TERM 2

10 Forms of ownership

TOPIC OVERVIEW

Learning objectives

At the end of this topic, learners should be able to:

- outline/explain the differences between profit and non-profit organisations/companies
- outline the forms of ownership and classify them into profit and non-profit organisations
- define the meaning of different forms of ownership
- outline/explain/describe/discuss the characteristics/advantages/disadvantages of each form of ownership
- distinguish/differentiate between different forms of ownership.
- identify forms of ownership from given case studies/scenarios/cartoons/pictures
- name the different types of co-operatives
- outline/explain/describe/discuss the advantages and disadvantages of co-operatives
- select the best form of ownership and justify the reasons for selection.

Key concepts

- **Form of ownership:** the legal position of a business and the way it is owned.
- **Continuity:** continue to exist even if a change of ownership takes place, for example, a member or shareholder dies or retires.
- **Securities:** shares and bonds issued by a company.
- **Limited liability:** a legal status where a person's financial liability is limited to an amount invested in the business.
- **Unlimited liability:** business owners are responsible for all the business debts.
- **Memorandum of Incorporation (MOI):** a document that sets out the rights, duties and responsibilities of shareholders, directors and other stakeholders within the business.

Key concepts

- **Partnership:** an agreement between two or more parties that have agreed to finance and work together in the pursuit of common business goals.
- **Co-operative society:** a voluntary association started with the aim to meet their common economic/social needs/aspirations through a jointly-owned and democratically-controlled enterprise.
- **Company:** a type of business structure that has a separate legal entity from its owners.
- **Profit companies:** a business entity whose aim is to generate profit from the regular operations.
- **Non-profit company:** a company incorporated for public benefit.
- **Public company:** a company whose shares are traded freely on a stock exchange.
- **Private company:** a company whose shares may not be offered to the public for sale.
- **State-owned company:** a legal entity that is created by the government to participate in commercial activities on its behalf.
- **Prospectus:** a document inviting the public to buy securities/shares.
- **Annual General Meeting (AGM)**: a meeting is held once a year where the shareholders receive a report stating how well or poorly the company has done.
- **Directors:** people elected to the board of a company by the shareholders to represent the shareholders' interests.
- **Audit:** a process where financial statements of the business are checked to confirm that they are correct.

Introduction

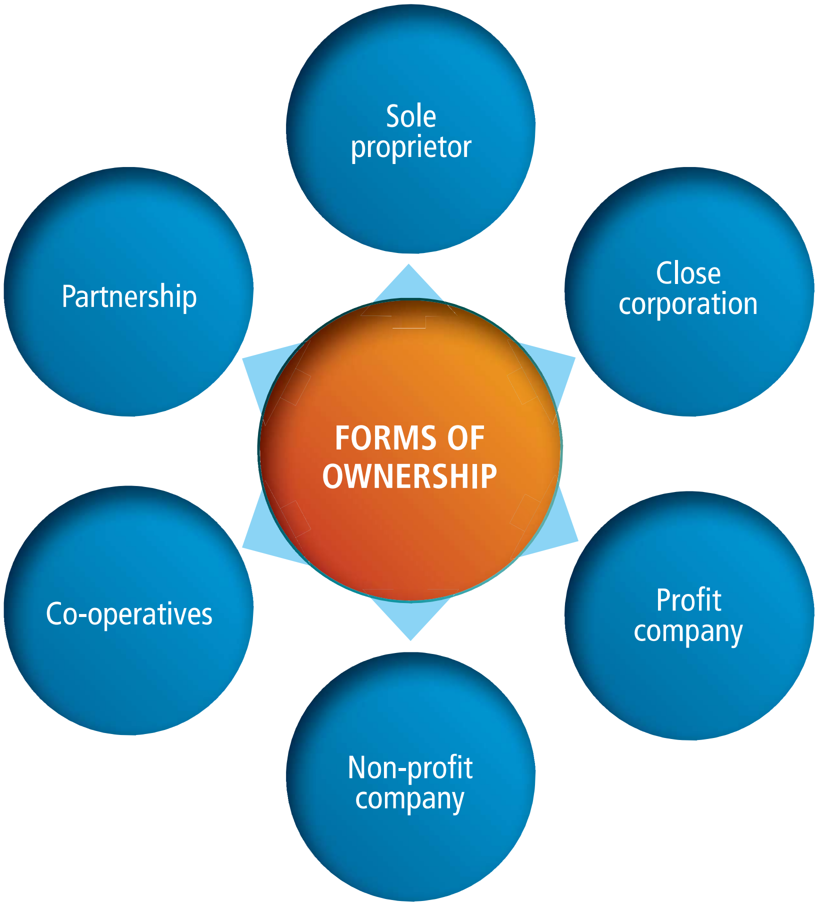
In this topic, we will look at the different forms of ownership and learn about the characteristics, advantages and disadvantages of these forms of ownership.

