

**BUSINESS STUDIES****GRADE 12****TERM 3****CHAPTER 14****NOTES ON FORMS OF OWNERSHIP****2019****TABLE OF CONTENTS**

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CONTENT DETAILS FOR TEACHING, LEARNING AND ASSESSMENT PURPOSES**Learners must be able to:**

- Explain the characteristics of each form of ownership.
- Discuss/Explain/Evaluate the impact (positives/advantages and/or negatives/disadvantages) of the different forms of ownership
- Explain/Discuss how the following criteria can contribute to success or failure of each form of ownership.
 - **Capacity:** refers to the ability/potential of management to start and operate a business as planned.
 - **Tax implications:** The tax requirements of each form of ownership determine the impact of taxation on business success/failure.
 - **Management:** Ownership impacts on management functions which determine the success/failure of the business.
 - **Capital:** refers to the ability to obtain capital from various sources (e.g. own/borrowed capital). The amount of capital that can be sourced will also impact on business success/failure.
 - **Division of profits:** refers to how profit is divided between owner(s)/shareholders/investors.
 - **Legislation/Legal requirements** for establishment/starting a business impact on the establishment costs and time before a business can legally do business.

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	Losses are limited to the amount that the owner invested in the business.
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 its behalf.
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 securities/shares.
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.

CHARACTERISTICS OF EACH FORM OF OWNERSHIP

SOLE PROPRIETOR

Definition

A sole trader is a business that is owned and managed by one person.

Characteristics of a sole proprietor

- The owner has a personal interest in the management and the services that is rendered.
- It is easy to establish as there are no legal formalities in forming the business.
- There are no legal requirements regarding the name of the business.
- 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.

IMPACT OF A SOLE TRADER

Advantages and/or disadvantages

Advantages	Disadvantages
-Owner makes all decisions.	-Unlimited liability which means the owner is responsible for all debts incurred.
-Requires little capital to start.	-Cash flow is often a problem.
-All profits belong to the owner	-Growth of business can be restricted due to lack of capital.
-Simple management structure.	-Not a legal entity and no continuity
-Can easily adapt to the needs of the client/customer.	-Difficult to attract highly skilled and knowledgeable employees.
-No legal process and requirements.	-The owner is responsible for providing all the capital needed.
-The assets of the business belong to the owner.	-If the owner does not have enough knowledge/experience the business may fail.
-There is personal encouragement and personal contact between the owner and customers.	

PARTNERSHIP

Definition

A partnership has two or more partners who own the business. These owners share the responsibility of the business and they share the financial and management decision of the business.

Characteristics of a partnership

- An agreement between two or more people who combine labour, capital and resources towards a common goal.
- Partners combine capital and may also borrow capital from financial institutions.
- No legal requirements regarding the name of the business.
- Partners have unlimited liability and are jointly and severally liable for the debts of the business.
- Profit is shared according to the partnership agreement.
- Partnership does not pay tax partners pay personal income tax.
- Auditing of financial statements is optional.
- Partners share responsibilities and they are all involved in decision making.
- No legal formalities to start, only a written partnership agreement is required.
- The partnership does not pay income tax, only the partners in their personal capacities.
- Diversity, specialisation and different skills of the partners can be used.
- Partnership has no legal personality and therefore has no continuity.
- Partners share responsibilities and they are all involved in decision making.

IMPACT OF A PARTNERSHIP

Advantages and/or disadvantages

Advantages	Disadvantages
-The partners able to put their knowledge and skills together to collectively make the best decisions.	-A partnership has unlimited liability
-The workload and responsibility is shared between partners.	-Each business partner is legally responsible for the joint liability of the partnership.
-Partners are able to share resources.	-Different personalities and options of partners can lead to conflict it disagreements.
-Partners are only required to pay tax in their personal and individual capacity.	-Partners might not all contribute equally.
-The partners have a personal interest in the business.	-Loss in profits and stability of the business can occur if a partner resigns/ dies/loses interest in the business or is declared bankrupt.
-Can bring in extra partners at any time.	-There can be lack of capital and cash flow.
-Attract prospective employees with the option or incentives of becoming a partner.	

