DOWNLOAD PDF INTRODUCTION TO PROPRIETOR AND PARTNERSHIP BUSINESSES

Chapter 1 : Procedure For Conversion Of Proprietorship Into A Partnership

Figure 1. Sole Proprietorship and Unlimited Liability. Partnership. A partnership (or general partnership) is a business owned jointly by two or more people. About 10 percent of U.S. businesses are partnerships [2], and though the vast majority are small, some are quite large.

Its formation does not require any complicated legal provision like registration etc. It is a small-scale work, as it is owned and controlled by one person, and operated for his profit. It is also known as "sole ownership", "individual partnership" and "single proprietorship". Staffod "It is the simplest form of business organization, which is owned and controlled by one man. Baker "Sole proprietorship is a business operated by one person to earn profit. Capital In sole proprietorship, the capital is normally provided by the owner himself. However, if additional capital is required, such capital can be increased by borrowing. Easy Dissolution The sole proprietorship can be easily dissolved, as there are no legal formalities involved in it. Easily Transferable Such type of business can easily be transferred to another person without any restriction. Freedom of Action In sole proprietorship, single owner is the sole master of the business, therefore, he has full freedom to take action or decision. Formation Formation of sole proprietorship business is easy as compared to other business, because it dos not require any kind of legal formality like registration etc. Legal Entity In sole proprietorship, the business has no separate legal entity apart from the sole traders. Legal Restriction There are no legal restrictions for sole traders to set up the business. But there may be legal restrictions for setting up a particular type of business. Limited Life The continuity of sole proprietorship is based on good health, or life or death of the sole owner. Ownership The ownership of business in sole proprietorship is owned by one person. Profit The single owner bears full risk of business, therefore, he gets total benefit of the business as well as total loss. The size of business is usually small. The limited ability and capital do not allow the expansion of business. Success of Business The success and goodwill of the sole proprietorship is totally dependent upon the ability of the sole owner. A sole proprietorship can easily maintain the secrecy of his business. Unlimited Liability A sole proprietor has unlimited liability. In case of insolvency of business, even the personal assets are used by the owner to pay off the debts and other liabilities. Contacted with the customers In sole proprietorship a businessman has direct contact with the customer and keeps in mind the like and dislikes of the public while producing his products. Direct Relationship with Workers In sole proprietorship a businessman has direct relationship with workers. He can better understand their problems and then tries to solve them. Easy Formation Its formation is very easy because there are not legal restrictions required like registration etc. Easy Dissolution Its dissolution is very simple because there are no legal restrictions required for its dissolution and it can be dissolved at any time. Easy Transfer of Ownership A sole proprietorship can easily be transferred to other persons because of no legal restriction involved. Entire Control In sole proprietorship the entire control of the business is in the hands of one person. He can do whatever he likes. There is great flexibility in sole proprietorship. Business policies can easily be changed according to the market conditions and demand of people. Honesty The sole master of the business performs his functions honesty and effitively to make the business successful. Independence It is an independent form of business organization and there is no interference of any other person. As all the Business activities are accomplished under the supervision of sole owner, so he feels personal satisfaction that the business is running smoothly. Prime Credit Standing A sole proprietor can borrow money more easily because of unlimited liability. Quick Decisions Sole proprietor can make quick decisions for the development and welfare of his business and in this way can save his time. Personal Interest A sole proprietor5 takes keen intere4st in the affairs of business because he alone is responsible for profit and loss. Saving in Interest on Borrowed Capital Sometimes, a sole proprietor borrows money to increase his capital, from his relatives, without interest. Saving in Legal Expenses As there are no legal restrictions for the formation of sole proprietorship so it helps in increasing savings as legal expenses are reduced. Saving in Management Expenses The owner of the business himself performs most of the functions so it r educes the management expenses. Saving in Taxes The tax rates are very low on sole proprietorship because it is imposed on the income of single person. Secrecy It is an important factor for the development of business. A sole trader can easily maintain the secrecy about the techniques of production and profit. Social Benefits It is helpful in solving many social problems like unemployment etc. Continuity The continuity of sole proprietorship depends upon the health and life of the owner. In case of death of the owner the business no longer continues. Chances of Fraud In sole proprietorship, proper records are not maintained. This increases the chances of errors and frauds for dishonest workers. Expansion Difficulty In sole proprietorship, it is very difficult to expand the business because of the limited life of proprietor and limited capital. Lack of Advertisement As the sources of single person are limited so he cannot bear the expense of advertisement, which is also a major disadvantage. Lack of Capital Generally, one-man resources are limited, so due to financial problems he cannot expand his business. Lack of Inspection and Audit In sole proprietorship there is lack of inspection and audit, which increases the chances of fraud and illegal operations. Lack of Innovation Due to fear of suffering from loss, a sole proprietor does not use new methods of production. So, there is no invention or innovation. Lack of Public Confidence The public shows less confidence in this type of business organization because there is no legal registration to control and wind up the business. Lack of Skilled Persons One person cannot hire the ser4vices of qualified and skilled persons because he has limited resources. It is also a great disadvantage. Management Difficulty One person cannot perform all types of duties effectively. If he is a good accountant, he may not be a good administrator. Due to this, business suffers a loss. Much Strain on Health In this type of business organization there is much strain on the health of the businessman because he alone handles all sorts of activities. Not Durable This type of business organization is not durable because its existence depends upon the life of sole proprietor. Permanent Existence In this type of business there is a need of permanent existence of a businessman. In case of absence from business for few days may become the cause of loss. Risk of Careless Drawings In sole proprietorship owner himself is a boss. There is no question to his decisions or actions. So, there is a risk of careless drawings by him. Risk of Loss In case of sole proprietorship a single person bears all the losses, whereas in the case of partnership or Joint Stock Company all the partners or members bear the loss. Unlimited Liability In sole proprietorship there is unlimited liability. It means, in case of loss personal property of the owner can be sold to satisfy the claimants. It is a great disadvantage. From the above-mentioned detail, we come to the point that despite the above disadvantages, sole proprietorship is an important form of business organization. This is due to the fact that its formation is very easy and due to unlimited liability the owner takes great care and interest in the business, because in case of loss, he is personally responsible. As he enjoys entire profit, this factor also encourages him to work with great efficiency which promotes his business.

