



Small business structures



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Introduction

Welcome to the *Starting your small business* course. Let's start by looking at the basic steps of setting up a business. After that you will explore in more depth the different structure options for a small business. This section will take approximately three hours to complete.

Once completed you will have the opportunity to obtain the 'Small business structures' badge. In this section, you will:

- define what a business is
- look at the steps to setting up a business in the UK
- focus on the official business structures that exist in the UK
- compare the different structures
- evaluating the benefits and issues of each of the structures
- use example case studies to match suitable structures with different businesses
- think about your own business idea and consider the structure that best matches it.

To help you along the way, there are a number of activities where you reflect on what you have been learning within this section and how you can apply these new skills and knowledge in practice. Several activities in this section and throughout the course have boxes for you to write and save answers in, although you may want to save your answers in a separate document for use after the course.

This first section is quite challenging and slightly longer than the other three sections to help you gain a clear understanding of how businesses are structured.

Learning Outcomes

By completing this section and the associated quiz, you will be able to:

- describe how to set up a new business
- suggest an appropriate structure for a new business.

- a post office
- a single person offering computing services from their own home
- a car sales firm
- a hairdressing salon
- a museum with a souvenir shop attached
- a shop that sells second-hand clothes and other goods in order to make money for charity.

Comment

Perhaps you have started by thinking about some formal characteristics of businesses, such as whether they employ staff and keep accounts of income and expenditure.

Here are some characteristics you may have listed – there will be others.

The common characteristics of the list of businesses above are that they all:

- offer goods or services to customers
- mostly (but not always) consist of a number of people
- have people that work for them who will probably share some values and views about the purpose(s) of the business
- have some income and some costs
- are likely to need to coordinate a number of different activities undertaken by individuals
- have owners of some sort (owners could be individuals or multiple **shareholders**).

1.1 Defining what a business is

The very fact that business is all around us, can actually make it harder to give the word a precise meaning that also distinguishes it from other terms, such as organisation, company, enterprise or firm.

The key characteristic of a business is that it offers goods or services to customers for payment and that it expects to make an income from these activities. Mostly, when we think of business, we think of privately owned firms that provide goods and services to customers for profit. However, businesses do not have to be privately owned or run for profit. They may also be not-for-profit or state owned organisations, but still provide goods and services to customers for payment and be expected to provide an income to the owner. In the case of a not-for-profit business, this income may be used to support a charitable purpose, for example.

The terms 'business', 'firm' and 'enterprise' are generally used as synonyms (they mean the same thing). This is not true for 'company', though.

The word '**company**' is also often used as a synonym for business but – under English law – it has a specific legal definition as 'an incorporated company registered under Section 1 of the Companies Act' (UK Government, 2006). If a business has not been formed in accordance with the [Companies Act 2006](#), then it should not be referred to as 'a company'.

Activity 2

Allow about 15 minutes

This exercise will help you start thinking about different types of business and what characterises them.

Think about a recent visit to your local town centre, what various businesses do you remember?

Think about how you might group the different businesses. Make a note of how you grouped them and any examples you have thought of.

Comment

You may have grouped them by: size, type of business they do, where they are located, who owns them, etc. Here are some commonly used criteria for grouping businesses:

- **Size** – this is fairly obvious but important. A local greengrocer's store, run by the owner and employing perhaps two further people (often family members), would be an example of a so-called micro-business. A large supermarket chain with stores in multiple locations in several countries and employing dozens of people in each store, as well as many more in its headquarters, warehouses and transportation fleet, would be an example of a large multinational business. And then there are many medium-sized enterprises in between.
- **Industry sector** – a fashion retailer, a hairdresser, someone running a market stall, a farm, a machine tool manufacturer and a commercial cleaning business are all very different businesses, and what they do to a large extent influences how they operate.
- **Ownership** – this is not always obvious but businesses often have very different ownership structures. Some are owned by private individuals, others by groups of shareholders, others are owned by the state, and some have yet different types of owners, such as their own employees or customers, or charitable foundations.

!Warning! Calibri not supported There are other ways of classifying businesses but size, industry sector and ownership structure are some of the more obvious categories to start with.

