Types of Legal Entities:

1. **Sole Trader**:
   - One individual runs the business.
   - The individual is liable for all business debts (personal assets like home, savings at risk).
2. **Partnership**:
   - Two or more people share responsibility.
   - Joint and several liability (all partners are fully liable for the debts).
   - Often used by professionals (e.g., doctors, lawyers).
3. **Limited Liability Partnership (LLP)**:
   - Partners have limited liability.
   - A legal entity separate from its owners.
4. **Limited Company**:
   - A separate legal person from its owners.
   - Divided into shares, limiting the owners' liability to the amount they've invested.
   - **Private Ltd (Ltd)**: Shares not offered to the public.
   - **Public Ltd (PLC)**: Shares offered to the public.

Why a Limited Company is Preferred:

- Limited liability for owners (they only risk what they've invested).
- Easier to raise capital by selling shares.
- It exists separately from the owners.

Key Terms:

- **Takeover**: When one company buys another by acquiring its shares.
- **Merger**: Two companies join to form a new one.
- **Management Buyout**: When a company's management buys out the existing owners.
- **Outsourcing**: Contracting out certain tasks (e.g., IT services) to specialist companies.

Regulation of Limited Companies:

- Must register with Companies House.
- Submit annual reports and accounts.
- Directors must act in good faith, be aware of the company’s financial position, and avoid conflicts of interest.

Other Bodies:

1. **Non-Commercial Bodies**:
   - Government-run organizations (e.g., NHS, police, schools).
   - Aim to provide public services, not make profits.
2. **Charities/Non-Profit**:
   - Legal status as a company limited by guarantee.
   - Profits are not distributed to members but used for charitable purposes.

Setting up a Company:

- Registering costs around £100 (UK).
- Memorandum and Articles of Association are the key documents.
- No lawyer or accountant needed—many use "off-the-shelf" companies.

Directors’ Responsibilities:

- Act in good faith for the company's benefit.
- Declare conflicts of interest.
- Submit annual reports and accounts.

Takeovers & Mergers:

- Takeover: Larger company buys a smaller one (e.g., cash, shares, or both).
- Merger: Two companies combine to create a new entity.

Management Buyouts & Outsourcing:

- **Buyout**: Management buys out the owners.

- **Outsourcing**: Hiring external firms for specialized tasks like IT.

Annual Report (finance and accounting):

- Required for public companies.
- Provides information to shareholders about operations and financial conditions.
- Includes:
  - General corporate information.
  - Financial highlights.
  - Financial statements (balance sheet, income statement, cash flow statement).
  - Auditor's report.
  - Summary of financial data.

2. Balance Sheet:

- Shows what the company **owns** (assets) and **owes** (liabilities) at a specific point.
- **Net Worth**: The difference between assets and liabilities, showing the company’s financial value.
- **Depreciation**: Gradual reduction in the value of fixed assets over time.

3. Assets:

- **Fixed Assets**: Long-term assets (e.g., land, machinery) used to generate income.
- **Current Assets**: Short-term assets (e.g., cash, inventory) that can be easily converted to cash.
- Example: Cars for business use are fixed assets, while cars for resale by a dealer are current assets.

4. Depreciation:

- **Straight Line Method**: Depreciate an asset's cost evenly over its useful life.

- Example: A server bought for Rs. 100,000 depreciated by Rs. 20,000 each year for 5 years.

5. Working Capital:

- Calculated as **current assets minus current liabilities**.
- Represents the money available for day-to-day operations.

6. Creditors:

- **Current liabilities**: Debts due within one year.
- **Long-term liabilities**: Debts due after more than a year.

7. Profit and Loss Account:

- Shows how much money has been received and spent over a period.
- Does not include money borrowed or spent on fixed assets.

8. Cash Flow:

- Ties together the balance sheet, profit and loss account, and capital expenditure.
- Represents cash available after covering short-term obligations.

Why Capital is Needed:

- **Capital**: Wealth in money or assets to start a company or invest.
- **Reasons for needing capital**:
  - Customers may delay payments after services.
  - Business needs funds for purchasing supplies, equipment, and living expenses.
  - Cash required for salaries, rent, marketing, equipment, and other operational costs.
  - If developing a product/package, more money and time are needed upfront.

