

# Businesses and Organizations

by Sophia



## WHAT'S COVERED

This tutorial will cover the topic of business and organizations, discussing the different types of companies, as well as the different legal and tax entities in accounting.

Our discussion breaks down as follows:

## 1. Publicly Traded Companies vs. Privately Owned Companies

The main differentiator between publicly traded companies and privately owned companies is that publicly traded companies have their stock listed on an open market, while privately owned companies do not.

Publicly traded companies are under more scrutiny, because they have to provide reporting information at certain intervals. There are also more regulatory requirements for publicly traded companies.

Privately owned companies, on the other hand, are more nimble. They don't have the same regulatory oversight as publicly traded companies.

➔ **EXAMPLE** For example, if publicly traded companies want to make a big decision, they must have shareholder approval, which can be a difficult and long process. Privately owned companies, because they are more nimble, can focus more on growth and expanding the business, without being mired in the shareholder approval process.

Publicly traded companies can sell more shares, so it is easier for them to gain access to new capital as they need it. This is more difficult for privately owned companies, because they have to go out and try to raise the capital from different investors.

Publicly Traded Companies	Privately Owned Companies
Stock listed on an open market	Stock NOT listed on an open market
More scrutiny; need shareholder approvals	More nimble; can focus on growth
Sell more shares	Difficult to raise capital

## 2. Legal Entities

There are several different legal entities involved in accounting.

A **sole proprietorship** is a type of company that is owned by a single individual, where the individual and the business are legally treated as the same.

In contrast, a **limited liability company**, or an **LLC**, is a type of company where owners are not held personally responsible for the organization's liabilities.

A **limited liability partnership**, or an **LLP**, is a type of company where only one of the partners is liable for the amount invested in the organization and is not accountable for the behavior of the other partners.

A **private corporation**, or a **PC**, is a type of company whose shares are not purchased or traded publicly.

A **nonprofit** is an organization that reinvests its profit into the goals of the company instead of distributing to owners and shareholders.

Lastly, there is a **corporation**, or **Inc.** This is a type of company that exists as a separate unit from owners and shareholders, thereby protecting each individual from liability that exceeds the original investment.

Here is a chart that outlines each of these legal entities:

Legal Entity	Basic Structure
Sole Proprietorship	The individual and the business are legally treated as the same.
Limited Liability Company (LLC)	Owners are not personally responsible for organization's liabilities.
Limited Liability Partnership (LLP)	Only one partner is liable for the amount invested in the organization.
Private Corporation (PC)	Shares are not purchased or traded publicly.
Nonprofit	Profits are reinvested into the goals of the company.
Corporation (Inc)	Exists as a separate unit from owners and shareholders.



### TERMS TO KNOW

#### **Sole Proprietorship**

A type of company that is owned by a single individual, and where the individual and the business are legally treated as the same.

#### **Limited Liability Company (LLC)**

A type of company where owners are not held personally responsible for the organization's liabilities.

#### **Limited Liability Partnership (LLP)**

A type of company where only one of the partners is liable for the amount invested in the organization and is not accountable for the behavior of the other partner(s).

#### **Private Corporation (PC)**

A type of company whose shares are not purchased or traded publicly.

### Nonprofit

An organization that reinvests profit into the goals of the company instead of distributing to owners and shareholders.

### Corporation (Inc)

A type of company that exists as a separate unit from owners and shareholders, thereby protecting each individual from liability that exceeds the original investment.

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## 3. Tax Entities

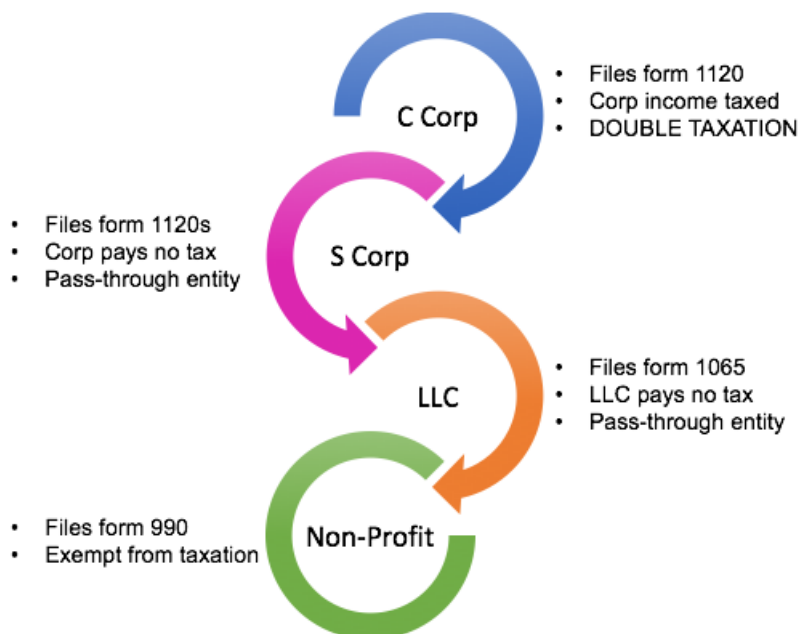
Next, let's discuss the different tax entities involved in accounting, including the different forms that they file.

A C Corp files form 1120; the corporate income tax is paid by the corporation, so the corporation itself pays taxes. However, there is double taxation, meaning any distributions made by that C Corp to owners are also taxed. Therefore, not only does the corporation pay tax, but so do the individual owners.

Next is the S Corp, which also files a form 1120--however, it is the 1120s. Contrasted with a C Corp, an S Corp pays no income tax; it is considered a pass-through entity, so all the activity of the organization passes through to the owners.

The LLC files the form 1065. Like an S Corp, the LLC pays no taxes, and it is also considered a pass-through entity, whereas all of the business's activity passes through to the owners.

Lastly, nonprofits file form 990. They are exempt from taxation, and include organizations like charities or fundraising organizations. They don't have to pay taxes.



### SUMMARY

Today we learned about **publicly traded companies versus privately owned companies**, discussing the advantages and disadvantages of both. We learned about the variety of **legal entities** in accounting, such as sole proprietorship, corporation (Inc), limited liability partnership (LLP), nonprofits,

limited liability company (LLC), and private corporation (PC).

Lastly, we learned about the different **tax entities** and the respective tax forms that they file: C Corp, S Corp, LLC, and nonprofit.

Source: Adapted from Sophia instructor Evan McLaughlin.



## TERMS TO KNOW

### **Corporation (Inc)**

A type of company that exists as a separate unit from owners and shareholders, thereby protecting each individual from liability that exceeds the original investment.

### **Limited Liability Company (LLC)**

A type of company where owners are not held personally responsible for the organization's liabilities.

### **Limited Liability Partnership (LLP)**

A type of company where only one of the partners is liable for the amount invested in the organization and is not accountable for the behavior of the other partner(s).

### **Non-Profit**

An organization that reinvests profit into the goals of the company instead of distributing to owners and shareholders.

### **Private Corporation (PC)**

A type of company whose shares are not purchased or traded publicly.

### **Sole Proprietorship**

A type of company that is owned by a single individual, and where the individual and the business are legally treated as the same.