

Lecture 1 Summary (1)

LO. Compare business structures and describe key features of corporate issuers.

Common forms of business structures include:

- Sole proprietorship
- General partnership
- Limited partnership
- Corporation

The key features of a sole proprietorship are:

- Legal relationship: It has no legal identity and is considered an extension of the owner.
- Owner-operator relationship: It is an owner operated business and the owner retains full control of the business.
- Business liability: The owner has unlimited liability.
- Taxation: Profits from the business are taxed as personal income.

Lecture 1 Summary (2)

The key features of a limited partnership are:

- Legal relationship: It has no legal identity. The partnership agreement defines the ownership of the business.
- Owner-operator relationship: The GP operates the business. LPs have no control over the operation of the business.
- Business liability: GP has unlimited liability, while LPs have limited liability.
- Taxation: All partners share profits and the profits are taxed as personal income.

The key features of a corporation are:

- Legal relationship: It is a legal entity separate and distinct from its owners
- Owner-operator relationship: There is separation between the owners and the operators. The shareholders elect a board of directors to oversee business operations. The board hires the CEO and senior management for day-to-day operations of the company.
- Business liability: Owners have limited liability
- Taxation: Corporate profits are taxed twice once at the corporate level and again at the individual level when profits are distributed as dividends.