

Report on mobile phone business

Date: 04/11/04

To: Mr Khan

From: Mohammed VORA

Terms of reference:

In this report I will examine the business of Mr Khan's mobile phone shop and advise him on which legal form he should take; either setup a sole trader or go into partnership. I will study all the advantages and disadvantages of sole trader and a partnership business.

Finding:

<u>Advantages of a sole trader</u>	<u>Disadvantages of a sole trader</u>
Easy to setup and to run- not many forms to be filled in.	Unlimited liability- If the business is bad then it is possible for the owner to lose everything they own.
All profits go to the owner- he/she themselves.	Lack of continuity- The business could be sold by the owner or it could be passed onto their children or all of its assets could be sold off.
He/she are their own boss- has complete control over what happens and what doesn't.	Illness- If the sole trader was to fall ill then the business could be forced to shut and the income and profits would stop.
There are tax advantages such as, national insurance contributions; this saves a sole trader hundreds of pound on profits, and this saves them setting up a limited company and having to become an employee of a company.	Long Hours- The sole trader has to work long hours to keep the business afloat.
Labour relations- when and if a sole trader employs workers the relation between them is likely to be good because the business is so small and the owner has to be able to trust the employers.	Difficulty of raising capital- Many sole traders do not have a capital to start off a business therefore a sole trader could borrow capital/money from the Banks/Building Society, which means they have to pay interest on the capital borrowed.
Flexibility-Sole Traders can decide when they want to open and close the shop.	Limited specialisation- The sole trader only has a certain amount of areas they can specialise in therefore they can not gain the advantage of division of labour like bigger businesses.
	Limited economies of scale- Smaller businesses for example sole traders tend to buy less stock which means they have to pay the full rate, big businesses like Ltd companies tend to buy more products which means they pay less.

<u><i>ADVANTAGES OF A PARTNESHIP</i></u>	<u><i>DISADVANTAGES OF A PARTNERSHIP</i></u>
They are very easy to set-up.	All of the partners have to make decisions and the more partners there are the higher probability that someone will disagree and this makes it harder for a partnership to continue.
They are very easy to RUN	When a partner loses interest in working for a business in a partnership this can make it harder to raise money and it harder to run the business.
They do not have to employ solicitors or accounts to run the business.	The more money a partner puts into a business the more voting rights they are allowed
Profits belong to the partners who usually work in the Business.	Who will carry on the business in the future when those who set it up retire.
The affairs of the partnership can be kept private because only the Tax authorities need to be told how much the partners are earning and what is the profit of the business.	Some partnerships don't have a deed of partnership this can lead to many problems if there are disagreements amongst the partners.
Partnerships tend to be small, so that there are often good relations between the partners and any employees.	Limited economies of scale- Smaller businesses for example sole traders tend to buy less stock which means they have to pay the full rate, big businesses like Ltd companies tend to buy more products which means they pay less.
Partnerships can have advantages of sole traders. Forming a partnership is one way for sole trader to obtain more capital. Two people can usually raise more money to raise and expand a business.	
Getting extra partners willing to invest more money in a business is a way of financing expansion. Equally new partners can add expertise to the business.	
Sleeping partners provide vitally needed money to help set up or expand the business.	

■=different

■=similarities

RECOMMENDATION:

I have analysed the two tables showing the advantages and disadvantages of a sole trader and a partnership. I have realised that there are many similarities between the advantages of being a sole trader and the advantages of being an owner of a partnership. I have also examined the mobile phone shop and its features.

Overall I have chosen to advise Mr Khan to become a sole trader because I believe that the risks in the disadvantages in having a partnership are higher than becoming a sole trader. A few points may be that any of Mr Khan's partners could make him liable and in most cases he could end up losing everything he owns, in other cases he have many disagreements with the partners and if Mr Khan leaves he could maybe leave with nothing.

The only high risk in being a sole trader is also again unlimited liability but there is a difference in being a sole trader Mr Khan will be responsible only for his own actions so illness, long hours, etc are actions leading to unlimited liability. If he shuts the shop even for 1 hour he could be losing a lot of money at the same time, this is an action leading to unlimited liability. Another major problem, especially for sole traders is that they need capital; capital is a major problem particularly in this case because Mr Khan will need to have enough capital, in any form for e.g. redundancy money, for his land, if there is any expansions and obviously a lot of money in stock, because new advertises are being released very often.