In grade 11, we will also learn about the different forms of ownership including benefits and challenges of establishing a company versus other forms of ownership. In grade 12 we will again look at forms of ownership, but the focus will be on how certain factors will can contribute to the success and/or failure of each form of ownership.

10.1 Forms of ownership

Forms of ownership refers to the legal position of the business and the way it is owned.

An entrepreneur may decide which of the forms of ownership will best suit their type of business. The forms of ownership are shown in the diagram below..



Factors that need to be considered when choosing a form of ownership

New business owners need to consider the following factors when they choose the form of ownership their business will take:

- the start-up cost and the future **capital**
- the size and nature of the business
- tax implications
- how the business will be controlled and managed/management structure
- the risk involved
- how capital will be contributed
- how profits and losses will be shared
- who is responsible for any **debts** made by the business/**liability**
- the life span of the business/**continuity**
- the **vulnerability** of the business in terms of lawsuits/legal persons.

New business owners will also need to consider whether the business will be a profit-making company or a non-profit company.

A New words

capital wealth in the form of money/other assets owned by a person/organisation/ available for a purpose such as starting a company or investing

debts a sum of money that is owed or due

liability the state of being legally responsible for something

vulnerability the quality or state of being exposed to the possibility of being economically compromised

continuity the existence or operation of a business over time

The differences between profit and non-profit organisations/companies

Profit companies	Non-profit companies
• This company is formed with one aim of making a profit. • A company incorporated for financial gain for its shareholders. • Profit organisations are responsible for paying taxes based on their profit.	• This company is formed for charity purposes or to promote social and cultural activities. • A non-profit company is an association incorporated not for gain. • Non-profit organisations are not required to pay taxes on net income.

Did you know

State-owned enterprises (SOEs) play an important role in South Africa. Government policies rely on state-owned enterprises as vehicles to support the economy.

Classification of the forms of ownership into profit and non-profit

Profit	Non-profit
• Private companies: are reflected as Proprietary Limited or (Pty) Ltd • Personal liability companies: are reflected as Incorporated or Inc. • Public companies: are reflected as Limited or Ltd • State-owned companies: are reflected as SOC Ltd	• Non-profit companies: are reflected as NPC

Activity 10.1 Forms of ownership

1.1 List THREE forms of ownership that are classified as profit companies. (3)
1.2 Explain the differences between profit and non-profit companies. (8)

10.2 Characteristics, advantages and disadvantages of different types of business ownership

Did you know

A sole trader is the oldest and most commonly used form of business. In sole trade, a person makes all the investment.

Sole trader/Proprietor

Defining a sole trader/proprietor

A sole trader is a business that is owned and managed by one person.

The owner is responsible for the activities and decisions of the business. The sole trader mainly depends on his own resources/the business is generally a small scale business.

Characteristics of a sole trader/ proprietorship

- There are no legal requirements regarding the name of the business.
- Legally, the sole trader and the business are not separate entities.
- A sole trader may be started without performing any legal formalities/registration.
- There may be some persons to help but ultimate control lies with the owner.
- The owner has a personal interest in the management and the services that are rendered.
- The owner has unlimited liability.
- The business dissolve when the owner dies.

Advantages of a sole trader/proprietorship

- It is easy and quick to form a sole trade as there is less capital needed.
- The owner can take quick decisions as and when required and has full control.
- The owner can take steps to eliminate wastages of any kind.
- All the assets of the business belong to the owner personally.
- The owner takes all of the profits made by the business and is entitled to the ownership of assets.
- There is personal encouragement and personal contact between the owner and customers.
- Sole traders are generally closer to their customers and offer a more personalised approach and improved customer service.

Disadvantages of a Sole trader/proprietorship

- Since all decisions are taken by the owner, the area of the business will be limited to the management abilities of the owner.
- It is not always possible to attract highly skilled workers because the capital is limited to one person.
- The owner has unlimited liability for debts, which means the owner is personally liable for the debts of the business.
- They cannot expand the business operations because of limited capital.
- The owner is responsible for providing all the capital needed, which may make it difficult to raise big amounts of capital when needed.
- If the owner does not have enough knowledge/experience the business may fail.
- A sole trader lacks continuity especially in the event of death or illness.
- The risk of unlimited liability forces many sole traders not to expand operations beyond a certain point.
- Tax is calculated according to a **progressive income** system, which can be up to a maximum of 40%.

A New words

progressive income imposes a greater percentage of taxation on higher income levels

Partnership

Defining a partnership

A partnership is an arrangement where parties, known as business partners, agree to form a business for their mutual interest. It is an agreement between two or more people who combine labour, capital, and resources towards a common goal. The partners may be individuals, businesses, or combinations. Partners share the responsibility of the business and they share the financial and management decision of the business.