Chapter 2 : Sole Proprietorship

A sole proprietorship is the simplest and most common legal structure someone can choose. It's an unincorporated business owned and run by one individual in which there is no distinction between the business and the owner.

The business owner is required to register with the appropriate local authorities , who will determine that the name submitted is not duplicated by another business entity. The authority in some US states is the Secretary of State. The license for a sole proprietary business entitles the owner to hire employees and enlist the services of independent consultants. Under the legal doctrine Respondeat superior Latin: This is transposed by the unlimited liability attached to a sole proprietary business. The owner is exclusively liable for all business activities conducted by the sole proprietorship and accordingly, entitled to full control and all earnings associated with it. Rules for sole proprietorships in different countries[edit] Ireland[edit] In Ireland , a sole trader who wishes to use a business name must register that name with the Companies Registration Office CRO. Registration of Business Act Act ; [4] Sarawak: In Sabah and Sarawak with the exception of Kuching , the registration of businesses are done at the local authorities e. Sole proprietors, which includes the self-employed, must register with the relevant authority within thirty 30 days from the commencement of their business [8]. Sole proprietors may register their business using one of two names: Registration of a business lasts either one or two years, and must be renewed thirty 30 days before its expiry [8]. In the event of termination of business, the proprietor has thirty 30 days from the termination date to file the notice with the relevant authority [8]. If the termination is caused by the death of the proprietor, the administrators of the estate has four 4 months from the death date to file a notice of termination [8]. Sole proprietors, as employers, are responsible to: Online Businesses[edit] In , the SSM took legal action against online businesses who fail to register their businesses whether as sole proprietors, partnerships, or private limited companies. It refers to an individual who owns their own business and retains all the profits from it. When starting up, sole traders must complete a straightforward registration with HM Revenue and Customs as self-employed for tax and National Insurance purposes. A sole trader can keep all the profits of their business after tax has been paid. They must lodge a self-assessment tax return each year, and pay Income Tax as well as National Insurance. A sole trader can employ staff, but is personally responsible for any losses the business makes. It can rapidly enable a business to begin trading; the requirements for record keeping are far more straightforward than other business structures. Sole traders make all operational decisions and are solely responsible for raising business finance. Unlike limited companies or partnerships, it is not necessary to share decision making or the profits. Unlike forming a limited company, it lacks the clear cut definition between personal and business income from the perspective of the tax authorities. They are also personally liable for any debts the business incurs. Business analysts may advise sole traders to form a limited company in order to access greater levels of financing, for example for expansion plans. This can limit their personal liability; business lenders may be more inclined to co-operate with a limited company. It can also be the case that within certain industries it is easier to secure work if presenting potential business partners with a limited company structure. United States[edit] In the United States there are no formalities that must be followed to start a sole proprietorship or commence business as a sole proprietor. Income, losses and expenses may be listed on a Schedule C, which is then transferred to the personal tax return of the owner. A permitted exception to the sole proprietor single owner stipulation is made by the Internal Revenue Service IRS permitting the spouse of a sole proprietor to work for the business. They are not classified as partners in the enterprise, or an independent contractor , enabling the business to retain its sole proprietorship status and not be required to submit a partnership income tax return. A sole proprietor must be prepared to devote their time, utilizing business methods towards establishing a sound and appropriate foundation. Doing so may contribute to increased