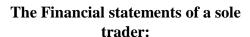
## TYPES OF BUSINESS ORGANISATION

A sole trader is a person who is in business on his or her own.

#### Reasons to set up as a Sole Trader:

- Owner has independence
- Owner can give personal service/supervision to all areas of the business
- The business is easy to establish legally

# SOLE TRADER.



- Income Statement
- Statement of Financial Position

#### Disadvantages of setting up as a Sole Trader:

- The owner has unlimited liability for the debts of the business
- Expansion of business is limited
- The owner usually has to work long hours

A Partnership is the relation which subsists between persons carrying on a business in common with a view of profit.

They consist of between two and twenty partners

#### Reasons to set up as a Partnership:

- Cheap and easy to set up
- There is a possibility of increased capital
- Individual partners may be able to specialise in particular areas of the business



#### The Financial statements of a Partnership:

- Income Statement
- Statement of Financial Position

#### Accounting Requirements of a Partnership:

- Either to follow the rules set out in the Partnership Act 1890
- No partner is entitled to a salary
- Profits and losses are to be shared equally between the partners
- Interest is not to be charged on partners drawings

## Disadvantages of setting up as a Partnership:

- Decisions may take longer as other partners need to be consulted
- May be disagreements amongst partners
- Each partner is liable in law for the dealings and business debts of the whole firm

A Limited Company is a separate legal entity, owned by shareholders and run by directors

# LIMITED COMPANY

## Reasons to set up as a Limited Company:

- Limited liability
- Separate legal entity
- Ability to raise finance
- Membership

## Disadvantages of setting up as a Limited Company:

There is more documentation

### The Financial statements of a sole trader:

- Income Statement
- Statement of Financial Position

#### Questions:

- 1. What is Unlimited Liability?
- 2. What does an Income Statement show?
- 3. Why should an Owner set up as a Sole Trader?