

BUSINESS — Ownership of Business

Organisation · Sole Proprietorship · Partnership · Company · Not-for-profit · Laws

PAGE 1 · CHAPTER ROADMAP, DEFINITIONS & CORE CONCEPT

1 CHAPTER OVERVIEW — THE ROADMAP

CENTRAL IDEA To achieve goals **effectively and efficiently**, the **first step** for the owner(s) is to decide the **type of business organisation** — the form of ownership: sole proprietorship, partnership or limited liability company.

AREA 1 Organisation of business

Meaning & role of people

AREA 2 Types — business organisations

Sole · partnership · company

AREA 3 Types — not-for-profit

Public sector · NGO · clubs · co-ops

AREA 4 Laws governing business

Companies Act 2017 · Partnership Act 1932

2 KEY DEFINITIONS

Teal terms = high exam priority

Organisation

A tool to arrange individual or combined resources for a **specific purpose** in an **efficient and effective** manner.

Business organisation

An entity formed to carry out activities to achieve its goals; a process of **dividing tasks** to enable **co-operative activities of two or more people**.

Sole proprietor

An individual who **owns and operates** his or her own business (may employ a few people). **No legal formalities** required.

Partnership

Ownership shared by **at least two people** (usually max 20). Co-owners = **partners**; together they form the '**firm**'.

General partnership

Full sharing in management; **each partner has unlimited liability** for business debts.

Limited partnership

≥1 **general partner** (unlimited liability) + ≥1 **limited partner** (liability limited to investment; no management role).

Limited liability partnership (LLP)

Similar to a general partnership, but partners are **not personally liable** for business debts & liabilities.

Company / Corporation

A **legal entity** created under government regulations; assets & liabilities **separate from its owners**.

Private limited company

Privately held — ownership restricted to a **small group** of investors (many small companies).

Public limited company

Publicly held — shares can be **easily purchased or sold** by investors (most large corporations).

Initial public offering (IPO)

"**Going public**" — a private company becomes public by selling shares traded on public markets.

Shareholders

Owners of a company; may receive **dividends**, sell/transfer shares, attend AGMs, **elect the board**, vote.

Not-for-profit organisation

Does **not seek profit**, but must operate within the limits of available funding & resources.

Cooperative

Association of persons (usually of limited means) who **voluntarily** form a **jointly controlled** business for a common economic goal.

3 CORE CONCEPT — THE OWNERSHIP DECISION

WHO

Entrepreneurs establish a business

DECISION

Choose the form of ownership

(i) Sole proprietorship (ii) Partnership (iii) Corporation / limited liability company

EFFECT — THE CHOICE CAN AFFECT

Growth · Profitability · Risk · Overall value

4 THE 3 BASIC FORMS AT A GLANCE

Basis	SOLE PROPRIETORSHIP	PARTNERSHIP	LIMITED COMPANY
Owners	One individual	At least 2; usually max 20	Shareholders
Liability	Unlimited	Unlimited for general partners	Limited — lose only amount invested
Setting up	No legal formalities	Agreement — oral or ideally written	Incorporated via charter / articles of association
Legal identity	—	—	Separate legal identity — its main feature

PAGE 2 · ORGANISATION OF BUSINESS & CLASSIFICATION

5 WHAT IS A BUSINESS ORGANISATION?

WHY ORGANISE?

Working **independently** may not allow individuals to achieve the desired outcome → an organisation arranges resources efficiently & effectively.

HOW IT WORKS

Dividing tasks → system of **co-operative activities** among two or more people → accomplishment of **common goals** (whether run by an individual or a group).