turnover, profits, minimize taxes, and avoid other potential adversities. The selection of a business type by a new sole proprietor is in many instances, motivated by appropriate business experience in a particular field, especially those pertaining to enterprises involving the marketing and selling of defined products and services. A crucial component of a sole proprietorship within a business plan is the provision of an inherent guideline, for actions that require implementing for a business to achieve growth. The business name and products are critical aspects in the founding of a sole proprietorship and once selected, should be protected. In the event of a determined brand name being legalized, information regarding trademark protection is available from the U. Patent and Trademark Office. Finances[edit] For the sole proprietor there are a variety of options in obtaining financial support for their business, including loan facilities available from the U. The loans are not originated by the SBA, but the administration does guarantee loans made by various independent lending institutions. The primary loan facility for small businesses offered by this agency is the 7 a loan program, designed for general applications. Many and varied private organizations and individuals seek opportunities to invest and fund a business that may not qualify for traditional financing from institutions, such as banks. For the sole proprietor, seeking to take advantage of this facility, there are various factors that must be understood and adhered to regarding the loan application. For any small business owner seeking funding, they must consider the debt-to-equity ratio of their enterprise. The mathematics are simple; greater the finance invested by sole proprietors in their business; easier the obtaining of finance! The SBA statistics show that the majority of small enterprises favor the use of limited equity financing; for example, friends and relatives. According to the SBA, there are various private organizations prepared to fund sole proprietor business operations that do not qualify for traditional financing from banks. These private investors can provide loans, credit lines, leasing facilities for equipment, or other forms of capital, to sole proprietorship that have exhausted alternative financial resources. It is also possible for these owners to obtain financing by way of business partners or others, with cash to invest. To assist sole proprietors, there are business grants available from the Federal Government or private organizations, providing certain criteria are met. To qualify for Federal grants, [26] small businesses must comply with determined business size and income standards. For consideration regarding various grant opportunities, sole proprietors may apply for a grant in their capacity as an individual. Local governments and state economic development agencies, frequently make grants available, for businesses that stimulate their local economies. For any sole proprietor applying for a loan, before starting the loan procedure, it is essential their personal and business credit history is in order and up-to-date. A personal credit report should be obtained from a credit bureau; for example, Trans-Union, Equifax or Experian. This action should be initiated by a business owner well before starting the borrowing process. The Small Business Administration specifies that all credit reports received from any source should be carefully reviewed to ensure that all relevant personal information is correct. Other content in the report should also be examined particularly that related to the past credit obtained, from sources such as, credit cards, mortgages , student loans, as well as details pertaining to how the credit was repaid. Other countries[edit] An exact translation of "sole proprietorship" is unusual, because the focus of the concept can change. An example is the Brazilian concept of "sole business" that was split into two main kinds of formal freelancer: An informal freelancer, through a simple process, can be formalized as sole microentrepreneur German and Austrian tax laws also differentiate between sole professionals and other sole proprietors. Companies Commission of Malaysia.

Chapter 3 : Sole proprietorship - Wikipedia

In this module, you will learn about the most common forms of business organizations. Beginning with sole proprietorships and moving on through various forms of partnerships, corporations, and limited liability companies, we will discuss how each type of business entity is formed and how it operates.

