Assessment Task

Forms of business in the formal sector (Group activity) (LO4 AS3)

Businesses in the formal sector are registered. Statistics on activities in the economy are usually based on the formal sector, because, unlike the informal sector, business activity in the formal sector is easily monitored. There are several forms of business ownership in the formal sector.

1. Read the information on partnerships below and do the exercise that follows.

When a partnership is formed, between two and 20 partners enter into a legal agreement which determines the percentage share each partner should contribute to the partnership. Partners contribute time, work and skills, besides capital. The percentage indicated in the agreement is the share the partners are each entitled to of the profits or losses the business makes. Such an agreement will also set out how assets will be divided should the partnership end. In a partnership all partners are jointly liable for the debts of the business. A partnership has unlimited liability, which means the assets of the partners can be sold to cover debts made by the business. When a new partner joins, a new agreement has to be set up and when a partner dies or withdraws, the partnership dissolves.

Copy the table below in your workbook. Do additional research and list three advantages and three disadvantages of a partnership. [6 marks]

Advantages of a partnership	**Disadvantages of a partnership**

2. Read the information on close corporations below and do the exercise that follows.

A close corporation (CC) consists of between one and 10 members. It is regulated by the Close Corporations Act of 1984. A CC is easy and cheaper than a company to set up and uncomplicated to run.
The members of a CC have limited liability, which means that the business alone will be liable for its debts. A close corporation has continuity, which means that when members change, the CC continues to exist and does not have to be reregistered.
Because a CC is a separate legal entity, it can own assets and enter into agreements. Minors may also become members of a CC. A CC does not have to submit audited financial statements or hold formal meetings in terms of any legislation. Unlike a company, a CC cannot raise capital by offering shares for sale.

Copy the table below in your workbook. Do additional research and list five advantages and five disadvantages of a close corporation. [10 marks]

Advantages of a close corporation	**Disadvantages of a close corporation**

3. Read the information on companies below and do the exercise that follows.

A private company is formed when owners contribute capital to form the business. The capital is divided into shares for each owner. A company is run by a board of directors and there can be between one and 50 owners. A company is a legal person with a life of its own. Therefore it has limited liability. The directors of the company cannot be held liable for its debts. Founding a company is expensive, because of all the legal requirements. There are public companies and private companies. Public companies are listed on the JSE and the stock is traded by the public. Private companies are not listed on the JSE and their stock is owned by one or a group of shareholders. A company is not a suitable form of business for a small business, as it is too involved and complicated.

Copy the table below in your workbook. Do additional research and list three advantages and three disadvantages of a company. [6 marks]

Advantages of a company	**Disadvantages of a company**