

Working in organisations

A sole trader business consists of one who opens up a business on their own initiative. There are three types of sectors of businesses these comprise of the mutual, public and private sector. **Private family businesses** are include within the private sector. The following information is an describes the private sector:

The private sector is made up of businesses and organisations that are owned by individuals or groups of the individuals. The private includes the following types of business/companies these are: **Sole traders, Partnership,** Private limited companies, Public limited companies and Franchises. A sole trader is a person who opens up a business on his or her own account (as mentioned above). A partnership is when two or more persons agree to carry on a business together. A private limited company cannot offer their shares for sale to the public at large, which makes their ability to raise money limited. A public limited company is an incorporated business and is a large organisation which shares are sold in vast numbers. Franchises are company's which are authorised to sell a goods or services in a particular place.

As a small clothing and accessories business that has grown from a small company to a moderate sized business Mr cannon will benefit from a sole trading business analysing the characteristics. The characteristics of a sole trader include:-

Setting up: Mr Cannon must register as self-employed.

Liability: If the business fails, then the owner is fully responsible for all the business' debts.

Management: The owner's word is final.

Finance: More often than not, owner's personal money.

Profits: All profits belong to the owner.

Taxes Etc.: Self employed status. Even if the owner doesn't draw on his profits they are still taxed. Losses can be offset against tax on other income.

Continuity: If owner dies or retires, the business may crumble

What would be the advantages and disadvantages and disadvantages or remaining as a privately owned family business with me as a sole trader?

Operating as a sole trader is the most common structure used when starting a business. the advantages of a sole trader and remaining as a privately owned family business are as follows: -

Sole Trader

Generally, only a small amount of **capital** needs to be invested, which should reduce the initial start-up cost.

Operating as a sole trader allows the owner to reduce tax payable on the employment income if losses are made. This tax reduction is subject to the business satisfying non-commercial business loss provisions.

Compared with the other business structures, operating as a sole trader is the cheapest option to set up and the easiest to administer.

There can be no set-up costs unless a business name is required. In addition, the only administration system required is an accounting or bookkeeping system that produces a statement showing business revenue and expenses, and the profit or loss.

The salary is usually low for each employee, this is due to the fact they're a few or sometimes no employees within the business.

Control for the overall of control, because the owner has a **hands-on** approach to running the business and can make decisions without consulting anyone else.

As people cannot employ themselves, a sole trader is not required to pay WorkCover on earnings from the business.

However, this also means that if an accident occurs the sole trader will not receive WorkCover benefits. To protect himself or herself, anyone operating as a sole trader should take out sickness and accident insurance.

Privately owned family business

Family businesses benefit from a range of advantages which are often not found in other structures/sector.

Family businesses encourage stability these type of business is built for future generations which encourages the long-term, this indicates growth and success for the business

Decreased costs - family members may be more willing to make financial sacrifices for the sake of the business. For example, accepting lower pay than they would get elsewhere to help the business in the longer-term, or deferring wages during a cashflow crisis. You may also find you don't need employers' liability insurance if you only employ close family members.
You can

Common values - you and your family are likely to share the same ethos and beliefs on how things should be done. This will give you an extra sense of purpose and pride - and your business a competitive edge

Loyalty - strong personal bonds mean you and family members are likely to stick together in hard times and show the determination needed for business success.

Strong commitment - building a lasting family enterprise means you're more likely to put in the extra hours and effort needed to make it a success. And your family is more likely to understand that you need to take a more flexible approach to your working hours

The disadvantages of a sole trader and a privately owned family business are as follows: -

Sole trader

Legal liability and protection of personal assets are two areas where operating as a sole trader is a major disadvantage. In the event of a legal claim against the business, where insurance does not cover the full extent of any damages awarded, the owner's personal assets can be attacked to pay the damages.

Sole traders also do not have any help in the process of running the business.

As a Sole trader work hours are extremely long it is also sometimes difficult to time for example if sole trader is ill, or feels as though they well entitled to a holiday.

Sole traders have a limited liability, which means that they have a risk of unlimited liabilities this could be in circumstances of the sole trader being force to sell their own personal goods/assets to cover any debts the business has accumulated.

The expansions and Development of the business is limited by the amount of capital available.

Privately owned family business

Shares can only be sold with the agreement of the other shareholders, which are family members who may disagree due to emotional conflict.

Shares which are made within the family business are cannot be sold to members of the public.

Due to their internal structure of the business this can cause more formalities to arise.

There are Larger overhead costs of running the company.