The following points elaborate the role of business organizations: Distribution Another benefit of business organization is that it solves the problems of marketing and distribution like buying, selling, transporting, storage and grading, etc. Feedback An organization makes possible to take decisions about production after getting the feedback from markets. Finance Management It also guides the businessman that how he should meet his financial needs which is very beneficial for making progress in business. Fixing of Responsibilities It also fixes the responsibilities of each individual. It introduces the scheme of internal check. In this way chances of errors and frauds are reduced. Minimum Cost It helps in attaining the goals and objectives of minimum cost in the business. Minimum Wastage It reduces the wastage of raw material and other expenditures. In this way the rate of profit is increased. Business organization is very useful for the product growth. It increases the efficiency of labour. Business organization makes it easy to take quick decisions. Recognition Problems Business organization makes it easy to recognize the problems in business and their solutions. Reduces the Cost Business organization is useful in reducing the cost of production as it helps in the efficient use of factors of production. It also guides the businessman about the best way of performing the secretarial functions. Skilled Salesmen It is also a benefit of the business organization that it provides the skilled salesmen for satisfying various needs of the customers. Transportation It is another benefit is that it guides the businessman that what type of transport he should utilize to increase the sales volume of the product. What are the factors of consideration before starting a business? Selection The first and most important decision before starting a new business is its selection. If once a business is established, it becomes difficult to change it. One should make a detailed investigation in the selection of business. Feasibility Report A person should prepare the feasibility report about the business to be started. This report will provide the facts and figures whether business is profitable or not. Nature of Business There are various types of business like manufacturing, trading and services. The businessman should decide that what type of business he would like to start. Demand of Product The businessman also keeps in view the demand of the product which he wants to sell. If the demand is inelastic, the chances of success are bright. If the demand of a product is irregular, seasonal and uncertain, such business should not be started. Size of Business The Size of business means the scale of business. The size of business depends upon the demand of commodity in the market and organizational ability of entrepreneur. The determination of size of business is an important decision of a person. Availability of Capital Availability of capital is an important factor in the business. Capital is required for the purchase of land, machines, wages and raw materials. A businessman must decide that how much capital he can arrange. Business Location A businessman has to select the place where he wants to start his business. He should select that place where raw material, cheap labour and transportation facilities are available. He should also check the location of business competitors. Government Policy The businessman should also carefully consider the policies of government before starting a new business. Availability of Raw Material Availability of Raw material is essential to produce the goods at low cost. Sometimes the raw material is to be imported which may create problem for him. So a businessman must keep this factor in mind. Availability of Machines Availability of new machines is also an important factor for a business. A businessman must see whether these machines are easily available inside the country or not. If these are to be imported then it may create the problems for him. Availability of Labour Skilled and efficient labour is essential to run the business in profit. But if efficient and skilled labour is not available where business is going to be started then it will not be profitable. Means of Transportation Quick and cheap means of transportation are essential for low cost of production and high profit rate. A businessman must keep in view this factor. Power Resources There must be availability of power resources like water, oil, coal and electricity. So businessman must keep in view this factor. Hiring Employees A businessman must hire the efficient and competent employees in the business. The proper training must be given to employees. Product Pricing A businessman must decide the price of his product. In the beginning the price must be low. He must keep in view that whether he will cover cost of his product and other expenses with such price. Following are the main functions of a business: Production Production of goods and services is the first main function of the business. The production must be regular. The goods and services must be produced in such a way which can satisfy human needs. The sale is another important function of the business. Sales are of two types: Cash sales Credit sales The sale must be regular and at reasonable price. It is very difficult job because there is hard competition in each market. Finance It is also an important function of the business to secure finance. Finance is required for establishment and expansion of business. There are two sources of raising funds:

Chapter 4 : The Bottom Proprietorship And Partnership Varieties Business Essay

A partnership over of a sole proprietorship are the added capital and management expertise of the blog.quintoapp.com disadvantage in particular unlimited liability can case problems.A third form of business ownership the corporation overcomes this disadvantage.