PEOPLE SHAPE ORGANISATIONS

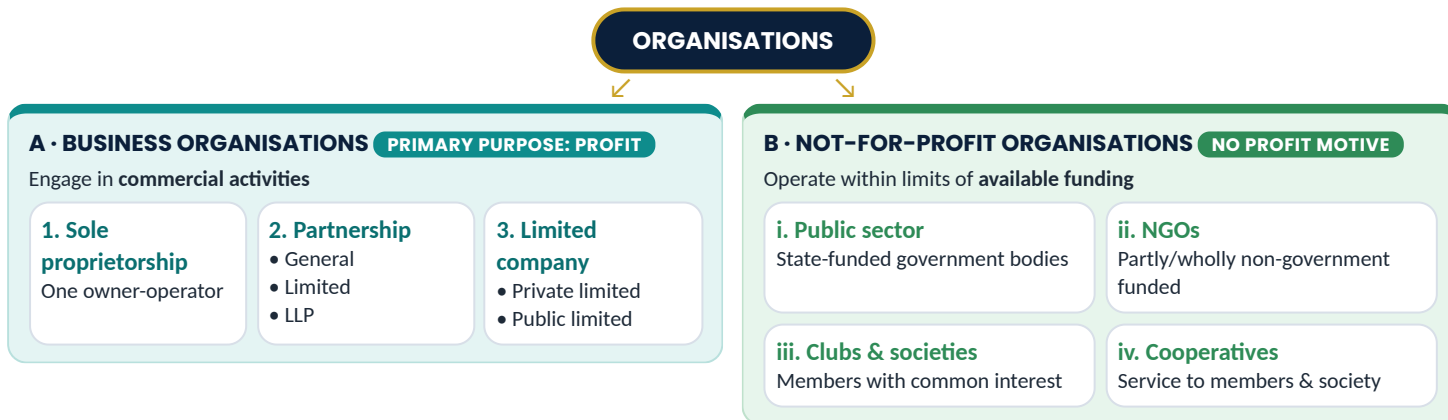
People from diverse backgrounds → organisations strongly influenced by their **personalities, attitudes, perceptions, behaviours & expectations**.

6 4 FEATURES THAT DISTINGUISH ORGANISATIONS

Feature	Business organisations	Other organisations (Study Text examples)
a) Purpose	Exist to make a profit	Public sector: provide benefits to the public — good government, health, education, policing, national defence
b) Ownership	Companies owned by shareholders	Public sector owned by government (representing the public); co-operatives owned by their members
c) Funding	Listed company: reinvested profits + new shares + borrowing from lenders	Charities: government grants + private donations ; public sector: government funds raised through taxation
d) Accountability	Management accountable to owners — directors accountable to shareholders for financial performance	Main reason companies produce annual reports and accounts

DESIGN DEPENDS ON An organisation's basic design features depend on its **type**, the **environment** it operates in and the **nature of its business** — e.g. forming a **bank or insurance company** requires compliance with specific **regulatory requirements**.

7 CLASSIFICATION OF ORGANISATIONS



▲ **SELF-TEST Q4** Clubs & societies, NGOs, cooperatives and public sector organisations all fall under one term: **Not-for-Profit Organisations** (not "social organisations").

8 SOLE PROPRIETORSHIP

KEY FEATURES

- Owner **owns & operates**; may employ a small number
- No legal formalities** to set up
- All profit **after tax** belongs to the owner
- Full control**; free to make all decisions — **independence** is a key attraction

WHAT THE OWNER MUST ACCEPT

- Full responsibility** for performance — pressure can far exceed an employee's
- Flexible hours; **on call**; may substitute for a sick employee
- Continually **monitor operations**
- Strong **leadership**, well **organised**, effective **communication**

EXAMPLES & SUCCESS FACTOR

- Local restaurant
- Construction firm
- Barber shop
- Laundry service
- Clothing store

Prior experience in the market (often as an employee of a competitor — e.g. restaurant managers opening own restaurants) is **critical** to understand competition & customer behaviour.

PAGE 3 · PARTNERSHIPS

9 PARTNERSHIP — THE BASICS

NUMBERS

2

minimum

20

usual maximum

Exceptions to the maximum: e.g. **accountants and solicitors**.

TERMINOLOGY **SELF-TEST Q5**

A business co-owned by two or more people = a **PARTNERSHIP**.

The co-owners = **PARTNERS**.

Together the partners form the '**FIRM**'.

THE AGREEMENT

Parties agree — **orally** or, ideally, **in writing** — to share **profits and losses** of a joint enterprise.

A written agreement is **recommended** to **prevent later conflicts**.

