GAUTENG PROVINCE
EDUCATION
REPUBLIC OF SOUTH AFRICA

BUSINESS STUDIES

GRADE 10

TERM TWO

CHAPTER 9

FORMS OF OWNERSHIP

2020

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This chapter consists of 17 pages

CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES

Learners must be able to:

- Outline/Name the factors that must be considered when choosing a form of ownership.
- Explain the differences between profit and non-profit organisations/companies.
- Outline the forms of ownership and classify them into profit and non-profit organisation.
- Define the meaning of different forms of ownership.
- Explain/Discuss/Describe the characteristics/ advantages/disadvantages of each form of ownership.
- Distinguish/Tabulate/Differentiate/Compare different forms of ownership.
- Identify forms of ownership from given case studies/scenarios/cartoons/pictures
- Outline different types of co-operatives
- Explain/Discuss/Describe the advantages and disadvantages of co-operatives
- Select a best form of ownership and justify the reasons for selection.

TERMS AND DEFINITIONS

TERM	DEFINITION
Form of ownership	The legal position of the business and the way it is owned.
Continuity	Continue to exist even if a change of ownership takes place, e.g a member or shareholder dies or retires.
Surety	If a person or business accepts liability for the debt of another person or business.
Securities	Shares and bonds issued by a company.
Limited liability	Loses are limited to the amount that the owner invested in the
Unlimited liability	The owner's personal assets may be seized to pay for the debts of the business.
Memorandum of Incorporation (MOI)	The document that sets out the rights, responsibilities and duties of shareholders and directors. (Serves as a constitution of a company).
Sole Trader /Sole proprietor	A business is owned and controlled by one person who takes all the decisions, responsibility and profits from the business they run.
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	Autonomous association of persons united voluntarily to meet their common economic/ social needs/aspirations through a jointly owned and democratically controlled enterprise.
Company	A company is a legal person who has capacity and powers to act on its own.
Profit Companies	A company incorporated for the purpose of financial gain for its shareholders.
Non-profit company	A non-profit company is an association incorporated not for gain.
Public company	A public company is a voluntary association of ONE or more persons, governed by the company Act 71 of 2008, incorporated in terms of the Memorandum of Incorporation.
Private company	A private company is a voluntary association of 1 or more persons.
Personal liability company	A personal liability company is a voluntary association of 1 or more person.
State-Owned company	A state-owned company (SOC) is a legal entity that is created by the government in order to participate in commercial activities on
Partnership Article	A document that contains exhaustive provisions with regards to the matters concerning the business and the partners.
Prospectus	Prospectus is a document inviting the public to buy
Annual General Meeting (AGM)	A meeting held once a year where the shareholders receive a report stating how well the company has done.
Directors	People elected to the board of a company by the shareholders to represent the shareholders' interests.
Audit	Process where an organization's accounts are checked to make sure its financial operations are honest

1.1 Factors to be considered when choosing a form of ownership

- The size and nature of the business
- The way in which the business is controlled and managed/ Management
- Who bears the risk/ Risk bearing
- How capital is going to be raised
- How profits and losses will be dealt with/ Sharing of Profit
- Who is responsible for any debts made by the business/ Liability
- Tax implications for profits earned by the business
- The life span of the business/ Continuity
- The vulnerability of the business in terms of lawsuits/ Legal person

1.2 Differences between profit and non-profit companies

Profit making Companies	Non-Profit-making Companies
• The company is established for only one aim and that is to make profit. • A company incorporated for financial gain for its shareholders. • The Memorandum of Incorporation sets out who the directors and shareholders are as well as their rights, duties responsibilities. • It also sets out the number of shares that the company is authorised to issue.	• The company is established for charity purposes or to promote social and cultural activities • A non-profit company is an association incorporated not for gain. • The Memorandum of Incorporation defines the purpose and its operations • The company have an independent legal entity, but the board of trustee is protected unless found negligent or fraudulent.

