



Business Virtual Learning

Course: Intro to Business

Lesson: Types of Business Ownership

April 27, 2020



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Objective/Learning Target: Students will be able to:

- (1) Explain the three types of business organizations: sole proprietor, partnership and corporation.**
- (2) Compare the costs and benefits of sole proprietorship, partnerships and corporations.**



Lesson Starter

When you work on a school project, do you like to work on your own, with a partner, or in a group? Why?

Lesson Starter Continued

In today's lesson, you will be learning the different types of business ownership. Owning a business is like working a school project, there are advantages and disadvantages to working with others or by yourself. You will see business has even more factors to take into account when deciding on an organizational structure.

Please watch the following video as it explains the various types of business organizational structures.



Although there are many types of business organizational structures, today we are going to focus on the three main types, sole proprietorship, partnership, and corporation.



Key Points of Business Organizations

Sole Proprietorship

- One owner
- Tend to be small with no employees

Partnership

- Two or more owners
- Tend to be small with few, if any, employees

Corporation

- Legal entity that is similar to an individual in the eyes of the law
- May be large or small, with few or many employees



Sole Proprietorship

Benefits

- One person
- Receives all benefits, profits and income
- Easy to start and easy to close down

Costs

- Responsible for all decisions and all debts
- Unlimited liability
- Difficult to get start-up or expansion financing
- Income/profits taxed at personal income rates, not business rates



Partnership

Benefits

Shared decision-making

Can rely on partner's expertise

Relatively easy to start

Costs

May have differences of opinions or disagreements

Must decide what to do when one person wants to leave or close down

Unlimited liability

Difficult to get start-up or expansion financing

Income/profit taxed at personal income rates, not business rates



Corporation

Benefits

- Legal entity that is held responsible for its decisions
- Ownership is separate and apart from the owner/shareholders
- Managed by a board of directors
- Owners/shareholders have “limited liability”
- Can be easier to get start-up and expansion financing
- Considered an “individual” and pays its own taxes at corporate tax rates

Costs

- Requires legal advice and fees to establish/maintain
- May be subject to more paperwork and state/federal regulations
- May have managers with absentee ownership



Activity: Cost or Benefit?

This lesson has discussed the cost and benefits of three different types of business organizations: sole proprietor, partnership and corporation. Following is a list of key factors that a new owner(s) needs to consider when deciding what type of business organization is best for his or her situation. Your task is to explain how these factors would be either a cost or benefit in each of the three types of organizations.

Directions: On the following slides determine whether each factor is a cost or benefit, then you will write your explanation next to each type of organization. You may write your answers on a sheet of paper or on a Google Doc.



Activity Continued: Cost or Benefit?

Factor #1: Financial resources needed to start and expand a business.

Sole Proprietorship: Cost or Benefit? Why?

Partnership: Cost or Benefit? Why?

Corporation: Cost or Benefit



Activity Continued: Cost or Benefit?

Factor #2: Their willingness to share decisions and profits with others.

Sole Proprietorship: Cost or Benefit? Why?

Partnership: Cost or Benefit? Why?

Corporation: Cost or Benefit



Activity Continued: Cost or Benefit?

Factor #3: The level of liability they are willing to accept.

Sole Proprietorship: Cost or Benefit? Why?

Partnership: Cost or Benefit? Why?

Corporation: Cost or Benefit



Activity Continued: Cost or Benefit?

Factor #4: Their level of expertise starting and managing a business.

Sole Proprietorship: Cost or Benefit? Why?

Partnership: Cost or Benefit? Why?

Corporation: Cost or Benefit



Activity Continued: Cost or Benefit?

Factor #5: The tax implications related to future income or profits from the business.

Sole Proprietorship: Cost or Benefit? Why?

Partnership: Cost or Benefit? Why?

Corporation: Cost or Benefit



Lesson Conclusion

There is no perfect or “one size fits all” business organization. Each has its own benefits and costs. If you looked at the number of businesses operating in the United States, the majority would be sole proprietorships – but they are very small businesses and often homebased with very limited sales. Some may even be hobbies or personal services, such as your lawn mowing business or your friend’s babysitting services. Few companies are partnerships because of the difficulty in managing them. That means the vast majority of business activity today is conducted by corporations – both publicly and privately-held. Not all corporations are “big business”. They may be the local diner, a local plumber, your dentist, your mom’s accounting business or your dad’s tire shop. Being a corporation has nothing to do with size. It generally is related to limiting an individual’s liability to protect their personal assets.