What would be the advantages and disadvantages of forming a partnership with a fairly rich friend of mine who is interested in joining the business? How should we go about legally forming a partnership?

Partnerships and limited liability partnerships are two types of ownership. Partnerships are businesses owned by two or more people. A Limited Liability Partnership or LLP is a relatively new creation that operates like a limited partnership, but allows the members of the LLP to take an active role in the business of the partnership, without exposing them to personal liability for others' acts except to the extent of their investment in the LLP. A contract called a deed of partnership is normally drawn up. This states the type of partnership it is, how much capital each has contributed, and how profits and losses will be shared. For example professions such as doctors and dentists are common businesses that are partnerships. They can benefit from shared expertise, but like the sole trader, have unlimited liability. A partnership can also have a sleeping

partner who invests in the business but has not dealings in the day to day running of the enterprise.

The aim of the agreement is to provide a written structure of your business with respect to each partner's responsibility, rights, profit/liability sharing, and also the terms on which the partnership can be terminated.

Advantages

The main advantage of a partnership over a sole trader is shared responsibility. This allows for specialisation, where one partner's strengths can complement another's. For example, if a hairdresser were in partnership with someone with a business background one could concentrate on providing the salon service, and the other on handling the finances.

There is less pressure of time on individual partners.

There is someone to consult over business decisions

Disadvantages

The main disadvantage of a partnership comes from shared responsibility.

Disputes can arise over decisions that have to be made, or about the effort one partner is putting into the firm compared with another.

The distribution of profits can cause problems. The deed of partnership sets out who should get what, but if one partner feels another is not doing enough, there can be dissatisfaction.

A partnership, like a sole trader, has unlimited liability.

Starting a partnership

Both partnership members (friend and yourself) must go to involve a solicitor when creating a partnership agreement document. This is so that both partners get the right advice before finalising the level of commitment and responsibility to the business with respect to what you can offer (in terms of expertise) and afford.

By failing to do so, any issues or conflicts that aren't specified on the agreement will be determined by The Partnership Act, 1890 or The Limited Partnership Act, 1907 which may be against both partners

Once this is all finalised notify friend to impose a deed to put forward how much profit (income) and assets (valuable possessions) must be shared between each partner. This ensures that all agreements go according to plan.

Starting a limited liability partnership

To initiate a limited liability partnership each partner must register at Companies House.

An incorporation document will need to be completed and include a statement that the LLP has complied with the requirements for incorporation. Each member must be registered as self-employed with Inland Revenue.

As I want the business to grow rapidly I think I may need to make the business a limited company. What would be the benefits of doing this and what might be the problems? How should I go about it?

There are two types of limited companies as mentioned in the introduction these are private and public limited companies.

Private limited company

A Registered company has limited liability which indicates that the shareholders cannot lose more than their original shareholdings (input into the business), a private limited company has a minimum of two shareholders and a maximum of fifty. It cannot offer its shares or debentures (debtors) to the public and their transfer is restricted. A private limited company is treated as a legal entity

Public limited company

A Company that is registered as a plc is under the provisions of the Companies Act 1980. The company's name must carry the words 'public limited company' or initials 'plc' and must have authorized share capital over £50,000, with £12,500 paid up - paid to the company by the shareholders. Public limited companies may offer shares to the public and are more regulated than limited companies.

Benefits of a limited company

Benefit of trading via a limited company has always been the limited liability imparted upon the company's officers and shareholders

Shareholder's personal assets are not at risk in the event of a winding up or receivership.

Shareholders can not lose their original shareholdings within the business

There is no obligation for a limited company to commence trading within any set time period after its incorporation.

Problems of a limited company

Disagreement amongst existing shareholders this could cause the business to fail in terms of profit

Difficulty of finding suitable shareholders. Loss of control by existing shareholders.

Lack of collateral and security for those lending funds

Element of risk in the loan.

Starting up a limited company

To set up as a limited company in the UK, yourself or an agent acting for you will need to send several documents and completed forms to Companies House (or, in Northern Ireland, to the Companies Registry for Northern Ireland):

- **A Memorandum of Association**, giving details of the company's name, location and what it will do.
- **Articles of Association**, describing how the company will be run, the rights of the shareholders and the powers of the company's directors.
- **Statement of the First Directors, Secretary and Registered office.**

References for assignment are internet websites which are as follows: -

<http://www.businesslink.gov.uk/>

Ony Ani-Okoye
Working in organisations - Course one

<http://www.bbc.co.uk/schools/gcsebitesize/business/>

http://www.bizhelp24.com/business_start_up/

<http://www.businessvision.co.uk/>