

Close Corporations

Assessment Task

How a close corporation works (Individual activity) (LO4 AS3)

Study the advantages and disadvantages of a close corporation below. Write a paragraph to explain how a close corporation works. Your paragraph should contain at least five facts about a close corporation. [5 marks]

Advantages of a close corporation	Disadvantages of a close corporation
Registering a CC is less expensive than registering a company.	All members must be natural persons. A company, corporation or trust may not be a member of a CC.
A CC doesn't need to submit audited financial statements.	There may not be more than 10 members in the CC. This can limit the growth of the business.
The registration time is shorter than that of any other form of business.	A CC cannot raise capital from the public by issuing shares.
The CC has limited liability and is a legal entity separate from the members, with its own assets and liabilities.	If there is a change in membership all the members must sign the CK2 form and again present their details and percentage holding in the business.
CC members do not have to hold formal meetings.	Members may be held liable jointly with the CC if the name of the close corporation is used without the abbreviation 'CC'.
A CC looks more professional than someone trading in their private capacity.	Members may be held liable jointly with the CC if a member who is disqualified from taking part in the management of a CC does so.
The CC continues to exist even if membership changes.	
The CC can own assets and enter into agreements.	
Liquidation of the CC won't lead to bankruptcy of the members' personal estates.	
Minors may become members of a CC.	

Self-assessment checklist

Criteria	Yes	No
I studied the advantages and disadvantages of a close corporation.		
I wrote a paragraph containing at least five facts about a close corporation.		
I understand how a close corporation works.		
I appreciate that a close corporation is a safer option than a sole trader as a form of business, since it has limited liability.		
I understand that business ethics are important when starting any business.		