A New words

partnership agreement a contract between two or more individuals who would like to manage and operate a business together in order to make a profit

auditing an independent examination of data, statements, records, operations and performances of an enterprise for a stated purpose

Characteristics of a partnership

- There should be at least a minimum of two people in a partnership.
- The **partnership agreement** becomes the basis of the association between the partners.
- Partners combine capital and may also borrow capital from financial institutions.
- They share the profit according to the partnership agreement.
- Partners share responsibilities and they are all involved in making business decisions.
- Every partner in the business has unlimited liability and are jointly and severally liable for the debts of the business.
- There are no legal requirements regarding the name of the business.
- Partners share profits made and they are therefore motivated to work harder.
- The partnership has no legal personality and therefore has no continuity.
- The partnership does not pay income tax, only the partners in their personal capacities.
- **Auditing** of financial statements is optional.

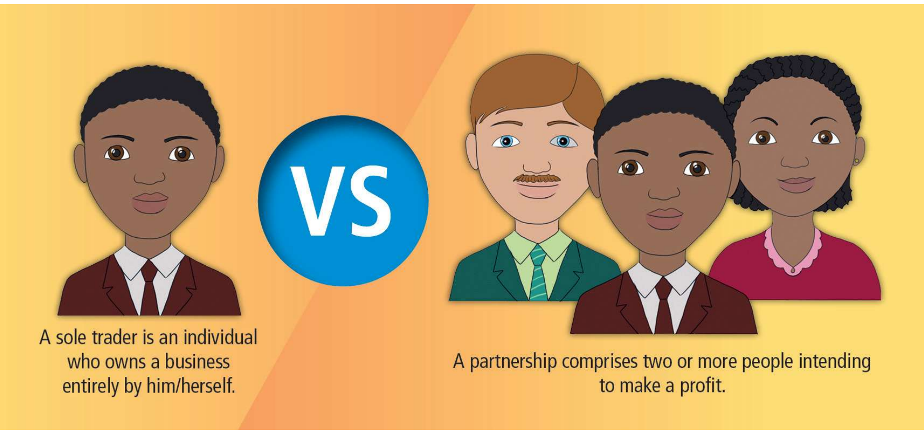
Advantages of a partnership

- Each partner will bring their knowledge, skills, experience, and contacts to the business thus giving the business a better chance to succeed.
- All partners have a personal interest in the business.
- The workload and responsibility are shared between partners and each partner can focus on their strengths.
- Partners invest new capital into the business to finance expansion.
- Partners share responsibilities for decision-making and managing the business.
- Partnerships are not compelled by law to prepare audited financial statements.
- Partners are taxed in their capacities, which could lead to lower taxation – this will be dependent on the level of income of each individual.
- Partners share profits made and they are therefore motivated to work harder.

Disadvantages of a partnership

- Partners might still find it difficult to raise capital as not all partners contribute cash.
- Partners are jointly and severally liable for the actions of the other partners.
- The partnership has no independent legal existence distinct from the partners, it will be dissolved upon registration or death of one of the partners.
- Partners do not have a separate legal personality – the partners are personally liable for debts and losses incurred.
- Different personalities and options of partners can lead to conflict and disagreements.
- Each business partner is legally responsible for the joint liability of the partnership.
- A partnership has unlimited liability, which means that partners risk losing their personal possessions.
- Discussion between partners can slow down decision-making, and they may disagree on important business decisions.
- In a large partnership, the partners may struggle to agree on business issues.
- Partnership lacks continuity, if one of the partners dies/retires, the partnership needs to dissolve and a new agreement has to be drawn up.

The differences between a sole trade and a partnership



SOLE TRADER	PARTNERSHIP
• A sole trader is an individual who owns a business entirely by him/herself.	• A partnership comprises two or more people intending to make a profit.
• Decisions can be taken quickly since it is being taken by one person.	• There may be a delay in decision-making since the input of all partners is needed.
• The profit goes to the owner.	• Profit is shared amongst the partners according to the partnership agreement.

Tip

The differences/distinctions do not have to link but they must be clear.

Activity 10.2 Sole trader vs partnership

1.1 Outline the characteristics of a sole trader. (6)

1.2 Read the scenario below and answer the questions that follow.

MERCY DRESSMAKER (MD)

Mercy Dressmaker specialises in the latest ladies' styles. Mercy is the owner of the business. Matome, the owner of a gents outfitters requested Mercy to form a joint business venture that will be named M & M Boutique.

1.2.1 Identify TWO forms of ownership that are mentioned in the scenario above. Motivate your answer by quoting from the scenario.
Use the table below as a GUIDE to answer QUESTION 1.2

FORMS OF OWNERSHIP	MOTIVATION
1.	
2.	

