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**Economics and Management Sciences: EMSC4  
LESSON 2**

**UNIT STANDARD: 13994**

**At the end of the Lesson you should be able to:**

- 1. Discuss the advantages and disadvantages of different forms of businesses,**
- 2. Name and discuss factors to be considered when starting a business and**
- 3. Discuss factors to be considered when taking over an existing business.**

**1. ADVANTAGES OF FORMS OF BUSINESS OWNERSHIP**

<b>Sole Trader</b>	<b>Partnership</b>	<b>Close Corporation</b>	<b>Private Company</b>	<b>Public company</b>
Easy to start	Easy to start	Legal person	Legal person	Legal person
Decisions are made instantly	Raise more capital than sole trader	Continuity not affected by death a member	Continuity not affected by death of a member	Continuity not affected by death of a member
Profit belongs to owner	Decision making is shared	Limited liability	Limited liability	Limited liability
The owner is taxed together with the business	The partners are taxed together with the business	Can raise more capital	Can raise more capital	Can raise more capital

## 2. DISADVANTAGES OF FORMS OF BUSINESS

Sole trader	Partnership	Close Corporation	Private Company	Public Company
Not a legal person	Not a legal entity	Must be registered	Must be registered	Must be registered
Death stops existence	Death or any changes dissolves it	Action of one member affects all	Statutory procedures	Statutory procedures (AGM)
Unlimited liability	Unlimited liability	Membership is restricted to 10	Double taxation	Double taxation
Decisions are taken by one person	Actions of one partner affects all partners	Double taxation	Expensive to set up	Shares are freely transferable

## 3. FACTORS TO BE CONSIDERED WHEN STARTING A BUSINESS

- Target market – Customers that will be buying goods and services.
- Capital – Resources or money needed to start a business.
- Infrastructure – Roads, water, electricity, and the accessibility of the business to customers.
- Competition – Similar businesses the same goods and services, e.g. how many are there, where they are situated, what will make your goods and services different from what they are offering, etc.

## 4. FACTORS TO BE CONSIDERED WHEN TAKING OVER AN EXISTING BUSINESS.

- Reasons for selling – you should ask why the owners are selling the business.
- Goodwill – has the business built a good name (reputation) in the community it serves, e.g. employing local people or participating in social programmes.
- Financial condition – the ability of a business to generate enough profit or loss.
- Market share – to have enough customers in the type of market.

## 5. EXPLANATION OF CONCEPTS

- **Insolvency** – A state of being unable to pay the money owed on time.
- **Liquidation** – A process of bringing a business to an end by distributing its assets to creditors.
- **Liabilities** – Are all the debts of the business.
- **Taxation** – Money paid to government by businesses and individuals for earning income.

- **Franchise** – A right to trade using a registered business name and operate the same as the main business, e.g. KFC, Total garage, etc.
- **SOE's** – State owned entities, e.g. Eskom, Post Office, South African Airways, etc.
- **Co-operatives** – e.g. agricultural co-operatives.
- **AGM** – Annual General Meeting that must be held within 15 months after the financial year of a public company has ended.
- **Statutory** – A law that has been passed by parliament and it is enforceable in a country, e.g. Company's Act.
- **Limited liability** – The owner will only lose what they have invested should the company be liquidated provided they have acted according to the companies act.
- **Unlimited liabilities** – Owners private belongings can be attached to recover the losses that were made in a business.
- **Formal business** – They are registered businesses and they pay taxation.
- **Informal businesses** – They are unregistered businesses and do not pay tax, street vendors, tuck shops, etc.

### Activity 1

**State whether the following statements are TRUE or FALSE.**

1. A sole trader is a business that can be owned by 10 people.
2. A private company can have a minimum of 1 and maximum of 50 shareholders.
3. A formal business does not pay taxation to the government.
4. The letters "Ltd" at the end of a name of the business indicates that the business is a franchise.
5. An informal business needs to be registered to obtain a trading license.

( 5 X1 )

### Activity 2

**Give one word/term for the following statements**

1. A business that is owned by 2 to 20 people.
2. The letters "CC" must appear at the end of the name of the business.
3. The people selling the same product or service as your business.
4. Money that we use to start a business.
5. A business that stop existence when the owner dies.

( 5 X1 )

### **Activity 3**

1. Mention two factors to be considered when starting a business. ( 4)
2. Mention two factors to be considered when taking over an existing business ( 4)

**TOTAL: [18]**

### **Compiled by:**

1. Baloyi SR
2. Ramasala MJ
3. Matlhakola G
4. Mokono SR