

What is a business?

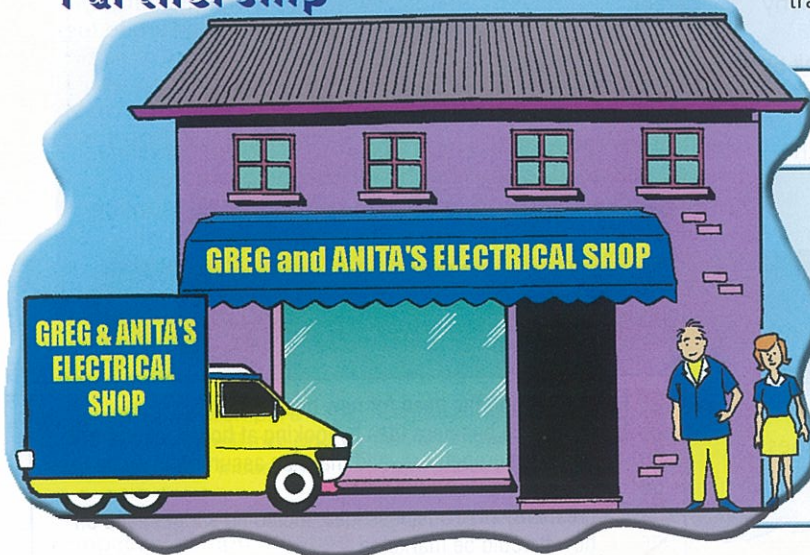
BUSINESSES ARE key players in the economy. They provide people with employment, and create goods and services for consumers (like us), enabling us to satisfy our needs and wants.

A business is any organisation that produces and sells, for a **profit**, the goods and services that satisfy the needs and wants of consumers. Your local butcher is a business, as is the supermarket you shop in and the local video store.

Some organisations operate in order to provide social, educational, religious or other services rather than to earn a profit. The Salvation Army and World Vision are examples. Such 'businesses' are called non-profit organisations.

There are many different types of business, all designed to suit the particular needs of the people who establish them. These include sole traders, partnerships, and public and private companies. Businesses have different structures and legal responsibilities and it is important to understand the differences, for example, between a **limited liability** company and a private enterprise operation.

Partnership

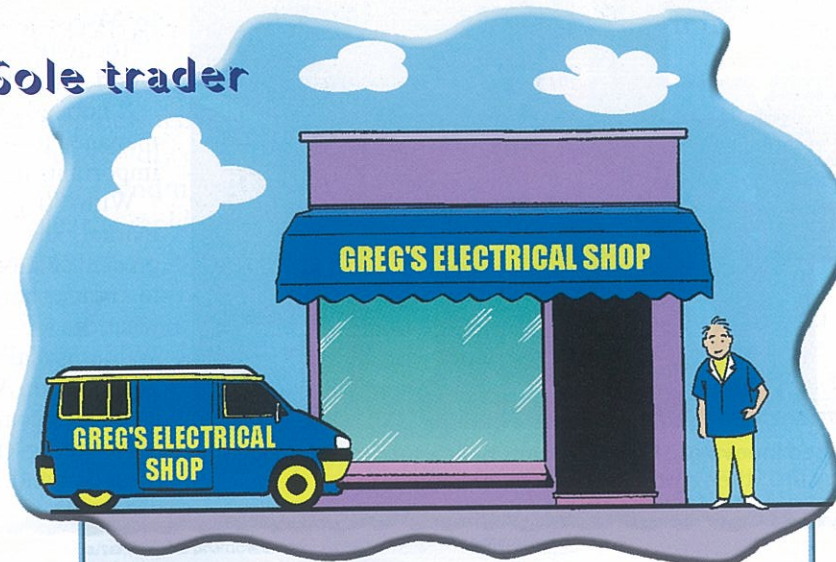


A **partnership** is a business usually owned and operated by between two and 20 people, called partners. The partners share their profits and losses, usually equally. Together they decide how best to operate the business. It is common for people with similar skills, such as doctors, solicitors and dentists, to form a partnership. Partnerships tend to have the names of the partners in the business name — for example, Harries and Davidson Accountants. Partnerships have unlimited liability.

How are businesses owned?

Businesses can be owned in four main ways. These ways are described below.