(6)

1.3 Explain the differences between the TWO forms of ownership identified in QUESTION 1.2. (8)

[20]

Close corporation (CC)

Defining a close corporation (CC)

A close corporation (CC) is a legal entity with a legal personality. It is a business that is owned by members and can have between one and ten members. The CC can be owned by individuals and/or other entities. The word 'close' means that all members are involved and participate in its management.

Did you know

After the implementation of the new Companies Act (No. 71 of 2008) no CC can be registered and no conversions from Companies to CCs will be allowed. However, existing CCs will be maintained. This content is still part of the curriculum because there are many close corporations still in existence.

Characteristics of a CC

- The CC has a minimum of one and a maximum of ten members who share a common goal.
- The name must end with the letters CC.
- Members of the CC both own and control the business.
- Profits are shared in proportion to the member's interest in the CC.
- A CC has its own legal personality and therefore has unlimited continuity.
- Each member contributes some assets/services towards the corporation.
- Audited financial statements are not required for CCs, they only need to appoint an accounting officer to check and monitor their financials.
- Transfer of a member's interest must be approved by all other members.

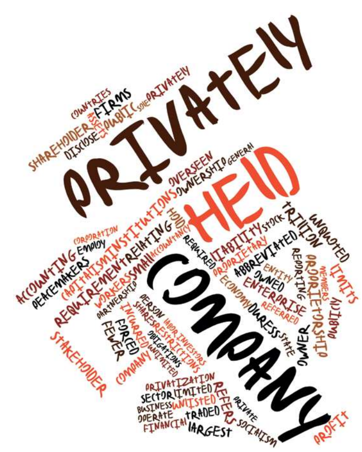
Advantages of a CC

- A CC is a legal entity and has continuity of existence.
- There are fewer legal requirements in the formation of a CC than for a company.
- A CC is not required to hold annual general meetings (AGM).
- Meetings are not compulsory and can be held on an ad hoc basis.
- Members have limited liability, which means they can only lose their investment in the business if the business fails.
- A CC can be converted to a private company and members may become shareholders.
- A CC can invest in a company and become a shareholder.
- Transfer of ownership is easy as it can be transferred to an individual if all members agree.
- CCs may be exempted by CIPC from auditing its financial statements.

Disadvantages of a CC

- There are no directors, therefore members run the business on their own.
- Limited growth and expansion since a CC cannot have more than ten members
- A member of a CC can be held personally liable for the losses of CC if the member's acts are found to be negligent.
- Audited financial statements may be required when applying for financial assistance.
- All members must agree to transfer of a member's interest. This could make it difficult for members to leave the CC or to pay a member their portion.
- Every member acts as an agent of the CC and the CC is bound by the member's actions.
- It is not possible to sell a CC to a company because companies cannot be converted into CCs.
- Most CCs faced double taxation as the business is taxed on their income as well as the dividends.

Private company



Defining a private company

A private company is a company whose shares may not be offered to the public for sale. It is a legal entity and its operations are less strict than those for a public company. A private company is a company that is privately held for small businesses. It has to register as a taxpayer in its own right.

Characteristics of a private company

- A private company can have an unlimited number of shareholders, however, a minimum of one director and one shareholder is required.
- The liability of shareholders is limited to the number of shares held by them.
- Raises capital by issuing shares privately to its shareholders.
- The name of a private company must end with the words '(Proprietary) Limited' or '(Pty) Ltd'.

A New words

bankruptcy an actual court order that depicts how an insolvent person or business will pay off their creditors

director a person who is in charge of an activity, department or organisation

- The company has a legal personality therefore it has unlimited continuity even in the case of death, insolvency, the **bankruptcy** of any of its shareholders.
- A private company is not allowed to sell shares to the public.
- Profits are shared in the form of dividends in proportion to the number of shares held.
- It needs to be registered with the registrar of companies by drawing up a Memorandum of Incorporation.
- The Companies Act (No. 71 of 2008) imposes personal liability on directors who are knowingly part of the carrying on of the business recklessly or fraudulently.
- A private company must prepare annual financial statements.
- Annual financial statements need not be either audited or independently reviewed.

Advantages of a private company

- A company can continue to trade even if one shareholder dies/resigns.
- It is managed at least by one competent highly skilled **director**.
- Shareholders must agree to the sale of transfer of shares.
- Shareholder's liability is restricted to the number of shares they own.
- Information in a private company is only available to shareholders.
- Not required to file annual financial statements with the commission.
- Shareholders can appoint the most capable directors to manage their company.
- The company has its own legal identity and shareholders have no direct legal implications/limited liability.
- A large amount of capital can be raised since there is no limit on the number of shareholders.
- It is possible to sell a private company as it is a legal entity in its own right.
- The management of the company can improve since directors are appointed by shareholders.
- The company can access long-term capital and therefore has good long-term growth opportunities.
- The company is a separate legal person so it may purchase assets in its name.

