BUSINESS STUDIES BUSINESS OPPORTUNITIES

GRADE 11 CORE NOTES (2020)

Western Cape Government

TOPIC 1: BENEFITS OF A COMPANY ABOVE ANOTHER OWNER FORMS

TERM	DEFINITION
Form of ownership	The legal position of the company and the way it owned.
Annual General Meeting (AGM)	A meeting to be held once a year in which the shareholders will receive a report in which they say how well the company risk.
Securities	Stocks and bonds issued by a company.
Memorandum of Incorporation (MOI)	The document outlining the rights, responsibilities and duties of shareholders and directors are set out (serves as a co-creation of a company).
Partnership agreement	A document contains extensive provisions relating to the matters relating to the partnership and the partners.
Prospectus	Prospectus is a document that invites the public to buy securities / shares.
Legal Personality	A business has its own legal status, trademark and owned assets.
Dividends	An amount of money regularly (usually annually) paid by a company to its shareholders from the profits (or reserves). Dividends are paid out per share.

ABBREVIATIONS & ACRONYMS:

CC	Closed Corporation
BK	Beslote Korporasie
(PTY) Ltd.	Property Limited
(Edms) Bpk.	Eiendoms Beperk
INC.	Incorporated
Geink.	Geïnkorporeer
JSE	Johannesburg Stock Exchange
JEB	Johannesburgse Effekte Beurs
Ltd.	Limited
Bpk.	Beperk
SOC	State Owned Company
NPC	Non-Profit Company
NWM	Nie-winsgewende Maatskappy
SAID	Suid-Afrikaanse Inkomstediens
MOI	Memorandum Van Inlywing/Inkorporasie
CIPC	Companies and Intellectual Property Commission
KMIE	Kommissie vir Maatskappye en Intellektuele Eiendom

IMPORTANT CONCEPTS

1. **CAPITAL**
   - Money or assets offered by the owners to start the business.

2. **LEGAL PERSONALITY**
   - Companies and CCs have a legal personality. This means that they legally be seen as separate from their owners. Partnerships and Sole Proprietor businesses has no legal personality and is therefore seen as one with their owners. Businesses with legal personality may enter into contracts in its own name, may sue and can be sued - and their respective owners.

3. **CONTINUITY**
   - The ability of the business to continue after the death or retirement of the owner or more than one of the owners.

4. **LIABILITY**
   - **Liability** refers to the responsibility of the owner for the debts of the business.
   - **Limited liability** means the owner(s) (can be shareholders or members) can only lose their investment in the business in the event of a business being declared insolvent (or bankrupt). The owners will not lose their personal assets.
   - **Unlimited liability** means that the owner(s)s may lose their personal assets if the business is declared insolvent, because they have to accept full responsibility to pay off the company's debt.

5. **TAX**
   - Rates depend on the legal personality of the business.
   - Sole Proprietors and Partnerships pay taxes on a sliding scale to a maximum of 45%, depending on the amount of income of their owners.
   - Close Corporations and Companies are legal entities and pay 28% tax on their profits, and a further secondary tax of 20% on profits paid out to members or shareholders. The tax amounts can vary each year, and should be adjusted according to the amount to be determined by the Finance Minister in the National Budget.

6. **ESTABLISHMENT PROCEDURE**
   - The legal procedures / route a business must follow before it can start trading.

7. **SEPARATE AND SIMULTANEOUS**
   - This refers to businesses with more than one owner and means that all owners are responsible for each other's actions and for the debts of the business.

Discuss/Explain/Describe **CHARATERISTICS, ADVANTAGES & DISADVANTAGES** of forms of ownership.

1. SOLE PROPRIETOR

1.1. CHARACTERISTICS:

CHARACTERISTIC	DESCRIPTION
NAME	No legal requirements regarding the name of the business.
NUMBER OF OWNERS	Only one owner
MANAGEMENT	Can make quick decisions without consulting others.
CAPACITY	Easy to control because it is a small business.
LEGAL REQUIREMENTS	There are no legal and administrative formalities in the form of a sole proprietorship.
LIABILITY	The unlimited liability and the private property of the owner can be used to pay the business's debts.
LEGAL PERSONALITY	A sole proprietor is not a legal entity and agreements entered into by the owner in his / her personal capacity.
CONTINUITY	No continuity as business is dependant of the owner.
CAPITAL	Personal debt and business debt is one and therefore capital should be carefully spent and managed.
PROFIT SHARING	The profit of the company belonging to the owner, as there is no distinction between the owner and the enterprise.
TAXATION	Depending on how much income is earned by the owner, his / her tax rate will be lower than the corporate tax rate.