10 CONTENTS OF A WRITTEN PARTNERSHIP AGREEMENT

1 Partnership's name

2 Its purpose

3 Each partner's **contribution** — financial, assets, skills/talent

4 Responsibilities & duties of each partner

5 **Compensation** — salary, profit & loss sharing

6 Admission of new partners

7 Sale of partnership interests

8 Resolving **conflicts**, **dissolving** the business & **distributing assets**

11 TYPES OF PARTNERSHIP — COMPARISON

Basis	GENERAL PARTNERSHIP	LIMITED PARTNERSHIP	LLP
Partners	All general partners	≥1 general partner + ≥1 limited partner	Similar to a general partnership
Liability KEY	Each partner: unlimited liability for business debts	General partner: unlimited ; limited partner: limited to his/her investment	Partners not personally liable for business debts & liabilities
Management	Full sharing in management	Limited partners do not participate in management	—
Profits	Profits & losses shared per agreement	Limited partners share per agreement; general partner usually gets a larger share after limited partners recover their investment. Limited partners' losses restricted to initial investment	—
Typical users	Professionals — lawyers, accountants, architects	High-risk investment projects — oil-drilling & real estate partnerships	—

12 PARTNERSHIP — ADVANTAGES & DISADVANTAGES

Study Text summary table

✓ ADVANTAGES

- ✓ Ease of formation with relatively **low organisational cost**
- ✓ Greater ability to **raise funds** — more owners
- ✓ **Combined** knowledge, skills & managerial expertise
- ✓ **Flexibility** in decision making
- ✓ **Less regulatory burden** than companies
- ✓ Business income taxed as **personal income** of each partner

✗ DISADVANTAGES

- ✗ **Unlimited liability** of partners for business debts & obligations
- ✗ **Complexity** in profit & loss sharing
- ✗ Difficulty in **exiting or dissolving** the partnership
- ✗ Potential for **conflicts** among partners
- ✗ **Limitation of growth**

13 BUSINESS APPLICATION — WHICH PARTNERSHIP?

Situations from the Study Text

Lawyers / accountants / architects

→ **General partnership** — every partner has unlimited liability.

High-risk oil-drilling / real estate

→ **Limited partnership** — investors join as limited partners; losses capped at investment.

Profits wanted, no management role

→ **Limited partner** — shares profits under the agreement, does not manage (Self-Test Q8: TRUE).

PAGE 4 · LIMITED COMPANIES / CORPORATIONS

14 LIMITED COMPANY — CORE FEATURES

MAIN FEATURE

Separate legal identity from owners

Legal entity created under government regulations

THEREFORE

Assets & liabilities separate from owners

RESULT

ALL owners have limited liability

If the company fails, no personal funds used — owners lose only what they invested

RIGHTS OF A PERSON — A COMPANY CAN...

Receive, own & transfer property

Enter into contracts

Sue

Be sued in a court of law

BECOMING AN OWNER

People become owners by **purchasing shares**. A company is **created / incorporated** through a **charter or articles of association**.

15 PRIVATE vs PUBLIC LIMITED COMPANY

Basis	PRIVATE LIMITED COMPANY	PUBLIC LIMITED COMPANY
Ownership	Privately held — restricted to a small group of investors	Publicly held — shares easily purchased or sold by investors
Typical size	Many small companies	Most large corporations
Selling shares	—	Sold when shareholders need money, are disappointed with performance, or expect the price not to rise — bought by another investor
Raising more funds	May “ go public ” through an IPO to expand / take opportunities	Issue new ordinary shares — bought by existing shareholders or new investors → funds expansion

PRIVATE LTD

Needs additional funds

IPO

Sells shares to be traded on public markets

NOW

Public limited company

Can later issue new ordinary shares

16 STRUCTURE OF A COMPANY — 3 KEY COMPONENTS

① SHAREHOLDERS (stockholders)

- **Owners** — shares carry rights
- Receive **dividends**
- Sell / transfer shares **at any time**
- Attend **AGMs**; vote per articles
- **Elect the board**; each share generally = **one vote**

② BOARD OF DIRECTORS

- Elected by shareholders to **govern & oversee** management
- Set **major goals & policies**
- **Appoint senior officers**
- Supervise operations & finances
- Size: small cos ≥3; large cos usually **10–15**
- **Executive + non-executive** directors; NEDs are independent of management → **fresh perspective**

③ MANAGEMENT (officers)

- **Appointed by the board**; form top management
- President & CEO, CFO, vice presidents, treasurer, secretary
- **Implement policies** & achieve corporate goals
- May also be board members and, sometimes, shareholders

Shareholders

elect →

Board of directors

appoint →

Officers / management

implement policies

17 COMPANY (CORPORATION) — ADVANTAGES & DISADVANTAGES

Study Text summary table

✓ ADVANTAGES

- ✓ **Limited liability** of shareholders
- ✓ Ease of **transferring ownership**
- ✓ **Unlimited life** — continuity not dependent on any owner
- ✓ **Tax benefits** and deductions
- ✓ Easier access to **capital markets** for growth
- ✓ Attract employees with **specialised skills**

