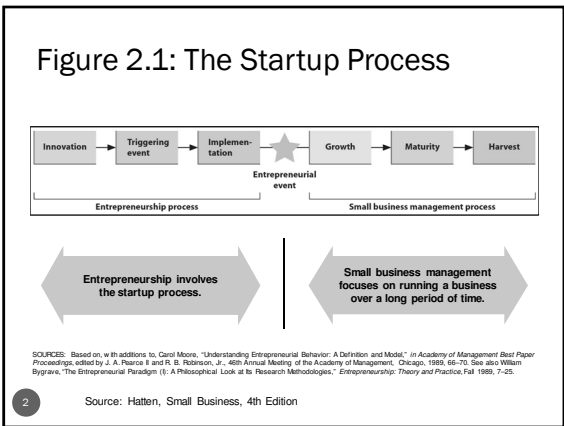
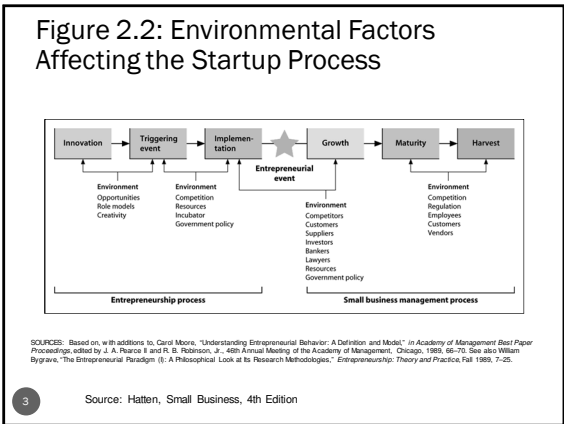


The Challenge

Chapter 2

Small Business Management, Entrepreneurship, and Ownership





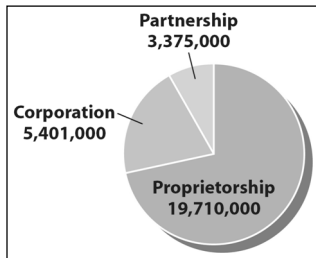
Forms of Business Organization (cont'd)

- Partnership
 - An association of two or more persons to carry on as co-owners of a business for profit
- General Partnership
 - Partners/owners share the management and risk of the business
- Limited Partnership
 - One or more of the owners may be granted limited liability as long as one partner is designated as a general partner with unlimited liability.

7

Source: Hatten, Small Business, 4th Edition

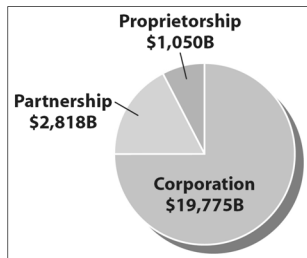
Figure 2.6: Ownership Forms of U.S. Businesses



8

SOURCE: The 2007 Statistical Abstract, U.S. Census Bureau, Table 724, "Number of Returns, Receipts, and Net Income by Type of Business." www.census.gov/compendia/stabs
Source: Hatten, Small Business, 4th Edition

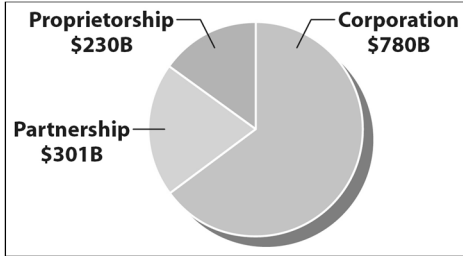
Figure 2.7: Sales Revenue by Ownership Type



9

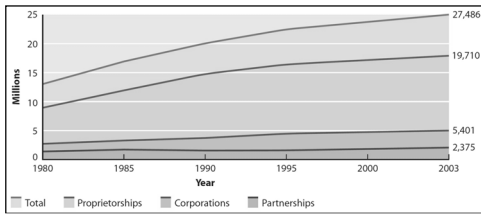
SOURCE: The 2007 Statistical Abstract, U.S. Census Bureau, Table 724, "Number of Returns, Receipts, and Net Income by Type of Business." www.census.gov/compendia/stabs
Source: Hatten, Small Business, 4th Edition