2 Starting a business

Before you set up the business legally there is a lot of hard work to be done. The early steps – steps 1 to 4 – are shown below and you can find out more in the 'Taking your learning further' section.

- 1 Start with an idea: look for an idea that meets a need that is not being met. The idea is the most important thing you will develop. It does not matter how well you approach a business; it will not succeed without a good idea.
- 2 Once you have your great business idea you must research your market: is this idea viable, will it last, do your potential customers want it, how much competition is there? Many businesses fail, not because the idea was poor, but because they were

not in the correct place, the cost was higher than the customers would pay, there was too much competition or because the idea did not have long term appeal.

- 3 Write a business plan: what are you actually going to do, how much will it cost, how much money will you make, how will you finance it, what materials equipment or staff do you need? Set clear objectives for your business. Creating **SMART objectives** is one way to help here.
- 4 Get funding:
 - Will you borrow from a bank?
 - Will you have investors?
 - Will you use your own savings?
- 5 Set up the business: this is the focus of the rest of this section.

When setting up your business there are a number of steps to go through. There is no strict order for the steps but you will need to complete all of them.

Activity 3

Allow about 20 minutes

This exercise will help you start thinking about steps in setting up a general business, we will consider your business idea later.

Consider each of the following activities and make a note of what you think you will need to consider in each:

- Choose a business name
- Register your business name with **HMRC**
- Choose a business structure
- Create a company via **Companies House**
- Inform HMRC that you will be **self-employed**
- Register for **VAT**

Comment

Choose a business name

You should seriously think about choosing an original name (the [National Business Register](#) allows a search for currently registered business names). Using a name that already exists could result in court action. There are restrictions on names and a little research can save a lot of trouble.

Register your business with HMRC

All businesses must be registered with HMRC and that includes self-employment. The registration process can be done online and the elements of the registration will depend on the type of business and business structure.

Choose a business structure

The upcoming activities will look in detail at the options for business structure. Your choice of business structure will impact on the responsibilities you have, the fees you pay and the way in which money is treated within the business.

Create a company via Companies House

This is only needed if you are creating a 'limited company'. Not all businesses need to be set up through Companies House.

Inform HMRC that you will be self-employed

If you are setting up as a 'sole trader' you will need to register as '[self-employed](#)' to ensure your National Insurance contributions are met.

Register for VAT

Any business can register to be VAT registered.

Any business with a turnover of more than £82,000 (2016 figure) must register for VAT and if the turnover is less than £150,000 then the business can register for the '[flat rate scheme](#)', a vastly simplified version.

There is a wealth of advice for business owners from accountants, business start-up web sites and most banks on the benefits, issues and requirements of VAT registration.

3 Business structures

Businesses come in different shapes and sizes. Some are very simple indeed providing a single service to a lot of people, such as a window cleaning business or a dog walking service.

A business can be established by an individual as a part-time, enjoyable hobby taking up a couple of hours per week, for example, growing and selling potted plants.

While this is a business of sorts, it involves none of the expected formalities of business method and structure and requires hardly any accounting records other than perhaps a notebook to jot down costs and sales, and perhaps not even that.

As a business grows, however, it gets more complicated, more money is at stake and more **stakeholders** become involved.



Figure 2 Micro-business types

In the beginning a micro-business is likely to be directly linked to the owner's bank account. As the business grows the owner will want to separate the business from his or her personal finances, and the needs of customers, suppliers and employees will all require it to be treated on a more formal basis. This is where the business becomes something in its own right, with its own bank account and identity.

In the UK, different types of business must comply with different statutory and regulatory requirements. Other countries and legal regimes have their own ways of running business corporations, and their own laws, rules and regulations. If you are studying this course from outside the UK, this would be a good point to research the requirements in your host country.

A limited company (and similar forms of business entity in other parts of the world) is recognised in law as incorporated; in other words with the same ability to enter into legal agreements, to maintain its own identity and finances distinct from its owners, to be sued and be responsible (with very few exceptions) for all it does as if the company was itself a

person. The word 'limited' is included in a company's name because it indicates that the financial responsibility of the owners of the company (the 'shareholders') is limited to the amount of their money ('capital') already paid into the company's resources and (again, with certain exceptions) that the shareholders cannot be held financially responsible for any losses that are incurred, or unlawful acts that are committed, by the company. This concept of limited liability underpins what has become, by far, the most common and important legal form of business worldwide.

