FORMS OF OWNERSHIP

2 PAPER

2 TOPIC

Factors that need to be considered when choosing a form of ownership

New business owners need to consider the following factors when they choose the form of ownership their business will take:

- the start-up cost and the future **capital**
- the size and nature of the business
- tax implications
- how the business will be controlled and managed/management structure
- the risk involved
- how capital will be contributed
- how profits and losses will be shared
- who is responsible for any **debts** made by the business/**liability**
- the life span of the business/**continuity**

Outline/Explain the differences between profit and non-profit organisations/companies.

Profit companies	Non-profit companies
This company is formed with one aim of making a profit.	This company is formed for charity purposes or to promote social and cultural activities.
A company incorporated for financial gain for its shareholders.	A non-profit company is an association incorporated not for gain.
Profit organisations are responsible for paying taxes based on their profit.	Non-profit organisations are not required to pay taxes on net income.

Outline the forms of ownership and classify them into profit and non-profit organisation.

Profit companies	Non-profit companies
• Private companies: are reflected as Proprietary Limited or (Pty) Ltd • Personal liability companies: are reflected as Incorporated or Inc. • Public companies: are reflected as Limited or Ltd • State-owned companies: are reflected as SOC Ltd	Non-profit companies: are reflected as NPC

Sole trader/Proprietor

Defining a sole trader/proprietor

- A sole trader is a business that is owned and managed by one person.
- The owner is responsible for the activities and decisions of the business.
- The sole trader mainly depends on his own resources/the business is generally a small scale business.

Characteristics of a sole trader/proprietorship

- There are no legal requirements regarding the name of the business.
- There may be some persons to help but ultimate control lies with the owner.
- The owner has unlimited liability.
- The business dissolve when the owner dies.

Advantages of a sole trader/proprietorship

- It is easy and quick to form a sole trade as there is less capital needed.
- The owner can take quick decisions as and when required and has full control.
- All the assets of the business belong to the owner personally.
- There is personal encouragement and personal contact between the owner and customers.

Disadvantages of a Sole trader/proprietorship

- It is not always possible to attract highly skilled workers because the capital is limited to one person.
- The owner has unlimited liability for debts, which means the owner is personally liable for the debts of the business.
- They cannot expand the business operations because of limited capital.
- A sole trader lacks continuity especially in the event of death or illness.

Partnership

Defining a partnership

- A partnership is an arrangement where parties, known as business partners, agree to form a business for their mutual interest.
- It is an agreement between two or more people who combine labour, capital, and resources towards a common goal.

Characteristics of a partnership

- There should be at least a minimum of two people in a partnership.
- Partners combine capital and may also borrow capital from financial institutions.
- They share the profit according to the partnership agreement.
- Partners share responsibilities and they are all involved in making business decisions.

Advantages of a partnership

- Each partner will bring their knowledge, skills, experience, and contacts to the business thus giving the business a better chance to succeed.
- All partners have a personal interest in the business.
- The workload and responsibility are shared between partners and each partner can focus on their strengths.
- Partnerships are not compelled by law to prepare audited financial statements.

Private company

Defining a private company

- A private company is a company whose shares may not be offered to the public for sale.
- It is a legal entity and its operations are less strict than those for a public company.
- It has to register as a taxpayer in its own right.

Characteristics of a private company

- A private company can have an unlimited number of shareholders, however, a minimum of one director and one shareholder is required.
- Raises capital by issuing shares privately to its shareholders.
- The name of a private company must end with the words ‘(Proprietary) Limited’ or ‘(Pty) Ltd’.
- A private company must prepare annual financial statements.

Advantages of a private company

- A company can continue to trade even if one shareholder dies/resigns.
- It is managed at least by one competent highly skilled **director**.
- Shareholders must agree to the sale of transfer of shares.
- The company is a separate legal person so it may purchase assets in its name.

Disadvantages of a private company

- Decision-making takes time because of the large number of people in management.
- The private company cannot be listed on the stock exchange, therefore, it cannot sell shares to the public.
- Directors may sometimes act in their own interest, not in the company's best interest.
- Difficult and expensive to establish as the company is subjected to many legal requirements.

Personal liability company

Defining a personal liability company

- A personal liability company is mainly used by associations such as lawyers and accountants.
- The name of the personal liability company ends with INC.
- Directors of the company, as well as previous directors, will be responsible for the debts of the company.

Characteristics of a personal liability company

- A personal liability company is required to have a minimum of one director on the board of directors.
- The Memorandum of Incorporation can be altered to require more than one director on the board.
- Directors have unlimited liability and they are jointly liable for the debts of the business even if they are no longer active in the office.
- The Memorandum of Incorporation should state that it is a personal liability company.

