Lesson Plan: Nuggets of a Dynamic Business Structure

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**Definition of Business**

Under the Business Law, a business is termed as a legal practice that comprises of activities such as the production of goods, purchase and dissemination of products or rendering services by engaging an individual or a group of individuals with an aim to earn profits along with the drive of satisfying the consumers (Needle, 2010).

**Types of Business**

Depending on the nature and scope of the organizational operations, the business entities are categorized into four different legitimate forms:

**Sole Proprietorship**

The form of business which is solely run by an individual. The sole proprietors own the equity and the profits earned and are liable for the debts and expenses incurred by the trade. This form of business is not considered as a legal entity and the owner and the business are non-separable (Nithman, 2015).

**Partnership**

An association among two or more individuals that participate in business to raise mutual benefits (wealth) which is then shared amongst the partners on a contracted proportion. This type of business obliges the partners to sign a legal agreement to engage in a business activity entailing the details of business name, period, capital from the partners, and their share, etc., but it is not considered as a legal entity.

**Limited Liability Company**

A form of business that is legally entitled to do business, separate from the individual proprietors. Such companies are required to be registered with the Corporate Affairs Commission and the Memorandum and Articles of Association.

**Corporation**

A separate, legitimate business entity managed by a group of individuals or companies recognized as a Board of Directors (Bayern, 2016).

**Tax Classifications**

In the US, tax classification determines how the entities desire to be viewed by IRS i.e. Internal Revenue Service from a tax viewpoint (Wright, 2018).

* In the case of a sole proprietorship, both the business forms are not legal entities due to which the liabilities, expenses, and income belong to the owner of the businesses who can pay off its debts and tax liabilities by selling its assets and profits.
* Conversely, the Corporations are recognized as lawful entities which although enjoy reduced tax rates as compared to single taxpayers but are liable to double taxation i.e. when the same owner and shareholder pay tax twice on a single income source.
* In a Limited Liability Company, the profits solely belong to owners but they are taxed with personal tax rates that greater than the corporate rates.

**SMART Timeline to Begin Structuring a Business**

To start a new business, the organizational goals play a vital role in directing the operations and success of the business. So the first step of an organization is to set goals which should be SMART i.e. an acronym for the following elements (Shahin & Mahbod, 2007):

* **Specific** goals are clear and precise which helps the business to move in a specific direction.
* **Measurable** in terms of quantity and quality to determine the success of the objects.
* **Attainable** goals can only determine its feasibility.
* **Realistic** and **result-oriented** goals are determined by the availability of resources and performance indicators.
* **Time-sensitive** goals follow a time frame helping firms to measure their success.

**Legally-binding Agreements (Contracts)**

Under the state and federal contractual legislation, an agreement that obligates two or more parties to follow the terms and conditions of the contract (Stim, 2016)

**Evaluation test**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **#** | **Questions** | **Yes** | **No** | **May be** |
| 1. | Have you understood the types of business entities? |  |  |  |
| 2. | Does the definition of business appropriate? |  |  |  |
| 3. | Do you find the differences among the types of business entities? |  |  |  |
| 4. | Are the characteristics of sole-proprietorship described sufficiently? |  |  |  |
| 5. | Do you have an understanding of the Corporation business type? |  |  |  |
| 6. | Is the description of tax classifications ample to know tax liability? |  |  |  |
| 7. | Whether the SMART goals help in the structuring of business? |  |  |  |
| 8. | Do you have an understanding of double taxation? |  |  |  |
| 9. | Does the explanation to contracts describe them fully? |  |  |  |
| 10. | Do you feel the provided explanations for the topics are up to date? |  |  |  |

References

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