**Forms of Business Organization**

A business organization is frequently referred to as a business entity. A business entity is any business organization that exists as an economic unit. The business entity concept applies to all forms of businesses, single proprietorship, a partnership, and a corporation.

A sole proprietorship is a business owned and usually operated by a single individual. Its major characteristic is that the owner and the business are one and the same. In other words, the revenues, expenses, assets and liabilities of the sole proprietorship are also the revenues, expenses, assets, liabilities of the owner.

*Advantages.*

A sole proprietorship is the easiest form of business to organize. The only legal requirements for starting such a business are a municipal licence to operate a business and a registration licence to ensure that two firms do not use the same name. A sole proprietorship can be dissolved as easily as it can be started. A sole proprietorship offers the owner freedom and flexibility in mak ing decisions. Major policies can be changed according to the owner's wishes because the firm does not operate under a rigid charter.

*Disadvantages*

The financial condition of the firm is the same as the financial condition of the owner. Because of this situation, the owner is legally liable for all debts of the company. If the assets of the firm cannot cover all the liabilities, the sole proprietor must pay these debts from his or her own pocket. A sole proprietorship, dependent on its size and provision for succession, may have difficulty in obtaining capital because lenders are leery of giving money to only one person who is pledged to repay. A proprietorship has a limited life, being terminated on the death, bankruptcy, insanity, imprisonment, retirement, or whim of the owner.

A partnership is an unincorporated enterprise owned by two or more individuals.

A partnership agreement, oral or written, expresses the rights and obligations of each partner. There are three types of partnerships: general partnerships, limited partnerships, and joint ventures. The most common form is the general partnership, often used by lawyers, doctors, dentists, and chartered accountants.

*Advantages*

Partnerships, like sole proprietorships, are easy to start up. Partners' interests can be protected by formulation of an “Agreement of Partnership”. This agreement specifies all the details of the partnership. Complementary management skills are a major advantage of partnerships. Consequently partnerships are a stronger entity and can attract new employees more easily than proprietorships.

The stronger entity also makes it easier for partnerships to raise additional capital. Lenders are often more willing to advance money to partnerships than to proprietorships because all of the partners are subject to unlimited financial liability.

*Disadvantages*

The major disadvantage of partnerships is that partners, like sole proprietors, are legally liable for all debts of the firm. In partnerships, the unlimited liability is both joint and personal. This means that the partners together are

responsible for all the firm's liabilities. If one of the partners cannot meet his or her share of the debts the other partner(s) must pay all debts. Partnerships are not as easy to dissolve as sole proprietorships.

Limited companies, unlike proprietorships or partnerships, are created by law and are separate from the people who own and manage them. Limited companies are also referred to as corporations. In limited companies, ownership is represented by shares of stock. The owners, at an annual meeting, elect a board of directors which has the responsibility of appointing company officers and setting the enterprise's objectives.

*Advantages*

Limited companies are the least risky from an owner's point of view. Shareholders of corporations can only lose the amount of money they have invested in company stock. If an incorporated business goes bankrupt, owners do not have to meet the liabilities with their own personal holdings. corporations can raise larger amounts of capital than proprietorships or partnerships through the addition of new investors or through better borrowing power.

*Disadvantages*

Limited companies are subject to federal and provincial income taxes. Dividends to shareholders are also taxed on an individual basis. Thus, limited companies are taxed twice: on the profits they earn and on the dividends which come out of the profits. In proprietorships and partnerships earnings are only taxed once – as the personal income of the individuals involved.

With diverse ownerships, corporations do not enjoy the secrecy that proprietorships and partnerships have. A company must send each shareholder an annual report detailing the financial condition of the firm.