Limited liability means that an individual will not lose all their belongings and money if a business fails, they would only lose the amount of money invested in the company.

In the UK, a limited company is given its legal substance by the depositing of certain documents and information with the Registrar of Companies, the government-appointed official based at Companies House. In the UK, there are three such establishments: in Cardiff (registering companies in England and Wales), in Edinburgh (companies in Scotland) and in Belfast (companies in Northern Ireland).

The required legal documents include:

- **Memorandum of Association** – setting out very limited information on the desire of the first shareholders to form a company and to take at least one share each (The Companies (Registration) Regulations 2008) (UK Government, 2008).
- **Articles of Association** – a much more substantial document, setting out the rules under which the company must be run (its 'constitution') including, for example, how directors are appointed and removed, what authority they and the shareholders hold, how often General Meetings (meetings of all shareholders) should be held and how they will be conducted, how decisions will be reached, what is to be done with profits in terms of dividends or re-investment, etc. The government helpfully provides a 'model' set of articles that will generally be adequate for most company uses.

Activity 4

Allow about 15 minutes

There are a number of different types of business structure, some limited companies and some not.

Write down the types you are aware of. We don't expect you to know all these already, so don't worry if you don't feel you know any at this point.

Provide your answer...

Comment

We will not be dealing with all the business structures.

Here we have listed the most common types of structure, how many did you get?

This first group are types of **limited company**

- **Private limited company ('Ltd')** A private limited company is often relatively small, either family-owned or owned by a small number of business people who will often participate in the management of the business. Its shares cannot be offered to the public but can only be issued, or bought and sold, privately.
- **Public limited company ('plc')** A public limited company possesses all the attributes of its private equivalent except that its shares may be offered generally to the public and it can apply to have those shares traded on a recognised stock

exchange (such as the London Stock Exchange). It must include 'public limited company' (usually abbreviated as 'plc') in its name.

- **A company limited by guarantee** does not have a share capital but instead has members who act as guarantors (usually for a very small sum) in the case of the company being unable to pay its debts and being declared insolvent. This form of incorporation is typically used by charities and some larger membership organisations such as trade unions. Well-known examples are the large charity Oxfam, and the trade union representing the interests of performers, Equity.
- **A chartered company** is created by Royal Charter. These are rare, although The Open University itself is an example of a chartered company, as are the respective governing bodies of solicitors and accountants in the UK.
- **A statutory company** is created for public purposes by a specific UK Act of Parliament. The Historic Buildings and Monuments Commission for England ('English Heritage') is an example.

This second group lists business structures that are not classed as companies.

- A **sole trader** (or 'sole proprietor') is a person undertaking a trade or vocation, not necessarily working alone (he or she might employ other people) but charging for the work or services they provide and solely responsible for their business, which might be of any type. The big difference between this form of business and that run by a limited company is therefore that the owner's personal assets (including property) may be claimed by creditors if the business's bills are not paid.
- One way to look at a **general partnership** is to consider it as 'several sole traders working jointly to make a profit'.
- A **limited liability partnership (LLP)** allows the partnership to have a separate legal personality and thus the separation of the assets of the partnership from those of the partners – the LLP is now the preferred legal form for professional firms of accountants and solicitors.
- **Unincorporated associations** generally have no profit motive and exist in order to provide facilities and services to people with a common interest. They usually raise money by charging joining and membership fees; their affairs would normally be run by a set of rules agreed by the membership and administered by a relatively informal committee appointed by the members. Any assets are held jointly by the members, who would also be personally liable for any debts. Because of this, larger unincorporated associations are rare. They might include some trade unions or mutual societies, but once these reach any significant size it is highly likely that they would seek some form of legally incorporated status involving limited liability for the membership
- Whilst not a structure in its own right, it is worth mentioning **registered charities**. The rules are set by [The Charities Commission](#). The charity may use any of the structures already mentioned plus:
 - charitable incorporated organisation
 - charitable company limited by guarantee
 - trust.