1.2. ADVANTAGES AND DISADVANTAGES:

ADVANTAGES	DISADVANTAGES
• Easy & cheap to establish. • Quick decision-making. • Owners receive all the profit. • General experience in all aspects. • In contact with customers, suppliers and employees.	• Unlimited liability. • Has no legal personality & continuity. • Owner accepts all risks. • Owners focus on some aspects and neglect others. • Owners are overworked. • Capital is limited. • No job security.

Discuss/Explain/Describe **<u>CHARATERISTICS, ADVANTAGES & DISADVANTAGES</u>** of forms of ownership.

2. PARTNERSHIP

2.1. CHARACTERISTICS:

CHARACTERISTIC	DESCRIPTION
NAME	No legal requirements regarding the name of the business.
NUMBER OF OWNERS	2 or more
MANAGEMENT	Partners share responsibilities and they are all involved in decision making.
CAPACITY	Expansion is possible because more partners join partnership.
LEGAL REQUIREMENTS	No legal formalities to start, only a written partnership agreement is required.
LIABILITY	Partners have unlimited liability and are jointly and seperately liable for the debts of the company.
LEGAL PERSONALITY	Partnership has no legal personality.
CONTINUITY	There is no continuity because if there are two partners and one dies, the business can not continue as a partnership.
CAPITAL	Partners combine capital and may also borrow capital from financial institutions.
PROFIT SHARING	Profits are shared according to the partnership agreement.
TAXATION	Partnerships do not pay taxes, partners pay personal income tax.

2.2. ADVANTAGES AND DISADVANTAGES:

ADVANTAGES	DISADVANTAGES
• Relatively easy & cheap to establish. • More capital than a sole proprietor business. • Easier to get credit. • Expenses, responsibilities and tasks are shared. • All benefit from profit.	• Unlimited liability. • Has no legal personality & continuity. • Partners may disagree. • Decision making takes time. • Capital is limited to the number of partners allowed. • A partner's dishonesty affects the rest.

Discuss/Explain/Describe **CHARATERISTICS, ADVANTAGES & DISADVANTAGES** of forms of ownership.

3. CLOSE CORPORATION

3.1. CHARACTERISTICS:

CHARACTERISTIC	DESCRIPTION
NAME	The name must end with the suffix CC.
NUMBER OF OWNERS	1-10 members
MANAGEMENT	The word "close" means that all members are involved in the management.
CAPACITY	The transfer of the interest of a member must be approved by all other members.
LEGAL REQUIREMENTS	There are few legal requirements, e.g. audit of financial statements / regular annual general meetings.
LIABILITY	Members have limited liability, unless the CC has 6 months or longer than ten members.
LEGAL PERSONALITY	The business has a legal personality ...
CONTINUITY	... as well as unlimited continuity.
CAPITAL	Each member contributes certain assets / services to the corporation.
PROFIT SHARING	Profits are shared in proportion to the interest of the member of the CC.
TAXATION	Pay tax on the profits of the business and declared dividends of members. / Subject to double taxation.

3.2. ADVANTAGES AND DISADVANTAGES:

ADVANTAGES	DISADVANTAGES
• Limited liability. • Legal personality & continuity. • Easy & cheap to establish. • None AGM necessary. • Financial statements need not be audited.	• Capital limited to 10 members. • If a member acts without expertise and care, the member shall be liable for losses. • Banks require a financial audit for loans. • Decisions take time. • Could lead to conflict.

Discuss/Explain/Describe **CHARATERISTICS, ADVANTAGES & DISADVANTAGES** of forms of ownership.