1.3 Forms of ownership

- Sole trader
- Partnership
- Close Corporation (CC)
- Personal liability Company (PLC)
- Private company (Pty Ltd)
- Public company (Ltd)
- State Owned Company (SOC)
- Non- Profit Company (NPO)
- Co-operative

1.4 Classification of forms of ownership according to profit and non-profit companies

Forms of ownership: Companies	Classification according to non & non-profit companies
• Private Companies: to be reflected as Proprietary Limited or (Pty) Ltd • Personal Liability Companies: to be reflected as Incorporated or Inc • Public Companies: to be reflected as Limited or Ltd • State-owned Companies: to be reflected as SOC Ltd	Profit companies
• Non-Profit Companies to be reflected as NPC	Non-Profit companies

1.5 Characteristics/Advantages and Disadvantages of different forms of ownership

1.5.1 Sole trader/Proprietor

Definition

- A sole trader is a business that is owned and managed by one person.
- The business owner handles everything including the activities of the business, its processes and decisions.
- It is most suitable for service businesses such as a doctor/hairdresser/electrician etc.

Characteristics of a sole proprietor

- Owner can sell the business to anyone at any time.
- There are no legal requirements regarding the name of the business
- It is easy to establish as there are no legal formalities in forming the business.
- Sole traders are not compelled by law to audit financial statements
- The owner has a personal interest in the management and the services that is rendered.
- The owner has unlimited liability/The owner is personally liable for the debt of the business.
- A sole trader has limited company for expansion and lacks continuity of existence.
- The business has no legal personality and therefore has no continuity/Continuity depends on the life and health of the owner.
- The owner provides capital from his/her saving/borrow money from the bank.
- The owner has a personal interest in the management and the services that is delivered.
- Profit is added to the rest of the owner's taxable income.
- There are no special requirements when the owners wants to close the business.

Advantages of a Sole trader/proprietorship

- Requires little capital to start.
- Quick and easy decisions can be made
- No legal process and requirements
- Can easily adapt to the needs of the client/customer
- The assets of the business belong to the owner personally
- A sole trader can close contracts and trade in his own name
- The owner takes all of the profits made by the business and are entitled 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

- It is not always possible to pay high salaries
- Unlimited liability which means that the owner is personally liable for all the debts and losses suffered by the business.
- Growth of business can be restricted due to lack of capital.
- The owner is responsible for providing all the capital needed which may be difficult to raise a big amount.
- 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.
- Difficult to attract highly skilled and knowledgeable employees.
- Tax is calculated according to a progressive income system, which can be up to a maximum of 40%.

1.5.2 Partnership

Definition

- An agreement between two or more people who combine labour, capital and resources towards a common goal.
- Partners share the responsibility of the business and they share the financial and management decision of the business.

Characteristics of a partnership

- There are no legal requirements in starting a partnership except the drawing up of a partnership agreement.
- Partners combine capital and may also borrow capital from financial institutions.
- Profit is shared according to the partnership agreement.
- Partners share responsibilities and they are all involved in decision making
- Partners have unlimited liability and are jointly and severally liable for the debts of the business
- No legal requirements regarding the name of the business.
- No legal formalities to start, only a written partnership agreement is required.
- 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.
- Partners share responsibilities and they are all involved in decision making.
- Diversity/Specialisation/Different skills of the partners can be used.
- There is no specific suffix to be reflected in the name of the partnership.

Advantages of a partnership

- Can bring in extra partners at any time.
- All partners have a personal interest in the business.
- The workload and responsibility is shared between partners.
- Partners invest new capital into the business to finance expansion
- It is easy and inexpensive to establish even with a written agreement.
- Partners share any profits and are therefore motivated to work hard.
- Partners share responsibilities for decision making and managing the business.
- Attract prospective employees with the option or incentives of becoming a partner.
- Partnerships are not compelled by law to prepare audited financial statements.
- Each partner can focus on their own individual strengths when sharing the workload.
- Partners are taxed in their own capacities, which could lead to lower taxation, depending on the level of income of the individual.
- Raising additional capital to finance further business expansion is easy, because there is no limit on the number of partners allowed in each partnership.
- The partners able to put their knowledge and skills together to collectively make the best decisions.
- Partnerships are relatively easy to establish. There are no formal requirements for the creation and running of a partnership.

