
Ch1Case2 ... Amar Akbar ...

Case : Amar, Akbar, Anthony & Amarpreet

- The case details the following three points on the friends:
 - Amar was very ambitious and always thought of growing fast → A Retail Chain across the country
 - Akbar was not ambitious and believed in being self-reliant → Sponge Iron Unit
 - Anthony was a team member → Event Management Firm
 - Amarpreet is doctor by profession → Hospital with the help of his professional group of friends

Select based on Individual Profiles

- ☐ Limited amount of information
- ☐ Three issues to delve into ...
- ☐ Sole proprietorship and partnership have
 - unlimited liability
 - pay only personal tax on profits
- ☐ A company and LLP has
 - limited liability
 - has double taxation
 - involves more paper work (due to regulatory requirements)

Is Company a dynamic entity?

- ☐ Yes
 - due to low risk and
 - ease of getting easily financed by way of both debt and equity (why?)
- ☐ Four factors make it easier for a company to raise capital
 - unlimited life
 - easy ownership transferability
 - limited liability
 - difficult in closing (& regulatory constraints)

Does Type of Business Influence?

- ☐ Yes.
- ☐ For example,
 - a business which is large and/or has growth opportunities → Company
 - whereas a farmer managing his small farm and not interested in expanding → Sole Proprietorship
 - a business wherein professionals are involved and can be scaled up (but has huge risks due to decisions taken by even one professional) – such as a law firm → LLP

Other Factors ... Economic Scenario

- In a economic scenario, wherein the corporate bodies are forced to pay high tax and/or have larger amount of paper work, it is very likely to force most people to shift
 - to sole proprietorship kind of organizations

Shareholders Biases/Objectives ...

- ☐ How much of management control do you want?
- ☐ How transparent do you want to be?
- ☐ Do you want to evade tax?
- ☐ Do you want to cut down on your paper work?
- ☐ Is the business very risky? OR How risky are his/her other businesses?
- ☐ Are the partners comfortable enough with each other?
- ☐ Are there any agency related problems – if so how are they being controlled?

[illegible]

Issue	Sole Proprietorship	Partnership	LLP	Private Limited	Public Limited	Only Limited (Guaranteed)
Income Tax Audit	> 100 L turnover	> 100 L turnover	> 100 L turnover	> 100 L turnover	> 100 L turnover	> 100 L turnover
External (Statutory) Audit	Not Required	Not Required	Overlooked by the concept paper.	Compulsory under the Statute Companies Act	Compulsory under the Statute Companies Act	Compulsory under Guarantee Limited Company
Internal Audit	Not Required	Not Required	Overlooked by the concept paper.	Turnover is > Rs 10 crores	Turnover is > Rs 10 crores	Turnover is > Rs 10 crores
Registration Process	Not Required	Partnership deed attested in Court	Incorporation Document, Companies Act 2013 (RoC)	Under Companies Act 2013 (RoC)	Under Companies Act 2013 (RoC)	Under Companies Act 2013 (RoC)
Liability	Unlimited	Unlimited	Limited	Limited	Limited	Limited by Guarantee
No of Shareholders	Single	Min 2 Max 100	Min 2 Max Unlimited	Min 2 Max 200	Min 7 Max Unlimited	Min 2 Max 200
Annual (RoC) Papers	Not required to file other than IT dept.	Not required to file other than IT dept.	RoC requirements (state wise)	RoC requirements (state wise)	RoC requirements (state wise)	RoC requirements (state wise)
Raising Finance	Secured / Unsecured Loans	Secured / Unsecured Loans	Secured / Unsecured Loans	Decided by BoD by a special resolution (MoA rights)	AGM or EGM	Decided by BoD by a special resolution (MoA rights)

Businesses differ in ownership, flexibility in decision-making, capital requirement and extent of regulation.

Form of Organization	Ownership	Decision-making	Government Regulation	Suitability
Sole proprietorship	<ul style="list-style-type: none"> Small Single owner 	<ul style="list-style-type: none"> Completely flexible 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Small business
Partnership	<ul style="list-style-type: none"> Small to medium Minimum 2; maximum 100 (does not apply to professional practices) 	<ul style="list-style-type: none"> Largely flexible but partners may disagree among themselves 	<ul style="list-style-type: none"> Virtually none 	<ul style="list-style-type: none"> Small, medium business Professional practices of lawyers, CAs
Limited company				
A. Private	<ul style="list-style-type: none"> Small to medium Minimum 2 shareholders; maximum 200 	<ul style="list-style-type: none"> Largely flexible but directors may disagree 	<ul style="list-style-type: none"> Companies Act applies but mildly Auditing of financial statements by CAs 	<ul style="list-style-type: none"> Small, medium business, often because of a legal requirement (e.g. bus route permit, mining licence) or to get bank loan
B. Public				
(i) not listed	<ul style="list-style-type: none"> Minimum 7 shareholders; no maximum 	<ul style="list-style-type: none"> Very rigid, because shareholders' approval needed for major decisions Directors may disagree 	<ul style="list-style-type: none"> Companies Act applies rigorously Extensive filing of documents, public disclosure of financial information Auditing of financial statements by CAs 	<ul style="list-style-type: none"> Medium, large business
(ii) listed	<ul style="list-style-type: none"> Minimum 7 shareholders; no maximum 	<ul style="list-style-type: none"> Very rigid, because shareholders' approval needed for major decisions Directors may disagree Independent directors may question some transactions 	<ul style="list-style-type: none"> Companies Act and SEBI Act apply rigorously Extensive filing of documents, public disclosure of financial information Quarterly reporting of financial performance Auditing of financial statements by CAs 	<ul style="list-style-type: none"> Large, very large business that requires huge public capital

Thank You