4. PRIVATE COMPANY

4.1. CHARACTERISTICS:

CHARACTERISTIC	DESCRIPTION
NAME	The company's name ends with letters (PTY) Ltd. or (Pty) Ltd
NUMBER OF OWNERS	Minimum of one shareholder required and no limit to the number of shareholders.
MANAGEMENT	Managed at least by one competent highly skilled director.
CAPACITY	There is no limit to the number of shareholders, it can lead to expansion.
LEGAL REQUIREMENTS	Register with the Registrar of Companies by setting Memorandum of Incorporation (MOI)
LIABILITY	Shareholders have limited liability and only lose their initial capital invested if the business goes bankrupt.
LEGAL PERSONALITY	The business has a legal personality ...
CONTINUITY	... as well as unlimited continuity.
CAPITAL	Capital raised by issuing shares to its shareholders. Investors then earn profits (dividends) from shares.
PROFIT SHARING	Profits are shared in the form of dividends in proportion to the number of shares held.
TAXATION	Pay tax on the profits of the business and declared dividends of shareholders. / Subject to double taxation.

4.2. ADVANTAGES AND DISADVANTAGES:

ADVANTAGES	DISADVANTAGES
• Limited liability. • Legal personality & continuity. • Number of shareholders allows for more capital. • No AGM necessary.	• Complex establishment process. • Can only rely on capital contributed by members. (Cannot get money from the general public for capital.). • Subject to double taxation. • Annual financial statements must be reviewed by a qualified person, which is an extra expense for the company.

Discuss/Explain/Describe **CHARATERISTICS, ADVANTAGES & DISADVANTAGES** of forms of ownership.

5. PERSONAL LIABILITY COMPANY

- It is very similar to a private company, and the **DIRECTORS** of a personal liability company are jointly and seperately liable for all debts and obligations of the company. This means that the directors have unlimited liability.

5.1. CHARACTERISTICS:

CHARACTERISTIC	DESCRIPTION
NAME	The company's name must end with letters INC.
NUMBER OF OWNERS	Minimum of one shareholder required and no limit to the number of shareholders.
MANAGEMENT	They must have at least one director to their board.
CAPACITY	There is no limit to the number of shareholders, it can lead to expansion.
LEGAL REQUIREMENTS	In the MOI must be stated that it is a company with personal liability.
LIABILITY	Directors have unlimited liability and are jointly liable for the debt, even if they are long out of the office.
LEGAL PERSONALITY	The business has a legal personality ...
CONTINUITY	... as well as unlimited continuity.
CAPITAL	Capital raised by issuing shares to its shareholders. Shareholders then earn profits (dividends) from shares.
PROFIT SHARING	Profits are shared in the form of dividends in proportion to the number of shares held.
TAXATION	Pay tax on the profits of the business and declared dividends of shareholders. / Subject to double taxation.

5.2. ADVANTAGES AND DISADVANTAGES:

ADVANTAGES	DISADVANTAGES
• Limited liability. • Legal personality & continuity. • Number of shareholders allows for more capital. • No AGM necessary.	• Complex establishment process. • Can only rely on capital contributed by members. (Cannot get money from the general public for capital.). • Subject to double taxation. • Annual financial statements must be reviewed by a qualified person, which is an extra expense for the company.

NOTE: The advantages & disadvantages of a personal liability company is the same as the private company.

Discuss/Explain/Describe **CHARATERISTICS, ADVANTAGES & DISADVANTAGES** of forms of ownership.

6. PUBLIC / PUBLIC COMPANY

- A public company is registered to offer its shares to the general public. Designed for large-scale businesses that require large capital investments. Shares are traded through the Johannesburg Securities / Stock Exchange (**JSE**).

6.1. **CHARACTERISTICS:**

CHARACTERISTIC	DESCRIPTION
NAME	The company's name ends with letters Ltd. or Ltd.
NUMBER OF OWNERS	Minimum required a shareholder and no limit to the number of shareholders.
MANAGEMENT	The law forces personal liability on directors who were consciously reckless / fraudulent.
CAPACITY	Many people can join the company by issuing shares to the public.
LEGAL REQUIREMENTS	Register with the Registrar of Companies by setting up the Memorandum. A prospectus will be issued to the public to raise capital.
LIABILITY	Shareholders have limited liability.
LEGAL PERSONALITY	The business has a legal personality ...
CONTINUITY	... as well as unlimited continuity.
CAPITAL	Capital raised by issuing shares to the public and borrow capital by issuing debentures.
PROFIT SHARING	Profits are shared in the form of dividends in proportion to the share held.
TAXATION	Pay tax on the profits of the business and declared dividends of shareholders. / Subject to double taxation.