Disadvantages of a partnership

- Partners might not all contribute equally.
- There can be lack of capital and cash flow.
- Partners are jointly and severally liable for the actions of the other partners.
- Partnership lacks continuity, if one partner dies/retires, the remaining partners need to draw up a new agreement.
- Partnership is not a separate legal entity and therefore partners are liable for the debts in their own capacity.
- Different personalities and options of partners can lead to conflict it 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 large partnership, the partners may struggle to agree on business issues.
- Changes or transfer of ownership can be difficult and generally require a new partnership to be established.

- Loss in profits and stability of the business can occur if a partner resigns/dies/loses interest in the business or is declared bankrupt.
- Profits are divided between partners according to the partnership agreement and not according to the income distributed.

1.5.3 Differences between a sole trade and a partnership

Sole trader	Partnership
- A sole trader is a business that is owned and managed by one person	- An agreement between two or more people who combine labour, capital and resources towards a common goal.
- Quick and easy decisions can be made	- Discussion between partners can slow down decision making, and they may disagree on important business decisions
- If the owner does not have enough knowledge/experience the business may fail	- The partners able to put their knowledge and skills together to collectively make the best decisions

1.5.4 Close Corporation

Definition

- It is businesses that is owned by members and can have between one and ten members.

Characteristics of a Close Corporation

- Can have a minimum of one and maximum of ten members who share a common goal.
- The name must ends with the suffix 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 makes a contribution of some/assets/services towards the corporation.
- The word 'close' means that all members are involved and participate in its management.
- Members have unlimited liability except where the CC has had more ten members for six months or longer.
- Auditing of books is optional as members only need an accounting officer to check financial records.
- Transfer of a member's interest must be approved by all other members.
- Members of the CC are paid according to the percentage interest owned by each.

Advantages of a Close Corporation (CC)

- A CC is a legal entity and has continuity of existence
- A Close Corporation is easy to establish and to operate because there are fewer legal requirements than companies.
- A Close Corporation 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.

- A Close Corporation can be converted to a Private company and members may become shareholders.
- The ‘Business Rescue’ clause work to the advantage of the CC because it facilitates the rehabilitation of a CC when it is financially distressed.
- Transfer of ownership is easy as it can be transferred to individual if all members agree.
- There are no directors therefore, no complex rules like in companies where directors are subjected to more rules.
- Close Corporation may be exempted by CIPC from auditing its financial statement.

Disadvantages of a Close Corporation

- 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 acts is incompetent.
- Audited financial statements may be required when applying for a loan
- All members must agree to dispose 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 act 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.
- A CC is taxed on its income and Standard Tax of Company (STC) based on member’s dividends/ Double taxation.

1.5.5 Private company

Definition

- A private company has have between one or more shareholders
- It can be a small or large company and has one or more directors.

Characteristics of a private company

- It needs a minimum of one shareholder and there is no limit on the number of shareholders
- Requires one or more directors and one or more shareholders.
- Raises capital by issuing shares to its shareholders.
- The company name ends with letters (PTY) Ltd.
- Investors put capital in to earn profit from shares.
- The company has a legal personality as well as unlimited continuity
- A private company is not allowed to sell shares to the public.
- Shareholders have limited liability and a separate legal entity.
- Profits are shared in the form of dividends in proportion to the number of shares held.
- Register with the registrar of companies by drawing up Memorandum of Incorporation.
- Shareholders have a limited liability and will not lose their initial capital invested if the business goes bankrupt.
- The Act imposes personal liability on directors who are knowingly part of the carrying on of the business in a reckless or fraudulent manner.
- Private company must prepare annual financial statements but is not required to lodge its annual financial statements with the Commission.
- Annual financial statements need not be either audited or independently reviewed, unless prescribed by regulation

Advantages of a private company

- A company has continuity of existence.
- Managed at least by one competent highly skilled director.
- Information in a private company is only available to shareholders.
- Not required to file annual financial statements with the commission.
- The company has unlimited number of shareholders and its life span is perpetual.
- Shareholders can vote for/ appoint the most capable directors to manage their company.
- Own legal identity and shareholders have no direct legal implications/ limited liability
- Large amount of capital can be raised since there is no limit on the number of shareholders.
- Even though shares are not freely transferable, large private companies can raise considerable amount of capital
- 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 accountable to shareholders.
- The company can access long term capital and therefore has good long term growth opportunities.
- The company is a separate legal person it can buy property in its own name. Liabilities of the shareholders are limited.

