# LEGAL FORMS OF BUSINESS

## A business is a legal entity.

One way of classifying businesses is based on the liabilities of the owners (shareholders)

i. Unlimited liability
ii. Limited liability

The personal properties of owners of businesses of the unlimited-liability type are liable to be liquidated to pay creditors or legal claimants. Whereas, no personal assets of the owners of limited liability companies can be attached to recover dues of creditors.

Suppose you have a business. You raise a loan from a bank. You also purchase materials from other businesses or individuals [They (including the bank) are known as creditors]. Now, for some reason, your business defaults in making payment to the creditors their dues who go to court for recovery and receive(s) a DECREE from the court to recover the money from the business/owners. The creditors have the option of selling all assets of the business. They may have the right to liquidate the personal properties of all the owners depending on the type of legal form of the business. If the business is of the 'Unlimited Liabilities' kind such as Proprietorship and Partnership, the creditors can sell the personal properties of the owners if they own any, such as building, land, investment, etc. But if the business is the 'Limited Liabilities' type, such as 'One Person Company (OPC)', 'Limited Liabilities Partnership (LLP)', 'Private Limited', 'Public Limited', etc. the creditors have no right to liquidate the personal assets of the owners to recover the dues. The creditors can recover whatever it is possible by liquidating the assets of the business only.

### Unlimited liabilities businesses may have the following forms:

i. Sole proprietorship – with only one owner
ii. Partnership – with multiple owners

The proprietorship business is not different from the proprietor and the profit of the business is clubbed with other personal income(s) to determine income tax liabilities.

This kind of business has a limited life span since the business ceases to exist if the proprietor expires.

The same is true for partnership businesses, except that the income of the individual partners is not clubbed with that of the firm for the purpose of estimating income tax. The firm pays its income tax based on its profit independent of the income of the partners and different partners pay their income taxes based on their own incomes.

It is easy to start a business with these types of legal forms.

You need a trade license and GST registration to start the business.

These types of firms cannot allot shares to investors of any kind to raise money.

### Limited liability companies can be of any of the following types:

i. One Person Company (OPC) – only one director. Not permitted to allot shares to others.
ii. Limited Liabilities Partnership (LLP) – 2 to any number of partners
iii. Private Limited – 2 to 200 shareholders. Not allowed to allot shares to public to raise money, but can allot shares to investors.

iv. Public Limited – No upper limit of number of shareholders. Can raise money from the public through Initial Public Offering (IPO) and list shares in stock exchanges.

Except for the OPC type of companies, all other types of businesses have perpetual life, meaning that the life of the companies is not dependent on the life of the owners. If any or all the owners pass away, the business remains a going concern, and new owners will take the reins of the company.

All limited liability companies have to register with the Register of Companies (RoC), which takes some time and has to comply with certain statutory compliances such as obtaining the Director Identification Number (DIN), Digital signature, submission of audited financial statements, etc.

## Postmortem of some recently failed startups

# DocTalk

Title: Matrix Partners-backed health-tech startup DocTalk winds up operations

Product: DocTalk

DocTalk, an India-based startup backed by Y Combinator and Matrix Partners, folded after trying to pivot from being a mobile communications platform between doctors and patients to an electronic medical record (EMR) solutions entity. According to people privy to the shutdown:

The planned transition into the electronic medical record solution (EMR) business from the existing business model didn't yield the acceleration that it needed. Subsequently, the company has shuttered the entire health-tech concept and laid off a majority of its employees.

Founded by Goenka, Chamakura and Aluru in 2016, DocTalk offered a mobile app that helped patients connect with doctors. After their first in-person visit, users could connect to the platform to chat with their doctors, obtain prescriptions and share new reports with their physicians. Patients paid a subscription fee to communicate with their doctor over DocTalk, which retained a part of that and paid the rest to the doctor. Doctors were also charged an initiation fee. The company raised US $ 5 million.

# Stayzilla

Title: Stayzilla, India's Airbnb for homestays, closes its service

Product: Stayzilla

Stayzilla CEO and co-founder Yogendra Vasupal was particularly reflective in his post, explaining how, as a founder, his own objectives were altered as the company ramped up.

"The initial 7 years were all about having negative working capital, positive cash flow and a sustained ability to fund our own growth. Those were the only metrics we tracked. In the last 3–4 years, though, I can honestly state that somewhere I lost my path. I started treasuring GMV, room-nights and other **'vanity' metrics** instead of the fundamentals of cash flow and working capital," he explained.

## PepperTap

Title: The PepperTap Journey: our story

Product: PepperTap

…as we forayed into smaller cities, delivery networks got more fragmented and lethargic. This needed to be researched more and understood better. We found that while tiers 2 and 3 of Indian cities are being served to some extent by new-world logistics providers doing cool things like one-day shipping, there was a whole slew of tier 3.5+ cities which are connected to the world of ecommerce but, in simple terms, have to sometimes wait up to 30 days to receive their orders.

## Sedna Wireless

Title: What an Entrepreneur Learned from His Failed Startup (Interview)

Company: Sedna Wireless

Finances were just one part of the story. The other part was that we failed to execute our own plans. Both external factors (e.g. the hardware ecosystem in India) and internal reasons (e.g. the expertise of the team) played a role. With money it would have lasted a bit more longer.

You may read more than 100 such recent postmortems here:

https://www.cbinsights.com/research/startup-failure-post-mortem/?utm_source=CB+Insights+Newsletter&utm_medium=email&utm_campaign=newsletter_general_sat_2022_02_12&utm_term=block-2&utm_content=research-public#2022update1