? Did you know

There is no need to issue a prospectus in a private company, because, the public is not invited to invest in shares of the company

Disadvantages of a private company

- Private companies are subject to many legal requirements and regulations which can be onerous.
- Decision-making takes time because of the large number of people in management.
- The private company cannot be listed on the stock exchange, therefore, it cannot sell shares to the public.
- Directors may sometimes act in their own interest, not in the company's best interest.
- Annual financial statements must be reviewed by a qualified person, which is an extra expense to the company.
- Difficult and expensive to establish as the company is subjected to many legal requirements.
- The Private company pays tax on the profits of the business and on declared dividends and are therefore subject to **double taxation**.
- Directors may sometimes be held liable for debts if it can be proven that they committed fraud.
- Some shareholders may not exercise their voting rights resulting in choosing

A New words

double taxation a tax principle referring to income taxes paid twice on the same source of income

Personal liability company

Defining a personal liability company

A personal liability company is mainly used by associations such as lawyers and accountants. The name of the personal liability company ends with INC. Directors of the company, as well as previous directors, will be responsible for the debts of the company.

Characteristics of a personal liability company

- A personal liability company is required to have a minimum of one director on the board of directors.
- The Memorandum of Incorporation can be altered to require more than one director on the board.
- Directors have unlimited liability and they are jointly liable for the debts of the business even if they are no longer active in the office.
- The Memorandum of Incorporation should state that it is a personal liability company.

Tip

Characteristics of a personal liability company are the same as those of a private company as listed on page xx.

Advantages and disadvantages

- NOTE: The advantages of a personal liability company are the same as those for a private company.
- The disadvantages of a personal liability company are also the same as those for a private company, except that the directors of the personal liability company have unlimited liability.

QR CODE

Personal Liability company

https://www.youtube.com/watch?v=WxoUBMVMUTE

Public company

Defining a public company

The public company is a company that is registered to offer shares and stock to the general public. Public companies are trading in a open market called the Johannesburg Stock Exchange in order to raise capital. Ownership of a public company is distributed among shareholders through the free trade of shares and stock.

CALEB TRADERS PTY LTD

■ Types of public companies

Characteristics of a public company

- A minimum of one person is required to start a public company.
- The company name ends with the letters Ltd.
- Shareholders have limited liability and are not personally liable for the debts of the business.
- Individuals can own shares in this company and these shares are freely transferable.
- A prospectus is issued to the public to invite the public to invest in the company to raise capital. A public company has a separate legal personality and therefore has unlimited continuity.
- A public company has a separate legal personality.
- Requires three or more directors and three or more shareholders.
- Profits are shared in the form of dividends in proportion to the shares held.
- A public company is required to hold an AGM where shareholders vote to elect a new board of directors.
- Must register with the Registrar of Companies by drawing up a Memorandum of Incorporation.
- Raises capital by issuing shares to the public and borrowing capital by issuing debentures.
- Auditing of financial statements is compulsory and audited statements are made available to shareholders and the public.

Advantages of a public company

- Public companies enjoy the ability to raise funds through the sale of the company's stock to the public.
- The business has its own legal identity and can own assets/property.
- Managed by at least three competent, highly skilled directors.
- Directors bring creative ideas which encourage innovation/high productivity.
- Shareholders can sell/transfer their shares freely.
- The ability to raise large amounts of capital in public exchanges enables the company to carry out capital-intensive activities.
- Strict regulatory requirements protect shareholders.
- Easy to raise funds for growth through the sale of shares.
- Additional shares can be raised by issuing more shares or debentures.
- No limitation on the number of shareholders, so growth/expansion is not limited.
- Shareholders have limited liability for the debt of the company and may lose only the amount invested in the business.
- The management of the company can improve since directors are accountable to shareholders.
- The public has access to information and this could motivate them to buy shares from a company.

