Forms of Carrying on Business

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There are three forms of business entities: sole proprietorships, partnerships, and corporations.

A ***sole proprietorship*** is a business entity that is owned and run by a natural person and there is no legal distinction between the owner and the business. The owner receives all the profits and accepts all the risks including unlimited responsibility for all losses and debts. A sole proprietorship may employ others in the pursuit of its business.

A ***partnership*** is a business entity of legal persons similar to a sole proprietorship except that now the profit and the risks are now shared between the partners. As with sole proprietorships, a partnership may also employ others in the pursuit of its business.

In Ontario, the Partnership Act, Ontario, defines a partnership as "the relation that subsists between persons carrying on a business in common with a view to profit" so long as they not within the framework of a single corporation. The determination of partnerships in Canada is a matter of common-law precedence in the interpretation of the clause "[t]he receipt by a person of a share of the profits of a business is proof, in the absence of evidence to the contrary, that the person is a partner in the business."

http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90p05_e.htm

Aside

Limited liability partnerships (LLPs) allow for limited liability on some or all partners (depending on the jurisdiction) and where partners are not liable for the misconduct of others within the partnership. Currently, in Ontario, LLPs are restricted to lawyers and accountants; however, British Columbia passed the Partnership Amendment Act, 2004, allowing for other professionals to enter into such LLPs.

An ***incorporated entity*** or a ***corporation*** is a business entity distinct from its owners: it is considered a legal person in that the corporation has legal rights and liabilities that are distinct from those who have ownership. A corporation may enter into contracts in its own name, it can own assets and incur liabilities, and it can sue or be sued; all of which are distinct from those who own the corporation.

Incorporation is the process of a business entity being recognized as a legal person. This process was made into statute in England with the Companies Act, 1862. The distinction between the corporation and the owners was reaffirmed in the 1897 decision of *Salomon v. Saloman & Co. Ltd.*

Mr. Aron Salomon made leather boots and shoes and after 30 years and "he might fairly have counted upon retiring with at least £10,000 in his pocket." His sons wanted to become business partners, so he turned the business into a limited company where his wife and five eldest children became subscribers. Mr. Salomon took 20,001 of the 20,007 shares. The price fixed by the contract for the sale of the business to the company was £39,000 together with a £10000 debenture (a debt without collateral). Soon thereafter, the loss of government contracts lead to the company being left with a warehouse full of unsold stock. Even after a loan to the company, they sought outside investment: Mr. Edmund Broderip provided a £5,000 loan with 10% interest; however, the business still failed. There were approximately £17,000 that had to be repaid to creditors, but the company had only £6,000 which was paid to Mr. Salomon as the holder of a debenture. The liquidators, however, wanted to pay his other creditors, including Mr. Broderip.

The case was brought to court and a judgment was made against Mr. Salomon who then appealed it first to the Court of Appeals which confirmed the lower court's decision and then to the House of Lords. The House of Lords, however, upheld the statute with Lord Halsbury, L.C. having said "I have no right to add to the requirements of the statute, nor to take from the requirements thus enacted. The sole guide must be the statute itself…"

Ownership of a joint-stock company is divided into n shares where the holder of a share has one vote in any decision, and has rights to $1/n^{th}$ of the profits. There are other forms of sharing ownership and profits, each with their additional benefits and restrictions (including not having a vote or first rights to payment of dividends upon liquidation), including, for example, *preferred shares* and *bonds*.

In Canada and other common-law countries apart from the United States, the term ***company*** refers to a corporation. In addition to business entities, corporations may include non-profit organizations, sports clubs, or cities (e.g., the *corporation of the City of Waterloo* which came into existence in 1857).

Aside

A fourth business entity is a cooperative, an association of individuals who are voluntarily cooperating in order to gain some form of social, economic or cultural benefit. Cooperatives are owned by the individuals who use its services which may include consumer goods, financial services, employment, or housing projects.

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