6.2. **ADVANTAGES AND DISADVANTAGES:**

ADVANTAGES	DISADVANTAGES
• Limited liability. • Legal personality & continuity. • Can obtain large amounts of capital. • Can attract skilled personnel because they can pay them well. • Provides job security. • Strict regulatory requirements to protect shareholders.	• Complex establishment process. • Certain information must be published under the law e.g. financial statements. • AGM must be held. • Failure could lead to large scale unemployment. • Shareholders may have little or no input in the affairs of the company.

Discuss/Explain/Describe **CHARATERISTICS, ADVANTAGES & DISADVANTAGES** of forms of ownership.

7. COMPANIES IN STATE OWNED

- In a state owned company, the government is the largest shareholder and falls under the Department of Public Enterprises.
- These businesses take on behalf of the government the role of commercial enterprises.

7.1. CHARACTERISTICS:

CHARACTERISTIC	DESCRIPTION
NAME	The name ends with the letters SOC.
NUMBER OF OWNERS	Requires 3 or more directors and 1 or more shareholders. It is owned by the government and operates to generate a profit.
MANAGEMENT	Shareholders vote for the most competent directors and they are appointed to manage the company.
CAPACITY	Many people join the company by issuing shares to the public.
LEGAL REQUIREMENTS	Register with the Registrar of Companies by setting up the Memorandum of Incorporation.
LIABILITY	Shareholders have limited liability.
LEGAL PERSONALITY	The business has a legal personality ...
CONTINUITY	... as well as unlimited continuity.
CAPITAL	The company has access to long-term capital and therefore good long-term opportunities for growth.
PROFIT SHARING	Profits are shared in the form of dividends. Generate revenue to finance social programs.
TAXATION	Pay tax on the profits of the business and declared dividends of shareholders. / Subject to double taxation.

7.2. ADVANTAGES AND DISADVANTAGES:

ADVANTAGES	DISADVANTAGES
• Limited liability. • Legal personality & continuity. • Supporting of government. • Greater power in negotiating contracts. • Profits can be used to finance other government departments. • Unnecessary duplication of services is eliminated.	• Not a true form of ownership because the government controls all decisions. • Difficult to raise capital because stock is limited. • May lead to poor management because the government is not as effective as the private sector. • Rely on subsidies from the government. • Losses must be paid by the taxpayer.

Discuss/Explain/Describe **CHARATERISTICS, ADVANTAGES & DISADVANTAGES** of forms of ownership.

8. NON-PROFIT COMPANIES

- A non-profit company / enterprise (NPC / NPO) is established with the aim not to make profit, but it is established to benefit society.

8.1. CHARACTERISTICS:

CHARACTERISTIC	DESCRIPTION
NAME	The name of the company must end with NPC / NPO.
NUMBER OF OWNERS	With or without members.
MANAGEMENT	The board shall consist of at least 3 directors and can be well managed as it requires a minimum of 3 (or more) directors.
CAPACITY	More shareholders may join the company, as they contribute positively to society.
LEGAL REQUIREMENTS	It must draw up a Memorandum of Incorporation.
LIABILITY	Members have limited liability. Directors are liable for any loss / damage / costs experienced by the company.
LEGAL PERSONALITY	The business has a legal personality ...
CONTINUITY	... as well as unlimited continuity.
CAPITAL	Funded by donations. Easy to raise funds / capital as donors enjoy tax relief benefits.
PROFIT SHARING	The main purpose is to serve and not to make profit. All profits must be used for the primary purpose of the company.
TAXATION	Qualifying NPC/NPO is granted tax-exempt status (tax deductions).

8.2. ADVANTAGES AND DISADVANTAGES:

ADVANTAGES	DISADVANTAGES
• Members have limited liability, but directors can be held liable for loss / damage. • Legal personality & continuity. • Donors receive tax deductions. • Can get funding from national lottery trust and other agencies. • Exempt from paying tax to SARS.	• They are not allowed to pay bonuses to members. • Assets to be transferred to a similar type of company if company be dissolved. • Must keep financial and accounting records. • May make a profit, but may not distribute property or profits to its members. • Must hold an AGM.

Discuss/Explain/Describe **CHARATERISTICS, ADVANTAGES & DISADVANTAGES** of forms of ownership.

9. CO-OPERATIVES

- A co-operative is a traditional way in which a group of interested parties gathered and resources / infrastructure and cost sharing to achieve a better result.