2. Business Plan:

- A plan is necessary to convince funders the business is feasible.
- The business plan should include:
    - A description of the business and market, showing expertise and technical feasibility.
    - Market analysis, competition assessment, and target audience.
    - Financial forecasts: budgets, cash flow predictions, balance sheets, and profit/loss projections.

3. Sources of Finance - Grants:

- **Grants**:
    - Used for capital investment (e.g., premises, equipment).
    - Usually come with conditions and require additional funding from other sources.
    - Grants are often a **short-term solution** and cover part of the investment.

4. Sources of Finance - Loans:

- **Loans**:
    - If the company liquidates, the lender recovers the loan from asset sales.
    - **Overdraft loans**: Short-term borrowing; can be withdrawn by the bank.
    - **Long-term loans**: Fixed period and rate; repayment of capital at the end of the term.
    - **Soft loans**: Lower interest rates, typically for start-ups.
- **Corporate Bonds**:
    - Debt instruments issued by companies to raise capital.
    - Pay fixed interest regularly (fixed-income securities).

5. Sources of Finance – Equity Capital:

- **Equity Capital**:
    - Money invested in exchange for company shares.
    - **Business angels** and **venture capitalists** invest to grow the company and sell shares at a profit.
    - Shares are taken from the difference between issued and authorized capital.

6. Gearing or Leverage:

- **Gearing**: Relationship between loan capital and equity capital.
  - **High gearing** is undesirable because:
    - Too much is committed to loan payments, leaving little for shareholders.
    - Lenders may worry that high debt encourages risky trading behavior.

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1. Bureaucratic Model:

- **Structure**: Hierarchical, tasks are specialized.
- **Advantages**: Clear authority, efficient, merit-based hiring, and predictability.
- **Disadvantages**: Can lead to boredom, low productivity, and inefficiency.

2. Organic Model:

- **Characteristics**: Flexible, less rigid, cross-functional teams, free-flowing information.
- **Advantages**: Adaptable to changes, decentralized decision-making, emphasis on expertise over authority.

3. Matrix Management:

- **Structure**: Employees work on multiple projects and report to different managers.
- **Advantages**: Combines skills, fosters collaboration, innovation, and flexibility.
- **Disadvantages**: Potential conflicts, dual reporting.

4. Structuring Principles:

- **By Function**: Based on departments like operations, marketing, and R&D.
- **By Geography**: Used by multinational companies, accounting for cultural and linguistic differences.
- **By Product Line**: Common in industries like motor vehicles and software, focuses on specific product types.

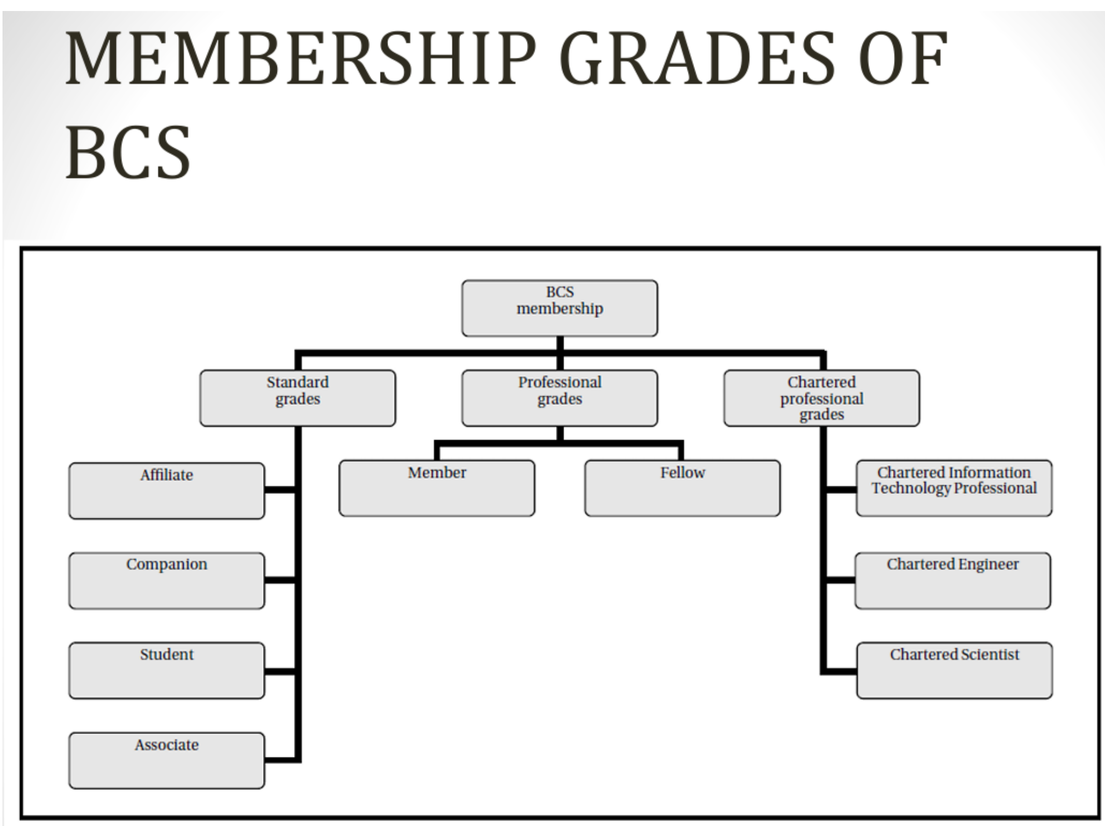
- **By Market Sector**: Organizes by the type of customer market (e.g., IT industry).
- **By Technology**: Divides teams based on technological expertise (e.g., AI, web systems).
- **Operational Structure**: Often project-based (e.g., custom software, motor vehicle manufacturing).