Charity trustees are the people who share ultimate responsibility for governing a charity and directing how it is managed and run. They may be called trustees, the board, the management committee, governors, directors or something else.

Don't worry if you did not write any of these down in your answer. You probably recognised some of the structures here, and there were probably some you may not have heard about – in the next section we will simplify these structures for you.

3.1 Business legal structures

Understanding the different structures a business can have is the first step, the next step is to choose an appropriate structure for a specific business scenario.

Here are some of the advantages and disadvantages of the main different structures for you to consider:

Table 1 Business legal structure checklist

Structure	For	Against
Sole trader	<ul style="list-style-type: none"> Low cost, easy to set up Full control retained Very little financial reporting 	<ul style="list-style-type: none"> Full liability for debt Pay more in tax Lacks credibility in market
Partnership	<ul style="list-style-type: none"> As for sole trader, but with more heads More potential to raise finance 	<ul style="list-style-type: none"> As for sole trader, affecting all partners Can be messy to wind up
Limited company	<ul style="list-style-type: none"> Less personal financial exposure Favourable tax regime Ability to work for corporate clients 	<ul style="list-style-type: none"> Administrative and regulatory demands heavier Annual accounts and financial reports must be placed in public domain
Limited liability partnership (LLP)	<ul style="list-style-type: none"> Flexibility: can be incorporated in members' agreement Advantages of limited company and partnership combined 	<ul style="list-style-type: none"> Profit taxed as income Partners must disclose income LLP must start to trade within a year of registration – or be struck off
A charitable company	<ul style="list-style-type: none"> Reduced business rates Allows paid staff to be employed Delivering charitable services under contractual agreements Entering into commercial contracts Owning freehold or leasehold land or other property 	<ul style="list-style-type: none"> Can't distribute its surpluses to its members or shareholders A charitable company is usually limited by guarantee, not shares Can only apply its assets to carry out its charitable purposes Must operate in a way which is in the best interests of the charity

(Startups, 2016)

Activity 5

Allow about 20 minutes



Figure 3 Knowing what questions to ask

What is the preferred legal form for these different types of business?

Consider the different forms of business venture or associations between people listed below.

What do you think would be the ideal business form for each?

Make some notes and give reasons for your choices.

Form of business venture	Preferred legal form (with reasons)
A major high street retailer with thousands of shops	<i>Provide your answer...</i>
A choir of 30 – 40 people	<i>Provide your answer...</i>
A professional partnership of 25 solicitors	<i>Provide your answer...</i>
A local golf club (with, say, 200 members)	<i>Provide your answer...</i>
A major golf club (such as St Andrews or Wentworth, with many thousands of members and significant business activities)	<i>Provide your answer...</i>
A small pharmaceutical company manufacturing specialist medicines	<i>Provide your answer...</i>

A small plumbing business, 'Bloggs and Daughter', with a father and daughter working together to provide plumbing services to the local community	<i>Provide your answer...</i>
A professional chef starting a new restaurant to support the development of young, unemployed people in the catering industry	<i>Provide your answer...</i>

Comment

On the understanding that there are no strictly 'right' answers, you may have come up with something similar to the following:

Form of business venture	Preferred legal form (with reasons)
A major high street retailer with thousands of shops	Public limited company (plc) (and possibly a group of companies), with shares registered on a stock exchange and available to the public and with the liability of the shareholders limited to capital already paid in.
A choir of 30 – 40 people	An unincorporated association, not intending to make a profit but with a bank account to order and pay for music, pay expenses and settle bills.
A professional partnership of 25 solicitors	A limited liability partnership (LLP), providing the organisational benefits of trading as partners but with the liability of partners limited to an agreed sum, and with partners not being financially responsible for the misconduct or negligence of a colleague.
A local golf club (with, say, 200 members)	This could certainly be run as an unincorporated association, but in practice a club of such size (involving business activities such as equipment hire and sales, and bar/restaurant facilities) would probably seek the protection of limited liability (Ltd) for its members.
A major golf club (such as St Andrews or Wentworth, with many thousands of members and significant business activities)	It seems very likely that the proprietors of a golf club of this size and stature would seek the protection of limited liability (Ltd or plc) status in some form. It would be unsurprising to find that a venture of such a scale would involve a group of companies.
A small pharmaceutical company manufacturing specialist medicines	Pharmaceutical manufacturing is a specialised business that involves risk to the public in the event of a medicine having an undesired effect. The protection of private limited liability (Ltd) status would undoubtedly be sought by the owners.
A small plumbing business, 'Bloggs and Daughter', with a father and daughter working together to provide plumbing services to the local community	A 'general partnership' would be a common form of business classification for a family business like this, although a private limited liability company would not be uncommon (e.g. 'Bloggs and Daughter Ltd').