9.1. CHARACTERISTICS:

CHARACTERISTIC	DESCRIPTION
NAME	The word 'Cooperative Limited' will appear at the end of the name.
NUMBER OF OWNERS	At least 5 members are required to start a cooperative.
MANAGEMENT	Members own and manage the business together. Decisions are made democratically. They are managed by at least 3 directors.
CAPACITY	The purpose of a cooperative is to create mutual benefit for the members and allow the members to work together as a team.
LEGAL REQUIREMENTS	Must register with the Registrar of Co-operative societies.
LIABILITY	Members have limited liability.
LEGAL PERSONALITY	The business has a legal personality and are allowed to own land and open bank accounts.
CONTINUITY	The business has unlimited continuity.
CAPITAL	The amount of capital that can be obtain by a co-operative is limited to the number of members. Additional capital obtained by asking members to buy shares.
PROFIT SHARING	Profits are shared equally amongst its members.
TAXATION	Pay taxes on income retained for investment and reserves and surplus revenues are returned, according to patronage, to individual members who pay taxes on that income.

9.2. ADVANTAGES AND DISADVANTAGES:

ADVANTAGES	DISADVANTAGES
• Limited liability. • Legal personality & continuity. • Facilities of members are combined to achieve common goals. • Better production due to loyal and dedicated members because they work for themselves. • Decision-making by a group which is democratic and fair.	• Unable to pay high salaries. • Success depends on loyalty, commitment and support of its members. • Can be difficult to obtain loans, because the main objective is not always to make profit. • To reach a decision is often difficult and time consuming. • Auditing of financial statements compulsory.

10.1. Tabulate the differences between a **PRIVATE** and a **PUBLIC** company

	PRIVATE COMPANY	**PUBLIC COMPANY**
NAME	Name must end with Property Limited / (Pty) Ltd.	Name must end with Limited / Ltd.
MANAGEMENT	At least **ONE** director.	At least **THREE** directors.
CAPITAL	**NO** shares are offered to the general public.	Trade its shares publicly on the Johannesburg Stock Exchange.
SHARES	Shares are **NOT** freely transferable	Shares are freely transferable.
FINANCIAL STATEMENTS	Annual financial statements do not have to be audited and published.	Annual financial statements must be audited and published.
PROSPECTUS	**NO** need to publish a prospectus as its shares may not traded publicly.	Should register and publish a prospectus with the Companies and Intellectual Property Commission (CIPC).
MINIMUM ENTRY	The company does **NOT** issue the minimum subscription / minimum stock.	Must collect a minimum subscription before the start of the business.

10.2. Differences between **PRIVATE** company and a **PERSONAL liability**-company

	PRIVATE COMPANY	**PERSONAL liability - COMPANY**
NAME	The name ends with (PTY) Ltd	The name ends with INC.
LIABILITY	The directors are **NOT** personally liable for the debts of the company.	The directors are personally liable for the debts of the company.

11. Discuss / Explain the **BENEFITS** with establishing a company to other forms of ownership:

11.1. **LEGAL STATUS AND LIABILITY:**

- A company has its own legal status, brand and owns its assets.
- Shareholders' private assets are protected because they have a limited liability.
- The shareholders have no direct legal responsibility.
- Companies have their own names and protected.

11.2. **PROFIT SHARING:**

- Shareholders share in the profits of the company through dividends.

11.3. **OWNERSHIP AND MANAGEMENT:**

- Shareholders in a public company can freely buy and sell shares.
- The company is managed by qualified and competent board.
- It is less likely to use a business consultant, as they have a larger pool of skills and expertise.
- Directors are more likely to take risks and make possible growth opportunities for the company.

11.4. **CAPITAL AND CASH FLOW:**

- A company may have more investors to finance the establishment of the enterprise.
- Companies have a better cash flow that sole traders.
- A company is not limited to the individual contribution of the members' capital.
- The long-term growth opportunities for companies are very good, because there is always a possibility to get more investors.
- Directors do not have to obtain personal loans for the company to grow.

11.5. **LIFE AND CONTINUITY:**

- A company has continuity of existence.
- Company shares may be transferred / purchased / sold.

11.6. **TAX:**

- Companies have tax benefits that other businesses do not.
- They can get rebates if they are involved in social responsibility projects.