A proprietorship is easy to start and operate. It is also not mandatory to register a proprietorship. As the name suggests, a sole proprietorship has a single owner. All incomes and profits of the business belong to that one person. It also has unlimited liability. A Sole proprietorship may indeed be ideal for small businesses with limited operations and budget. It is also not difficult to manage. However, the simplistic design of sole proprietorship business also does not allow for higher growth and expansion. It would not be an ideal to bring in higher investment from third parties because ownership is legally limited to one person. Thus a proprietor may be inclined to explore other possibilities to bring in fresh ideas, approach and capital by changing the type of business into a partnership. A Partnership firm is formed under the Partnership Act, It begins with an agreement called as partnership deed signed between two or more partners. The partners may manage the new business together or by a few of them on behalf of all. The profits arising from the business can be divided among the partners according to a previously agreed ratio based on the capital invested or equally. A partnership would better than a sole proprietorship in case the business is growing. It would be ideal to expand by introducing fresh capital and innovative ideas by new partners. Collective ownership also results in combined decision making which would be better than individual decisions. Execution of plans can also happen better with increased strengths and investments. The most important inclusion in the deed should be the declaration about the sole proprietorship which is being converted into a partnership by adding more partners and bringing in investment. Care should be taken to include the details of the capital invested by each partner, salaries and shares in profits to be paid to partners, rate of interest on capital, profit sharing mechanism and responsibilities in case of losses. The procedure for further admission and removal of partners should be given along with the procedure to dissolve the partnership. There should be no reason for ambiguity that may lead to future disputes. All changes that will occur on account of the introduction of the new partners should be recorded. If there is a change in the registered address of the business, the same should be included. Details To Be Included About The Sole Proprietorship The following details details may be included, like date of formation of the sole proprietorship, the identity of the proprietor, the address where the business exists, the type of business and other relevant details such as VAT and Service Tax registration. Registration Registration of a Partnership is not a mandatory procedure. However, it is recommended because of the enhanced legal protection it offers. It would be easier for a registered firm to file a lawsuit against third parties in dispute. The rights of the partners also would be safeguarded better by empowering suits against any partner who acts against the interests of the firm. The partnership can be signed by every partner on stamp paper and registered at the registrar of firms. The Form A contains all details to be provided about the partnership. This brings an end to the sole proprietorship and partnership deed comes into effect either from the date of registration or from a date from which the partnership will commence as mentioned in the partnership deed. Other Formalities If your sole proprietorship is licensed under Sales Tax, Service Tax laws, forms need to be submitted to the concerned departments for change of status of your business. Personalisation is what our experts keep in mind while helping you address your legal requirements. If you are a new business, look no further. Our specialised startup package can equip you with all legal documents that your business will need. Expert advice can go a long way for your startup.

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Chapter 5 : Advantages and Disadvantages of Sole Proprietorship

Sole Proprietorship in the U.S. A sole proprietor is an individual who owns an unincorporated business. There are nearly 23 million sole proprietorships, not counting single-owner farm businesses, in the United States, and many of these engage employees in addition to their sole proprietor owners.

Features, Advantages and Disadvantages Article shared by: Sole Proprietorship form of Business: Features, Advantages and Disadvantages! Proprietorship also called sole trade organisation is the oldest form of business ownership in India. In a proprietorship, the enterprise is owned and controlled by one person. He is master of his show. He sows, reaps, and harvests the output of this effort. He manages the business on his own. If necessary, he may take the help of his family members, relatives and employ some employees. Sole proprietorship is the simplest and easiest to form. It does not require legal recognition and attendant formalities. This form is the most popular form in India due to the distinct advantages it offers. The main features of proprietorship form of business can be listed as follows: In proprietorship, only one man is the owner of the enterprise. No Separate Business Entity: No distinction is made between the business concern and the proprietor. Both are one and the same. No Separation between Ownership and Management: The proprietor is a manager also. Unlimited liability means that in case the enterprise incurs losses, the private property of the proprietor can also be utilized for meeting the business obligations to outside parties. All Profits or Losses to the Proprietor: Being the sole owner of the enterprise, the proprietor enjoys all the profits earned and bears the full brunt of all losses incurred by the enterprise. A proprietorship business can be started without completing much legal formalities. There are some businesses that too can be started simply after obtaining necessary manufacturing licence and permits. The various advantages that proprietorship form of business offers are as follows: Simple Form of Organisation: Proprietorship is the simplest form of organisation. There is no need to go through the legal formalities. For starting a small enterprise, no formal registration is statutorily needed. There is no other person who can interfere or weigh him down. Secrecy is another major advantage offered by proprietorship. This is because the whole business is handled by the proprietor himself and, as such, the business secrets are known to him only. Added to it, the proprietor is not bound to reveal or publish his accounts. What the competitors can make is guesstimates only. As compared to other forms of ownership, the proprietorship form of ownership enjoys certain tax advantages. In proprietorship business, the entrepreneur is all in all. It is due to the easy formation and dissolution, proprietorship is often used to test the business ideas. Proprietorship form of ownership suffers from some disadvantages also. The important ones are: Thus, the scope for raising funds is highly limited in proprietorship. Proprietorship is characterised as one-man show. One man may be expert in one or two areas, but not in all areas like production, finance, marketing, personnel, etc. Then, due to the lack of adequate and relevant knowledge, the decisions taken by him be imbalanced. Proprietorship is characterised by unlimited liability also. It means that in case of loss, the private property of the proprietor will also be used to clear the business obligations. Hence, the proprietor avoids taking risk. Limited Life of Enterprise Form: The life of a proprietary enterprise depends solely upon the life of the proprietor. When he dies or becomes insolvent or insane or permanently incapacitated, there is very likelihood of closure of enterprise. Say, enterprise also dies with its proprietor.

