CA BUSINESS SCHOOL

EXECUTIVE DIPLOMA IN BUSINESS AND ACCOUNTING

SEMESTER 1: Preparation of Financial Statements

Business Structures

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Introduction

As we discussed in chapter 01, every entity must identify & record business transactions for the given period and importantly such transaction (which are identified and recorded) should belongs to the given entity.

An entity refers collection (pool) of interrelated group of people acting towards achieving common goal(s) and will be either one of the following;

- Sole Trader
- Partnership
- Company
- Non-profit motive organization
- Trust

Period should be either a calendar year or an assessment year for local company.

Sole Trader/Sole Proprietorship

A Sole trader is a business owned by a person/an individual and control/manage by himself.

Key features:

- Owner & controller is a same individual.
- Not a legal entity.
- Formation is not complex.
- Need to obtain BRN & TIN.
- For tax purpose, entity's income is treated as individual's income (owner)

Advantages	Disadvantages
- Easy & inexpensive to form. - Not govern under strict rules & regulations. - Total autonomy over business decisions. - Enjoy entire benefits. - Not charge tax on business profit.	- Unlimited liability since not treated as separate legal entity. - Limited skills & capabilities. - Cease the business when owner experience incapability. - Bear entire loss and liabilities.

Partnership

A Partnership is an association of two or more persons or entities that carry on business as partners with the common motive of earning profit. (how partnership differs from JV)

A partnership could be form **verbally, impliedly or in writing**. Most of the partnerships carry on business in line with the provisions made in Partnership Agreement.

Note: Key duties & responsibilities of each partners, contribution for capital, sharing of profit/loss, payment of salaries are generally included in a partnership agreement.

Key features;

- Involvement of two or more individuals/parties.
- Profit motive.
- Common goal.
- Not a legal entity.
- Easy to form.
- BRN & TIN to be obtain.

Advantages	Disadvantages
- Easy to form.	- Unlimited liability
- Not involvement of much rules & regulations.	- Limited life time.
- Combination of skills & capabilities.	- Disputes/Disagreement between each partners.
- Profit Motive.	- Partners act as a mutual agency.
- Work towards a common goal.	- Some decisions couldn’t be implemented.

Company

A Company is a widely available business entity which treated as an independent legal entity.

Legal entity - Entity (company) treated as a separate unit/person (legal) from the people who own, control and manage it.

Generally, Shareholders (ordinary) are the owners of a company (public) whom received dividends as their compensation.

Registration of a company generally involve complex procedures than sole trader and partnership.

Initially, each individuals who are willing to act as shareholders, directors and company secretary must register at ROC and then simultaneously CRN can obtained from the ROC once register the company.

Note: Most of the companies governed & controlled by the companies act. Further, company must adhere to the rules & regulations laid down by ROC/SEC & LKASs.

Types of Companies

Following major types of companies widely available in the business world.

- Proprietary companies.
- Companies limited by shares.
- Companies limited by guarantee.
- No-liability companies.
- Unlimited companies.

Proprietary/Private Company

Most common form of companies which consists 1-50 shareholders and owned by the family members (generally). Essentially, proprietary company cannot issue shares to the public (can do private placement) but treated as a legal entity.

Companies Limited by Shares

These companies treated as public companies in which shares being issued to the public. At least 03 directors and 01 shareholder require to establish and liability of the shareholders limited to the value of shares being purchased/contributed.

Note: Total share capital may consists of ordinary & preference shares.

Companies Limited by Guarantee

Consists same features as limited by shares except that shareholders will be liable to the amount agreed & guaranteed at the beginning but not for the value of shares acquired.

Advantages	Disadvantages
- Limited Liability - Ability to raise funds/capital quickly - Recognition/reputation - Law tax rate compared to sole trader/partnership	- Considerable amount of time & cost involvement to establish - Need to comply with rules & regulations - Responsibility carries towards public - Operational complexities

No-Liability Companies

As name implied, shareholders are not liable for any debt of the company due to the risk & uncertainty involve in operations and revenue sources.

Unlimited Company

Members/Shareholders of the company hold unlimited liability over company debts.

Non-Profit Motive Organization

An organization established with the main objective of maintaining healthy education, social, cultural level in the society as a whole.

Since there is no profit motive, operations will be carried out with the assistance of various individuals and entities.

E.g.: UNA/WHO/Red Cross Society/Lions Club

Trust

A trust is a collection of individual investors. A trustee is an entity/person act as an administrator for the pool of money & other assets of investors who invested together (outside) and distribute benefits among all such investors.

Family

Trust

Unit

Advantages	Disadvantages
- Tax minimization	- Additional complex laws & regulations to be follow
- Limited liability	- Depend on the trustee
- Easy to form	- Not much attractive in profit motive
- Relatively not highly regulated	

Financial Reporting

Financial reporting of each of the above entities vary based on the applicability of various rules & regulations.

Financial Reporting in

- Sole Trader (too simple)
- Partnership (simple)
- Private Company (complex)
- Public Company (too complex)
- Trust (simple ~ complex)