12. Discuss / Explain **CHALLENGES** of establishing a company in comparison to other forms.

12.1. **MANAGEMENT & CONTROL CHALLENGES:**

- Directors may not have a personal stake in the company, and it can prevent the company maximize growth and attract possible investors.
- Conflicts can arise between owners of the company and management that are in control.
- If directors change, there may be a difference in continuity of management.
- Politics can get in the way and directors are appointed for the wrong reasons.
- The owners of the company have more liability.
- A company may cease to exist if it is deregistered by the Registrar of Companies.

12.2. **FINANCIAL CHALLENGES:**

- The more shares there are, the less profit per share.
- Each financial year a company must submit a detailed report to all stakeholders.
- They are expected to disclose all financial information which can provide an unfair advantage to their competitors.
- A large amount of money is spent on financial audits and accounting fees because of government regulations.
- Companies have more tax requirements and other taxes are high.
- Companies in state control often provide non-profit services that result in the government losing the company money.

13. Explain / describe / discuss the **<u>PROCEDURE</u> FOR THE ESTABLISHMENT OF COMPANIES**.

STEP 1	Determine who will establish the company
STEP 2	Reserve a company name with the Registrar of Companies
STEP 3	Draw up a Memorandum Of Incorporation (MOI)
STEP 4	Submit a Notice of Incorporation
STEP 5	Obtain a unique registration number
STEP 6	Register the company with the Registrar of Companies.
STEP 7	Open a bank account and register for tax.
STEP 8	Draw up a Prospectus for potential investors.

14. Discuss / Explain the **<u>LEGAL REQUIREMENTS OF THE NAME</u>** of the company, e.g.

- Must be **ORIGINAL** and may **NOT** be misleading.
- Must appear on all **COMPANY DOCUMENTS**, e.g. on letterheads.
- This is the **FIRST STEP** to register a company, but it is <u>not mandatory</u>.
- Can be **RESERVED** for a period of **6 MONTHS** by the CIPC.
- May **<u>NOT</u>** be the **SAME** as any other company, unless it is part of the group.
- May **<u>NOT</u>** be a **PERSON** that implies / propose / mislead people into believing that the company is part of another person / company / the state.
- May **<u>NOT</u>** promote **OFFENSIVENESS** / **VIOLENCE** / **HATE** or cause damage.
- Do **<u>NOT</u>** be **ABBREVIATED** or be **TRANSLATED**.
- Must indicate the **TYPE** company: the name of a company must **END** with ...

Define the following concepts:

15. **MEMORANDUM OF INCORPORATION (MOI)**

15.1. **Meaning of Memorandum of Incorporation (MOI):**

- MOI serves as the constitution of a company.
- Companies are managed according to the rules set out in the MOI.
- Each company must submit a copy of his MOI provided to the Commission for Companies and Intellectual Property (CIPC).
- MOI describe the relationship between the company and its stakeholders.
- MOI outlining the rights, responsibilities and duties of the shareholders and directors.
- Provide details about incorporation, the number of directors and share capital.
- Contains information about the name / registry and records of the company.

15.2. **Aspects to be included in the Memorandum of Incorporation / Incorporation:**

- Incorporators
- Type of company
- Securities of the company
- Shareholders and meetings
- Directors and officers
- Name of the company
- The main objectives of the company
- Number of shares that would buy each incorporator
- Amount share capital registered
- Rules and regulations of the company
- Name of the auditor

15.3. **Notice of Incorporation / Incorporation:**

- The notice must be submitted with the standard form of Memorandum of Incorporation / Incorporation, and it contains the following information:
  - Type of business
  - Financial year-end
  - Number of directors
  - Date of incorporation
  - Registered address
  - Company Name

16. **PROSPECTUS**

16.1. **Meaning of a Prospectus**

- A prospectus is a written invitation to the public to buy the securities offered by a public company.
- This is a formal legal document detailing investment offers to the public.
- A prospectus may only be issued by a company, and it should be within three months after the date of registration.
- It gives information about the company.

