

Introduction lead to  
sad and abrupt  
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## **Introduction**

Business is a very key activity in everybody's determination in attaining the financial break through. This is because it is a common knowledge globally that one cannot immerse wealth by depending on his or her monthly salaries. Worldwide all rich people depends on business in their increased accumulation of wealth. This has necessitated the need to have a good knowledge of the various forms of the business in order to enable those who are dreaming of making fortune in business. In most cases it has been said that majority of people all over the world usually find themselves undertaking sole proprietorship form of business because they do not have relevant understanding of the functioning of the other forms of business. The proper knowledge will help people to make proper decisions when investing in various business undertakings. When making such decisions one should even take in to consideration the future plans which he or she has on the business.

For example one may want to expand his or her own business and he or she has no sufficient financial resources to do so and thus in such case he or she may opt to run a corporation since a lot of external investors have a lot of trust on corporations unlike the other forms of business. Other implications a part from the financial resources like the legal impacts should also be carefully considered to avoid liabilities which come along as people seek compensation for damages caused by business to its employees or the outsiders which can accumulate to high levels which can even lead to sad and abrupt collapse. In our case we are going to look at the description of various forms of business ownership and see how we can advise business

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people who wants to make some crucial decisions which pertains their business which may include change in the form of existing business (Casper, 2006, p. 1).

The various forms of business ownership which we are going to address include the sole proprietorship, general partnership, limited partnership, c-corporation, s-corporation and the limited liability company.

## **Sole proprietorship**

This the most commonly practiced form of business among many people of the world. It is highly preferred because it is very simple in nature of their operations. This encourages a lot of people to run sole proprietorship because it is so simple in its formation to the extent that those who are employed can operate their sole proprietorship business after their working hours.

In this form of business the business is owned by one person who enjoys all the rewards and also the losses which may be incurred in the course of running the sole proprietorship business. This form of business can also include the hawkers, people undertaking consultation and contractors among many others. It is also worthy to note that this form of business does not have distinction from its owner in terms of legal matters thus no separate legal entity (Casper, 2006, p.

1). This form of business ownership has several advantages and at the same time some disadvantages as explained below.

**Advantages**

One of among the various advantages of a sole proprietorship is that it does not require a lot of complicated tax preparation. Here one only needs to declare his or her income in tax returns along with the profit acquired by the business and even the losses if any loss was incurred. It is very clear that the individual's income is treated the same way as the business earnings and also the impacts of taxation on self employed persons apply thus benefiting the sole proprietor. This is opposed to tedious financial statements which a corporation must submit for tax assessment by the tax people. .

secondly, the sole proprietorship requires very little cost in its formation. This is because a sole proprietor does not require to pay the legal fees and other cost associated with the formation of corporation such registration and many others thus this makes it very simple for a sole proprietor to be formed. Thirdly, in the sole proprietorship form of business one can easily manage his or her money since he or she only requires opening a different account for the income of his business separate from his own personal resources. This is opposed to all other forms of business organizations which require the very expensive services from accounts to prepare financial statements and also to properly handle the money of such business organizations. Finally, the sole proprietor enjoys all the benefits of the business alone and also he or she enjoys the monopoly of decision making without the need to consult from any person.

**Disadvantages**

Firstly, a sole proprietor has unlimited liabilities in the sense that all the debts of his or her business must be paid even with his or her own personal

resources unlike in some other forms of business organizations which only incur debts to the extent of their shares in the business.

This can reduce a sole proprietor to poverty lines especially if his or her own business makes some substantial debts which can result to his or her properties being taken to recover those debts. Secondly, since in the sole proprietorship in the financial statements are not commonly prepared it becomes very hard for a sole proprietor to manage and have a good control over his money which may result to combing the business money with the personal resources. This sad fact is the common reason why many sole proprietorship forms of business do not thrive for a long time and thus in most cases they collapse after a very short period of time. Thirdly, in this case the sole proprietor is the only boss in the business and thus he or she does not benefit from other person in terms of making sound decisions for his or her own company. Also in times of sickness the business will come to close and thus the life of his business is depended on his availability and also his life because if he or she dies his or her own business dies also. Finally, it is very difficult for a sole proprietor to raise the capital because the sources of raising the capital for this form of business are quite limited. This makes it very difficult for a sole proprietor to expand his or her own business because the investor does not have confidence financing a sole proprietorship because it has a very short life span (Jones, 2009, p.

1). This will automatically compel a sole proprietor to change his form of business to another form which is in conformity with his expansion plans of the near or late future.

## **General partnership**

This is where by two or more persons come together and form an unincorporated company. It is formed as a result of an agreement and also it should be in a position to proof its existence. The partners have the advantage of sharing the work to be done and any debts of the enterprise.