✗ DISADVANTAGES

- ✗ **Higher cost and complexity** of formation
- ✗ **Double taxation** of corporate profits and dividends
- ✗ Greater **regulatory control** & compliance requirements

PAGE 5 · SOLE PROPRIETOR ADVANTAGES, FORM COMPARISON & NOT-FOR-PROFIT

18 SOLE PROPRIETORSHIP — ADVANTAGES & DISADVANTAGES

Study Text summary table

✓ ADVANTAGES

- ✓ Ease and low cost of formation
- ✓ Secrecy
- ✓ Distribution & use of profits **solely by owner**
- ✓ Greater **flexibility** and **direct control**
- ✓ Fewer government regulations
- ✓ Lower taxation
- ✓ Ease of dissolution

✗ DISADVANTAGES

- ✗ **Unlimited liability** of the owner for all business debts & obligations
- ✗ Difficulty in **raising funds**, which may inhibit growth
- ✗ Limited **managerial skills** and expertise
- ✗ **Lack of continuity**
- ✗ Difficulty attracting **qualified employees** — limited long-term opportunities

19 SAME THEME, THREE FORMS — SIDE-BY-SIDE

Built only from the Study Text summary table

Theme	SOLE PROPRIETORSHIP	PARTNERSHIP	COMPANY
Liability	✗ Unlimited (owner)	✗ Unlimited (partners)	✓ Limited (shareholders)
Formation	✓ Easy, low cost	✓ Easy, relatively low cost	✗ Higher cost & complexity
Regulation	✓ Fewer government regulations	✓ Less burden than companies	✗ Greater control & compliance
Taxation	✓ Lower taxation	Income taxed as personal income of each partner	✓ Tax benefits & deductions · ✗ Double taxation
Raising funds	✗ Difficult — may inhibit growth	✓ Greater ability (more owners) · ✗ limitation of growth	✓ Easier access to capital markets
Skills & staff	✗ Limited skills; hard to attract qualified staff	✓ Combined knowledge & expertise	✓ Attracts specialised employees
Continuity / exit	✗ Lack of continuity · ✓ easy dissolution	✗ Difficult to exit or dissolve	✓ Unlimited life · ✓ easy ownership transfer
Control / decisions	✓ Flexibility, direct control, secrecy	✓ Flexible decisions · ✗ conflicts, complex P&L sharing	—

⚠ **DOUBLE TAXATION · SELF-TEST Q10** Companies pay income tax on **profits**, and **dividends** paid to shareholders are taxed again as **personal income**.

20 NOT-FOR-PROFIT ORGANISATIONS — 4 TYPES

No profit motive · operate within available funding

i. PUBLIC SECTOR

Government bodies **funded by the state** to achieve **social objectives** — quality education for all, basic healthcare, clean drinking water for every citizen.

ii. NGOS

Not-for-profit organisations **partly or wholly funded from non-government sources** — e.g. charities, clubs and societies.

iii. CLUBS & SOCIETIES

Members drawn together by a **common interest** (sports, social clubs). Assets **collectively owned by members**; income mainly from **subscriptions**. Prepare **income & expenditure accounts** → **surplus or deficit**.

iv. COOPERATIVES

Persons (usually of limited means) **voluntarily form a jointly controlled business** for a common economic goal. **Equitable contributions**; fair share of **risks & benefits**. Aim: **render services** to members & society — not profit.

Type	Owned / controlled by	Funded by	Aim
Public sector	Government (as representative of the general public)	The state — money raised through taxation	Social objectives / benefits to the public
NGOs	—	Partly or wholly non-government sources (charities: grants + private donations)	Not-for-profit purposes
Clubs & societies	Members — assets collectively owned	Mainly members' subscriptions	Common interest of members; show surplus/deficit , not profit
Cooperatives	Members — jointly controlled	Members' equitable contributions	Render services to members & society

PAGE 6 · LAWS GOVERNING BUSINESS ORGANISATIONS

21 HOW LAWS AFFECT BUSINESS

THE LEGAL ENVIRONMENT

- Current laws & regulations and the possibility of major new ones affect how businesses operate
- Laws vary between countries
- International regulations are accepted in some areas — e.g. banking

LEGAL CONSIDERATIONS → STRATEGIC DECISIONS (CAUSE → EFFECT)

