



**LESSON CONTENT TEMPLATE**

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## 1. Lesson Document

### Topic 1: Forms of Business Organization

#### Lesson 1

### **General Forms of Business Organization**

#### **Introduction**

This topic emphasizes the importance of forms of business organizations. Once the topic is completed and approved, learners will be able to apply received knowledge about the different forms of Business Organizations.

Let's imagine that you have a perfect business idea but you don't know what is your next step. First, you need to make a decision about the form of your business organization. When you are making this decision, you need to consider the following factors:

1. Organization costs
2. Reporting requirements
3. Tax consequences
4. Influences on succession planning or future sale of the company

Most of these factors are regulated by state laws, but It is always a good idea to consult a lawyer or accountant who will ensure that your business starts on a good basis. In this lesson, you will learn what kind of forms of business organization exist.



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## Sole Proprietorships

This is the simplest form of business organization. The ownership is limited to only one owner. The special case is "Qualified Joint Venture", which is a business owned by husband and wife. In a sole proprietorship, the owner is personally responsible for all business debts and liens. This means that creditors can attempt to obtain from the personal property of the owner of the debts related to the business.

## Qualified Joint Venture

If the business owned by the husband and wife satisfies requires a "Qualified Joint Venture", the couple may file a joint personal income tax return and operate the business as a sole proprietorship.

Qualification conditions are are (*Book Entrepreneurial Finance Concepts and Cases , 2020.*):

1. Members of the joint venture are spouses (husband and wife),
2. Both spouses materially participate in the business,
3. Both spouses choose to be treated as husband and wife, not a partnership.

## Partnerships

Business venture owned by two or more entities. There are two types of partnerships are (*Book Entrepreneurial Finance Concepts and Cases , 2020.*):

1. General partnership,
2. Limited partnership.



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**General partnership** - All partners actively participate in the operation of the business. In a general partnership, all profits and losses are transferred to the owners and are distributed according to the partnership agreement. The main disadvantage of a general partnership is unlimited liability. That means that each partner is jointly and severally liable for the obligations of the partnership which include business debts and liabilities arising from the injustice of other partners or employees in the business.

**Limited Partnership** - One or more general partners operate in a business and one or more limited partners are not actively involved in the participation of the business. Limited partners have limited liability. Also, their losses are limited by investing in a partnership. Their personal wealth is protected from business creditors. The conditions of the partnership are described in the partnership agreement, including ownership transfer and profit distribution and losses.

The agreement should cover the following things:

- The amount of capital invested by each partner,
- Distribution of profits and losses among partners,

- Voting rights of each partner,
- Responsibilities of each partner,
- Allocation of assets after cessation of operations,
- Succession and exit plan.

## **Corporations**

What is a corporation?

By definition, a corporation is a legal entity that is separate and distinct from its owners. (*Corporation Definition, 2020*) There is no minimum number of corporation owners. Since the establishment of a corporation requires a set of formal written documents such as Articles of incorporation and bylaws, corporations are often considered as a more complex form of business organization.

## **Limited Liability Companies (LLC)**

It provides limited liability to owners. Basically, the benefits of partnerships and corporations combine in an LLC, alleviating some of the disadvantages of each. Usually, there is no limit to the maximum or a minimum number of members.

## **Conclusions**

As a business owner, it is very important to consider different forms of business organization. Many factors can influence the choice of the organizational form that is most appropriate. For that reason, it is necessary to choose the one that best suits your needs.