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Chapter 6 : Partnership Firms: Definition, Features, Advantages and Disadvantages

BUSINESS ORGANIZATION:Sole Proprietorship, Joint Stock Company, Combination Introduction to Business Business Management Business Marketing Business Investing.

Sole proprietorships are businesses that are owned and operated by a single business owner. Partnerships and sole proprietorships are relatively easy to form because formation paperwork is not required to begin operating either business type. Partnerships and sole proprietorships are not separate entities from the owners of the business. Decision Making No other decision makers assist a sole proprietor. Sole proprietors are not required to consult with anyone when it comes to making business decisions. In a partnership business, all partners are responsible for making decisions that will impact the business. This may provide multiple viewpoints, which could potentially lead to better business decisions. Liability Sole proprietors and partners of a partnership business have unlimited liability for business lawsuits, obligations and liabilities. Conflicts Sole proprietors do not encounter conflicts when it comes to making company decisions because there is only one business owner. It is unwise to run a partnership without a partnership agreement in place. A partnership agreement may help partners operate the company without disputes and conflicts. Regardless of having a partnership agreement, running a business with more than one person may lead to disputes regarding how to run the business. Partners that do not pull their weight or see eye-to-eye with other partners could cause irreparable damage to the company. Acquiring Capital Sole proprietorships will have difficulty raising capital because ownership interest in the business cannot be offered to potential investors. Sole proprietors will finance the company with their personal funds, business assets and based on their credit worthiness. Partnerships may receive more funds than a sole proprietorship because the partners may be able to get personal loans. Furthermore, partnerships can attract investors by offering ownership interest in the business. Continuity Sole proprietorships end automatically if the business owner decides to sell the business or if the sole proprietor dies. Partnerships may automatically dissolve if a partner dies or decides to withdraw from the business. However, a partnership may continue to exist after a partner dies or withdraws, if the partnership agreement contains procedures for continuing the business. A partnership agreement may stipulate the manner in which a partnership will continue after a partner retires, dies or withdraws from the company.

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Chapter 7 : What Is the Difference Between a Partnership & Sole Proprietorship? | blog.quintoapp.com

SOLE PROPRIETORSHIP AND ITS CHARACTERISTICS:ADVANTAGES OF SOLE PROPRIETORSHIP Introduction to Business Business Management Business Marketing Business Investing.

Jump to navigation Jump to search When we look around us, we observed that most of the people are engaged in one activity or the other. Teacher teach in the school, farmers work in the fields, workers work in the factories, drivers drive vehicles, shopkeepers sells goods, doctors attend to patients and so on. In this way,people are busy during the day and sometimes during the night throughout the year. Now the question WHY we all keep ourselves busy. The answer is to satisfy our wants. By doing so, we either fulfill various obligations or earn money through which we can buy goods and commodities. Business is a human activity in order to satisfy our wants. Human Activities[edit] Activities which human being undertake are known as human activities. These may be cultivating land, growing plants, rearing animals, teaching in school or college, working in a factory or office, watching television, listening radio, reading newspaper, worshiping in a temple, playing football, etc. We can divide this activities into two broad categories as i economic activities ii non-economic activities i Economic activities Activities, which are performed with an objective to earn money, are known as economic activities. For example, a farmer grow crops to sell them, a factory or office employee works and gets wage or salary, a businessman earns profit through buying and selling of goods. This one person, known as a proprietor, has the advantage of being in control of the entire business, and having all the income of the business going directly to him or her. The downside of this is that a Sole Proprietorship is not taxed as a business entity, so all income of the business is taxed as personal income tax. Additionally, the proprietor has Unlimited Liability meaning that if the business goes under, and the assets of the business are insufficient to satisfy the debts of the business, the creditors can seize the personal assets of the proprietor. Partnership A partnership is a firm run by more than one person. These people are all known as partners of the company, and they have the advantage of sharing the losses, but have to share the profits too. The percentage of sharing loses and profits could be determined according to the partnership agreement drawn between the partners, they vary from country to country. The partners make all decisions collectively, and each partner is responsible to the others for any decision he makes with relation to the business. New Partners are added for their expertise. Partnerships are easy to form usually professionals lawyers, doctors and consultants form partnership to benefit from the expertise of each other. Private Limited Companies A private limited company too can have just two shareholders. However the shareholders of a private limited company could be limited to family members or friends. A private limited company is formed by registering the memorandum and articles of association with the local registrar of companies. The shareholder liability is limited to the authorized share capital. It is less complex to form unlike a public limited company. The rules and regulations on the formation of a private limited company have to be checked out with your local chamber of commerce or registrar of companies. The accounts of a private limited company have to be audited by independent auditors and board of director; they meet regularly to make decisions and they have an annual general meeting when all shareholders meet to discuss the wider management issues of the company. Corportations A corporation is created as a separate legal entity that has privileges and liabilities that are distinct from those of its owners. Despite not being a natural person, corporations are recognized by the law, in some countries and the USA in particular, as having the same legal rights and responsibilities as natural persons "people". The formation of a corporation protects the owners against unlimited liability. If the corporation fails the investors are liable only for the assets of the business.