Disadvantages of a private company

- Difficult and expensive to establish a private company compared to Close Corporations and Sole Proprietorship
- Large management structures can result in decision-making taking time.
- The private company is not allowed to 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.
- Pays tax on the profits of the business and on declared dividends/Subject to double taxation.
- Financial statements must be reviewed by a qualified person, which is an extra expense to the company.
- Directors will be held personally responsible for debts if it can be proven that that they committed fraud.
- Some shareholders may not exercise their voting rights resulting in choosing the wrong person as a director.
- A meeting may not begin, or a matter may not be debated unless at least three shareholders are present.

1.5.5 Personal liability Company

Definition

- A personal liability company is very similar to a private company except that the present and past directors are personally responsible for any debts of the business.
- The name of the personal liability company ends in INC and the name of the private company ends in (PTY) Ltd.

Characteristics of a personal liability company

- The company name must end with letters INC
- Directors have unlimited liability and they are jointly liable for the debts of the business even if they are long out of office.
- The memorandum of Incorporation should state that it is a personal liability company.
- They must at least have one director on their board of directors.

NOTE: Other characteristics of a personal liability company are the same as the private company except the above mentioned two characteristics.

Advantages and disadvantages

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

1.5.6 Public company

Definition

- A public company is a company that is registered to offer its stock/shares to the general public. This is mostly done through the Johannesburg Securities/Stock Exchange (JSE).
- The public company is designed for a large scale operation that require large capital investments.

Characteristics on a public company

- A minimum of one person is required to start a public company.
- The company name ends with letters Ltd
- Shareholders have a limited liability.
- A prospectus is issued to the public to raise capital.
- Has 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 share held
- A public company is required to hold an AGM (Annual General Meeting).
- Register with the Registrar of Companies by drawing up Memorandum of Incorporation.
- Raises capital by issuing shares to the public and borrowing capital by issuing a debenture.
- Auditing of financial statements us compulsory and audited statements are available to shareholders and the public
- The new Act forces personal liability on directors who knowingly participated in carrying out business in a reckless/fraudulent manner.

Advantages of a public company

- The business has its own legal identity and can own assets/property.
- Managed by at least one competent highly skilled director.
- Directors bring creative ideas which encourage innovation/high productivity
- Shareholders can sell/transfer their shares freely.
- Attracts small investors as shares can be transferred freely/ easily
- 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 a limited liability for the debt of the company/Shareholders may only loose the amount which they invested.
- The management of the company can improve since directors are accountable to shareholders.
- The public has access to the information and this could motivate them to buy shares from a company

Disadvantages of a public company

- Difficult and expensive to establish as the company is subjected to many legal requirements
- Must disclose all financial information which can be used by its competitors
- Directors may not be motivated to work very hard because share-holders decide on the directors' remuneration
- Directors may not have a direct interest in the company, which can hamper growth and profit maximisation
- Directors' fees increase the company's expenses which reduces net profit.
- Some shareholders may not exercise their voting rights resulting in choosing the wrong person as a director
- A full report must be submitted to the major shareholders each year
- Large management structure can result in decision making taking time
- Large amount of funds are spent on financial audits.
- Financial affairs must be known to publicly, this information could be used to competitors’ advantage.
- Management may be open to legal challenges if their reports do not comply with King Code III.
- Public companies are subject to more disclosure and transparency requirements.

1.5.7 Differences between the private company and public company

PRIVATE COMPANY	PUBLIC COMPANY
- May no offer shares to the general public.	- Trades its shares publicly on the Johannesburg Securities Exchange.
- 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 prior to commencement of the company.

1.5.8 Differences between the private and a personal liability company

PRIVATE COMPANY	STATE OWNED COMPANY
The name ends with (PTY) Ltd	The name ends with INC
The directors are not personally liable for the debts of the business.	The directors are personally liable for the debts of the business.