CLOSE CORPORATION

Characteristics of a close corporation

- Can have a minimum of one and maximum of ten members who share a common goal.
- The word 'close' means that all members are involve and participate in its management.
- Each member makes a contribution of some/assets/services towards the corporation.
- The name must ends with the suffix CC.
- Members have unlimited liability except where the CC has had more ten members for six months or longer.
- A CC has its own legal personality and therefore has unlimited continuity.
- 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.
- Profits are shared in proportion to the member's interest in the CC.

IMPACT OF A CLOSE CORPORATION

Advantages and/or disadvantages

Advantages	Disadvantages
-There are few legal requirements e.g. auditing of financial statements/regular annual general meetings.	-Limited growth and expansion since a CC cannot have more than ten members.
-A CC is a legal entity and has continuity of existence.	-A member of a CC can be held personally liable for the losses of CC if the member acts is incompetent.
-Can be converted to a private company and members may become shareholders.	-Audited financial statements may be required when applying for a loan.
-Members have limited liability	-A CC is taxed as if it were a company, which may be higher than personal tax rates.
-Owners' interest in the CC does not need to be in proportion to their capital contribution.	-Difficult for members to leave the CC as all members must agree to dispose of a member's interest.
-CC may be exempted by CIPC from auditing its financial statements.	-A CC is taxed on its income and Standard Tax of Company (STC) based on member's dividends/ Double taxation.

PRIVATE COMPANY

Definition

It can be a small or large company and has one or more directors.

Characteristics of a private company

- Requires one or more directors and one or more shareholders.
- It needs a minimum of one shareholder and there is no limit on the number of shareholders that a private company may have.
- Register with the registrar of companies by drawing up Memorandum of Incorporation.
- The company name ends with letters (PTY) Ltd.
- A private company is not allowed to sell shares to the public.
- Investors put capital in to earn profit from shares.
- The company has a legal personality as well as unlimited continuity.
- The auditing of financial statements is optional.
- Profits are shared in the form of dividends in proportion to the share held.
- Shareholders have a limited liability and will not lose their initial capital invested if the business goes bankrupt.
- Shareholders have limited liability and a separate legal entity.
- Raises capital by issuing shares to its shareholders.
- Profits are shared in the form of dividends in proportion to the number of shares held.

IMPACT OF A PRIVATE COMPANY

Advantages and/or disadvantages

Advantages	Disadvantages
-More opportunities to pay less taxation	-Requires a lot of capital
-Good long-term growth opportunities	-The more shareholders, the less profits
-Own legal identity and shareholders have no direct legal implications/limited liability.	-More taxation requirements
-Board of directors with expertise /experience can be appointed to take decisions	-Directors do not have a personal interest
-Not required to file annual financial statements with the commission.	-Annual financial statements must be reviewed by a qualified person, which is an extra expense to the company.
-It is a legal person and can sign contracts in its own name.	Difficult and expensive to establish as the company is subjected to many legal requirements
-The new Act forces personal liability on directors who knowingly participated in carrying out business in a reckless/fraudulent manner.	-Pays tax on the profits of the business and on declared dividends/Subject to double taxation.
-Financial statements are private and not available to the general public.	-Must prepare annual financial statements.
-A company has continuity of existence	
-It is possible to sell a private company as it is a legal entity in its own right.	
-It can easy raise capital by issuing shares to its members.	

PERSONAL LIABILITY COMPANY

Definition

- Very similar to a private company, the difference is that the directors of a Personal Liability company are jointly and severally liable for all the debts and liabilities of the company. This means that the directors have unlimited liability.
- 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.

IMPACT OF A PERSONAL LIABILITY COMPANY

Advantages and/or 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** the directors of the personal liability company have unlimited liability.