Chapter 8 : Advantages and Disadvantages of Partnership

Introduction to Sole Proprietorship. Sole trader-ship or proprietorship is the oldest form of business in all the countries of the blog.quintoapp.com with the progress of business its form has also been changing.

Definition, Features, Advantages and Disadvantages Article shared by: Definition, Features, Advantages and Disadvantages! The proprietorship form of ownership suffers from certain limitations such as limited resources, limited skill and unlimited liability. Expansion in business requires more capital and managerial skills and also involves more risk. A proprietor finds him unable to fulfill these requirements. This call for more persons come together, with different edges and start business. For example, a person who lacks managerial skills but may have capital. Another person who is a good manager but may not have capital. When these persons come together, pool their capital and skills and organise a business, it is called partnership. Partnership grows essentially because of the limitations or disadvantages of proprietorship. Let us consider a few definitions on partnership: Now, we can define partnership as an association of two or more persons who have agreed to share the profits of a business which they run together. This business may be carried on by all or anyone of them acting for all. In a way, the firm is nothing but an abbreviation for partners. As against proprietorship, there should be at least two persons subject to a maximum of ten persons for banking business and twenty for non-banking business to form a partnership firm. Profit and Loss Sharing: There is an agreement among the partners to share the profits earned and losses incurred in partnership business. Partnership is formed by an agreement-oral or written-among the partners. Existence of Lawful Business: Partnership is formed to carry on some lawful business and share its profits or losses. If the purpose is to carry some charitable works, for example, it is not regarded as partnership. Utmost Good Faith and Honesty: A partnership business solely rests on utmost good faith and trust among the partners. Like proprietorship, each partner has unlimited liability in the firm. Restrictions on Transfer of Share: No partner can transfer his share to any outside person without seeking the consent of all other partners. The partnership firm may be carried on by all partners or any of them acting for all. In this way, a partner is an agent of the firm and of the other partners. As an ownership form of business, partnership offers the following advantages: Partnership is a contractual agreement between the partners to run an enterprise. Hence, it is relatively ease to form. Legal formalities associated with formation are minimal. Though, the registration of a partnership is desirable, but not obligatory. We have just seen that sole proprietorship suffers from the limitation of limited funds. Partnership overcomes this problem, to a great extent, because now there are more than one person who provide funds to the enterprise. It also increases the borrowing capacity of the firm. Moreover, the lending institutions also perceive less risk in granting credit to a partnership than to a proprietorship because the risk of loss is spread over a number of partners rather than only one. Combined Talent, Judgement and Skill: As there are more than one owners in partnership, all the partners are involved in decision making. Usually, partners are pooled from different specialised areas to complement each other. For example, if there are three partners, one partner might be a specialist in production, another in finance and the third in marketing. This gives the firm an advantage of collective expertise for taking better decisions. You have just seen that the entire losses are borne by the sole proprietor only but in case of partnership, the losses of the firm are shared by all the partners as per their agreed profit-sharing ratios. Thus, the share of loss in case of each partner will be less than that in case of proprietorship. Like proprietorship, the partnership business is also flexible. The partners can easily appreciate and quickly react to the changing conditions. No giant business organisation can stifle so quick and creative responses to new opportunities. Taxation rates applicable to partnership are lower than proprietorship and company forms of business ownership. In spite of above advantages, there are certain drawbacks also associated with the partnership form of business organisation. In partnership firm, the liability of partners is unlimited. But, in case of areas like policy formulation for the whole enterprise, there are chances for conflicts between the partners. Disagreements between the partners over enterprise matters have destroyed many a partnership. Death or withdrawal of one partner causes the partnership to come to an end. So, there remains uncertainty in continuity of partnership. Risk of Implied Authority: Each partner is an agent for the partnership business. Hence, the decisions made by him bind all the partners. At times, an incompetent partner may lend the firm into difficulties by taking wrong decisions. Risk involved in decisions taken by one partner is to be borne by other partners also. Choosing a business partner is, therefore, much like choosing a marriage mate life partner.