They also have unlimited liability hence their personal property is safe from the debts of the company. It is very convenient to form because it only requires the members to file a fictitious name of the business with the state and drafting of partnership deed in case of any disputes. Due to the fact that the partners are only taxed their individual income once, they benefit from this by passing taxation. The partners also lack separate legal entity and are therefore accountable to the partnership. The partnership can relocate to other places which they think have a greater customer base because there is no legislation controlling their location. The life of the general partnership can be stipulated on the partnership deed in which the partners can agree on which term the partnership can come to dissolution but generally it is not affected by the death of one partner like in the sole proprietorship since the other partners can continue to run the business.

### **Advantages**

One of the advantages of this form of business is that at least we two or more people are involved in carrying out the management tasks of the business and thus the risks associated with unilateral decisions which could result in to collapse of the business like in the case of sole proprietorship.

Secondly, one does not need to be in the business for all the times since in partner can as well undertake his responsibilities. Thus in situation of the

absence of one of the partners the business goes on very well unlike in the case of sole proprietorship. Thirdly, the partners usually work very hard and one need to question the participation of the other because they all work hard to ensure that the business success unlike in dealing with workers who are only interested with getting the salaries and not being passionate and concerned about the future success of the business. Also if it happens that the partners have complimentary talents it will be of great benefit towards the success of the business since the members will work on areas where they are good at (Jones, 2009, p. 1). Finally, the partners participate in raising the capital and also in sharing the risks which can be incurred unlike in the sole proprietorship.

### **Disadvantages**

One of the demerits of this form of business organization is that the all rewards arising from the good performance of the business are equally shared among the partners regardless of the input of the individual partners.

Secondly, there is no complete control of the business by one person and thus all partners will feel the impact as a result of poor decisions made by some partners. Thirdly, the recognition which may arise as the business booms is not accorded to one person but all the partners. Another disadvantage is that the decisions of a partner can be of grave consequences especially if they are misinformed. Finally, one has the risk of losing his or her partnership if situation of one partner buying the other arises.

## **Limited partnership**

Limited partnership is a form of business organization that may be formed by the coming together of at least one general partner together with one limited partner. It is characterized by having separate legal entity hence tax is paid separate from the partners. They are made by statutes and not the consent of partners.

The limited partner is used mainly for raising the capital. The liabilities of the limited partners are limited and only liable to the debts of the firm to the extent of their shares in the firm unlike the general partners who have more liabilities even to the extent of their personal assets (McCarthy, 2008, p. 1).

The continuity of the partnership is not affected by the absence of limited partners since they are just like mere shareholders. The power to manage and control the partnership is usually endorsed on the general partners.

These partners are given the freedom to use the properties of the enterprise as well as sharing its profits and gains.

The limited partners are paid dividends on their contributions just like shareholders in corporations. The general partners have authority to as agents of the organization to bind other partners with third parties in the course of running the business (Business formation, 2010, p. 1). The limited partners have no binding authority on the firm unless made agents by estoppels and in such circumstances the limited partners should disclose to the third parties that they have limited liabilities as they engage them in business. The limited partnership can relocate freely to other location because there are no laws controlling them.



The life of this partnership is not affected by the death of limited partners because they are not involved in the day to day running of the business but the death of the general partner and especially in the case whereby the partner is one can lead to the collapse of the business because it is the general partners who participate in the day to day running of the business.

### **Advantages**

This form of business organization enjoys what is referred as pass-through the taxation which implies that it is only the partnership which pays the tax but the partner's income is not taxed. Also enjoys the benefits of easy transfer of ownership.

### **Disadvantages**

In this form of business organization one may lose his interest in ownership if he or she fails to renew in time. In this case one general partner has unlimited liabilities.

### **C-corporation**

This is business incorporated by the state in order to make profits. For it to form some fee has to be paid and also the filing of the articles of incorporation has to be done. This form of business has the capacity to sue and in other instances be sued as well as the ability to enter into binding contracts. The liabilities of the owners are limited in such that in event of any loss the owner's personal assets will not be touched apart from their shares in the firm.

The control and management is done by the board of directors and the members are usually updated on the progress of the corporation on annual

meetings and also initial director is usually appointed at the beginning of the corporation. The partners feel the pain of being taxed twice since the corporation profits are first taxed and the partners taxed again during dividend distribution. The continuity of the corporation is assured because it does not depend on the lives of its owners (Business formation, 2010, p. 1). The formation of the c-corporation is a complex task because it requires a lot of formalities filling of articles of association and also paying some fees which makes it very expensive to form. The profits are shared as per the owners' shares.

The business cannot expand or relocate to other locations. This is because the c-corporation usually registers their location with registrar of companies and it is a requirement for them. Thus, there is no free relocation because the registrar of companies must approve such decisions and in some instances he or she may disapprove for various reasons. The life of this form of business is not affected by the death of the owners since there are professionals hired to run the business.

### **Advantages**

Here the owners have limited liabilities. This is of great benefit to the owners of this form of business organization because in the event of risk and losses occurring the personal properties of the owners are not touched in order to recover these losses.

