

Beat the Teacher

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Legal Structures for a Business

There are various legal structures available for a business.

A sole trader is a business owned by one person. The sole trader doesn't have to work alone – he or she may also employ other people. The term “sole trader” relates to the ownership of the business.

It is **difficult and expensive** [*incorrect – it is very easy*] to set up as a sole trader and a further disadvantage is that it is often hard to raise capital for expansion.

A partnership is a form of business in which **at least three** [*no – could be two people!*] people agree to work together, sharing the profits of the partnership.

Like sole traders, partners normally have unlimited liability. The rights and responsibilities of the partners are set out in the partnership agreement, covering areas such as decision-making and profit sharing.

Sole traders and partnerships are unincorporated businesses. The most common form of incorporated business is the private limited company.

A company is owned by its **stakeholders** [*no – shareholders*], who may also be involved in the day-to-day management of the business. Companies raise capital by selling shares and they also find it easier to raise finance from sources such as banks.

The owners of a company are provided with the protection of limited liability. That means that the shareholders can only lose the amount that they have invested in the company.