A professional chef starting a new restaurant to support the development of young, unemployed people in the catering industry

Jamie Oliver did this with his Fifteen Restaurant. This is a charitable company, so a limited company that is a registered charity. This allows all the operational freedom of a limited company but with the tax arrangements of a charity.

While considering the preferred legal form for each of these enterprises you may have realised that, in theory at least, most of the available forms of classification can be applied to any business. That is not to say that it would be appropriate or sensible to run a major high street retailer as (for example) a general partnership. The choice will generally be made on the basis of financial interests (the balance of risk and return for the members/ owners/ shareholders, and perhaps on taxation considerations) and on the appropriateness of the administrative burden for a venture of a certain scale or with a particular profile of business risk. Some businesses, such as a large firm of solicitors, will be required by their regulatory bodies to run their affairs in a certain way, so some business forms will not be options for them.

Useful resources:

[OU Careers Advisory Service – Self-employment](#)

[HM Revenue & Customs – Tax guide](#)

4 Choosing a business structure



Figure 4 Choosing a structure to match the size

Having explored the types of business structures that exist we will now look at how to decide on the correct business structure. We will look at the key questions to ask and use two of the case studies to demonstrate how the choice is made.

The key questions are:

- 1 How big is the business likely to be?
- 2 Who are the clients?
- 3 How many people will be involved in the business and will there be employees?
- 4 Are there specific rules for the type of business, for example waste disposal of food hygiene?
- 5 How will the business be financed?
- 6 What is the **turnover** for the business likely to be?
- 7 Is the business likely to be sold in the future?
- 8 What are the potential consequences if the business fail?

We will start by taking the example of one of our mini case studies, Mucky Pets. (To open the case study in a new tab on a PC, hold down the **Ctrl** key when clicking.)

Key question	Answers	Implications
How big is the business likely to be?	Small part time business	Generating supporting income
Who are the clients?	Private individuals with pets, repeat customers	Local word of mouth, build up client list to service on a regular basis. Customers not likely to recover VAT on purchases so no benefit from VAT registration
How many people will be involved in the business and will there be employees?	Single person	Only the owner is involved so a sole trader arrangement would suit.
How will the business be financed?	Using owners own money and a small bank loan	Uses owner's money, would suit simple tax return and self-employment arrangement
What is the turnover for the business likely to be?	£8000 per year	Well below the limit for compulsory VAT registration
Is the business likely to be sold in the future?	No	Trade is likely to be based on the competence of the owner. The equipment could be sold but it is unlikely to be sold as an ongoing concern
What are the potential consequences if the business fail?	Claim for damage to pets, no large debt issues.	Public liability insurance required. Little chance of significant legal claim against the business.

Recommended business structure and justification:

Based on these points, Mucky Pets should set up as a simple 'sole trader'. There are fewer responsibilities and the owner effectively uses their own money to run the business and takes any surplus as their own. The key responsibility is the submitting of an annual tax return and registering as self-employed. The loan for the equipment is seen as a personal loan and secured against the owner's personal assets.

An accountant could be retained but for simple tax returns this is not essential.

The owner should get specific advice and take out insurance suitable for the industry to insure against claims from pet owners.

Now it is time for you to try this activity. This time consider JJ Components. (To open the case study in a new tab on a PC, hold down the **Ctrl** key when clicking.) Here is the table for you to complete.