A New words

Generally Accepted Accounting Principles (GAAP) a set of rules that encompass the details, complexities and legalities of business and corporate accounting

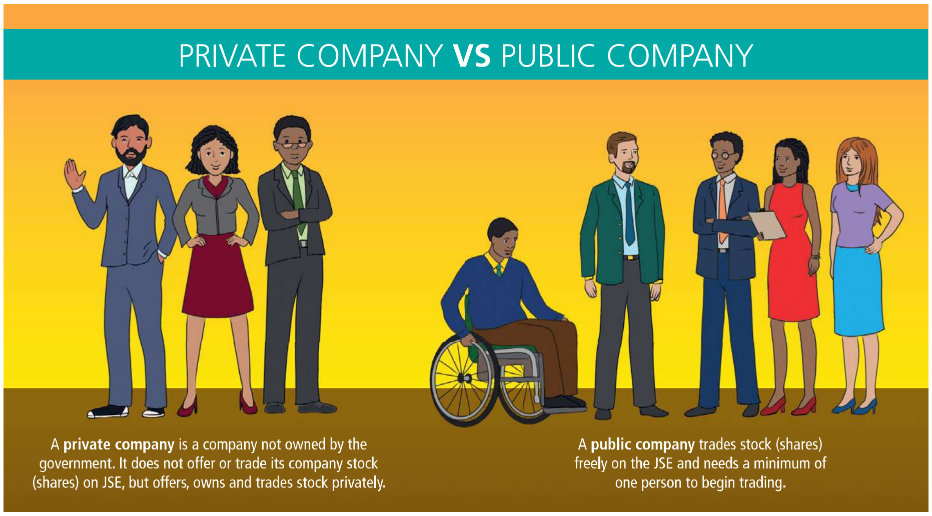
Disadvantages of a public company

- Public companies are vulnerable to increased scrutiny from the government and the public.
- Difficult and expensive to establish as the company is subjected to many legal requirements.
- They must prepare their financial reports in accordance with the **Generally Accepted Accounting Principles (GAAP)**

- Directors may not be motivated to work very hard because shareholders decide on the **directors' remuneration**.
- Directors may not have a direct interest in the company, which slows down the growth and profit.
- Increased director's fees, will increase expenses which will reduce net profit.
- Some shareholders may not exercise their voting rights resulting in choosing the wrong person as a director.
- A full financial report must be submitted to the major shareholders each year.
- A large management structure can result in longer timeframes for decision-making.
- Auditing of financial statements are compulsory.

A New words

directors' remuneration
fees paid to directors for services rendered by them to or on behalf of a company



The differences between a private company and a public company

PRIVATE COMPANY	PUBLIC COMPANY
• May not offer shares to the general public.	• Trades its shares publicly on the Johannesburg Securities Exchange (JSE).
• Shares are not freely transferable.	• Shares are freely transferable.
• Minimum of one director.	• Minimum of three directors.
• Name must end with Proprietary Limited/(Pty) Ltd.	• Name must end with Limited/Ltd.
• Annual financial statements need not be audited and published.	• Annual financial statements need to be audited and published.
• Does not need to publish a prospectus as it cannot trade its shares publicly.	• Have to register and publish a prospectus with the Companies and Intellectual Property Commission/CIPC.
• The company is not required to raise the minimum subscription/issue minimum shares.	• Must raise a minimum subscription before the commencement of the company.

Tip

When asked to list differences, the answer does not have to be in tabular format, but the differences must be clear.

Activity 10.3 **Private, Personal liability and Public company**

1.1 Read the scenario below and answer the questions that follow

MALO MANUFACTURER (PTY) LTD (MML)

Malo Manufacturer (Pty) Ltd specialises in the production of office and household cleaning equipment. The management of MML want to convert the company into a form of ownership that will enable them to sell shares to the public. This will enable them to raise sufficient capital for expansion.

1.1.1 Identify the form of ownership represented by MML. Motivate your answer by quoting from the scenario. (3)

1.1.2 Name the form of ownership that will enable MML to sell shares to the public. (2)

1.1.3 Discuss the advantages and disadvantages of the form of ownership mentioned in QUESTION 1.1.2 (12)

1.2 Explain the meaning of limited and unlimited liability. (4)

Tip

- Read the above scenario carefully before answering questions.
- You should be able to identify key statements/words that would help you answer the question.
- The action verb "identify" requires you to apply your mind to identify a concept in the scenario.
- "Motivate the answer by quoting from the scenario" means that your responses must be quoted verbatim from the scenario. Otherwise, they will not be awarded marks for incomplete quotes or rephrasing of words from the scenario.
- Discuss the advantages and disadvantages of a form of ownership. Marks will be allocated objectively for example, split ticks.

State-owned company (SOC)

Defining a state-owned company (SOC)

In a state-owned company, the government is a major shareholder, and it falls under the Department of Public Enterprise. These companies perform specific functions and operate in accordance with a particular Act. They take on the role of commercial enterprise on behalf of the government.

Examples of state-owned companies in South Africa include Armscor, Alexkor, SAA, Eskom, Transnet.

Characteristics of an SOC

- The state-owned company is financed by the government.
- The name ends with the letters SOC.
- The SOC is listed as a public company.
- These enterprises are managed by the government not by individuals.
- Requires three or more directors and one or more shareholders.
- SOCs are registered with the Registrar of Companies by drawing up a Memorandum of Incorporation.
- The Act imposes personal liability on directors who knowingly participate in reckless or fraudulent business.
- The state-owned company must have its financial statements audited.
- A state-owned company is compelled to hold an AGM.
- A state-owned company has a separate legal personality and its shareholders have limited liability.

