Chapter 12

Solution 12.1

A **sole trader** is an individual sets who sets up in business and starts to trade in his or her own name. The individual is the sole owner of the business.

A **partnership** can be described as an association of persons carrying on business in common with a view to making a profit.

A **private limited company** is a corporate body, which has a legal existence quite separate from the owners (between two and fifty shareholders) that have restrictions on the transfer of their share, but are protected by limited liability.

A **public limited company** is a corporate body, which has a legal existence quite separate from the owners (minimum of seven shareholders) that are protected by limited liability. Shares are freely transferable as they can be traded publicly and are quoted on a stock exchange.

Solution 12.2

The advantages of sole proprietorship

1. The simplicity and ease with which one can set up in business.
2. The lack of legal controls and constraints.
3. Privacy, as the accounts of sole proprietorships are not required to be published unlike the accounts of companies.

The disadvantages of sole proprietorship

1. One is not protected by limited liability and is liable personally for all the debts of the business and personal assets may be lost.
2. Sourcing finance can be more difficult with only one owner.
3. The rates of tax on profits for sole traders are higher than for companies.

Solution 12.3

Limited liability means that if the business fails, the only loss the owners incur is the amount that was invested in the business, personal assets cannot be used to pay off debts incurred.

A company may choose to be an 'unlimited company' resulting in its owners being personally liable for the debts and liabilities of the business. A company would choose this option because it allows:

1. The right to reduce issued capital without court permission
2. Exemption from filing accounts (privacy advantage).

Solution 12.4

Limited liability	Both a private and a public company can have limited liability restricting owners loss to that invested in the company should the business fail.
Audit of accounts	Both a private and a public company are required to have an annual audit.
Filing of reports	Both a private and a public company must register annual accounts.
Shareholders	A private company can have between 2 and 50 shareholders while a public company must have a minimum of 7 with no upper limit.
Transfer right	The right of transfer is limited in a private company but is not restricted in a public company
Public subscription	Public subscription is prohibited in a private company but not in a public company.
Stock exchange	A private company is not quoted on the stock exchange whereas a public company may be.
Public information	The level of information required to be made available to the public is more detailed for a public company.