1.5.9 State owned company

Definition

- A state owned company has the government as its major shareholder and falls under the department of Public Enterprise.
- These companies take on the role of commercial enterprise on behalf of the government.

Characteristics of a state-owned company

- The name ends with letters SOC.
- SOC is listed as a public company.
- It is owned by the government and operated for profit.
- One or more persons may incorporate and there is no limit on number of shareholders.
- Requires three or more directors and one or more shareholders.
- Register with the Registrar of Companies by drawing up Memorandum of Incorporation.
- State-owned companies support private businesses by providing infrastructure such as communication service /Post office and supply of electricity/Eskom.
- A state-owned company enjoys financial autonomy because they are to depend on the government for initial investment.
- The Act imposes personal liability on directors who are knowingly part of the carrying on of the business in a reckless or fraudulent manner.

- State-owned company is compelled to have its financial statement audited.
- A state-owned company is compelled to attend an annual general meeting (AGM).
- A state-owned company has a separate legal personality and have limited liability. Shareholders have limited liability

Advantages of a state-owned company

- Shareholders have limited liability.
- Profits may be used to finance other state departments.
- Offer essential services which may not be offered by the private sector
- Wasteful duplication of services is eliminated.
- Jobs are created for all skills levels.
- Generates income to finance social programmes.
- Prices are kept reasonable/Create sound competition with the private sector to make services affordable to more citizens.
- Planning can be coordinated through central control
- Provides a healthy competition to private sectors because of government contributions.
- Most of the government companies run on sound business lines as they have their surpluses to run their projects.
- State-owned company can be expanded by means of selling its shares to the public.
- A state-owned company has a separate legal personality.

Disadvantages of a state-owned company

- Inefficiency due to the size of the business.
- Financial statements must be audited.
- Losses must be met by the tax payer.
- Government can lose money through the business.
- Shares are not freely tradable making it difficult to raise capital.
- A lack of incentive for employees to perform if there is no absence of other motivator such as productivity bonuses.
- A lack of incentive for employees to perform if there is no share in the profit.
- May result to poor management as government is not always as efficient as the private sector.
- Often rely on government subsidies which may not cover all the company’s expenses.
- SOC must follow strict regulations for operations to raise capital.
- A state-owned company is compelled to attend an annual general meeting (AGM).
- State-owned company is compelled to have its Financial statement audited

1.5.10 Non-profit Company

Definition

- A non-profit company/NPO I not formed with intent to make a profit, but established for public benefit.

Characteristics of non-profit companies

- The main aim is to provide 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 non-profit company.
- It must prepare the Memorandum of Incorporation.
- Qualifying NPCs are granted tax-exempt status.
- The board of a non-profit company must comprise at least three directors (3 or more directors).
- Non-profit companies do not have a share capital and cannot distribute shares or pay dividend to their members.

Advantages of a non-profit company

- Profits are used solely for the primary objective of the organisation.
- They provide social services to various communities.
- Donors receive tax deductions.
- The liability of the members is limited
- Has a legal personality and continuity of existence.
- Can receive grants grants/aid
- 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.
- Non-profit companies are not compelled to attend the general annual meeting (AGM).

Disadvantages of a non-profit company

- 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 a non-profit company 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

1.5.12 Co-operatives

- A cooperative is a traditional way of a group of interested parties getting together and sharing resources/infrastructures and costs to achieve a better outcome.

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

Characteristics of Co-operatives

- Minimum of five members is required to start a cooperative.
- The word 'Cooperative Limited' must appear at the end of its name.
- They are motivated by service rather than profit.
- They are managed by a minimum of three directors.
- Decisions are taken democratically
- Members own and run the business together and share equally in its profits
- Legal entity and can own land and open bank accounts.
- Must register with the Registrar of Cooperatives Societies
- The objective of a co-operative is to create mutual benefit for the members.

Advantages of Co-operatives

- Access to resources and funding.
- Decision making is 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 own 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 cooperatives depends on the support of the members.
- All members have one vote regardless of the number of shares held