Chapter 9 : Sole Proprietorship: Features, Advantages and Disadvantages

The proprietorship form of ownership suffers from certain limitations such as limited resources, limited skill and unlimited liability. Expansion in business requires more capital and managerial skills and also involves more risk. A proprietor finds him unable to fulfill these requirements. This.

General stores, Bakery, Hardware stores, Service station, Doctors clinic, and Beauty parlors etc all are examples of sole proprietorship. The sole proprietorship is a form of business, which utmost popular in all over the world. Characteristic of Sole Proprietorship Ownership: The ownership in sole proprietorship is held by a single person who runs the business. One of the characteristic of sole proprietorship is that it is managed by owner himself, due to small in size of business. In sole trader ship the owner himself managed capital of the business. In this type of business, the owner himself responsible for all the risks occurs in the business. One of the characteristic of sole proprietorship is that its unlimited liability. The owner is personally responsible for the debt which is occurred in the business. In the eyes of law, the combination of sole trader and his business are combined together and treated as one. The owner of the business tries to keep good relationship with his customers. One of the important characteristic of sole proprietorship is that it can easily dissolve as like its formation. The main advantage of sole proprietorship is that it can easily be formed by any person by undertaken any legal business for earning profit. The owner of the business has complete authority to deal with the affairs of business. He prepares the plain, invest his money, supervise the business and enjoy the profit. Sole claim on profit. The owner of the business receives full profit earned from the business. The sole proprietor make prompt decision, in carrying out policies, changes the methods of production, reducing or increasing the prices, of the commodities, delegating responsibilities etc. The owner of the business enjoys an excellent credit rating among the creditors. As the sole proprietor and the business have one personality. Therefore, all the assets, liabilities, profits and losses on the part of owner. A sole trader being the owner of the business has high standard of secrecy due to their own managing of the affairs of the business. Direct relationship with customers. A sole trader has closed relation with his customers. Therefore, he offers everything according to the taste of the customers. This creates his goodwill in the market. Benefits of inherited goodwill. The ownership of the business passes from generation to generation thus enables the son to reap the benefits of goodwill of his father. The sole proprietorship is taxed as personal income of the owner. He does not pay any super tax. Development of personal qualities. In sole trading business, the personal qualities of a proprietor like self reliance have full scope for development. The main disadvantage of sole proprietorship is the burden of unlimited liability. In case the claims of the creditors against the business exceeded, then the personal property of the owner are taken to pay business debts. One of the main demerit of sole trading business is that it faces difficulties to expanding the business in large scale, due to not availability of high resources, because every thing to managed by the owner himself. In this type of business, the proprietor has to rely their own skill and managerial experience , which leads the owner to enable to perform all the duties and functions of management efficiently, limits the size of business according to the his capacity. The continuity or performance of a sole proprietorship sometimes difficult to maintain, due to the owner being dies, sick etc, leads the business may be closed. If the owner of the business suffers sick very long, cause the business heavy loss in his absence. In this type of business both the parties have weak bargaining position compared to large business. Unsuitable for a developing business. In sole trading ship the business grows up, it is very difficult to owner to meet the requirements of expansion business. In the developed and developing countries of the world, the large part of the business is carried on by sole proprietorship. The retailers, beauty shops, plumbers, printers, tailors, painters, doctors, computers, mobile shops etc all are the kinds of sole proprietorship. So, sole proprietorship plays a vital role in the economy of the each and every country of the world.