PUBLIC COMPANY

Definition

- A public company is a company that is registered to offer its stock and 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 of a public company

- A minimum of one person is required to start a public company.
- Requires three or more directors and three or more shareholders.
- Register with the Registrar of Companies by drawing up Memorandum of Incorporation.
- The company name ends with letters Ltd.
- Has legal personality and therefore has unlimited continuity
- Raises capital by issuing shares to the public and borrowing capital by issuing a debenture.
- A prospectus is issued to the public to raise capital.
- Shareholders have a limited liability.

- The new Act forces personal liability on directors who knowingly participated in carrying out business in a reckless/fraudulent manner.
- The company has a legal personality as well as unlimited continuity.
- A public company is required to hold an AGM (Annual General Meeting).
- Auditing of financial statements is compulsory and audited statements are available to shareholders and the public.
- Profits are shared in the form of dividends in proportion to the share held.

IMPACT OF A PUBLIC COMPANY

Advantages and/or disadvantages

Advantages	Disadvantages
-The business has its own legal identity	-Must disclose all financial information
-Easy to raise funds for growth through the sale of shares.	-Large amount of funds are spent on financial audits.
-Shareholder is only liable for the amount which is invested/Shareholders have limited liability.	-Stocks have to be traded publicly.
-Can appoint a knowledgeable board of directors.	-A full report must be submitted to the major shareholders each year.
-Buy and sell shares freely.	-Difficult and expensive to establish as the company is subjected to many legal requirements
-Shareholders can sell/transfer their shares freely.	-The more shareholders, the less profit.
-The public has access to the information and this could motivate them to buy shares from a company.	-Shareholders may be allowed little or no input into the affairs of the company.
-Additional shares can be raised by issuing more shares or debentures	-Due to legislation, decisions take longer and there may be disagreements.
-Strict regulatory requirements protect shareholders.	-Financial affairs must be known to publicly, this information could be used to competitors' advantage.

STATE –OWNED COMPANY

Definition

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

Characteristics of a State –Owned Company

- Requires three or more directors and one or more shareholders.
- Register with the Registrar of Companies by drawing up Memorandum of Incorporation.
- It is owned by the government and operated for profit.
- SOC is listed as a public company.
- The name ends with letters SOC.

- State –owned companies support private businesses by providing infrastructure such as communication service /Post office and supply of electricity/Eskom.

IMPACT OF STATE OWNED COMPANIES

Advantages and/or disadvantages

Advantages	Disadvantages
-Profits may be used to finance other state departments	-May result to poor management as government is not always as efficient as the private sector.
-Offer essential services which may not be offered by the private sector	-Inefficiency due to the size of the business
-Prices are kept reasonable/Create sound competition with the private sector to make services affordable to more citizens.	-Often rely on government subsidies
-Wasteful duplication of services is eliminated	-A lack of incentive for employees to perform if there is no absence of other motivator such as productivity bonuses.
-Planning can be coordinated through central control.	-Government can lose money through the business.
-Generates income to finance social programmes.	-A lack of incentive for employees to perform if there is no share in the profit.
-Jobs are created for all skills levels.	-Losses must be met by the tax payer.
	-Shares are not freely tradable making it difficult to raise capital.
	-SOC must follow strict regulations for operations to raise capital.
	-Financial statements must be audited

DIFFERENCES BETWEEN THE PRIVATE 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.

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.

NON-PROFIT COMPANIES

Definition

A non-profit company/NPO is 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.

IMPACT OF NON-PROFIT COMPANIES

Advantages and/or disadvantages of non-profit companies

Advantages	Disadvantages
-Profits are used solely for the primary objective of the organisation.	-Need professional assistance to set up this organisation
-They provide social services to various communities.	-Does not generate enough capital to cover their expenses.
-Donors receive tax deductions.	-Donations may not always be enough.
-The liability of the members is limited	-Assets are not distributed to the members upon closing down.
-Has continuity of existence	-Creating a non-profit company takes time/effort/money.
-Most of the income of a non-profit company is free from income taxes.	-Obtaining grants can be a slow and tiring process.
-Can receive grants/grants/aid	-Incorporators cannot take along the assets accumulated by the NPC if they decide to leave.
-Surplus of income is retained to further the goals of the business.	-They are not allowed to pay bonuses to members.