Advantages of an SOC

- SOCs help eliminate economic **exploitation** and oppression.
- They offer essential services which may not be offered by the private sector.
- Shareholders have limited liability.
- Profits may be used to finance other state departments.
- Wasteful duplication of services is eliminated.
- Jobs are created for all skill levels.
- Generates income to finance social programmes.
- Prices are kept reasonable to make services affordable to more citizens.
- Provides healthy competition to private sector companies because of government contributions.
- Most of SOCs run on sound business lines as they have their surpluses to run their projects.
- An SOC company has a separate legal personality.

Disadvantages of an SOC

- SOCs usually suffer from inefficiencies in management.
- Management of SOCs does not implement new ideas and innovations.
- Losses must be covered by the taxpayers.
- Government can lose money if the business fails.
- Shares are not freely tradable making it difficult to raise capital.
- A lack of incentive for employees to perform if there is no share in the profit.
- Often rely on government subsidies, which may not cover all the company's expenses.
- SOCs must follow strict regulations for operations to raise capital.
- The management of the SOCs must attend an AGM.
- An SOC is compelled to have its financial statements audited.

Tip

Learners must not confuse the advantages of a SOC with the advantages of the government. SOCs form part of profit companies even though the prices of their goods and services are reasonable. The establishment procedure of SOCs is also the same as for a public company.

New words

exploitation the action of making use of and benefiting from resources

Non-profit company (NPC)

Defining a non-profit company (NPC)

A non-profit company is a legal entity organised and operated for a collective, public or social benefit. They include churches, charity organisations, and cultural organisations. The primary objective of an NPC is to benefit the public, not to make a profit.

Characteristics of NPCs

- The main aim is to provide a service and not to make a profit.
- They are funded by donations and **foreign funding**.
- The name of the company must end in NPC.
- All profits must be used for the primary objective of the NPC.
- It must prepare a Memorandum of Incorporation.
- Qualifying NPCs are granted **tax-exempt** status.
- The board of an NPC must comprise of at least three directors (three or more directors).
- NPCs do not have share capital and cannot distribute shares or pay a dividend to their members.

Advantages of an NPC

- Profits are used solely for the primary objective of the organisation.
- The company does not pay tax, so all earnings can be cycled back into the organisation to improve it.
- Donations made by donors are tax-deductible, therefore it motivates people to donate to the organisation.
- Employees of non-profits are not personally liable for the debts of the non-profit./The liability of the members is limited.
- An NPCs existence can last long after the founders leave the business.
- Can receive grants/aid from the government.
- A surplus of income is retained to further the goals of the business.
- Must prepare the financial statements at the end of the year and is not compelled to audit the financial statements.

New words

foreign funding type of fund that invests in companies that are based internationally, or outside the investor's country of residence

tax exempt refers to income or transactions that are free from tax at national or local government level

