

2 Types of Small Business Ownership

Question 1

The number of members of a partnership is **usually** limited to:

- c 20

Question 2

Amanda and Doug were partners in a business. The business closed down with debts of \$30,000. Doug can only contribute \$2,000 towards paying off these debts. Amanda has \$70,000 in cash in her personal bank account. The amount of money that Amanda will have to pay towards settling the debts of the partnership is:

- b \$28,000

Question 3

Which of the following is **not** an advantage of a partnership?

- c Limited liability for debts of the business

Question 4

Emma purchased 1,000 shares of \$1.00 each in a proprietary company limited by shares. Emma paid \$1,000 for these shares. Emma owns 50% of the share capital of the company. Emma was not involved in the management of the company. The company closed down and owes \$8,000 to creditors. Emma's share of this loss is:

- d Emma does not have to pay any money towards the debts of the company

Question 5

What is the maximum number of non-employee shareholders that a proprietary company can have?

- a 50

Question 6

Which one of these statements is correct?

- b A company is a separate legal entity.

Question 7

In the following situation *A* to *E* select an appropriate legal structure for each business.

Situation A

Adrian wants to establish a home based business that will involve collecting clothes, ironing the clothes and returning the clothes to the customers.

Answer

An appropriate legal structure would be a sole trader.

Situation B

Jessica wants to buy a coffee shop for \$300,000. Jessica has \$140,000 cash available in her personal bank account. Jessica has a good friend, Kate, who has experience in operating this type of business. Kate has \$200,000 in cash available.

Answer

An appropriate legal structure would be a partnership or a proprietary company limited by shares.

Situation C

Catherine is going to open a DVD rental shop. Catherine wants to ensure that her personal property is not available to creditors should the business fail. Catherine's personal property is valued at \$800,000.

Answer

An appropriate legal structure would be a proprietary company limited by shares.

Situation D

Ken has written a cooking book. Ken is married to Emily who has recently resigned from her job and is going to return to full time study at university for the next two years. Ken wants to publish the cooking book himself, rather than using the services of a major publishing house. Emily will manage their publishing business.

Answer

An appropriate legal structure would be a partnership.

Question 7 continued*Situation E*

Peter is considering going into business with his friend, Jake. Peter worked with Jake before in a business. Jake has strong marketing skills but, tends to be reckless. Jake often made business decisions without consulting with Peter. Peter and Jake will each contribute \$100,000 to the business. Peter owns a house valued at \$500,000 and other personal assets valued at \$200,000. Peter would like to protect these assets.

Answer

An appropriate legal structure would be a proprietary company limited by shares.

Question 8

1

- a Partners together can often raise more capital than can a sole trader. Barney does not have the capital to start a 10 pin bowling business by himself.
- b Partners can share the workload of running a business and any losses. Fred and Barney can jointly run the business.
- c Partners can contribute different skills or knowledge to the business, for example, one partner may know how to record accounting transactions and prepare accounting reports, while another partner may have specialist marketing knowledge and experience.
- d Partners can specialise within the business, for example, Barney can specialise in managing the business with Fred's assistance.
- e One partner can cover for another partner who is sick or on holidays. Fred and Barney can cover for each other.

2

Partners are jointly and severally liable for the debts of the partnership. This means that if Barney does not have any money or other resources, Fred would be responsible for paying all the partnership debts. Fred would have to pay the whole \$600,000. A proprietary company limited by shares would better protect the assets of Fred as Fred would enjoy the advantage of limited liability.

Question 9

Number of Owners

A partnership **usually** has between 2 and 20 owners.

A **proprietary company** must have at least **1** shareholder (owner) and a maximum of **50** non-employee shareholders.

Continuity of Existence

The death or retirement of a **partner** ends the partnership unless there is a prior agreement that it will continue.

A **proprietary company** can have an indefinite life. A change of ownership does not affect the continued existence of the company.

Question 10

A small proprietary company must satisfy any two of the following three conditions:

- 1 the revenue (such as, sales or fees) for a year is less than \$25 million
- 2 the assets at the end of a year are less than \$12.5 million
- 3 the company has less than 50 employees at the end of the year.

As Advance Pty Ltd had revenue of more than \$25 million in one year and assets, at the end of that year, of \$13 million, it is a large proprietary company.