COOPERATIVES

Definition

- 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.

Characteristics of cooperatives

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

IMPACT OF COOPERATIVES

Advantages and/or disadvantages

Advantages	Disadvantages
-Access to resources and funding	-Decisions are often difficult to reach and time consuming.
-Decision making is by a group	-Difficult to grow a co-operative.
-Each member has an equal share in the business.	-Very few promotion positions for staff.
-A co-operative can appoint its own management.	-It can be difficult to get a loan because their main objective is not always to make a profit.
-Members have limited liability	-The success of cooperatives depends on the support of the members.
-The decisions are democratic and fair	-Shares are not freely transferable
-Members are motivated because they are working for themselves	-All members have one vote regardless of the number of shares held.
-Can gain extra capital by asking its members to buy shares.	-
-Co-operatives have continuity of existence	
-Resources of many people are pooled together to achieve common objectives	
Profits are shared equally amongst members.	

CRITERIA/FACTORS CAN CONTRIBUTE TO SUCCESS OR FAILURE OF EACH FORM OF OWNERSHIP

Factors that contribute to the success and/or failure of a sole trader

Factor	Success	AND/OR	Failure
Capacity	-Easy to control since it is a small business		-Difficult to continue and grow long term -Difficult to get good, well-trained staff as they are expensive -Owner has to manage and carry out all business functions
Management	-One owner so there are no disagreements. -Can make quick decisions without having to consult others.		-Owner has to do all the administration, management and decision-making in the business. -Owners has to rely on own decisions and could make incorrect ones.
Taxation	-Owner only taxed on profits in personal capacity. -Depending on how much income the owner earns, his/her tax rate may be lower than the company tax rate -If the owner earns below a certain threshold amount per year, no income tax is payable and the business's profits are thus not taxed.		-If profits get too big may end up paying high tax in personal capacity. -Failure by the owner to comply with personal income tax regulations could lead to substantial financial penalties imposed by SARS.
Capital	-Capital can be carefully spent and managed -The owner may be able to borrow money from a financial institution, especially if he/she has assets that can be used as surety for a loan.		-Profits may not be large enough for expansion. -Cannot appoint people with large salaries -Owner responsible for any capital borrowed.
Division of profits	-Owner receives all profits from the business which can lead to capital growth. -The owner may use profit to expand the business.		-Owner needs to budget carefully so that business debts are covered. -If the owner does not make a profit, the income and livelihood of the owner may be severely affected. -The owner is personally liable for the loss of the business. -Profits may not cover all business debts/Owner may decide not to expand.
Legislation	-It is easy/inexpensive to start. -Unlimited liability may encourage the owner to work harder to ensure the success of the business. -There are limited regulatory requirements regarding the name of the business.		-Unlimited liability -Personal debts and business debts are one -Must comply with relevant municipal regulations or it could close down. -The owner is personally liable for the business debt; he/she may be reluctant to take

	-It is not compulsory to have financial statements audited.	-Business may only qualify for more loans if they are licenced/Loans are not easily obtainable.
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Factors that contribute to the success and/or failure of a partnership

