**BUSINESS ENTITIES FROM ENTREPRENEUR’S VIEWPOINT**

00**Total shares:**

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**Introduction**

There are various forms of entities that are used in the classification businesses. These entities will usually identify the nature of leadership that an entity may undertake and the responsibilities of the leaders towards the operations of the business. This may be particularly in regards to the accounting responsibilities in case of debt and allocation of the profits that are earned by the corporation. Some of the business entities that will be discussed include sole proprietorship, partnership, limited liability partnership, Limited Liability Company and corporation. Each of the above mentioned business entities have both advantages and disadvantages in their establishment. As a result, these benefits and limitation will be the main focus of the discussion below.

**Advantages and Disadvantages of Business Entities**

*Sole proprietorship*

A sole proprietorship is noted as a business entity where the organization is headed by a single individual. In this particular entity, the organization is presented as the simplest form of business and cannot be separated from the owner. As a result, one of its major benefits is the fact that the owner enjoys all the profits accrued. Though the business does not legally exist apart from the owner, the financial activities of the two are separate. Herein, the costs incurred by the business are separate from the costs of the owner. This enables effective book keeping of the organization (Miller, 2012). Another advantage of this business entity is where there are no significant fees incurred during its creation. In the case of a loss, the owner is able to deduct the net loss from the personal income taxes.

There are various disadvantages incurred from the setting up of such a business. The debts incurred by the organization are paid off to the full extent of personal assets by the owner. As a result, the decisions or judgments made by the sole proprietor are answerable to only him or her (Miller, 2012). Another limitation is noted where the owner is required to pay personal income tax on all profits that are earned from the business entity.

*Partnership*

A general partnership is another form of business entity usually demonstrated by two or more individuals making an agreement to come together and form an organization through a particular venture where their operations will lead to profit. In the formation of the entity, members of the partnership will contribute money, labor or property in the successful operation of the objective venture. As a result, each of the members will hold an equal share of the company from which each member will share the profits and loss. The formation of this entity will also not require significant fees being paid hence it is also seen as easy to establish and maintain in the long run.

However, one of it limitation is that the members of the partnerships are liable to debts incurred by the company. In this case, their personal assets may be seized to pay off the debts and liabilities of the business (Miller, 2012). Furthermore, it is required that members of the general partnership to pay off personal income taxes from the significant net profits that are accrued from a successful year of operation. This enables shared deductions from each partner of the profits rather than a single individual.

*Limited Liability Partnership*

In business, there is also the existence of a limited liability partnership which is similar to the general partnership. The significant difference in this type of entity is the limited liability to the debts that the business may incur. This type of partnership is seen as one that is effective in attracting investors that will help in the growth of the business. The limited partners of the firm are seen to enjoy limited amount of liability to poor decisions and judgments that may result in the poor performance (Miller, 2012). The owners of the business are usually identified as the general partners who have the role of focusing on the objective operations rather than worry about finances required. As a result, this entity enables the general partners can raise the required capital while relinquishing minimal control of the company. Another advantage is seen where limited partners can leave the business without the dissolution of the limited partnership.

There are various limitations that are experienced through the creation of this entity beginning with the costs incurred which are more expensive than the general partnership. The general partners within this entity also face the harsh consequences of personal liability for debts and liabilities that the firm may experience. The entity may also only work effectively in particular business ventures including real estate and filming industries. The high risk that faces the general partners may deter many from establishing such an entity.

*Limited Liability Company*

In a limited liability company, various characteristics of a corporation and a partnership are merged into one. Herein, the members of the LLC are able to experience the income benefits and the flexibility to undertake various operational responsibilities as those in a partnership. In this case, such factors are observed as a major benefit to the members of this business entity. Additionally, despite the members enjoying significant control of the business, each one of them enjoys a limited liability to poor decisions made and the debts that are accrued through the numerous operations undertaken (Miller, 2012). The profits and losses that may be realized are allocated under different rates regardless of ownership shares which may result in a significant individual earning more than their contribution to the firm. Another benefit may be realized where the owners may choose the taxation system of the company either as a partnership or as a corporation.

One of the major disadvantages of this entity is noted where an individual may be allocated majority of the losses or profits whereas he or she had the lowest contribution in the formation of the firm. Further, in the formation of the LLC, it is seen as an expensive venture as opposed to a sole proprietorship or partnership entities. Unlike a corporation the LLC does not have a clear management structure which may result in poor decision making in its operations. This may result in huge losses. The use of numerous titles for the members of the LLC may cause confusion as to the overall head of the firm.

*Corporation*

A corporation refers to a group of people who have been authorized to operate as a single entity whereby the law recognizes them as the same. Some of the advantages of incorporation include protection from financial and legal liabilities. One may be able to raise capital through the sale of shares while the corporate structure may help avoid double taxation. Through incorporation a business sounds more credible to outsiders (Miller, 2012). However, it has significant limitations through high costs of filing fees, tax and payment of attorneys. A corporation will also require significantly more paperwork like minutes, by-laws and others that are required regularly.

*Case Studies*

In the case of Melanie, the optimal business entity that she may form is a sole proprietorship. This is because as the single owner of the business, the entity is easy to create without any associated fees to be rendered. The cupcake business cannot be separated from her as she is aware of the needs of her customers. Brett and Jamal should establish a limited liability partnership where they seek the contribution of investors in their businesses as a means of building the company they would want. This entity form will ensure that the two are focused on carrying out their duties of remodeling the houses and not worry about raising cash to buy houses. Rebecca should establish a general partnership with local contractors as she expects losses in the first few years, this entity will ensure unlimited personal liability on debts that may be incurred.

In Daniel’s business of a networking website, the most appropriate entity is the formation of a corporation. As he would want to sell shares on the national exchange, this entity is an effective means of raising capital. The corporation also ensures that the business maintains credibility and is able to attract more customers and investors. Samantha should create a limited liability company as it may be used in pooling a larger capital to hire more individuals to make the various hand-made quilts. This will help her to enjoy limited liability of the debts while maintaining control of the operations of the business.