### **Disadvantages**

In this form of business organization there is great tax impact since they experience double taxation in the sense that the corporation pays the tax and also the owners pay tax for the dividends distributed to them after <https://assignbuster.com/introduction-lead-to-sad-and-abrupt-collapse-in/>

the business has made some profits. It is also very hard to form because of many formalities required.

## **S-corporation**

These forms of business organization are not required to pay federal tax and thus the earnings of the corporation are share amongst the members whom then reports their incomes or losses to respective departments for taxation. Since it has the capacity to be sued and sue it therefore has a separate legal entity on its own. The owners also enjoy the privilege of limited liabilities and thus they are liable to the extent of their shares and this gives the owners protection from creditors. The continuity of the corporation does not depend on the owners presence since it is run by hired workers thus it will continue even on death of some members.

They are controlled by board of directors. The s-corporation which has just been converted from c-corporation will continue to pay taxes on untaxed profits which were realized before it became an s-corporation. Profits are shared and distributed in terms of dividends to the owners depending on their shares.

Its formation requires making valid election in order to be taxed under a particular law of international revenue. The control and day to day running of the business is done by the board of directors. The continuity of this business is not affected by the death of the owners since they are not directly involved in the running of the business (McCarthy, 2008, p. 1). It is not easy to relocate the business because this form of business is highly regulated.

The registrar of company must approve relocation on condition that the reasons are convincing on his side.

### **Advantages**

In this form of business organization one enjoys the benefit of limited liabilities. It is also easy to form since the formalities required are fewer as compared to other form of corporation.

### **Disadvantages**

This form of business organization requires some complicated management skills unlike in sole proprietorship or partnership. This makes it to be quiet unfamiliar with most people.

### **Limited liability Company**

This form of business organization is known to incorporate the other types of business forms into one.

It is also not incorporated thus it is not a corporation. Here the members are only liable to the extent of their contributions in the firm and this protects them from creditors in the event the company undergoes big loses their personal assets are not touched. The continuity of the company is assured since one can qualified personnel to run his business even in the absence of the owners. As matters of fact the company's operations are not affected incase of the death of owners. It can be formed by only one person. Also the owners can enjoy great benefits in taxation since there is pass through taxation meaning that the owners are taxed at personal level and at company level and also they can apply to be considered to pay tax as any other form of business organization which they think is low. There are also

no legal requirements in its operation and also it is not easy to raise more capital like in corporations because they are more trusted. Renewal fee is sometimes too big (McCarthy, 2008, p.

1). The control will depend on the owners since they can decide to assume full control or not but the day to day running of the business is done by directors appointed by the owners. The continuity of this business is not affected by the death of the owners and the profit retention depends on the development policy of the company. It is not easy to relocate this form of business organization... In form of relocation must be approved by the registrar of companies. This happens because the law requires them to clearly indicate their location so that they can be registered. This may be granted or not.

The burden of reporting on the affairs of the company is place on the organization.

### **Advantages**

The members enjoy the limited liabilities and also there is no double taxation. The company can also apply to be subjected to the terms of taxation which will give it the lowest tax possible. This means that it can apply to taxed as a sole proprietor or any other form of business as long as it can qualify.

### **Disadvantages**

Shares may not be easily transferred among partners in this type of business organization. Also the structure of running the business is not common to many people. It is also hard to raise more capital as compared to

corporation. MEMO TO: FROM: SUBJECT: Advise for best form of business organization in a situation DATE: 1st August 2010 The purpose of this letter is to recommend the best form of business organization in the given situation and its justifications. In this case I would recommend that the owner of this company change to limited liability company form of business organization. This is because the owner is raising a lot of issues which can only be accommodated in Limited Liability Company. For example he is talking of raising the capital of the business and at the same time being concerned about the issue of the control of the business.

In the limited liability company he will be in a position to share in the contribution of the capital to the amounts he is in need of in order to expand his business and also at same time preserve his control over his business. This is because Limited Liability Company can be formed by one person and the call for other people to help in the capital contribution in this case he or she will be in a position to have bigger control over the affairs of the business. Also in the limited liability company the owner will enjoy a lot of tax benefits just like in partnership. This will include pass through taxation and also the check in the box taxation system in which the owner of the limited liability company can apply to be considered for the lowest tax possible given to any existing form of business. The longevity of the business can be increased in this case since the owner can hire reliable staff that can run the business even in his or her absence. This means that the enterprise will still continue with its operations despite the death of the owner.

Also the owner will enjoy the benefit of the limited liabilities. This means that his personal assets are protected in case the business make bigger loses in the course of its operation.

## **Conclusion**

It is very clear that for one to succeed in any kind of business undertaking then one must choose the most appropriate for of business. In this case we have looked at various forms of business organization with their descriptions, advantages and disadvantages.

Finally we have seen a kind of an advice which we can give in a given situation.

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