Figure 2.8: Net Income by Ownership Type



10 SOURCE: The 2007 Statistical Abstract: U.S. Census Bureau, Table 224, "Number of Returns, Receipts, and Net Income by Type of Business." www.census.gov/compendia/statab

Figure 2.9: Growth in the Business Population



11 SOURCE: The 2007 Statistical Abstract: U.S. Census Bureau, Table 224, "Number of Returns, Receipts, and Net Income by Type of Business." www.census.gov/compendia/statab

Table 2.1: Balancing the Advantages and Disadvantages of Sole Proprietorships

Advantages	Disadvantages
Independence	Unlimited liability
Easy to set up	Limited resources
Easy to close	Limited skills
Tax benefits	Lack of continuity

12 Source: Hatten, Small Business, 4th Edition

The Uniform Partnership Act (UPA)

- Requirements:
 - All partners must agree to assignment of property.
 - Each partner generally has only one vote.
 - Accurate bookkeeping records are required; all partners have the right to examine them.
 - Each partner owes loyalty to the partnership.
 - Partners may draw on their share of the profits.
 - Salaries must be part of a written agreement.
 - If a loss is incurred, partners must pay their share.

13

Source: Hatten, Small Business, 4th Edition

Articles of Partnership (cont'd)

- The procedure for dispute settlement or arbitration
- The procedure for sale of partnership interest
- The procedure for addition of a new partner
- The procedure for absence or disability of a partner
- The procedure and conditions for dissolving the partnership

14

Source: Hatten, Small Business, 4th Edition

Table 2.2: Balancing the Advantages and Disadvantages of Partnerships

Advantages	Disadvantages
Pooled talent	Unlimited liability
Pooled resources	Potential for management conflict
Easy to form	Less independence than proprietorships
Tax benefits	Continuity or transfer of ownership

15

Source: Hatten, Small Business, 4th Edition

Table 2.3: Balancing the Advantages and Disadvantages of Corporations

Advantages	Disadvantages
Limited liability	Expensive to start
Increased access to resources	Complex to maintain
Transfer of ownership	Double taxation*

* C corporation only

16

Source: Hatten, Small Business, 4th Edition

Articles of Incorporation

- The name of your company
- The purpose of your corporation
- The names and addresses of the incorporators
- The address of the corporation's home office
- The amount of capital required at incorporation
- Capital stock to be authorized
- Bylaws of the corporation
- Length of time the corporation will operate

17

Source: Hatten, Small Business, 4th Edition

Specialized Forms of Corporations

- S Corporation Advantages
 - Owners can have limited liability.
 - Owner income is taxed as personal income (no double taxation).
 - Profits and losses are proportional to shares held.
 - There are minimal tax filing requirements.

18

Source: Hatten, Small Business, 4th Edition

Specialized Forms of Corporations

- S Corporation Qualification Requirements
 - Shareholders must be individuals, estates, or trusts—not other corporations.
 - Nonresident aliens may not be shareholders.
 - Only one class of common stock can be issued.
 - All shareholders must consent to election of the S corporation.
 - State regulations specify the portion of revenue that must be derived from business activity, not from passive investments.
 - There may be no more than 100 shareholders.

19

Source: Hatten, Small Business, 4th Edition

Specialized Forms of Corporations (cont'd)

- Limited-Liability Company (LLC)
 - Owners (members) are taxed as partners.
 - Form provides a more flexible structure than an S corporation.
 - Form offers limited liability protection.
 - Uses an operating agreement to define ownership, internal structure, and operations.
 - No constraints on participation, assets, or allocation of profits and losses.

20

Source: Hatten, Small Business, 4th Edition

Specialized Forms of Corporations (cont'd)

- Nonprofit Corporation
 - Exists as a tax-exempt organization for religious, charitable, literary, artistic, scientific, or educational purposes
 - Depends largely on grants from private foundations and public donations to meet its expenses.
 - Receives tax-deductible contributions from individuals or other organizations.

21

Source: Hatten, Small Business, 4th Edition