Factor	Success	AND/OR	Failure
Capacity	<ul style="list-style-type: none"> -Easy and inexpensive to start -Shows potential for growth because partners contribute skills. -Expansion is possible because more partners can join partnership. -Could have a financial capacity to benefit from good discounts for bulk purchases 		<ul style="list-style-type: none"> -In large partnership, the partners may struggle to agree on business issues -The more partners in the partnership, the more difficult it is to control expenses and partners' Drawings.
Management	<ul style="list-style-type: none"> -Partners are actively involved in management and may use the ideas of other partners. -Not all partners need to be actively involved in management and would rather appoint competent managers. -Partners have access to expertise of other partners when difficult decisions have to be made 		<ul style="list-style-type: none"> -Decision making can be time-consuming as all partners have to be in agreement -Some management tasks may be neglected, as one partner may leave it to others to complete -Partners may disagree on how to run the business, which may lead to tension between them -Partners are agents of the partnership and bad management decisions may be forced onto other partners. -Different personalities/opinions could lead to conflict/disagreements.
Taxation	<ul style="list-style-type: none"> -Partnerships pay VAT only on relevant products sold/services rendered which reduces tax administration -The partnership does not pay income tax, only the partners in their personal capacities 		<ul style="list-style-type: none"> -High-earning partners pay more tax, which may discourage other partners from joining the partnership. -Partners may withdraw more cash to reduce their tax burden which may cause cash flow problems for the partnership
Capital	<ul style="list-style-type: none"> -Capital can be carefully spent and managed. -More than one partner contributing to capital. 		<ul style="list-style-type: none"> -Partners may not all have capital to put into business when needed. -Unequal inputs as some partners put in expertise instead of cash
Division of profits	<ul style="list-style-type: none"> -Partners share profits according to their contributions. 		<ul style="list-style-type: none"> -Amount of work done may not be equal to the amount of profit that each partner receives.
Legislation	<ul style="list-style-type: none"> -Easy and cheap to establish, as partners must draw up partnership agreement. -Partners are more motivated 		<ul style="list-style-type: none"> -Unlimited liability/ partners are jointly and severally liable for the debts of the business. -If one partner dies or retires, the

	<p>to make a success because of their personal possessions are at risk.</p> <ul style="list-style-type: none"> - No regulatory requirements regarding the name of the business. -Only subjected to the provisions of the Income Tax Act as compared to companies. 	<p>remaining partners need to draw up a new agreement.</p> <ul style="list-style-type: none"> -Oral agreements between partners can cause conflict between partners. -A partnership is not a legal entity and cannot sue or be sued.
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Factors that contribute to the success and/or failure of a private company

Factor	Success	AND/OR	Failure
Capacity	-There is no limit to the number of shareholders, this may lead to expansion.		-It cannot grow into a very large business since it cannot invite the public to buy shares.
Management	<p>Managed at least by one competent highly skilled director.</p> <ul style="list-style-type: none"> -The management of the company can improve since directors are accountable to shareholders. -Shareholders can vote for/appoint the most capable directors to manage their company 		<ul style="list-style-type: none"> -Directors may not have a direct interest in the company, which can hamper growth and profit maximization. -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. -Large management structures can result in decision-making taking time. -Directors may not be motivated to work very hard because shareholders decide on the directors' remuneration.
Taxation	<ul style="list-style-type: none"> -Can obtain tax rebates if they are involved in SCI projects. -Can obtain government tenders and renew their licenses if they do not evade tax. 		-Subject to double taxation e.g. shareholders pay secondary tax this can have a negative impact to a company that is already financially struggling.
Capital	<ul style="list-style-type: none"> -Large amount of capital can be raised since there is no limit on the number of shareholders. -The company can access long term capital and therefore has good long term growth opportunities. -Even though shares are not freely transferable, large private companies can raise considerable amount of capital. More capital can be 		<ul style="list-style-type: none"> -It cannot grow into a very large business since it cannot invite the public to buy shares. -Restrictions on transferability of shares may not attract financially strong investors. -Large amount of capital cannot be obtained as capital contribution is only limited to private shareholders.

	raised by issuing shares to shareholders.	
Division of profits	<ul style="list-style-type: none"> -High profits and good returns to shareholders indicate the success of a company, which increases the value of shares -Profits generated can be re-invested to expand business operations -Shareholders receive profits according to the type and number of their shares. 	<ul style="list-style-type: none"> -Shareholders may sell their shares when dividends are low, resulting in a drop in share prices -Dividends are not always paid out which may discourage new investors.
Legislation	<p>Procedures to form a private company have been simplified by the new Companies Act 71 of 2008</p> <ul style="list-style-type: none"> -Limited liability allows for greater risk taking, which may lead to growth of the business -Auditing of financial statements (if required), gives shareholders the assurance that the business is being properly managed and supports raising additional finance - There is no longer a limit on the number of shareholders in a private company. -A private company can benefit from government programmes if they comply with the relevant legislation -Personal liability of shareholders does not affect the company's assets 	<ul style="list-style-type: none"> -Formation procedures are time consuming/complicated/expensive, as many legal documents need to be prepared/submitted -High formation/establishment expenses require large start-up capital. -Annual audit of financial statements (if required) is costly -If a private company does not comply with legislation, its licence maybe withdrawn by the Companies and Intellectual Property Commission (CIPC).