16.2. **Aspects to be included in the prospectus:**

- Overview of the company, including the vision, mission and goals of an enterprise
- Product or service portfolio
- Market Analysis and Strategy
- management Team
- The risk and potential of the company
- Available financial and stock information
- Assets and liabilities of the company
- financial position
- Gains and losses
- cash flow
- Prospects for growth
- Pre-inkorporasiekontrakte which was signed
- Date of registration of the prospectus
- The minimum subscription

16.2.1. **Meaning of the Initial Public / Public Offer / IPO:**

- This is when the company issues for the FIRST TIME shares to the public.
- The company must submit a prospectus setting before the initial offer is made.
- Most companies take a "IPO" with the help of an investment banking firm that acts as an underwriter.

16.2.2. **Meaning of the Secondary Offering:**

- A secondary offer is an offer of securities by a shareholder of the company as opposed to the company itself, which is a primary offering.
- A secondary offering is the sale of new or retained shares by a company that has made an initial public offering (IPO).

TOPIC 2: ROUTES FOR THE ACQUISITION OF BUSINESS

TERM	DEFINITION
Trademark	A symbol, word or words that are registered or established lawfully used as a company or product.
Goodwill	The established reputation of a company that is considered a measurable asset and is calculated as part of its value when it is sold
Geographic Area	When a business market based on geography divide. Can a market by region divided geographically, such as cities, counties, regions, countries and international regions.
Overhead Costs	Refer to the expenses associated with running a business that can not be linked to the manufacture of a product or service. This is the expenses incurred by the company to stay in business, regardless of the level of success.
Experts	Someone who is very knowledgeable in or on a specific area.
Incentives	A payment or concession to stimulate greater production.

1. Explain / discuss / motivate the **REASON FOR ENTREPRENEURS CAN DECISION AN EXISTING BUSINESS FOR SALE**.

- Easier to obtain finance as the business has a good history.
- Immediate cash flow because there is already established customers are.
- Distribution, providing links and staff have been established.
- The market will be further subdivided by an additional business.
- Existing assets form part of the business and does not need to be purchased.

2. **Franchises**:

- A franchise is the right a business to use the name, trademark, ideas, processes and goodwill of an existing business in a specific geographic area in order to sell goods or services.
- There are **THREE MAIN TYPES** franchises:

	PRODUCT-franchise, where the franchise holder acts as a retailer to sell specific products.
	SYSTEM-franchise, where the franchise giver allow the franchise holder to do business in a unique way.
	PRODUCTION AGREEMENT-franchise, where the franchise giver provide an essential component of expertise.

Define / State / discuss / explain the <u>**ADVANTAGES, DISADVANTAGES AND CONTRACTUAL OBLIGATIONS**</u> of obtaining a <u>**FRANCHISE**</u>:

2.1. **ADVANTAGES DISADVANTAGES** van 'n Franchise:

ADVANTAGES	DISADVANTAGES
• Successful other franchises can be studied before a commitment is made. • A recognized brand name and trademark. • Will benefit from any advertising or promotional campaign by the franchise giver. • The franchise holder acquired exclusive rights in a certain geographic area. • Banks are more likely to lend money for the purchase of a franchise with a good reputation. • Relationships with suppliers are already established.	• The cost may be higher than expected. The business must constantly pay royalty and the business may have to agree to buy products of the franchise giver. • There may be restrictions in the franchise agreement on how the business can operate. • The franchise giver might cease to operate. • Other franchisees can give the brand a bad reputation. • A percentage of sales are usually shared with the franchise giver.

2.2. **CONTRACTUAL OBLIGATIONS** of a Franchise

- The franchise giver and franchise holder will enter into a formal agreement, which sets out the roles, rights and responsibilities of both parties.
- A franchise agreement is drawn up when a franchise is sold and it is a legally binding document.
- <u>The two parties to the contract involved</u>:
  1. The **FRANCHISE-GIVER** is the person who created the goods or services and the right to produce it to another person <u>**SALE**</u>.
  2. The **FRANCHISE-HOLDER** is the person or organization that the franchise <u>**SHOP**</u>.
- <u>A franchise agreement should include the following</u>:
  1. **TERMS & CONDITIONS**: A summary of what to do every party.
  2. **THE FRANCHISE OWNER'S PAYMENTS**: The initiation fee, patent holders compensation, renewal, etc.
  3. **WHAT THE FRANCHISE HOLDER OFFER**: The provision of training, equipment, shop plans, inventory, equipment, working capital, advertising and anything else agreed.
- <u>The agreement includes the following **PAYMENTS** specify</u>:
  - o the initiation fee;
  - o monthly management fees;
  - o patent holders compensation by turnover;
  - o fees for machinery and equipment; and
  - o fees for advertising.
- Through a business with a famous name and set of procedures and sales activities, the franchise giver able to control the quality of the goods or services provided.
- The Franchise Association of South Africa (FASA) was established to support franchise owners and advise.

