/aims/partnershipsrev1.shtml>

http://www.company-wizard.co.uk/Glossary/Private_Limited_Company.htm

Among the similarities between a sole trader and partnership business is that they both have unlimited liability. Unlimited liability means in the event that the business becomes insolvent, the owner will have to be responsible for paying all the debts of the business even if it means selling off his personal assets to settle the debts. In a partnership, a partner will also have to pay off all the debts of the business if other partners become insolvent but if only the business becomes insolvent the debts can be shared among partners. This however is not applicable to the sleeping partner. The way both businesses are financed is also similar. For example, they are financed with bank loans, personal savings and contributions from friends and family. The two businesses need to be registered under the Registration of Business Act and operates in the private sector. This means that none of this structure of businesses is owned by government. The owner of a sole trader and

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partners in a partnership are taxed at a personal tax rate according to the profits the business makes. Dealings of both types of business are confidential and only need to be revealed to the government. Both are easy and cheap to set up.

Among the differences between a sole trader and partnership business is a sole trader business has only one owner whereas a partnership has 2-20 owners. The sole trader is fully responsible for the running of the business from day to day so, the success of the business is limited to the abilities of the owner. In a partnership, business decisions are made by casting votes among the partners and they assigned specific work in the business. There are more people to contribute skills and expertise. All profits gained in a sole trader business are received by the owner whereas in a partnership the profit is split according to the ratio which was previously agreed in the partnership agreement. When dissolving the business a sole trader can dissolve by himself whereas a partnership needs consent from partners.

One of the similarities between sole trader business and private company is that both of them are created to generate profit for the owners. Also both are private companies. Both need to be registered as private entities. Therefore they do not have to make reports on their business to be released to the public. Such reports need only be disclosed to the government. This maintains confidentiality in the business.

Among the differences between the two business structures are the number of owners. A sole trader has only one owner while a private company has 1-50 owners which are called shareholders. A private company is a different

person from the owner. This means the owner and management of the company is separated. The liability of a sole trader business is unlimited whereas in a private company its limited. This means that in the event that the company goes bankrupt the maximum shareholders of a private company can lose are the amount they have invested in the company. A sole trader business has limited life whereas a private company has perpetual existence. This means that the company will still exist even if there is a change in ownership. A private company business is taxed at a fixed tax rate of 30% whereas the sole trader can get a personal tax rate of 30% or more. Decisions of a sole trader business is made by the sole trader whereas in a private company they are made by the management group. It is easier and cheaper to set up a sole trader business compared with a private company. The Sole Trader can have unlimited borrowings subject to the limit of its financial standing but for the Company, its borrowings are guided by articles as contained in their Memorandum of Association. It is easier for a Private Company to raise finance compared to a Sole Trader.

I would advise Lydia to convert the business into a partnership. Assuming that the business hasn't been doing well for the past three years, extra capital that can be raised by potential partners can help the business to acquire better equipment and teachers. Also assuming that the potential partners are experts in the IT field or good businessmen they can bring in fresh ideas and expertise to help the business grow. Fresh ideas will help because a business has to always adjust according to the ever changing needs of consumers and because. Other similar businesses are always improving themselves. Therefore Lydia's business has to improve too in

order to stay competitive. Extra capital, expertise, and ideas from potential partners will help the business in that way. Not only that, work gets done even faster when there are more people running it. Therefore the running of the business is more efficient. Furthermore it does not take a lot of money to convert the business to a partnership. Assuming that Lydia is a friendly person, personality clashes between partners would be rare. The partnership is not likely to bankrupt assuming that Lydia's potential partners have a solid financial background. It is not advisable for Lydia to form a company because it is costly to set up. Since the business has only been running for three years it wouldn't have generated enough revenue to be converted into a company. Moreover turning it to a company will increase government regulation on her business. This will greatly decrease the business's flexibility. It is also not advisable for her to stay as a sole trader because she needs new capital to upgrade equipments that have been in use for 3 years now and that is hard to do if she stays as a sole trader. Also assuming that she is married, the business wouldn't have to shut down temporarily because of her taking a maternity leave. This is because her partner would be able to take over the business for the mean time.