

Chapter 3 – Business Organizations

Cook

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Chapter 3

Sole Proprietorship – A
business owned and run by
one person

Advantages

- Easy to start up
- Ease of management
- Owner enjoys all the profits
- Business does not have to pay
separate business income taxes
- Psychological satisfaction
- Ease of getting out of the
business



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Sole Proprietorship

Disadvantages

- Unlimited liability – Owner is personally responsible for all losses and debts
- Difficulty in raising money
- Small size and inefficient
- Limited managerial experience
- Difficulty of attracting qualified employees
- Limited Life – The firm legally ceases to exist when the owner dies



Warm Up

- Name two advantages and disadvantages to a Sole Proprietorship.
- CEQ: How much water does a single hamburger take to produce? 1 almond? How much water does the average family of 4 use in a single day?

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Partnership – A business jointly owned by two or more persons

Advantages

- Ease of establishment
- Ease of management
- Lack of special taxes
- Easier to attract financial capital
- Larger and more efficient



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Partnership

Disadvantages

Each partner is responsible for the actions of the other one

Except a limited partnership

Has a limited life

Partner conflict

Easy to go bankrupt – A court granted permission to an individual or business to cease or delay debt payments



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Corporation – A form of business organization recognized by law as a separate legal entity having all the rights of an individual

Forming a corporation

Charter – A government document that gives permission to create a corporation

Stock – Ownership certificates in the firm

Stockholders – Investors who buy stock

Dividend – A check representing a portion of the corporate earnings

Common Stock – Ownership in a company that allows one vote per share

Preferred Stock – Ownership in a company that does not get to vote

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Corporation

Advantages

Ease in raising money

Bonds – A written promise to repay the amount borrowed at a later date with interest

Principal – The amount initially borrowed

Interest – The price paid for the use of another's money

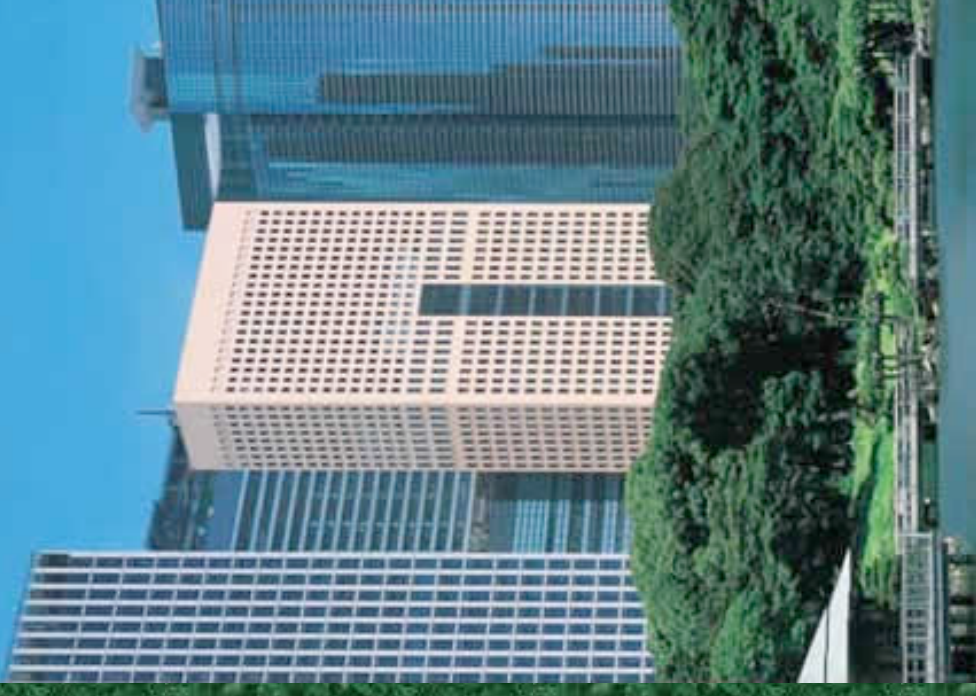
Can hire professional managers

Limited Liability for the owners

Unlimited Life

Ease in transferring ownership

Introduction



Warm Up

Name two advantages and disadvantages to a Corporation, Sole Proprietorship, Partnership

What is a charter?

What does owning stock mean? What stock gives you voting rights?

What is a dividend?

CEQ: In the last decade, China has created many islands in the South China Sea. What did China recently put on those islands?

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Corporation

Disadvantages

The difficulty and expense of obtaining a charter

Owners (shareholders) have little say in how the business is run

Double Taxation – Taxed as a business and then again as personal income

More government regulation

SEC – Securities and Exchange Committee



**SAN MIGUEL
CORPORATION**

Chapter 3

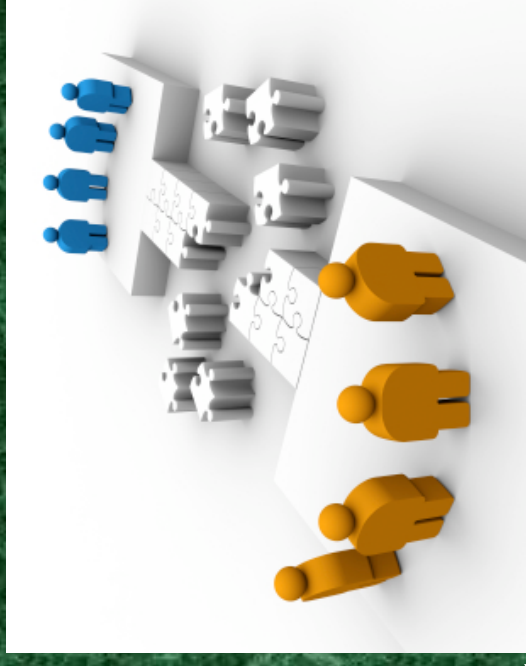
Merger – A combination of two or more businesses to form a single firm

Income Statement – A report showing a business's sales, expenses, and profits for a certain period

Net Income – Subtracting all expenses (including taxes) from its revenue

Depreciation – A non-cash charge a firm takes for the general wear and tear on its capital goods

Cash Flow – The sum of net income and non-cash charges such as depreciation



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Types of Mergers

Horizontal Merger – When two or more firms that produce the same kind of product join forces

Vertical Merger – When firms involved in different steps of manufacturing join together

Conglomerate – A firm that has at least four businesses, each making unrelated products

Multinational – A corporation that has manufacturing in a number of countries

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Nonprofit Organization – Operates like a business but is not out to seek financial gain

Cooperative (Co-op) – A voluntary association of people formed to carry on some kind of economic activity that will benefit its members

Credit Union – A financial organization that accepts deposits from and makes loans to employees of a particular company

Labor Union – A organization of workers formed to represent its members' interests in various employment matters

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Collective Bargaining – Unions negotiating with management over issues such as pay, working hours, health care coverage, life insurance, vacations and other job related matters

Professional Association – A group of people in a specialized occupation that works to improve the working conditions

Chamber of Commerce – Promotes the welfare of its members and of the community

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Better Business Bureau – A non-profit organization sponsored by local businesses to provide general information on companies

Public Utilities – Investor or municipal owned companies that offer important products to public such as water or electricity



ELECTRIC COMPANY

If one "Utility" is owned
rent is 4 times amount shown
on dice.

If both "Utilities" are owned
rent is 10 times amount shown
on dice.

Mortgage Value

\$75.

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WATER WORKS

If one "Utility" is owned
rent is 4 times amount shown
on dice.

If both "Utilities" are owned
rent is 10 times amount shown
on dice.

Mortgage Value

\$75.

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