

Minicase – the mcgee cake company essay

[Business](#), [Management](#)



1. What are the advantages and disadvantages of changing the company organization from a sole proprietorship to a LLC? The McGee Cake Company, currently operating as a sole proprietorship, may benefit from forming a limited liability company (LLC). An LLC is a comparatively new type of business entity. With an LLC there are reduced legal formalities in comparison to setting up a corporation.

In addition, unlike a corporation, the McGees could set up an LLC yet remain the sole owners of the company. Another advantage as the owners of an LLC, the McGees are taxable only for personal income and not for the income of your LLC. Therefore, they would not pay double income tax. An LLC also has a long existence it will exist forever, irrespective of the owner's death or retirement.

Some negatives for the McGees to consider are the expense. Although setting up an LLC is less expensive and hectic than setting up a corporation, the cost incurred in setting up an LLC is definitely more than that of a sole proprietary firm or a partnership firm. If they chose to convert their sole proprietorship to an LLC, they may be taxed on appreciated assets. If their LLC exists in multiple states, it may be difficult to handle, as the nature of rules and regulations differs from state to state.

2. What are the advantages and disadvantages of changing the company organization from a sole proprietorship to a corporation? The other business structure for the McGees to consider is the formation of a corporation. A corporation is defined as a legal entity independent of its owners, shareholders or the management personnel running it. As owners of the corporation the McGees will enjoy

limited liability and they are not completely responsible for the profits and losses of the corporation.

Instead, their scope of liability remains confined to their investment in the venture. With a corporation, expansion of the business is possible and easier than with alternative business structures. Another advantage of a corporation is that their business transactions will remain confidential. As a corporation, the McGees may be able to find new sources of funds for business development.

Many people, including shareholders, could invest in the corporation. Finally, the corporation is the most reliable and trusted form of business entity. A possible downside to incorporation, the McGees may have to put up some of their private assets as a guarantee for the repayment of funds to financial institutions, if they are not found eligible for payment of money.

Incorporation is not a small ordeal; it involves many legal formalities, laws, agreement documents, etc. It is necessary to prepare and review all these documents carefully. Additionally, setting up the corporation will be an expensive task.

There are good and bad aspects to a corporation in reference to taxes. With a corporation, the McGees will be taxable for self income, as well as for the corporation's revenue. However they will enjoy personal tax credits as with the sole proprietorship.

3. Ultimately, what action would you recommend the company undertake? Why? After reviewing the pros and cons to LLC and corporation business

structures, as well as the business strategy of the McGee Cake Company, I would recommend to Doc and Lyn that they form a corporation to move the company forward. Although initial set of a corporation up may be complicated and have some cost, the potential for the company is great. The scope of the possibility is what makes the corporation my preferred business structure. The interest in McGee Cake Company by both a national supermarket and restaurant chains has the potential to be very lucrative and lead may lead to more opportunities across many states. The commonly recognized structure of a corporation, as opposed to the somewhat new LLC, will help the company when doing business on this larger scale. In addition, I believe being a corporation would allow the company to be most competitive in the prepared pastry/dessert market.

For the above reasons, I believe transitioning from sole proprietorship to corporation is the best choice for the McGee Cake Company.