TYPES OF BUSINESS ORGANIZATIONS

a) Sole Proprietorships: The vast majority of small business starts out as sole proprietorships . . . very dangerous. These firms are owned by one person, usually the individual who has day-to-day responsibilityfor running the business. Sole proprietors own all the assets of the business and the profits generated by it. They also assume "complete personal" responsibility for all of its liabilities or debts. In the eyes of the law, you are one in the same with the business.

Merits:

- Easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, within the law, to make all decisions.
- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business flow-through directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.

Demerits:

- Unlimited liability and are legally responsible for all debts against the business.
- Their business and personal assets are 100% at risk.
- Has almost been ability to raise investment funds.
- Are limited to using funds from personal savings or consumer loans.

b) Partnerships: In a Partnership, two or more people share ownership of a single business. Like proprietorships, the law does not distinguish between the business and its owners. The Partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership, how partners can be bought out, or what steps will be taken to dissolve the partnership when needed. They also must decide up front how much time and capital each will contribute, etc.

Merits:

- Partnerships are relatively easy to establish; however time should be invested in developing thepartnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners' personal taxes.
- Prospective employees may be attracted to the business if given the incentive to become a partner.

Demerits:

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnerships have a limited life; it may end upon a partner withdrawal or death.

c) Corporations: A corporation, chartered by the state in which it is headquartered, is considered by law to be a unique "entity", separate and apart from those who own it. A corporation can be taxed; it can be sued; it can enter into contractual agreements. The owners of a corporation are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The corporation has a life of its own and does not dissolve when ownership changes.

Merits:

- Shareholders have limited liability for the corporation's debts or judgments against the corporations.
- Generally, shareholders can only be held accountable for their investment in stock of the company. (Note however, that officers can be held personally liable for their actions, such as the failure to withhold and pay employment taxes.)
- Corporations can raise additional funds through the sale of stock.
- A corporation may deduct the cost of benefits it provides to officers and employees.
  - Can elect S corporation status if certain requirements are met. This election enables company to betaxed similar to a partnership.

Demerits:

- The process of incorporation requires more time and money than other forms of organization.
- Corporations are monitored by federal, state and some local agencies, and as a result may have morepaperwork to comply with regulations.
- Incorporating may result in higher overall taxes. Dividends paid to shareholders are not deductibleform business income, thus this income can be taxed twice.

d) Joint Stock Company:

Limited financial resources & heavy burden of risk involved in both of the previous forms of organization has led to the formation of joint stock companies these have limited dilutives. The capital is raised by selling shares of different values. Persons who purchase the shares are called shareholder. The managing body known as; Board of Directors; is responsible for policy making important financial & technical decisions. There are two main types of joint stock Companies.

(i) **Private limited company:** This type company can be formed by two or more persons. The maximum number of member ship is limited to 50. In this transfer of shares is limited to members only. The government also does not interfere in the working of the company.

(ii) **Public Limited Company:** It is one whose membership is open to general public. The minimum number required to form such company is seven, but there is no upper limit. Such companies can advertiseto offer its share to genera public through a prospectus. These public limited companies are subjected to greater control & supervision of control.

Merits:

- The liability being limited the shareholder bear no Rick& therefore more as make persons areencouraged to invest capital.
- Because of large numbers of investors, the risk of loss is divided.
- Joint stock companies are not affected by the death or the retirement of the shareholders.

Disadvantages:

- It is difficult to preserve secrecy in these companies.
- It requires a large number of legal formalities to be observed.
- Lack of personal interest.

e) Public Corporations: A public corporation is wholly owned by the Government centre to state. It is established usually by a Special Act of the parliament. Special statute also prescribes its management pattern power duties & jurisdictions. Though the total capital is provided by the Government, they have separate entity & enjoy independence in matters related to appointments, promotions etc.

Merits:

- These are expected to provide better working conditions to the employees & supported to be bettermanaged.
- Quick decisions can be possible, because of absence of bureaucratic control.
- More flexibility as compared to departmental organization.
- Since the management is in the hands of experienced & capable directors & managers, these atemanaged more efficiently than that of government departments.

Demerits:

- Any alteration in the power & Constitution of Corporation requires an amendment in the particularAct, which is difficult & time consuming.
- Public Corporations possess monopoly & in the absence of competition, these are not interested inadopting new techniques & in making improvement in their working.

f) Government Companies: A state enterprise can also be organized in the form of a Joint stock company; A government company is any company in which of the share capital is held by the central government or partly by central government & party by one to more state governments. It is managed by the elected board of directors which may include private individuals. These are accountable for its working to the concerned ministry or department & its annual report is required to be placed ever year on

the table of the parliament or state legislatures along with the comments of the government to concerneddepartment.

Merits:

- It is easy to form.
- The directors of a government company are free to take decisions & are not bound by certain rigidrules & regulations.

Demerits:

- Misuse of excessive freedom cannot be ruled out.
- The directors are appointed by the government so they spend more time in pleasing their politicalmasters & top government officials, which results in inefficient management.