Business formation: choosing the form that fits essay sample

Business, Company

ASSIGN BUSTER

1. Describe the basic features that distinguish the four basic forms of business ownership: sole proprietorships, general partnerships, C corporations, and limited liability companies. Sole Proprietorship – the business is owned by a single individual Partnership – two or more people serve as co-owners of the business Corporation – the business is a separate legal entity

Limited Liability Company – a hybrid with characteristics of both a corporation and partnership

2. Why do many entrepreneurs initially set up their businesses as sole proprietorships? Why do many successful entrepreneurs eventually decide to convert their sole proprietorship to some other form of ownership such as a corporation or LLC? It's the easiest and least expensive form of business to set up and allows the single owner to reap all of the profits; sole proprietorships have major limitations, can only have one owner, risk associated with unlimited liability, and its difficult to manage a business on your own

3. How do limited partnerships and limited liability partnerships differ from general partnerships and from each other?

4. A limited partnership is a form of partnership similar to a general partnership, except that in addition to one or more general partners (GPs), there are one or more limited partners (LPs). The GPs are, in all major respects, in the same legal position as partners in a conventional firm, i. e. they have management control, share the profits of the firm in predefined

proportions, and have joint and several liability for the debts of the partnership. As in a general partnership, the GPs have apparent authority as agents of the firm to bind all the other partners in contracts with third parties. Like shareholders in a corporation, the LPs have limited liability, i. e. they are only liable on debts incurred by the firm to the extent of their registered investment, and they have no management authority. The GPs pay the LPs the equivalent of a dividend on their investment, the nature and extent of which is usually defined in the partnership agreement.

5. What advantages help explain why virtually all large companies are organized as C corporations? C corporations are able to have unlimited shareholders, which is probably an important characteristic to large companies. (S corporations, for example, may not have more than 100 shareholders.) C corporations can also be owned by non-citizens or other business entities, where S corporations can only be owned by individuals who are US citizens.

6. What steps are involved in forming a C corporation?

When you form a C corporation, you protect your personal assets. Anyone who sues your company can’t go after you personally. You also can buy and sell stock. A corporation survives you, which means you can pass it on to your heirs. To form a C corporation, you must follow specific guidelines. If you file the correct papers, both the Internal Revenue Service and your state will recognize your company as a C corporation.

7. Describe the relationship between a corporation’s common stockholders, its board of directors, and its chief executive officer (CEO). Common stockholders are the basic owners of a corporation, but few stockholders of large corporations take an active role in management. Instead, they elect the corporation’s board of directors to represent their interests. Board members seldom get involved in the day-to-day management of the company. They establish the basic mission and goals of the corporation and appoint the (CEO) and other top corporate officers. The board evaluates the performance of these top officers, ensures that the company’s policies adhere to regulatory requirements.

8. How does a merger differ from an acquisition? What is the difference between a horizontal merger or acquisition and a vertical merger or acquisition? Give a real world example of recent merger to illustrate each type of combination. In both mergers and acquisitions two formerly independent firms come under common ownership, but the way the combination occurs is quite different. Acquisition occurs one corporation buys controlling interest in another company. The acquiring firm remains intact and the firm that is acquired (called the target firm) becomes its subsidiary. In a merger the two formerly independent companies agree to combine to form a new corporate entity. A horizontal merger (or acquisition) – when the two firms in the combination are both in the same market. A vertical merger- the firms in the combination are at different points in a supply chain, so that one is a supplier (or potential supplier) to the other. A vertical combination was Comcast’s acquisition of controlling interest in NBC

Universal. The biggest example of a horizontal combination was AT&T’s acquisition of T-Mobile

9. Compare an S corporation with a limited liability company. Why do you think limited liability companies are currently more popular than S corporations? Both provide all owners with limited liability and eliminate the problem of double taxation associated with C corporations. LLCs have become more popular because they offer more flexibility and fewer restrictions on ownership and operation. S are limited to 100 owners (stockholders) there is no limit to # members to an lcc. Owners of an S must be U. S. citizens no restrictions are placed on who may own an LLC.

10. What are the main advantages and disadvantages of a business format franchise arrangements for the franchisee? For the franchisor? Allows the franchisor to expand the business and bring in additional revenue without investing more of its own capital. Disadvantage: overseeing the actions of hundreds of semi-independent franchisees can be challenging and complex. For franchisees, advantages are the right to use a well-known brand name and obtain the right to sell, and training, may find creditors are more willing to loan them funds. Franchisors offer either direct or indirect financial assistance. The bad acting of other franchisees can create a negative halo effect that can harm business

11. What is a Franchise Disclosure Document (FDD) and why is it important? The FTC requires the franchisor to give the franchisee at least 14 calendar days to review the FDD before the franchise agreement can be signed. The

FTC requires the FDD be written in “ plain English,” meaning that it should be free from legal and technical jargon, so that a typical franchisee can understand it. Even so, it is advisable to have a lawyer familiar with franchising review the document.