Activity 6

Allow about 15 minutes

Complete this table for JJ Components, once completed click 'Save and reveal comment' for our views:

Key question	Answers	Implications
How big is the business likely to be?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Who are the clients?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
How many people will be involved in the business and will there be employees?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
How will the business be financed?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
What is the turnover for the business likely to be?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Is the business likely to be sold in the future?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
What are the potential consequences if the business fail?	<i>Provide your answer...</i>	<i>Provide your answer...</i>

Recommended business structure and justification:

Provide your answer...

Comment

Key question	Answers	Implications
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How big is the business likely to be?	Premises on business unit with expensive equipment and stock	Expensive equipment and premises. Significant finance tied up in the business
Who are the clients?	Large limited companies and organisations, likely to be VAT registered	Large companies expect to be dealing with limited Companies of some type
How many people will be involved in the business and will there be employees?	Three, owner and two employees	Business will be classed as an employer with all associated responsibilities
How will the business be financed?	Business loan from the bank	Large loan, if the owners were personally responsible for the loan it could be taken from personal assets. It would be ideal if the owner had limited liability for company debts
What is the turnover for the business likely to be?	£280,000. This is well above the level for standard VAT registration	The business will charge and claim back VAT
Is the business likely to be sold in the future?	Potential to sell the business as a going concern	There is potential to build up a client base that is not solely dependent on the owners' skill and so the business could be sold
What are the potential consequences if the business fail?	<ul style="list-style-type: none"> ● Potential for claims for defective products or services ● Debts to suppliers ● Non-payment by clients. 	If the owner is personally liable for the business, then all obligations would be met from their personal assets.
<p>Recommended business structure and justification:</p> <p>JJ Components should set up as a private limited company. This structure gives the most protection to the owner and allows the business finances to be kept completely separate from the owner's finances. Professional advice should be sought with regards to: public liability insurance, employers' liability insurance and professional indemnity insurance are recommended. Appointing an accountant will ensure that all accounting responsibilities are met and the accountant may well take care of the payroll expenses as well.</p> <p>This business could be set up as a Sole trader but there could be a risk of losing personal assets if the business were to fail.</p>		

5 Choosing your own business structure



Figure 5 Applying your learning

You may now like to take the ideas discussed so far and link them to your own business idea. You can do this through two activities:

- **Activity 7:** Create your own business case study in a similar format to the example case studies.
- **Activity 8:** Answer the questions for the case study you created.

Activity 7

Allow about 10 minutes

Complete the case study information for a business you have recently started, are thinking of starting or have knowledge of through friends or family.

Name of business	<i>Provide your answer...</i>
Brief description of business and its objectives	<i>Provide your answer...</i>
Staffing of business	<i>Provide your answer...</i>
Business assets	<i>Provide your answer...</i>
Essential skills	<i>Provide your answer...</i>
Mandatory licences or insurance arrangements	<i>Provide your answer...</i>
Expected turnover for year 1, year 2 and year 3	<i>Provide your answer...</i>

To get the most out of this course we encourage you to keep notes on the ideas you have and the activities you complete. These notes could be very useful as you move your business idea.

This particular activity is also used in the other sections of this course and may have already been completed. It is suggested that you use the same ideas for each section, though you may wish to change or develop your ideas as you go through the different sections.

Activity 8

Allow about 20 minutes

Use the personal case study you have developed to answer the seven questions and suggest a suitable structure for your business.

Key question	Answers	Implications
How big is the business likely to be?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Who are the clients?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
How many people will be involved in the business and will there be employees?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
How will the business be financed?	<i>Provide your answer...</i>	<i>Provide your answer...</i>

What is the turnover for the business likely to be?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Is the business likely to be sold in the future?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
What are the potential consequences if the business fail?	<i>Provide your answer...</i>	<i>Provide your answer...</i>
Recommended business structure and justification:		
<i>Provide your answer...</i>		

6 Personal reflection

Having completed this first section, we suggest you take a few minutes to reflect on what you have learned so far. You may want to save your answers in this activity (and others in this section) in a separate document for use after the course.

Activity 9

Allow about 15 minutes

Note down your thoughts on the following questions:

What do I now know about starting up a business that I did not know before starting this section?

Provide your answer...

What things did I already know but have been confirmed through this section?

Provide your answer...

What will I now do as a result of studying this section?

Provide your answer...

What you have learned in this section

- The business starts with a great idea to provide a product or service that is needed.