Sole trader

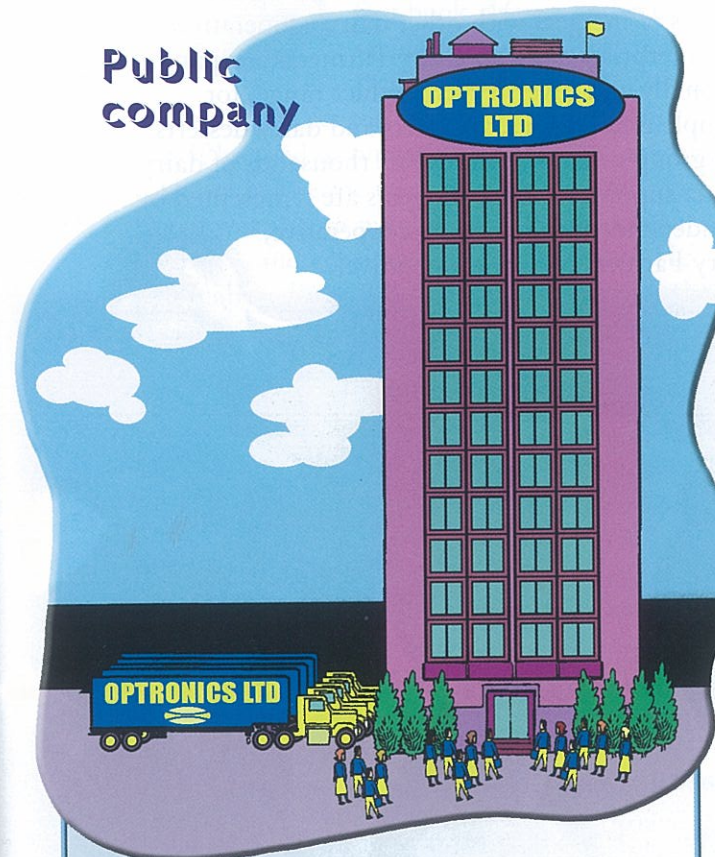


A **sole trader** is a business that is owned and operated by one person. It is the most common type of business in Australia. A sole trader business can operate in almost any field. Usually, however, they are stores, cafés, newsagents and hairdressers as well as trades such as plumbers and electricians.

The sole trader receives all the profit and suffers all the losses. He or she has **unlimited liability**. This means he or she can be forced to sell personal assets such as the house or car to pay off business debts. A sole trader usually has only one person's name in its business name, for example Maria's Cafe.

In Australia, all companies undergo a process known as **incorporation**. This involves a business's being created as a **legal entity** in its own right and treated as a separate entity from its **shareholders**. In other words, the company (rather than individual shareholders) is liable for the debts created through its operation. There are two major forms of companies in Australia: private companies and public companies.

Public company

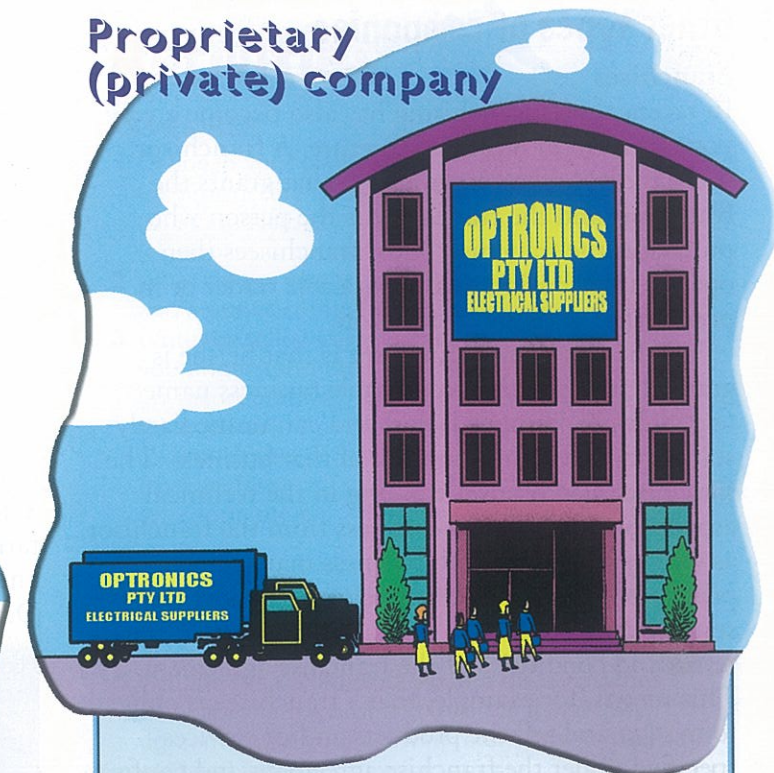


A **public company** can have an unlimited number of shareholders. The general public may buy and sell shares in these companies. This is done through the **stock exchange**. Most public companies are large and attract investment quickly. Examples include Westfield, Billabong and Woolworths. Shareholders in public companies have **limited liability**.

A public company must have the word 'Limited', abbreviated to 'Ltd', after its name.

Public companies can have an unlimited number of shareholders. There is no restriction on transfer of **shares** between people or the amount of money that can be raised through offering shares. A **prospectus** is issued when selling shares. The minimum requirement (under the law) is that it have three directors, two of whom must live in Australia. A public company is also required to publish an annual report that clearly states its financial position.

Proprietary (private) company



A **proprietary (private) company** usually has between two and 50 private owners called shareholders. These businesses tend to be small to medium in size. Often they are family-owned. Shares in private companies are offered only to those people the business wants as part-owners. Shareholders can sell their shares only to people who have been approved by the owners. This is why it is called a 'private' company.

A private company must have the words 'Proprietary Limited', abbreviated to 'Pty Ltd', after its name. They are not listed on the stock exchange. The main advantage of a private company is that shareholders have limited liability. This means that if the business cannot pay its debts, a shareholder loses only the money she or he has invested in the business.

So a shareholder cannot be forced to sell personal **assets** to pay the company's debts. However, there are some exceptions to this situation. In some instances, the directors of the company will be asked to give a personal guarantee when financial institutions are giving loans. In these cases, the person who offered the personal guarantee might lose their own assets to pay the debts of the business.

If company directors engage in misleading behaviour or recklessly borrow money, they can be held personally responsible. Criminal charges may follow, with lawsuits being brought under the code of civil law.