

5.3 Sole traders and partnerships as business mediums

5.3a Key themes and concepts

The key themes of this section are:

- business mediums;
- sole trader;
- partnership or firm;
- assets and liabilities.

After studying this section, you should be able to:

- identify the main types of business medium;
- demonstrate an understanding of the key characteristics of businesses run as sole traders;
- demonstrate an understanding of the key characteristics of businesses run in partnership;
- identify in broad terms where the risks of business failure lie;
- determine what are the assets and liabilities of a business using numeracy skills.

5.3b Forms of business organisation, or ‘business mediums’

If you were to carry on the business described in Activity 2 of section ‘5-2 Key Themes and Concepts’, you would be carrying on business on your own. You would be what is called a ‘sole trader’. We will look at the consequences of being a sole trader in a little bit more detail in this section.

However, not all businesses are run by sole traders. There are several different ways in which businesses may be run. In other words, there are several types of ‘business organisation’ or ‘business medium’. In England and Wales, the most common forms are: the sole trader, the partnership, the private limited company and the public limited company. In 2002, a new business form known as a ‘limited liability partnership’ was created, which is becoming a common form of business organisation in particular business sectors.

In the remainder of this unit, we will look briefly at some of the fundamental legal characteristics of running a business: either as a sole trader, or in partnership. It is a good idea to grasp the nature of sole trading and partnership as business mediums, because companies as business entities owe their very existence to the law's response to some of the problems that trading as a sole trader or in partnership give rise to.