Favourable tax system → international company locates some operations there for tax planning

Employment law differences / new legislation → affects decisions to relocate operations between countries

Environmental / health & safety legislation → affects how companies operate and the design of products

22 COMPANIES LAW vs PARTNERSHIP LAW (PAKISTAN)

Basis	COMPANIES ACT, 2017	PARTNERSHIP ACT, 1932
Applies to	Businesses establishing a public or private company	Partnership businesses (firms)
Issued / regulator	Issued by the Securities and Exchange Commission of Pakistan (SECP); other corporate laws also apply	—
Covers	Incorporation, management, operations and winding up of companies	Registration and dissolution of firms; rights and duties of partners
Purpose	Protect interests of shareholders, creditors, other stakeholders & the public; promote good governance	—
Compliance burden	Costs: incorporation, human resources, audit of financial statements, AGMs, record keeping, other statutory obligations	Greater ease of doing business — no annual filing of returns, no audit of financial statements, no AGMs
Risk / requirement	Non-compliance → penalties; managers must understand costs of maintaining a company and risks of non-compliance	Requires a clear understanding of partners' rights and duties

23 BUSINESS APPLICATION — CHOOSING A FORM

ILLUSTRATIVE EXAMPLES · reasons from the Study Text

Situation	Points towards	Reason (Study Text)
One person wants full control, no legal formalities, low set-up cost	Sole proprietorship	Independence; ease & low cost of formation
Professionals want to pool skills with less regulation than a company	General partnership	Combined expertise; less regulatory burden
Owners must not risk personal funds; business should outlive owners	Limited company	Limited liability; unlimited life
Private company needs large funds for expansion	Go public (IPO)	Sell shares traded on public markets
Forming a bank or insurance company	Specific regulatory requirements	Design depends on type, environment & nature of business

24 HOW THIS CHAPTER CAN BE TESTED

1 Definition-based — organisation, sole proprietor, partnership, company, cooperative, IPO

3 True / False — limited partners don't manage (T); company has separate legal identity (T)

5 Term identification — tax on profits + tax on dividends → double taxation

7 Roles — shareholders elect board → board appoints officers → officers implement

2 Fill in the blank — "co-owned business = ____; partners form the ____" → partnership, firm

4 Classification — business vs not-for-profit; general vs limited vs LLP; private vs public

6 Comparison — advantages/disadvantages of the 3 forms; Companies Act vs Partnership Act

8 Scenario — choose the suitable form of ownership for a described business

PAGE 7 · EXAM TRAPS, DECISION TREE & MCQ CLUES

25 ! EXAM TRAPS

- 1 **Partnership vs firm** — The **business** = partnership; the partners together = the **firm** (Q5).
- 2 **No legal formalities** — True only for a **sole proprietorship** — not partnership or private company (Q3).
- 3 **General partnership** — Distinctive feature: **ALL** partners have **unlimited liability** (Q6).
- 4 **Limited ≠ LLP** — Limited partnership still needs ≥1 **general** partner with unlimited liability; in an **LLP** partners are not personally liable.
- 5 **Limited partners** — Do **not manage**; share profits per the agreement; losses capped at **investment** (Q8).
- 6 **Company's main feature** — **Separate legal identity** (Q9) — limited liability **follows from it**.
- 7 **Double taxation** — Tax on company **profits** + tax on **dividends** as personal income (Q10) — not 'unlimited liability'.
- 8 **Who elects / appoints?** — Shareholders **elect the board** (Q7); the **board appoints** officers (CEO, CFO...).
- 9 **Private vs public** — Private = small restricted group; becomes public via **IPO**; public raises more via **new ordinary shares**.
- 10 **Clubs' accounts** — **Income & expenditure account** showing surplus/deficit — not a profit & loss account.
- 11 **Umbrella term** — Public sector, NGOs, clubs, cooperatives = **Not-for-Profit Organisations** (Q4).
- 12 **Cooperatives** — Owned by **members**; guiding objective is **service**, not profit.
- 13 **Which Act?** — Companies Act **2017** (SECP) vs Partnership Act **1932**. Partnerships: no annual returns, audit or AGMs.
- 14 **Partner numbers** — Minimum **2**; usual maximum **20** — exceptions e.g. accountants & solicitors.
- 15 **Entrepreneurial organisation** — Managed by its owner — a board taking all decisions, formal structure or complex operations are **NOT** its features (Q1: none).
- 16 **'Organisation' as a process** — Dividing activities to enable co-operative activities of 2+ persons = **organisation** (Q2).

