**Forms of Business Ownership**

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One of the most important choices an entrepreneur must make when starting a business is the form of organization. The form a business adopts affects different factors, some of which eventually determine the future of the business. Aligning personal goals with the form of business organization is a critical step, and therefore understanding the advantages and disadvantages of the three most common types is crucial. The three types include sole proprietorship, corporation, and partnership. Each type comes with pros and cons in areas such as paying taxes, setting up, and assessing business debt liabilities. This paper will differentiate among these three forms of business ownership and describe the top two advantages and disadvantages of every form. It will also address the financial statement and regulatory differences of every form.

A sole proprietorship is one of the most common forms of ownership, particularly for small business enterprises. It is owned by one individual or, in some instances, a couple. The main advantage of this form of ownership is its simplicity (Sahasranamam et al., 2019). A sole proprietorship does not require paperwork to create because the owner is literally the entire business. Only a business permit is needed to start a sole proprietorship. The second advantage is that, legally, there is no separation between the company and the owner. This means that all profits gains from the business are taxed as personal income. However, despite being a simple form of organization, it has some disadvantages that one should be aware of before starting such a business. The lack of legal separation between the owner and the business is also a disadvantage because the owner is personally responsible for the taxes, debts, and all financial obligations of the company, such as legal judgments. Additionally, the equity of a sole proprietorship is restricted to the personal resources of the owner (Sahasranamam et al., 2019). This means that if the owner has limited resources, the odds of the business growth are low. In regard to finances, a sole proprietorship equity account is referred to as owners' equity. Since operations are minimal, the financial statements contain basic charts of accounts. As mentioned earlier, regulatory issues such as legal judgments, taxes, and others are the responsibility of the owner.

The second form is a partnership formed when more than one person and usually less than 50 people contribute money, property, or other resources with the purpose of starting a company (McQuaid, 2010). When professionals, say doctors or lawyers want to start a business in their field, they prefer to form partnerships. The main advantage of a partnership is also simplicity. Apart from the partnership contract, little paperwork is involved in forming a partnership. The second advantage is the chance to share burdens and responsibilities with other partners (McQuaid, 2010). Compared to working as a sole proprietor, partners have an opportunity to collaborate with their fellow partners to solve problems. The main disadvantage is the unlimited liability on partners. Partners are liable for losses, taxes, and debts incurred by the business. Whether profits were received by the partners or not, they have to pay taxes on them. In terms of financial statements, equity accounts are created based on the number of involved partners (McQuaid, 2010). Assuming there are seven partners, the equity accounts will be seven, each with the name of every partner.

Corporations are also common in today's business environment. Corporations are owned by shareholders who have limited liabilities. This means that they cannot lose their personal assets beyond what they have invested in the company (Cappellino, 2020). This is the main advantage of a corporation. Second, a corporation can easily raise money to fund its growth activities from the public using the stock exchange. On the flip side, corporations are required to pay income taxes. In the real sense, shareholders are taxed twice. The business is taxed through corporate tax, and the dividends going to shareholders are taxed as personal income. Additionally, corporations are expensive to operate. Decision-making is slow and tedious as many people must be involved. The formation of a corporation involves regulatory formalities such as articles of incorporation (Cappellino, 2020). The financial statements of a corporation are complicated to create and are made by professionals such as accountants.

**References**

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