Btec Business Assignment

Introduction

Sole-Trader

A Sole-Trader is a business organisation which is owned and managed by one person. Implied in this is that ownership is under one person and this individual could employ a lot of people to work for him.

One key feature of a sole trader is that of limited liability. A limited liability refers to the situation whereby he or she looses both the invested capital and private property when the business winds up. Advantages for a sole trader are that profits would not have to be shared and decision making would be easy because the sole trader would not have to consult anyone in decision making.

For a sole trader things would be slightly easy in the sense that there would be less confusion as everything would go by the way the individual wants the business to be. It is also a big responsibility as there would be a need to have a high-level of personal interest and if the individual does not show this, then it could be a big factor as to why the business could go bust.

Partnership

A partnership is a type of business organisation which is owned and managed by two or more people, usually not any more then 20 people.

The key feature of this type of business is that of profit sharing. This brings me onto the Partnership Act 1890 which outlines the main rules of a business in partnership:

- Profits and losses to be shared equally
- No interest on capital
- Equal amount of capital contribution

The deed of partnerships outlines the rights, responsibilities and duties of partners. Like a contract.

This contract would consist of such things as the name of the business, the location, the ration of profit sharing and the times which each partner has to put into the business. It would also contain the amount of money etc which would be needed to be contributed by each partner.

Private limited company

A private limited company specialises mainly in expanding business growth, these companies are often much larger than a partnership organization and consist of influencing globalisation.

Private limited company is an organization whereas any one can own it if they obtain the majority of shares off the company they trade there stock to in the stock market.

Dependant upon the size of the private limited company the sources of finance available for them would be such things as suppliers, banks, factoring, leasing and hire purchase companies, government grants and loans, venture capital institutions, private share issues and so on, you will find more information on the main aim of this task just below on sources of finance.

The disadvantages for a private limited company could be that it could be difficult to find suitable shareholders and also could be disagreement between existing shareholders.

Limited liability Company

A limited liability company (LLC):

- is a type of business ownership combining several features of corporation and partnership structures
- is not a corporation or a partnership
- may be called a limited liability corporation; the correct terminology is Limited Liability Company
- Owners are called members not partners or shareholders
- Number of members is unlimited and may be individuals, corporations, or other Limited Liability Companies

Advantages of Limited Liability Company

Limited Liability: Owners of a LLC have the liability protection of a corporation. A LLC exists as a separate entity much like a corporation. Members cannot be held personally liable for debts unless they have signed a personal guarantee.

Flexible Profit Distribution: Limited liability companies can select varying forms of distribution of profits. Unlike a common partnership where the split is say, 50-50, LLC

Flow Through Taxation: All your business losses, profits, and expenses flow through the company to the individual members. You avoid the double taxation of paying corporate tax and individual tax. This would generally be a tax advantage.

Disadvantages of Limited Liability Company

- **Limited Life:** Corporations can live forever, whereas a LLC is dissolved when a member dies or undergoes bankruptcy.
- **Going Public:** Business owners with plans to take their company public, or issuing employee shares in the future, may be best served by choosing a corporate business structure.

There are many sources of finance available to these types of businesses, such as:

a. **Retained-Profit.**

Retained Profit is one way of saying how you would re-invest into your business using the profit you make or any other source of finance. Reinvesting would be very helpful in the sense that falling into debt would be of less chance and there would also be no interest being paid. The only disadvantages would be that reinvesting into the business again would reduce the amount of profit or revenue which is received by the owner and it would also make a limited amount of capital to be available.

b. **Bank Loan.**

Other ways of financing a business would be to apply for a **Bank Loan.**

Applying for a bank loan would be very ideal as it is a long term source of finance and the interest rate is much lower if you compare it to **Bank Overdrafts.** Another advantage is that there could be a huge amount of money available depending on the credibility of the business; this could also be quite a let-down aswell, because if the business has a bad record of credibility then they might not get the loan they need to finance themselves. The other obvious reason is the interest they would be paying back, whether it is a low rate of interest or not, it’s still a lot of money coming out of the business which could be used to improve conditions and many other things for the business.

c. **Bank Overdraft**

Another source of finance could be a **bank overdraft**; this facility allows individuals to use the money they have in their bank account. The only problem is that there is a higher interest rate charged where an individual business overdraws his/her/its account without prior authorization from bankers.

However it could yet be considered as a short term financing to the business, technically, overdrafts should be paid back within 3 months, its usually much easier to get compared to a loan, the only disadvantage is that the interest rate is much higher and its not always available to everyone unless they possess a current account.

d. **Debt factoring**

Debt Factoring is the sale of debts to a specialist firm who secures payment and charges commission on the service, basically this individual helps you to receive money which you need to get from someone that owes you only if you give him a certain commission taken from that money.

This is quite helpful as the money would be available without waiting for the maturity of a contract and it’s also an easy way to secure finance for the business.

The only downfall about it is the obvious fact that you wouldn’t be receiving the full amount which is owed to you as a certain amount of commission will be taken by the firm and its sometimes quite difficult to determine the credibility of the debt finance firm.

e. **Trade-Credit**

The only other sources of finance available would be **trade-credit** for sales; this is very useful as it’s considered to be a long-term source of finance, as it is a ‘buy now, pay later concept. This is useful when it comes to purchasing.

f.) **Hire Purchase**

This is a type of finance whereby you may literally hire stock for a period of time, where you pay them at agreed times, however if you for some reason do not manage to meet a payment at any time, the hire purchase company have every right to take the stock which was hired. There is not normally any money back guarantee on this.

g. **Personal Savings**

Lastly u have you're own **Personal savings** which could be used as a source of finance for the business. This is superior as there would not be any need for negotiating as you would have to when applying for a loan etc.

Ultimately, there are two main sources of finance which is divided into two key elements; these two figures are internal sources and External sources.

Internal sources are as already mentioned, divided into 4 main categories which are personal savings, retained profit, working capital and the sale of assets.

The sale of assets could be anything that needs to be sold for the business to carry on. These are normally the fixed assets such as; land, buildings, fixtures and fittings, machinery and vehicles etc.

Businesses normally tend to sell their fixed assets when they are in great desperation of cash, because of this, a lot of organisations decide to stop offering certain products so more money is saved, and at the same time sell their fixed assets. There is one disadvantage in this and this could be that by selling fixed assets they could reduce the amount of product which may be produced or could be used in the working environment.