Business Ownership and Small Business

Understanding Canadian Business
7th Edition

Starting a Small Business

- There are three major forms of business ownership:

1. Sole Proprietorship
2. Partnership
3. Corporations

Sole Proprietorship

- Is one person owning and operating a business, without forming a corporation
- The business and the owner are a single entity.

Partnership

- When two or more people legally agree to become co-owners of a business.

Corporation

- A legal entity with authority to act and have liability separate from its owners.
- Liability – for a business, it includes the responsibility to pay all normal debts and to pay because of a court order or law, for performance under a contract, or payment of damages to a person or property in an accident.

Sole Proprietorships - Advantages

1. Ease of starting and ending the business
2. Being your own boss
3. Pride of ownership
4. Retention of company profit
5. No special taxes
6. Less regulation

Sole Proprietorships - Disadvantages

1. Unlimited liability – the risk of personal losses
2. Limited financial resources
3. Management difficulties
4. Overwhelming time commitment
5. Few fringe benefits
6. Limited growth
7. Limited lifespan
8. Possibly pay higher taxes

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Partnerships

- General Partnership- a partnership in which all owners share in operating the business and in assuming liability for the business debts.
- Limited Partnership- A partnership with one or more general partners and one or more limited partners
- General Partner – an owner who has unlimited liability and is active in managing the firm

More Partnerships

- Limited Partner – an owner who invests money in the business but does not have any management responsibility or liability for losses beyond the investment.
- Limited liability – The responsibility of a business owners for losses only up to the amount they invest; limited partners and shareholders have limited liability.

Partnerships - Advantages

1. More financial resources
2. Shared management and pooled/ complementary skills and knowledge
3. Longer survival
4. Shared risk
5. No special taxes
6. Less regulation

Partnership - Disadvantages

1. Unlimited liability
2. Division of profits
3. Disagreements among partners
4. Difficult to terminate
5. Possibly pay higher taxes

Corporations

- Public corporation – Corporation that has the right to issue shares to the public, so it shares may be listed on a stock exchange
- Private corporation – Corporation that is not allowed to issue stock to the public, so its shares are not listed on stock exchanges; it is limited to 50 or fewer shareholders

Corporations - Advantages

1. Limited liability
2. More money for investment
3. Size
4. Perpetual life
5. Ease of ownership change
6. Ease of drawing talented employees.
7. Separation of ownership from management

Corporations - Disadvantages

1. Extensive paperwork
2. Double taxation
3. Two tax returns
4. Size
5. Difficulty of termination
6. Possible conflict with stockholders and board of directors
7. Initial cost