- It is essential to do research to make sure the location is correct, that people want and will pay for your product or service and that there is not too much competition.
- There are different business structures that can be used, each has pros and cons. It is advisable to get professional help when deciding on a business structure.
- The checklists help you get the essential information together to help decide on an appropriate structure.

Section 1 quiz

Well done, you have now reached the end of Section 1 of *Starting your small business*, and it is time to attempt the assessment questions. This is designed to be a fun activity to help consolidate your learning.

There are only five questions, and if you get at least four correct answers you will be able to download your badge for the 'Small business structures' section (plus you get more than one try!).

- I would like to try the [Section 1 quiz](#) to get my badge.

If you are studying this course using one of the alternative formats, please note that you will need to go online to take this quiz.

I've finished this section. What next?

You can now choose to move on to Section 2, Small business and marketing, or to [one of the other sections](#), so you can continue collecting your badges.

If you feel that you've now got what you need from the course and don't wish to attempt the quiz or continue collecting your badges, please visit the [Taking my learning further](#) section, where you can reflect on what you have learned and find suggestions of further learning opportunities.

We would love to know what you thought of the course and how you plan to use what you have learned. Your feedback is anonymous and will help us to improve our offer.

- Take our [Open University end-of-course survey](#).

Optional further reading

- [HM Revenue & Custom's tax guide](#) (HMRC, n.d.).
- [The Start Up Donut](#), a start-up blog.

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Tables

Table 1: adapted from Startups (2016) 'Choosing the right business structure', *Startups* [Online]. Available at <http://startups.co.uk/choosing-the-right-business-structure/>.

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Glossary

Companies House

[Companies House](#) is the UK Government department that looks after all limited company information in the UK.

employers' liability insurance

Employers' liability insurance protects you against the cost of compensation claims arising from employee illness or injury, sustained as a result of their work for you. It is a legal requirement if your business employs one or more people, each day without the cover bringing fines of up to £2500. For further information explore the [Simply Business](#) website.

HMRC

Her Majesty's Revenue and Customs.

professional indemnity insurance

If your business gives advice, offers a **professional** service, or handles data or intellectual property belonging to a client or business, you may need **professional indemnity insurance**. This cover protects you against the cost of a claim for negligence or a mistake that leaves the client out of pocket. For further information explore the [Simply Business](#) website.

public liability insurance

Public liability insurance protects you if clients or members of the public suffer personal injury or property damage because of your business. It covers the costs of subsequent legal expenses or compensation claims and is an integral cover for businesses that interact regularly with customers. For further information explore the [Simply Business](#) website.

self-employed

According to the [UK Government](#), you are probably self-employed if you run your business for yourself and take responsibility for its success or failure; have several customers at the same time; can decide how, where and when you do your work; can hire other people at your own expense to help you or to do the work for you; provide the main items of equipment to do your work; are responsible for finishing any unsatisfactory work in your own time; charge an agreed fixed price for your work; and sell goods or services to make a profit.

shareholders

Shareholders are individuals or organisations who own a portion of a business. Limited companies must have at least one shareholder.

SMART objectives

For more details on setting SMART objectives explore the [Open Learn Works page](#).

stakeholders

Stakeholders are individuals or organisations who have a 'stake' or interest in the business. This may or may not be a financial interest. For example, a family living next door to a factory would have an interest in what happens in the factory in terms of noise and disruption. They have no financial interest but are still stakeholders. It is common to confuse the term 'stakeholder' with the financial term 'shareholder'.

turnover

Turnover is the amount of money taken by a business in a specified period, usually annually. It is simply a term that means the total amount of money entering the business from sales. It includes money spent on raw materials, hire equipment and subcontracting. For example, a kitchen fitter who fits a new kitchen for a client has two choices: either the client buys the kitchen for £5000 and the fitter charges £1000 to fit it (so the turnover for the fitter would be £1000); or the fitter buys the kitchen for £5000 and fits it for £1000 (so the turnover would be £6000). Even though the amount of money earned is the same, the turnover depends on who pays for the kitchen.

VAT

Value added tax. Currently a 20% tax applied to goods and services from VAT registered businesses.