Factors that contribute to the success and/or failure of a public company

Factor	Success	AND/OR	Failure
Capacity	<ul style="list-style-type: none"> -More people can join the company by issuing shares to the public. 		<ul style="list-style-type: none"> -Large capacity of the company can also lead to its downfall in that structures and processes may become too costly. -Very costly to maintain infrastructure and large employee base
Management	<ul style="list-style-type: none"> -Managed at least by one competent highly skilled director. -The management of the company can improve since directors are accountable to shareholders. 		<ul style="list-style-type: none"> -Directors may not have a direct interest in the company, which can hamper growth and profit maximization -Large management structure can result in decision making taking time.

	<ul style="list-style-type: none"> -Shareholders can vote for/appoint the most capable directors to manage their company. 	<ul style="list-style-type: none"> -Directors' fees increase the company's expenses which reduces net profit -Management may open to legal challenges if their reports do not comply with King Code 111. -Some shareholders may not exercise their voting rights resulting in choosing the wrong person as a director. -Directors may not be motivated to work very hard because shareholders decide on the directors' remuneration
Taxation	<ul style="list-style-type: none"> -Can obtain tax rebates if they are involved in SCI projects. -Can obtain government tenders and renew their licenses if they do not evade tax. 	<ul style="list-style-type: none"> -Subject to double taxation e.g. shareholders pay secondary tax this can have a negative impact to a company that is already financially struggling
Capital	<ul style="list-style-type: none"> -Can raise large amounts of capital as shares/ debentures can be sold to the public/shareholders -Share capital clause in the Memorandum of Incorporation (MOI) may be changed to issue more shares -A public company's shares are listed on the JSE which gives the company exposure to more potential investors. 	<ul style="list-style-type: none"> -Growth is limited if sufficient capital cannot be raised. -Large amounts of capital required to start a public company. -Raising extra capital may be difficult if the economic climate is unfavourable/Share prices change all the time and they may lose value. -An increase in the number of shares issued may lead to more dividends paid out/less retained income from company profits.
Division of profits	<ul style="list-style-type: none"> High profits and good returns to shareholders indicate the success of a company, which increases the value of shares -Profits generated can be re-invested to expand business operations -Shareholders receive profits according to the type and number of their shares. 	<ul style="list-style-type: none"> -Shareholders may sell their shares when dividends are low, resulting in a drop in share prices -Dividends are not always paid out which may discourage new investors.
Legislation	<ul style="list-style-type: none"> -The company and its owners (shareholders) are separate entities, which may encourage more people to join the company Limited liability allows for greater risk taking, which may lead to growth of the business 	<ul style="list-style-type: none"> -Formation procedures are time consuming/complicated/ expensive, as many legal documents need to be prepared/submitted -High formation/establishment expenses require large start-up capital.√

	-Auditing of financial statements, gives shareholders the assurance that the business is being properly managed and supports raising additional finance.	-Annual audit of financial statements is costly. -If a public company does not comply with legislation, its licence maybe withdrawn by the Companies and Intellectual Property Commission (CIPC).
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Factors that contribute to the success and/or failure of a personal liability company