5. Centralization vs. Decentralization:

- **Centralized**: Power concentrated at the top.
- **Decentralized**: Power distributed, common in tech companies.

6. Job Design:

- **Project-Based**: Jobs aligned with project plans.
- **Bureaucratic**: Narrow, defined roles leading to high turnover.
- **Solutions**:
  - **Job rotation**: Moving employees through different tasks.
  - **Job enlargement**: Expanding roles to include more tasks.
  - **Job enrichment**: Making jobs more fulfilling.



Nature of a Profession:

- **Professional**: Prioritizes the organization’s interests over personal convenience and performs tasks competently and conscientiously.
- Common characteristics of a profession:
  - Requires substantial education and training.
  - The profession controls entry through standards.
  - It is organized into professional bodies with codes of conduct and disciplinary procedures.

2. Professional Bodies:

- **Functions**:
  - Establish codes of conduct.
  - Disseminate knowledge through publications and conferences.
  - Set education and experience standards for membership.
  - Advise governments and regulatory bodies.
- **Royal Charter**: Grants legitimacy to a professional body (e.g., BCS in 1984).

3. Reservation of Title and Function:

- **Reservation of Title**: Legal monopoly where a title like "architect" is reserved for those registered with a specific body (e.g., Architects Act 1997).
- **Reservation of Function**: Certain activities (e.g., auditing) are restricted by law to members of specific professional bodies (e.g., Chartered Accountants).

4. The Status of Engineers:

- **USA**:
  - Engineers must be registered with the State Engineers Registration Board to use the title "engineer".
  - Engineering work must be supervised by a registered engineer.

5. Arguments for Licensing Software Engineers:

- **For**:
  - Prevents disasters like Therac-25 (USA) and London Ambulance System failures.
  - Ensures professionalism and safety in critical systems.
- **Against**:
  - Challenges in defining critical vs. non-critical systems.
  - Diversity of roles in software engineering.
  - Rapid technological advancements that licensing cannot keep up with.
  - The global nature of software development complicates standardization.

6. Software Engineers Registration Difficulties:

- **Diversity**: Software engineers specialize in various fields (e.g., system architecture, UI design).
- **Rapid Change**: Technologies evolve quickly, making licensing hard to maintain.
- **Self-Regulation**: The software industry relies on certifications from bodies like IEEE and ACM.
- **Global Collaboration**: Software development is global, making standardized licensing difficult.

7. Continuing Professional Development (CPD):

- **BCS Support**: BCS offers resources for members to keep skills up to date (e.g., publications, courses).
- **Industry Standards**: Models like SFIAplus help organizations ensure their training meets industry best practices.

8. Advancement of Knowledge:

- Professional bodies like IEEE and ACM provide journals and organize conferences to advance industry knowledge.