26 DECISION TREE — IDENTIFY THE FORM OF ORGANISATION

STEP 1 · IS THE PRIMARY PURPOSE TO MAKE A PROFIT?

YES → BUSINESS ORGANISATION · how many owners / what liability?

- A** One individual owns & operates; no legal formalities → **SOLE PROPRIETORSHIP**
- B** 2+ co-owners by agreement: all unlimited & share management → **GENERAL**; some liability limited to investment, no management → **LIMITED**; partners not personally liable → **LLP**
- C** **Separate legal identity**, owners hold shares → **COMPANY**: small restricted group → **private**; shares easily traded → **public**

NO → NOT-FOR-PROFIT · who funds / owns it?

- D** Government body **funded by the state** for social objectives → **PUBLIC SECTOR**
- E** Partly/wholly **non-government funded** (e.g. charity) → **NGO**
- F** Members with a **common interest**, subscriptions → **CLUB / SOCIETY**; members' **jointly controlled** business for a common economic goal → **COOPERATIVE**

27 MCQ QUICK-CLUE SECTION

From the chapter Self-Test

- | | | | | | |
|--|---|--|---|---|--------------------------------|
| No legal formalities to set up | → | Sole proprietor (Q3) | Dividing activities for co-operative work of 2+ persons | → | Organisation (Q2) |
| Umbrella term for clubs, NGOs, co-ops, public sector | → | Not-for-profit (Q4) | Co-owned business / partners collectively form | → | Partnership, firm (Q5) |
| Distinctive feature of general partnership | → | All partners unlimited liability (Q6) | Shareholders elect a... | → | Board of Directors (Q7) |
| Limited partners don't manage but share profits | → | TRUE (Q8) | Tax on profits + tax on dividends | → | Double taxation (Q10) |

PAGE 8 · KEY NUMBERS, MEMORY MAP & 60-SECOND REVISION

28 KEY NUMBERS TO REMEMBER

2 minimum partners	20 usual maximum partners	3 minimum directors (small cos)	10–15 directors in large cos	1 vote per share (generally)	2017 Companies Act	1932 Partnership Act
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29 EXAMPLES MAP — WHICH FORM?

All examples from the Study Text

Sole proprietorship - Local restaurant - Construction firm - Barber shop - Laundry service - Clothing store	General partnership - Lawyers - Accountants - Architects	Limited partnership - Oil-drilling partnerships - Real estate partnerships	Private limited company Many small companies
Public limited company Most large corporations	Public sector - Education for all - Basic healthcare - Clean drinking water	NGOs - Charities - Clubs and societies	Clubs & societies - Sports clubs - Social clubs

30 QUICK MEMORY MAP

Concept	Key words	Core idea
Organisation	divide tasks · co-operation · 2+ people	arrange resources efficiently & effectively
4 distinguishing features	purpose · ownership · funding · accountability	how organisations differ
Sole proprietorship	one owner · no formalities · full control	independence, unlimited liability
Partnership	2–20 · agreement · firm	shared ownership; general / limited / LLP
Company	separate legal identity · shares · board	limited liability, unlimited life
Company structure	shareholders → board → officers	elect → appoint → implement
Not-for-profit	public sector · NGO · clubs · co-ops	no profit; within available funding
Laws	Companies Act 2017 · SECP · Partnership Act 1932	compliance cost vs ease of business

31 BUSINESS — OWNERSHIP OF BUSINESS IN 60 SECONDS

🔑 ORGANISATION & FORMS

- First step: choose the **form of ownership**
- Choice affects growth, profitability, risk, value
- Differ by purpose, ownership, funding, accountability
- Business (profit) vs not-for-profit

🔑 SOLE · PARTNERSHIP · COMPANY

- Sole: no formalities, full control, **unlimited liability**
- Partnership 2–20; general = all unlimited; limited partner = no management; LLP = not personally liable
- Company: **separate legal identity**, limited liability, **double taxation**
- Private → IPO → public

🔑 NFP & LAWS

- Public sector · NGO · clubs · cooperatives
- Clubs: income & expenditure → surplus/deficit
- Companies Act 2017 (SECP): audit, AGMs, penalties
- Partnership Act 1932: no returns, audit or AGMs