Advantages and disadvantages

- NOTE: The advantages of a personal liability company are the same as those for a private company.
- The disadvantages of a personal liability company are also the same as those for a private company, except that the directors of the personal liability company have unlimited liability.

Public company

Defining a public company

- The public company is a company that is registered to offer shares and stock to the general public.
- Public companies are trading in a open market called the Johannesburg Stock Exchange in order to raise capital.
- Ownership of a public company is distributed among shareholders through the free trade of shares and stock.

Characteristics of a public company

- A minimum of one person is required to start a public company.
- The company name ends with the letters Ltd.
- Shareholders have limited liability and are not personally liable for the debts of the business.
- Individuals can own shares in this company and these shares are freely transferable.

Advantages of a public company

- The business has its own legal identity and can own assets/property.
- Managed by at least three competent, highly skilled directors.
- Directors bring creative ideas which encourage innovation/high productivity.
- Shareholders can sell/transfer their shares freely.

Disadvantages of a public company

- Difficult and expensive to establish as the company is subjected to many legal requirements.
- A full financial report must be submitted to the major shareholders each year.
- A large management structure can result in longer timeframes for decision-making.
- Auditing of financial statements are compulsory.

Distinguish/Differentiate between /different forms of ownership.

SOLE TRADER	PARTNERSHIP
A sole trader is an individual who owns a business entirely by him/herself.	A partnership comprises two or more people intending to make a profit.
Decisions can be taken quickly since it is being taken by one person.	There may be a delay in decision-making since the input of all partners is needed.
The profit goes to the owner.	Profit is shared amongst the partners according to the partnership agreement.

PRIVATE COMPANY	PUBLIC COMPANY
May not offer shares to the general public.	Trades its shares publicly on the Johannesburg Securities Exchange (JSE).
Shares are not freely transferable.	Shares are freely transferable.
Minimum of one director.	Minimum of three directors.
Name must end with Proprietary Limited/(Pty) Ltd.	Name must end with Limited/Ltd.

State-owned company (SOC)

Defining a state-owned company (SOC)

- In a state-owned company, the government is a major shareholder, and it falls under the Department of Public Enterprise.
- These companies perform specific functions and operate in accordance with a particular Act.
- They take on the role of commercial enterprise on behalf of the government.
- Examples of state-owned companies in South Africa include Armscor, Alexkor, SAA, Eskom, Transnet.

Characteristics of an SOC

- The state-owned company is financed by the government.
- The name ends with the letters SOC.
- The SOC is listed as a public company.
- These enterprises are managed by the government not by individuals.

Advantages of an SOC

- They offer essential services which may not be offered by the private sector.
- Shareholders have limited liability.
- Profits may be used to finance other state departments.

Disadvantages of an SOC

- SOCs usually suffer from inefficiencies in management.
- Losses must be covered by the taxpayers.
- Government can lose money if the business fails.
- A lack of incentive for employees to perform if there is no share in the profit.

Non-profit company (NPC)

Defining a non-profit company (NPC)

- A non-profit company is a legal entity organised and operated for a collective, public or social benefit.
- They include churches, charity organisations, and cultural organisations.
- The primary objective of an NPC is to benefit the public, not to make a profit.

Characteristics of NPCs

- The main aim is to provide a service and not to make a profit.
- They are funded by donations **and foreign funding.**
- The name of the company must end in NPC.
- NPCs are not compelled to hold an AGM

Disadvantages of an NPC

- Does not generate enough capital to cover their expenses.
- Donations may not always be enough to finance the company's expenses.
- Creating an NPC takes time/effort/money.
- Obtaining grants can be a slow and tiring process.

Identify forms of ownership from given case studies/scenarios/cartoons/pictures

Name the different types of co-operatives (any 4)

- housing co-operative
- worker co-operative
- social co-operative
- agricultural co-operative
- co-operative burial society
- financial services co-operative
- consumer co-operative
- transport co-operative

Characteristics of co-operatives

- A minimum of five members is required to start a co-operative.
- They have a democratic structure, with each member having one vote.
- They are motivated by service rather than profit.
- They are managed by a minimum of three directors.

Advantages of co-operatives

- Decision-making is done by a group.
- Members have limited liability.
- The decisions are democratic and fair.
- Profits are shared equally amongst members.
- Each member has an equal share in the business.

Disadvantages of co-operatives

- Difficult to grow a co-operative.
- Shares are not freely transferable.
- Very few promotion positions for staff.
- Decisions are often difficult to reach and time-consuming.

Select a best form of ownership and justify the reasons for selection.