10 Being part of a company

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Introduction

Some of you may work in a very small business, where you know the owner and everybody else in the organisation. The majority of the businesses in hospitality are small – pubs, restaurants, cafes, visitor attractions and so on.

But for others, you may feel that you are a very small part of a very large organisation. Some hospitality companies are enormous – and may well be part of an even larger conglomerate (a multi-industry, multinational corporation). Businesses change ownership frequently – some of the big names of five years ago are no longer around in the same way, and other previously small names are now big ones.

Whatever the size of the business, you do count, and in this chapter we want to show you how you fit into the larger organisation – whether for now or for the future. We will look at the types of ownership and then the structure of companies and the type of accounts that they do. Later on we will consider two other ways that businesses can operate – under franchise and by management contract – where the building is owned by one entity but run by another.

By the end of this chapter, therefore, you should be able to:

- Distinguish between the different types of company ownership
- Describe the basic format of a company report
- Describe the differences between a franchise and a management contract.

Ownership of business

There are three basic types of ownership – sole trader, partnership and limited company. We will look at each in turn, describe the features and then look at the type of reports they have to produce by law. For the sole trader and partnership these are fairly simple but limited companies (which are generally much larger) have complex reports to produce.

Sole trader

This is one person in business who owns a pub, cafe, shop or similar and probably employs staff to work for them. Maybe you work for one of these. Legally the owner is fully responsible for all the activities of the business – and all the profits or losses. So, if the business fails, they are personally liable for the debts. It’s not unusual, therefore, for the sole trader to have very few personal assets – the house, car, personal bank account and so on may all be held in their spouse or partner's name. This may sound rather unethical, but it is legal.

Sole traders generally do all their own business accounts, which they need to keep separate from their personal accounts, and then pay income tax on any profits. They have to keep records but these can be fairly simple – records of all revenue and expenditure – and so a simple profit and loss (P&L) and balance sheet (BS) are adequate. One extra item you may see on the balance sheet in the 'financed by' section is 'drawings' which are monies taken out of the business by the owner as profits. These are shown separately to ensure that too much money isn't being extracted when the business can't afford it.

It's advisable to have the accounts formally reviewed by a qualified accountant once a year as they can help reduce the tax, and Revenue and Customs are less likely to query things if the accounts have been independently checked.

So, there are advantages and disadvantages of sole trader status:

For	Simple accounts Keep the business under your own control Keep it small and manageable Plenty of time to pay tax
Against	Personally liable for debts Lack of opportunity to expand as you're limited by your own funds (and any the bank will lend you)

Partnership

In a partnership two or more people go into business together. They don't have to be equal partners – one can own a greater percentage then the other(s). Often the percentage ownership is based on the amount of capital (initial money) invested in the business at the beginning, but this isn't always true. For instance, parents may invest in a pub which their children run – but all remain equal partners. One invests money, the other skills and time. There can be some very big partnerships although generally you are not allowed to have more than 20. The majority of hospitality, tourism and leisure businesses are small and are owned and run by either a partnership or sole trader.

Legally all partners are responsible for the running of the business – and so for the profits or losses. Any profits are shared out according to the partnership agreement that, by law, they all have to sign (this contract also includes lots of other items such as what to do if they fall out, or decide to close the business). If the business fails then they are personally liable for the losses.

The way in which they prepare their accounts is a little more complicated than for a sole trader. Once the P&L has been calculated down to the net profit line then an extra section is added – the appropriation account. This is where the profits are 'appropriated' (allocated, or portioned out) to the partners. The partners pay income tax on their part of the profits. If the partners shared profits equally then the Appropriation Account would look like this:

Net profit			£20,000
Appropriated:	Partner 1	50%	£10,000
	Partner 2	50%	£10,000

The BS has sub-sections in the 'Financed By' section which shows each partner's capital account and current account where their shares of the initial investment and profits are held. Again this is obviously a simple generalisation – an accountant is best qualified to advise you properly here. Tax-wise, each partner is responsible for the tax on their own share of the business. So, the advantages and disadvantages of partnership status are:

For	Fairly simple accounts Keep the business under control of the partners but with additional expertise from each partner Easier to expand if you all want to
Against	Still personally liable for debts Sharing the business means sharing profits, but also losses Potential for disagreement

Limited liability companies

This is the way that you reduce your liability for the debts of the company – while still sharing in the profits. Companies can be very small or multinational giants. There are two types of limited company – private and public. If you invest in one of these your financial liability is limited to the amount you originally put in – you are not personally liable for the debts of the company.

The capital of the company (what was the Financed By section before) is divided – or shared out – into millions (usually) of small, equal portions called shares. The way that you own part of the company is to own a proportion of the shares – of which more detail later. However, you as an individual may only be able to influence the management of the company if you are a director or very senior executive.