3. OUTSOURCING:

- Outsourcing is the award of a contract for any job function, job or process by employees in a business can be carried out, to a third party.
- Done by smaller businesses to reduce costs.
- Usually not run on the same premises as the business not to outsource the function.
- <u>Reasons for outsourcing</u>:
  - Better use of staff
  - Access to skilled people
  - Focus on the company's vision and goals
- Lack of resources and equipment.
- Functions that can be outsourced include payroll, recruitment of human resources, cleaning services, e-commerce, marketing, security and accounting services. The hiring of a temporary employee while the secretary is on maternity leave is not outsourcing not

Define / State / discuss / explain the **<u>ADVANTAGES, DISADVANTAGES AND CONTRACTUAL OBLIGATIONS</u>** of acquisition **<u>OUTSOURCING</u>**:

3.1. **ADVANTAGES DISADVANTAGES** of Outsourcing:

ADVANTAGES	DISADVANTAGES
• Enable the business to focus on its core functions. • Save costs and improve efficiency. • Can reduce overheads. • Get control over a feature back. • Provides staff flexibility during peak hours. • Provide continuity and mitigate risks. • Develop internal staff by internal staff together to work with the outsourced experts on a project to learn new skills	• Loss of management control. • Hidden costs. • Threat of security and confidentiality. • Quality Problems. • Connect to the financial well-being of another company. • Poor internal and external publicity

3.2. **CONTRACTUAL OBLIGATIONS** of Outsourcing:

- Contractual agreement between two parties and both parties have signed the contract.
- The business which the function is outsourced, is known as the vendor.
- <u>The following should be considered by both parties</u>:
  - Does the agreement with the vision and goals of both companies.
  - Can the work produced is measured in terms of performance.
  - <u>Incentives and penalties</u> should be included in the agreement.
  - <u>Accountability and transparency</u> must be assured.
- A **SUBCONTRACT** is a case where a subordinate contract for the supply of materials and labor will be awarded to someone else as the main contractor. For example, a building contractor many of the tasks that have to do with building a house, outsourced to a subcontractor, such as electrical wiring or plumbing.

4. **LEASE OF BUSINESS ASSETS:**

- A lease is an agreement whereby land or movable assets for a specified time is leased by the owner to a tenant. This may include assets such as equipment, buildings, houses, apartments, machinery, vehicles, etc.
- Initial capital is needed, or a business, from nothing started, or an existing business is purchased, or even when buying a franchise. The entrepreneur may not have enough capital to immediately all the equipment or other assets to buy the business need.

Define / State / discuss / explain the **ADVANTAGES, DISADVANTAGES AND CONTRACTUAL OBLIGATIONS** of acquisition **LEASES**:

4.1. **ADVANTAGES DISADVANTAGES** of leases:

ADVANTAGES	**DISADVANTAGES**
• The business acquired the use of the asset without upfront charges. • The business can get the latest technology without having large amounts of capital to be invested. • The business course not become obsolete the risk of expensive equipment. The rentals are at the end of the lease returned to the lessor. • For the tenant, the lease payments are tax deductible. • Rent increase the cash flow of the business. • Rent is considered an expense for the lessee and are therefore not considered debt.	• The total lease payments might be more than the original purchase price of the leased items. • The tenant is bound by the lease even if not the business may no longer need items. • When the owner the business wants to sell the lease by the purchaser of the business will be taken over.

4.2. **CONTRACTUAL OBLIGATIONS** of leases:

- All lease agreements entered into with strict legal proceedings and formal contracts between the **LESSOR** and the **TENANT**.
- The **LESSOR** is the person or organization who agrees to lease the assets to another person or organization.
- The **TENANT** is the person or organization that hire these assets.
- When a lease is set, the following must be established:
    - **PERIOD**: The period for which you intend to use the property or items and if there is a renewal option.
    - **COST** of the lease: This includes the basic rent, operating costs, and maintenance costs and security services.
    - **ANNUAL ESCALATION**: This means that the rent every year by a certain percentage will rise.

END OF PART 1 OF 2