

TYPES OF OWNERSHIPS IN CANADA

**Type of ownership heavily depends on
the idea of liability/ responsibility**

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CUP & CAKE

Let's say COMPANY A is Cup and Cake

Revenues: \$50,000

Salaries: \$13,000

(3 employees at \$2000 each, 1 manager at \$3000 and the owner's salary is \$4000)

Other expenses: \$10,000 (electricity, hydro, rent)

Total expenses: \$23,000 (\$13,000 + \$10,000)

Profit: \$27,000 (\$50,000 - \$23,000)

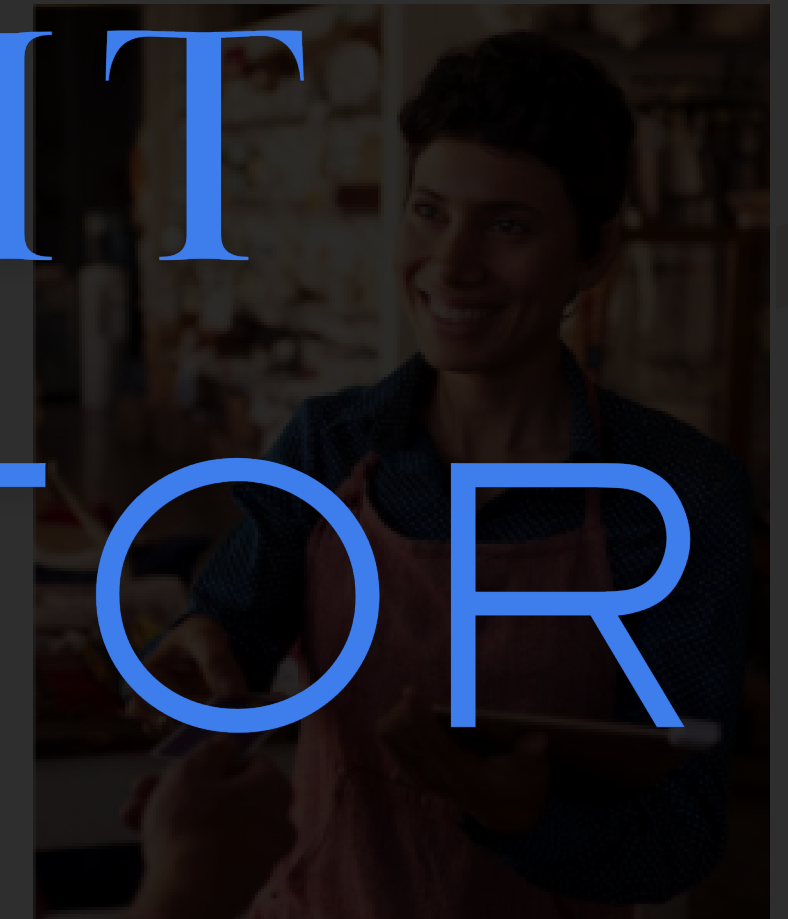
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What happens to the profit?

- The company owner(s) can keep all the profit for themselves, adding it to their personal income. Some companies have multiple owners. In that case the partners get a % of the profit, depending on what the contract/agreement between the partners says
- Give out some of the money as bonus to employees
- Owner can decide to not touch the money, just keep it in the company bank account. It can be used to further expand the company, buy new machinery, inventory, spend more money on marketing, etc
- A mix of all the above

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Rita is the founder and owner of Cup & Cake. Rita mopped the floor of her bakery but forgot to put the “Slippery floor” sign on the floor. A customer, John, walked in the store and slipped, resulting in a broken arm. John was admitted to the hospital. Now John wants to sue for Negligence. Let’s say John’s medical bill is for \$5,000 and he charges \$5,000 for inconvenience caused to him and another \$5,000 for amount of money he lost in salary.

Does John sue Rita or Cup & Cake?

Will the legal case read “John v. Rita” or “John v. Cup & Cake”?

Answer: It depends on how Rita has registered her company. The type of ownership she has will decide who will take on this liability, Rita or the company, Cup & Cake. **Ownership documents:** when a company is registered, the government provides official ownership documents. By signing these documents, the business owners agree to the terms and conditions specified within them.