Factor	Success	AND/OR	Failure
Capacity	There is no limit to the number of shareholders, this may lead to expansion		-It cannot grow into a very large business since it cannot invite the public to buy shares
Management	-PLC is managed by a competent board of directors who may be experts in their fields. -Quick decisions can be made even if there is only one director. -Shareholders can vote for/appoint the most capable directors to manage their company.		-Directors may not have a direct interest in the company, which can hamper growth and profit maximization -PLC and its shareholders are compelled to budget a larger amount for directors' remuneration to attract the best directors. -Directors' fees increase the company's expenses which reduces net profit
Taxation	-Can obtain tax rebates if they are involved in SCI projects. -Can obtain government tenders and renew their licenses if they do not evade tax. -PLC only pays tax after business expenses have been deducted. -Companies and shareholders are taxed separately/double taxation. -The company pays tax at a fixed rate which can be lower than that of partnerships. -Image of the business is promoted and attracts investment when companies comply with tax regulations/laws.		-Subject to double taxation e.g. shareholders pay secondary tax this can have a negative impact to a company that is already financially struggling.
Capital	-Capital can be increased by getting more shareholders.		-It cannot grow into a very large business since it cannot invite the public to buy shares. -Restrictions on transferability of shares may not attract financially strong investors. -Large amount of capital cannot be obtained as capital contribution is

		only limited to private shareholders.
Division of profits	-High profits and good returns to shareholders indicate the success of a company, which increases the value of shares Profits generated can be re-invested to expand business operations.	-Shareholders may sell their shares when dividends are low, resulting in a drop in share prices -Dividends are not always paid out which may discourage new investors.
Legislation	-The company and its owners (shareholders) are separate entities, which may encourage more people to join the company -Directors are forced (by the Act) to act responsibly and work harder towards the success of the company to protect their personal assets -Directors sign performance contracts which will motivate them to perform professionally and ethically -Rights and duties of shareholders are stipulated in the Companies Act, which minimises unethical and corrupt behaviour -May obtain government tenders as the PLC is properly registered in compliance with the Companies Act	-Lengthy registration requirements may delay the actual operation of the business and shareholders can loose on profitable opportunities -It is expensive to register this form of ownership which increases business expenses hence reducing profit -The drafting of directors' performance contracts may be time consuming, expensive and increase costs -Auditing is required only if the PLC meets the requisite tests for solvency and liquidity, which leads to extra auditing costs.

Factors that contribute to the success and/or failure of a non- profit company

Factor	Success	AND/OR	Failure
Capacity	-Many donors may be willing to donate NPC activities are for a good cause/ beneficial to the community. -More shareholders may become involved/join the company as they contribute positively to society.		-Limited capacity as funds may be difficult to raise. -May not attract investors due to its nature as a NPC as they are not profit driven
Management	-A NPC may be well managed as it requires a minimum of three directors. -More directors may be appointed to bring more skills/ideas/ innovations/expertise to the NPC. -The legally prescribed		-Large management structure can complicate/delay decisions. -Directors may mismanage business funds as they may not have a direct interest in the NPC. Directors are liable for any loss/ damage/cost sustained by the company.

	management structure ensures a well-organised company	Directors may not have skills to manage resources.
Taxation	<ul style="list-style-type: none"> -May qualify for tax exemption if certain criteria are met -They may receive certain tax benefits/rebates when actively involved in community projects. 	<ul style="list-style-type: none"> -Required to pay income tax if engaged in activities that are unrelated to their business purpose -Must meet certain tax requirements to be exempted, e.g. operations must be exclusively for charitable, scientific or public safety purpose
Capital	<ul style="list-style-type: none"> -Unlimited number of founders may contribute more capital to the company. -More capital may be raised through donations/ sponsorships for operation /expansion. - It is easy to raise funds/capital, as donors enjoy tax benefits. 	<ul style="list-style-type: none"> -Founders may contribute limited capital/may not contribute capital which may not be sufficient for the establishment/operation of the company. -The company depends/relies on donations as their main source of capital which may hamper its operation/expansion. -NPC may struggle to raise enough capital/funds if they fail to convince donors/donations are misused.
Division of profits	-The profits of the company are used finance other needs of the company.	-May discourage potential investors from investing in the company as this is a non-profit company.
Legislation	<ul style="list-style-type: none"> -The company and its owners (shareholders) are separate entities, which may encourage more people to join the company -Financial statements are audited this may result to effective use of resources. 	-Formation procedures are time consuming/complicated/ expensive, as many legal documents need to be prepared/submitted.