15.3

Selecting the appropriate structure

There are four different legal structures to choose from when deciding how a business is to be owned and operated. These structures are described below.

Sole trader

A sole trader is a business that is owned and operated by one person. It is the most common type of business in Australia. A sole trader is the simplest and cheapest structure to establish.

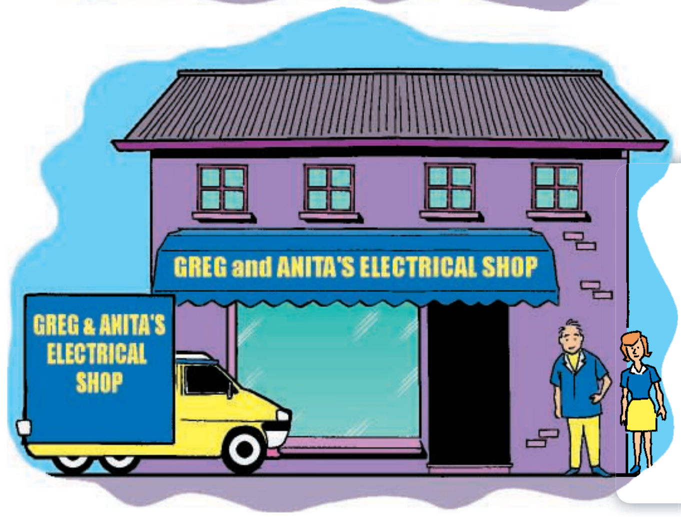
The sole trader receives all the profit and suffers all the losses. He or she has **unlimited liability**. This means he or she can be forced to sell personal assets such as the house or car to pay for business debts.

A sole trader usually has only one person's name in its business name, for example, Greg's Electrical Shop.

Proprietary (private) company

A private company usually has fewer than 50 private owners called shareholders. These businesses tend to be small to medium in size. Often, they are family-owned. Shares in private companies are offered only to those people the business wants as part-owners. This is why it is called a 'private' company.

A private company must have the words 'Proprietary Limited', abbreviated to 'Pty Ltd', after its name. The main advantage of a private company is that shareholders have **limited liability**. This means that if the business cannot pay its debts, a shareholder generally loses only the money she or he has invested in the business.



Partnership

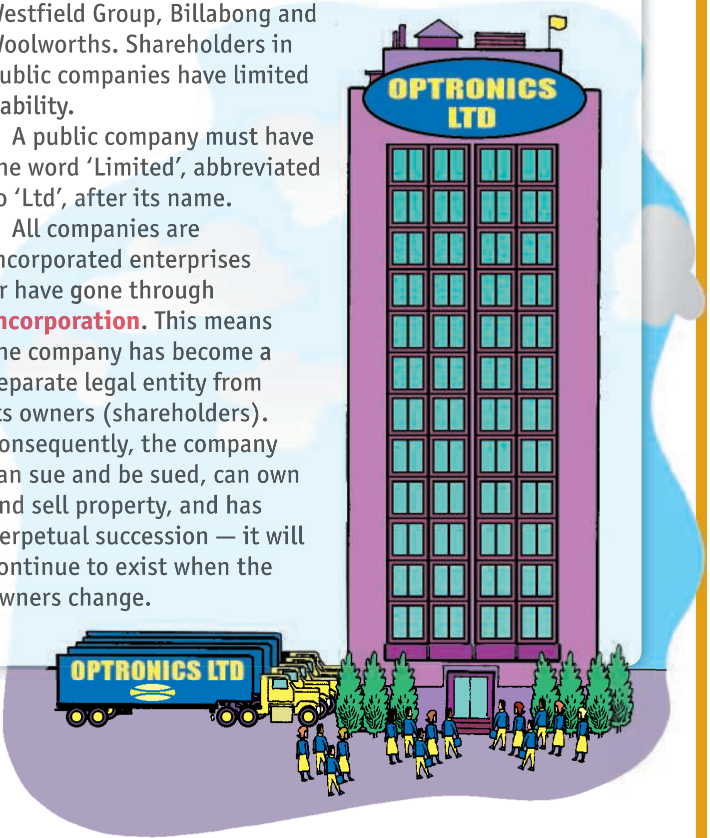
A partnership is a business usually owned and operated by between two and 20 people, called partners. The partners share their profits and losses, usually equally. Together they decide how best to operate the business. It is common for people with similar skills, such as doctors, solicitors and dentists, to form a partnership. Partnerships tend to have the names of the partners in the business name, for example Harries and Davidson Accountants. Partnerships have unlimited liability.

Public company

A public company can have an unlimited number of shareholders. The general public may buy and sell shares in these companies. This is done through the stock exchange. Most public companies are large. Examples include Westfield Group, Billabong and Woolworths. Shareholders in public companies have limited liability.

A public company must have the word 'Limited', abbreviated to 'Ltd', after its name.

All companies are incorporated enterprises or have gone through **incorporation**. This means the company has become a separate legal entity from its owners (shareholders). Consequently, the company can sue and be sued, can own and sell property, and has perpetual succession — it will continue to exist when the owners change.



Arranging finance

Most small businesses are financed with a mix of debt and equity finance.

Debt finance is money obtained through loans; you use other people's money. Equity finance is money received from the sale of shares of ownership in the business; you use your own money. The main advantage with debt financing is that the owner does not have to sell any ownership in the business. Also, debt financing has certain taxation advantages. For these two reasons, debt financing is the most popular source of finance used by businesspeople when starting a small business.

Types of finance

Debt
- Other people's money from:
  - banks
  - finance companies
  - trade suppliers

Equity
- Your own or a partner's money

The two main types of finance available to small business owners

Activities

Understand

1 Select the most appropriate word from the list below to complete the sentences that follow.

public	personal	limited
sole trader	private	unlimited
stock exchange	liability	incorporation
two	20	

A business entity with one owner is called a ________. This person faces ________ liability, which means he or she can be forced to sell his or her ________ assets to pay for the debts of the business. Partnerships normally consist of between ________ and ________ partners. Partnerships have unlimited ________. There are two types of companies, private and ________. A ________ company has fewer than 50 private shareholders. Shares in public companies are bought and sold on the ________. Companies have ________ liability, and have gone through the process of ________.

2 Explain the difference between *debt* and *equity* finance.

3 What are the advantages of debt finance?

Think

4 In your notebook, complete this table to show how each of the businesses in the box below is owned. The first one has been completed for you.

Sole trader	Partnership	Private company	Public company
		Beck's Pty Ltd	

Beck's Pty Ltd	Tom Wilson Plumbing
M&M Communications	CGM Ltd
Tip Top Pty Ltd	Tyler & Kelly

5 Decide what form of business ownership is appropriate for:
(a) a small bicycle shop that offers personal and professional advice by the owner
(b) a national retail chain that would require $589 million to establish
(c) a suburban hairdresser
(d) a medical clinic.
Give reasons for your answer.

Glossary

incorporation the company has become a separate legal entity from its owners (shareholders)

limited liability if the business cannot pay its debts, a shareholder generally loses only the money he or she invested in the business

unlimited liability when a business owner is personally responsible for all the debts of his or her business