

VUSSC/Content/Entrepreneurship/Starting Up a Business/What are the different business types?

5. What are the different Business types



Reflection

Why do people venture into Business? You may reflect on your own or just brainstorm with your friends about the various reasons for which people do business.

There are two different types of business:

1. Sole trader
2. Partnership

Sole trader

A sole trader is the simplest form of business organization. You can start the business on your own using your own money. However, to get recognized and to be able to do business legally, you will need to register your business at the registrar of companies or any government body. All the income earned through the business is yours but you may have to pay for income tax.

The legal constraint for the sole trader however, is that you have "unlimited liability", that is, it means that you are the only person responsible for your debts. In case of bankruptcy, you will be liable and therefore your creditors may claim all your private property.

Advantages

- It is relatively cheap and easy to start.
- All the profit is yours.
- You are your own boss.
- You do all the work.

Disadvantages

- You have NO limited liability
- All the risk is yours
- What about sickness and holidays?
- Do you have all the skills to launch a business on your own?

Partnership


A partnership is, in essence, a sole trader but having the ownership shared between partners. A partnership should have a partnership agreement (a legal document) drawn up to show the rights and responsibilities of all the partners. There may also be 'sleeping partners' (explain sleeping partners) who own a share of the business but are not involved in the day-to-day running of the business. A partnership also has unlimited liability. Partnerships are common in the professions such as accountancy and law.

In terms of legal structure, the partnership can be incorporated into a firm. There are two main categories of firms:

- a. Private limited company
 - b. Public limited company
-

Private limited company

A private limited company is one where the liability is limited, that is, the liability is limited to the value of the shares issued

	shares Wikipedia has an article on this subject. Visit shares for more in depth information
---	---

. This means that any debts are debts of the company and not of the owners.

A limited company has to be registered legally, and the legal document must include a Memorandum and Articles of Association. There need only be one director and they have to prepare annual accounts and submit them to government body responsible for the registration of companies.

Private limited companies can range significantly in size. They may consist of a small family based business or they could be large multi-national companies.

Advantages

- You have limited liability
- Easier to raise larger sums of capital
- More flexible than Public Limited Companies
- Opportunities for bringing in more skills

Disadvantages

- You can only sell shares privately
- Not very flexible if expansion becomes possible
- More legal formalities than sole traders

Explain each of these advantages & disadvantages

Public limited company

Like a private limited company, a public limited company has shares, but the key difference is that these shares can be bought by anyone freely on a stock exchange. Ownership is therefore open to anyone who wants to buy shares. Public Limited Companies have legal requirements in that they have to produce annual reports and accounts and file them with the government body acting as registrar of companies. There are various other requirements including: • You must have at least two directors. • You have a fully qualified Company Secretary. (Explain...)

Advantages

- You have limited liability.
- It is easier to have access to finance.
- More funds are available for investment HOW??
- Goodwill: Public awareness gives status EXPLAIN

Disadvantages

- You have to publish results.
- Others, e.g. auditors have to look at your books. (to check for transparency)
- Greater need to conform to legal procedures.
- Owners might lose control. (HOW? depending on % of shares owned)



Activity

Exploring Business Types

Using your local business directory, try to identify the different types of businesses that exist in your country. List these with examples.

Introduction | Objectives | What is Business Management? | What is meant by Entrepreneurship? | What are the different business types? | How is a business idea developed? | What Factors Influence the Business? | The importance of a business in a country | Summary

Article Sources and Contributors

VUSSC/Content/Entrepreneurship/Starting Up a Business/What are the different business types? *Source:* <http://wikieducator.org/index.php?oldid=343975> *Contributors:* Munyaneza, Phsi, Thembu, Vimigoorah, 18 anonymous edits

Image Sources, Licenses and Contributors

image:icon_reflection.gif *Source:* http://wikieducator.org/index.php?title=File:Icon_reflection.gif *License:* unknown *Contributors:* Mackiwg

Image:Wikipedia-logo-en.png *Source:* <http://wikieducator.org/index.php?title=File:Wikipedia-logo-en.png> *License:* unknown *Contributors:* Eloquence, Phsi

image:icon_activity.jpg *Source:* http://wikieducator.org/index.php?title=File:Icon_activity.jpg *License:* unknown *Contributors:* BrentSimpson, Dobell, Mackiwg, Ontymaroks, Sammy, Singhkamal, Udsingh

License

Creative Commons Attribution Share-Alike License
<http://creativecommons.org/licenses/by-sa/3.0/>