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Situation 1

The ownership documents say the owner is liable for all damages. In this situation, the money to be paid to John will come out of Rita’s personal bank account

Situation 2

The ownership documents say the company is liable for all damages, then the money to be paid to John will come out of the company’s bank account and will not effect Rita’s personal income

Situation 3

The ownership documents say a certain % of damages are to be paid by the owner and certain % by the business. In this case, the money to be paid to John will come out of the company’s bank account and also Rita’s personal income

SITUATION 1

Rita will be personally liable for paying the damages

- Rita will have to pay from the salary she makes in her personal income
- If Rita cannot pay the money, the court will come after her personal assets, such as her home, car, gold jewelry, basically anything registered under her name, that can be sold for money. This is how court will give John his money
- Rita has the option of declaring personal bankruptcy. Bankruptcy has a significant negative impact on the individual's credit rating

SITUATION 2

Cup & Cake will be liable for paying the damages

- Money will be taken from Cup & Cake's bank account, and not out of Rita's bank account
- If Cup & Cake cannot pay the money, the court will come after the company's assets, such as the furniture, machinery, property, anything registered under Cup & Cake's name, that can be sold for money. This is how court will give John his money to settle the case
- Cup & Cake has the option of declaring bankruptcy

SITUATION 3

Partial liability falls on Cup & Cake, partial liability falls on Rita

- Certain % of the total amount will be taken from Cup & Cake's bank account and certain % from Rita's bank account. The % of each amount depends on what is written in ownership documents
- In the ownership documents, if owner has Personally Guaranteed any debts, they will be personally liable for those debts only
- These are considered two different debts and are collected separately from each other, which means both situation 1 and situation 2 will be in effect for this situation

OWNERSHIP TYPE

LIABILITY

CUP & CAKE

Sole Proprietorship: A business owned and operated by a single individual

The owner has unlimited personal liability for all business debts and obligations.

Rita will be personally liable for paying the damages

Personal assets can be used to satisfy business debts

Partnership

General partnership: A business owned by two or more individuals who share profits, losses, and management of the business. Most small businesses are general partnerships, as it leads to distribution of workload

Partners have unlimited personal liability for the debts and obligations of the business.

Rita and her business partners will be personally liable for paying the damages. Who pays how much is decided by the partners

Each partner is jointly and individually liable, meaning any one partner can be held responsible for the full amount of the debts and obligations

Limited partnership: partnership with both general and limited partners. General partners manage the business, while limited partners contribute capital and share profits without participating in management

General partners have unlimited liability, while limited partners have liability limited to their investment in the partnership. If a limited partner has 10%, he/she is responsible for 10% of debts. 90% will be shared between general partners

Rita and all other general partners will be personally liable for paying the damages. Who pays how much is decided by the partners. If there are any silent partner(s), they will be liable for the % they invested

OWNERSHIP TYPE

LIABILITY

CUP & CAKE

Incorporation: a sole proprietor or partners in a general partnership or limited partnership can choose to incorporate their business, transforming it into a corporation.

Key Differences:

- Legal Entity Status: A corporation is a separate legal entity, whereas a sole proprietorship and a general partnership are not
- Ownership, Management: A sole proprietorship has one owner, a general partnership has multiple owners, and a corporation can have multiple shareholders, some or all of who can also be owners

Separate Legal Entity

- A corporation is a separate legal entity distinct from its owners. This separation means that the corporation itself can enter into contracts, own assets, and be sued, without directly implicating the personal assets of the shareholders

Corporate Debts and Obligations:

- The corporation is responsible for its own debts and obligations. Creditors can only pursue the corporation's assets for repayment of debts, not the personal assets of shareholders, except in cases of personal guarantees or instances of **"piercing the corporate veil."**
- Personal guarantees override the limited liability protection typically afforded to shareholders

• Cup & Cake is a separate legal entity and will be liable to pay any damages.

- Shareholders of a corporation are not personally responsible for the corporation's debts and obligations unless Rita has made any Personal Guarantees in the ownership documents
- If she has made any Personal Guarantees of payments, she will be held liable for staying committed to her signed contract

OWNERSHIP TYPE

Franchise: an individual or entity that purchases the right to operate a business using the branding and operational model of an established company, known as the franchisor

- UPS store - cost of opening a franchise ranges from \$210,500 - \$293,500. The total initial investment includes the franchise fee for a 10-year Franchise Agreement, centre design, construction, fixtures, signage, computer hardware, software equipment, initial inventory and training UPS franchise

- [Click here for Tim Hortons franchise requirements](#)
- [Click here for Anytime Fitness franchise requirements](#)

LIABILITY

1. Franchisor Liability

- **Brand and Intellectual Property:** The franchisor retains liability for the brand and intellectual property, which includes issues arise related to trademarks, marketing, or the business model
- **Training and Support:** The franchisor may be liable if it fails to provide adequate training and support to employees

2. Franchisee Liability

- **Operational Control:** The franchisee is responsible for the day-to-day operations, including hiring employees, managing finances, and ensuring compliance with local laws and regulations. The franchisee is liable for any debts, lawsuits, or claims arising from the operation of the franchise
- **Employment Issues:** The franchisee is liable for employment-related issues such as wages, workplace safety, employment disputes with staff

3. Shared Liability

- **Joint Liability Situations:** In some cases, both the franchisor and franchisee may share liability
- **Misrepresentation:** If the franchisor misrepresents earnings potential, costs, or other material facts during the sale of the franchise, both parties might face legal consequences