

Types of Business



1. Outline why Jimmy Kiss, who owns a suburban corner store, is likely to set up as a sole trader.

A sole trader structure consists of one individual owner who manages and has the sole control of the business. As a suburban corner store, sole trader structure is efficient as it is cost-effective and easy to set up. Furthermore, Jimmy Kiss does not need a lot of employees to run his business and will probably rely on his family to help him in busy times. He will only need to consider moving into another type of business structure if his business turnover has a big increase or his workload becomes too large.

2. Susan Tran, a heart specialist, and Bill Baker, a dentist, want to establish a business together. Identify the most appropriate structure for them, describing three advantages of the legal structure that you have chosen.

A number of legal structures could be suggested such as partnership, private company and others. For example, the most appropriate business structure for both Susan and Bill would be proprietary/private company. A number of advantages from the legal structure of private company could be identified.

Firstly, due to the risky nature of the practice, limited liability structure allows their business to develop a legal barrier between their business and personal assets. This would be very helpful in order to avoid excessive business claims.

Secondly, private company ownership allows up to fifty shareholders to join the business. This gives them flexibility to fundraise for their expensive medical equipment practices.

Thirdly, auditors are required to lodge the companies' financial statements. This would give their business accurate financial information particularly as neither Susan nor Bill is an accountant.

3. Differentiate between a proprietary and public company.

Proprietary/private company could be identified through the suffix Pty Ltd (Proprietary Limited) behind their names while public company adopts the suffix Ltd (Limited). Private company's shareholders are restricted to only fifty shareholders while public company allows any number of shareholders in the company. Furthermore, due to the number of shareholders in the company, a proprietary company tends to have a clearer aim and vision of its founder/owners while the aim and vision in public company could be lost due to numerous opinions and minimum control. Private company is also subject to less regulation compliance in contrast to public company.

4. Discuss the options available to a partnership that is having success and wishes to expand.

A number of options are available for a successful partnership in the expansion stage of their business life cycle, such as becoming a public or private company. Both structures give limited liability rights to the owners which allow them to undertake greater risks in their company without worrying about the loss of their personal assets. The option of becoming a private company is more suitable if the owners would like to maintain their control over the aim and vision of their business. However, a private company is limited in terms of fundraising and becoming a public company allows the owners to issue unlimited number of shares. The option of becoming a public company would also be a more suitable company structure if the partnership aims to expand rapidly or globally as it allows access to greater finances. This option can be expensive and time consuming to organise.

5. Why are more Australian businesses becoming international businesses? Describe three different ways that they can become part of the global market.

Recently, globalisation has been the major trend as barriers, such as regulations and taxes, are removed to allow greater integration between economies worldwide. This has enabled Australian businesses to expand by tapping into the global consumer pool and thus increasing their profits. Australia's small population means that any business in Australia has a small number of customers and if they want to increase their sales (and thus profits), a business must look to selling its products overseas.

An Australian business can become part of the global market in the following ways.

It can be an international business and sell its products overseas while keeping its ownership and production in Australia.

It can become a multinational business by having its operations, such as production facilities, in other countries.

It can become a transnational corporation by having owners registered in many countries. The operations of the business will differ from region to region.

6. Outline the circumstances that could lead to the cessation of business for:**a) a sole trader****b) a company**

a) A sole trader would cease to operate if there were such large losses or claims against the business that the owner could not pay debts as they fall due, and so was in danger of losing their personal assets. A sole trader would also close down if the owner gained no personal satisfaction from running the business.

b) A company would cease if there were such large losses or claims that the company's shareholders started selling their shares in the company, leading to the devaluation of the company. Furthermore, a company would also cease to operate if it was continuously unable to fulfil regulatory requirements

7. Explain why businesses are increasingly using outsourcing to achieve their business goals.

Businesses use outsourcing because in a global and dynamic business environment they need to be competitive if they are to gain and retain customers. Thus they must focus on their prime function, that is core business. Outsourcing allows the business to contract out those areas in which the business is not competent or efficient to those companies that specialise in those areas. For example many business contract out their information and technology needs rather than employ someone full time. Thus, outsourcing acts like supporting arms of the business which allow them to achieve their business goals by focusing on the areas in which they are specialists.

8. Write a report to someone wishing to leave paid employment and open a small business advising them about the impact that such a move will have on their life.

The report should contain information on the following points:

- Introduction
- Decisions about different types of business ownership choices
- Advantages and disadvantages of each type of business ownership
- Factors that will influence the choice of legal structures
- Business failure and how it will affect them
- Conclusion offering advice
- Students should use appropriate headings and may include tables.