TOPIC: FORMS OF OWNERSHIP – MEMORANDUM

1.1 Identify TWO forms of ownership that are applicable to Jones Beverages. Motivate your answer. (6)

FORM OF OWNERSHIP	MOTIVATION
Private company√√	The name ends with (Pty) Ltd.√
Public company√√	The name ends with Ltd.√

1.2 Explain the advantages of the form of ownership represented by Jones Beverages Ltd. (6)

The business has its own√ legal identity√
Easy to raise funds for growth√ through the sale of shares.√
Shareholder is only liable√ for the amount which is invested.√
Can appoint√ a knowledgeable board of directors.√
Buy and sell shares√ freely.√
Shareholders can sell/transfer their shares freely.
The public has access to the information√ and this could motivate them to buy shares from a company.√
Additional shares can be raised√ by issuing more shares or debentures√
Strict regulatory requirements√ protect shareholders.√

2.1 Identify the form of ownership suitable for Benjamin. Motivate your answer by quoting from the scenario. (3)

Personal liability company√√

This company that enables shareholders to have limited liability even though he is personally liable for the debts of the business.√

2.2 Differentiate between the form of ownership identified in question 2.1 and a public company. (8)

Public Company	**Personal Liability Company**
The name ends with 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.√√

3. Explain the advantages of state owned companies. (8)

Advantages of state owned companies
Profits may be used√ to finance other state departments√
Offer essential services√ which may not be offered by the private sector.√
Prices are kept reasonable.√ Create sound competition with the private sector√ to make services affordable to more citizens.√

Wasteful duplication of services√ is eliminated√
Planning can be coordinated√ through central control.√
Generates income√ to finance social programmes.√
Jobs are created√ for all skills levels.√

4. Discuss the importance of state owned companies. (8)

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5. Discuss the advantages of non – profit companies as a form of ownership. (8)

Advantages of non – profit companies
Profits are used solely√ for the primary objective of the organisation.√
They provide social services√ to various communities.√
Donors receive√ tax deductions.√
The liability of the members√ is limited√
Has continuity√ of existence√
Most of the income of a non-profit company√ is free from income taxes.√
Can receive√ grants.√
Surplus of income is retained√ to further the goals of the business.√

6. Tabulate the difference between private companies and public companies. (8)

Private Company	**Public Company**
May not 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 (Pty) Ltd.√√	Name must end with 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 issue minimum shares.	Must raise a minimum subscription prior to commencement of the company.

7. Explain the difference between a partnership and a private company. (8)

Private Company	**Partnership**
Raises capital√ by issuing shares to its shareholders.√	Partners combine capital√ and may also borrow capital from financial institutions.√
It needs a minimum of one shareholder√ and there is no limit on the number of shareholders that a private company may have.√	An agreement between two or more people√ who combine labour, capital and resources towards a common goal.√
Minimum√ of one director.√	Partners share responsibilities√ and they are all involved in decision making.√
Name must end√ with (Pty) Ltd.√	No legal requirements√ regarding the name.√
Register with the CIPC√ by drawing up Memorandum of Incorporation.√	No legal formalities to start√ only a written partnership agreement is required.√
Profits are shared in the form of dividends√ in proportion to the number of shares held.√	Profit is shared√ according to the partnership agreement.√
Shareholders have limited liability and a separate legal entity.	Partners have unlimited liability and are jointly and severally liable for the debts of the business.

8. Compare a partnership and personal liability company as forms of ownership in terms of:

Personal liability company	**Partnership**
8.1 Continuity	
There is continuity	There is no continuity
8.2 Taxation	
Pays tax on the profits of the business and on declared dividends.	The partnership does not pay income tax, only the partners in their personal capacities.

9. Advise businesses on how management and legislation can contribute to the success and / or failure of a public company. (8)

Factor	Success AND/OR	Failure
Management (2)	Managed at least by one competent highly skilled director. 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.	Directors may not have a direct interest in the company, which can hamper growth and profit maximisation. 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
Legislation (2)	The company and its shareholders are separate entities, which may encourage more people to join the company	Formation procedures are time consuming as many legal documents need to be prepared. High formation expenses require large start-up capital.

10. Explain how the following factors may contribute to the success and / or failure of a partnership.

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

Factor	Success AND/OR	Failure
Management (4)	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	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 opinions could lead to conflict and disagreements.
Taxation (4)	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	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

11. Explain how the following factors may contribute to the success and / or failure of non – profit companies.

Factor	Success AND/OR	Failure
Management (4)	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 management structure ensures a well-organised company	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. Directors may not have skills to manage resources.
Capital (4)	Unlimited number of founders may contribute more capital to the company. More capital may be raised through donations or sponsorships for operation It is easy to raise funds/capital, as donors enjoy tax benefits.	Founders may contribute limited capital which may not be sufficient for the 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.