QR CODE

Benefits of Starting a Non-profit Organisation

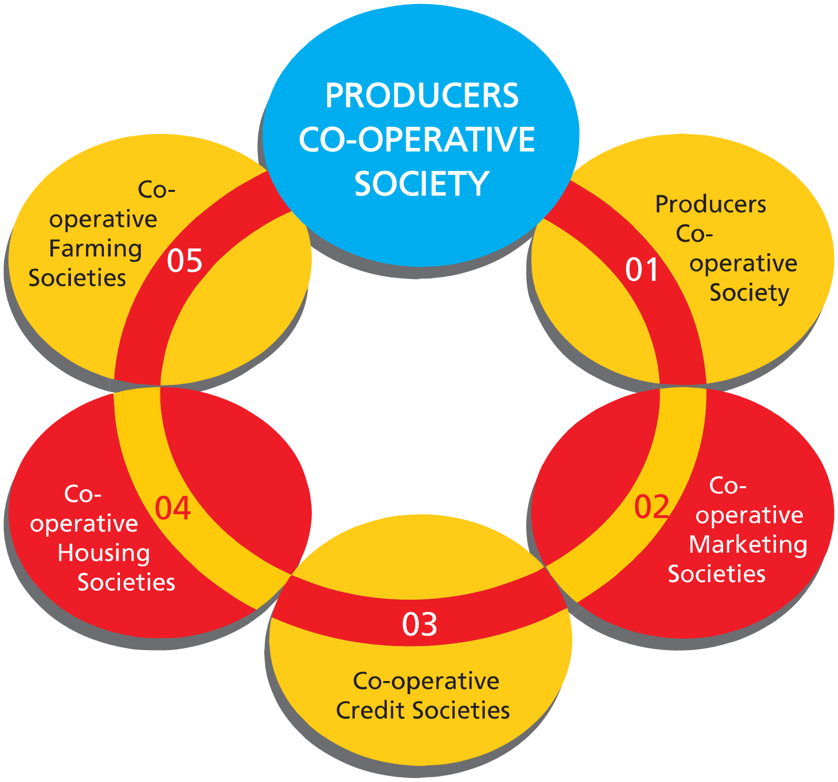
https://www.youtube.com/

Disadvantages of an NPC

- Need professional assistance to set up this organisation.
- Does not generate enough capital to cover their expenses.
- Donations may not always be enough to finance the company's expenses.
- Assets are not distributed to the members upon closing down.
- Creating an NPC takes time/effort/money.
- Obtaining grants can be a slow and tiring process.
- Incorporators cannot take along the assets accumulated by the NPC if they decide to leave.
- They are not allowed to pay bonuses to members.
- They are compelled to prepare annual financial statements.

10.3 Different types of co-operatives

A co-operative society is a voluntary association that is established with the aim of service to its members. It is a form of business whereby people with similar interests link for promotion of common goals. A co-operative is a traditional way for a group of interested parties to get together and share resources/ infrastructures and costs to achieve a better outcome.



Types of co-operative societies

Types of co-operatives

- housing co-operative
- worker co-operative
- social co-operative
- agricultural co-operative

- co-operative burial society
- financial services co-operative
- consumer co-operative
- transport co-operative

A New words

democratic structure a co-operative, owned by members who each have an equal say in how the co-operative is run

registrar an official responsible for keeping a register

co-operative involving mutual assistance in working towards a common goal

Characteristics of co-operatives

- A minimum of five members is required to start a co-operative.
- The words 'Co-operative Limited' must appear at the end of its name.
- They have a **democratic structure**, with each member having one vote.
- They are motivated by service rather than profit.
- They are managed by a minimum of three directors.
- Members own and run the business together and share equally in its profits.
- It is a legal entity and can own land and open bank accounts.
- Must register with the **Registrar** of Co-operatives Societies.
- The objective of a co-operative is to create mutual benefits for its members.

Advantages of co-operatives

- Access to resources and funding.
- Decision-making is done by a group.
- Members have limited liability.
- The decisions are democratic and fair.
- Co-operatives have continuity of existence.
- Profits are shared equally amongst members.
- Each member has an equal share in the business.
- A **co-operative** can appoint its management.
- Members are motivated because they are working for themselves.
- Can gain extra capital by asking its members to buy shares.
- Resources of many people are pooled together to achieve common objectives.

Disadvantages of co-operatives

- Difficult to grow a co-operative.
- Shares are not freely transferable.
- Very few promotion positions for staff.
- Decisions are often difficult to reach and time-consuming.
- It can be difficult to get a loan because their main objective is not always to make a profit.
- The success of co-operatives depends on the support of the members.
- All members have one vote regardless of the number of shares held.

Summary of the characteristics of the forms of ownership

FORM OF OWNERSHIP	NAME OF BUSINESS	FORMATION PROCEDURE	NUMBER OF OWNERS	CONTINUITY OF EXISTENCE	PERSONAL LIABILITY	PROFIT SHARING
Sole trader	None	Easy and cheap	One	Lacks continuity in the event of death or illness.	No legal personality	All to the owner
Partnership	None	Partnership agreement is needed	Minimum two	Dissolved upon death of one of the partners	No legal personality	Shares amongst partners as per the agreement
Close Corporation	Ends with letters CC	Founding statement registered with registrar CK1	One to ten members	Unlimited continuity	Separate legal personality	Share amongst owners
Private company	Ends with letters PTY (LTD)	Register by drawing up Memorandum of incorporation.	Minimum one	Unlimited continuity	Separate legal personality	Profits are shared in the form of dividends
Public company	Ends with letters LTD	Register by drawing up Memorandum of Incorporation.	Minimum one	Unlimited continuity	Separate legal personality	Profits are shared in the form of dividends
State-owned Company	Ends with the letters SOC	register by drawing up Memorandum of Incorporation.	One or more shareholders	unlimited continuity	Separate legal personality	No share in the profit
Non-profit company	Ends with NPC	register by drawing up Memorandum of Incorporation.	One or more shareholders	unlimited continuity	Separate legal personality	All profits used for the primary objective of the NPC.
Personal Liability Company	Ends with INC	Register by drawing up memorandum of incorporation	One or more shareholders	unlimited continuity	No Separate legal personality	Profits are shared in the form of dividends
Co-operative	Ends with Co-operative Limited'	Register with the registrar of Co-operatives Societies	Minimum of five members	Unlimited continuity	Separate legal personality	Profits are shared equally amongst members