



VARZA SCHOOL · THE FOUNDATIONAL 100

Choosing a Business Structure: Sole Ownership, Partnership, Company, Cooperative, and Group

Chapter 14 · Track 2 — Starting and Understanding a Business

THE QUESTION IT ANSWERS

How should an entrepreneur choose a legal and ownership structure without reducing the decision to registration cost or tax rate?

CONCEPTS DEFINED

Sole proprietorship · Partnership · Company · Cooperative · Business group · Limited liability · Control · Compliance

Edition 2026.1 · Reviewed through 2026-08-31

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track moves from personal decisions to an operating business. A business is examined as a repeatable system that creates value, coordinates people and resources, accepts risk, collects evidence, and converts activity into cash and durable capability.

Central question: How should an entrepreneur choose a legal and ownership structure without reducing the decision to registration cost or tax rate?

Structure distributes rights, liability, control, continuity, reporting, funding, and exit. The best form fits the people, activity, risk, jurisdiction, growth path, and governance—not a generic ranking.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish sole proprietorship in plain and professional language.
- Define and distinguish partnership in plain and professional language.
- Define and distinguish company in plain and professional language.
- Define and distinguish cooperative in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence, and under which assumption or rule.** A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Sole proprietorship

Working definition. Sole proprietorship is a business form in which one individual owns and operates the activity without a legally separate incorporated entity in many jurisdictions.

It may be easy to start, but legal liability, tax treatment, continuity, registration, and record requirements differ by jurisdiction. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A freelance designer may trade personally while maintaining separate business records and a dedicated bank account.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Partnership

Working definition. Partnership is an arrangement in which two or more persons carry on an activity together and share rights, obligations, results, or control under law and agreement.

The agreement should address contributions, authority, profit sharing, withdrawals, disputes, departure, death, and settlement—not only the initial ownership percentages. The concept should be measured at the smallest level that still supports a real action.

Simple example. Two engineers form a firm, contribute different resources, and share profit under a written partnership agreement.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Company

Working definition. Company is a legally constituted organization that may hold rights and obligations separately from its owners, subject to the law of formation.

Separate personality does not eliminate governance, guarantees, misconduct risk, or compliance duties. Owners must distinguish company assets from personal assets. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. A limited-liability company enters contracts and owns equipment in its own name.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Cooperative

Working definition. Cooperative is a member-owned organization designed to serve shared economic or social needs through jointly controlled activity.

Member benefit, voting rights, capital, surplus distribution, and patronage rules may differ from investor-owned companies. This is where operational activity and financial reporting meet.

Simple example. Farmers may jointly own storage and marketing facilities and allocate surplus according to member transactions.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Business group

Working definition. Business group is two or more entities connected through ownership, control, significant influence, common management, or coordinated economic purpose.

A group requires clear entity boundaries, related-party controls, intercompany records, and possibly consolidated reporting. Shared branding does not make all cash interchangeable. In Varza language, the concept becomes useful when it changes a decision.

Simple example. A parent company owns a distribution subsidiary and a software subsidiary that transact with each other.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Limited liability

Working definition. Limited liability is a legal feature that generally limits an owner's loss from entity obligations to the amount invested or committed, subject to law and exceptions.

It is not immunity. Personal guarantees, unlawful distributions, fraud, negligence, tax rules, or failure to respect entity separation can create additional exposure. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. A shareholder may lose invested capital but not automatically become liable for every company debt.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Control

Working definition. Control is the practical power to direct relevant activities and influence returns, established through rights and circumstances rather than ownership percentage alone.

Distinguish control from day-to-day management, legal title, significant influence, and protective rights. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A shareholder with contractual appointment rights may control an entity despite owning less than half of its shares.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Compliance

Working definition. Compliance is conformity with applicable laws, regulations, contracts, standards, licenses, policies, and ethical requirements.

Compliance is a living system of obligations, owners, evidence, monitoring, and response—not a one-time checklist. The concept should be measured at the smallest level that still supports a real action.

Simple example. A payroll process verifies labor, tax, privacy, payment, and record requirements before release.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Sole proprietorship, Partnership, Company, Cooperative, Business group, Limited liability, Control, and Compliance describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Quantitative model

This chapter does not depend on a single universal formula. Use a structured model instead: define the unit of analysis, identify relevant inflows and outflows, place them on a timeline, state assumptions, and test at least one adverse scenario. A formula becomes trustworthy only after its inputs and boundaries are trustworthy.

Worked case — A structure decision with more than one objective

Three professionals plan a regulated consulting and software business. One supplies capital, two provide full-time work, and they expect outside investment within two years.

Item	Amount or observation
Ownership	three founders with unequal cash and labor contributions
Risk	professional liability and customer data
Funding	outside equity expected
Continuity	business should survive a founder's departure
Jurisdiction	local company, tax, licensing, and professional rules apply

Calculation and reasoning

1. A sole proprietorship cannot represent the intended shared ownership.
2. A simple partnership may permit shared operation but may create liability, continuity, and investment limitations depending on local law.
3. A company may provide clearer share, governance, continuity, investment, and entity separation, but adds cost and compliance.
4. Founder agreements must separately address vesting, authority, intellectual property, salary, shares, departure, and deadlock; formation alone does not solve these issues.

What the result means

The case points toward a company in many jurisdictions, but the article deliberately does not prescribe one legal answer. The correct decision requires current local professional advice and a complete objectives map.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
2. **Describe owners, activity, regulated risks, funding, decision rights, expected growth, and exit.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Compare structures using local legal, tax, reporting, cost, and continuity advice.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Draft governance and economic agreements before operations create disputes.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Create separate records, accounts, contracts, and authority according to the selected structure.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes owner, partner, member, legal_entity, governing_document, registration, license, tax_profile, liability_map. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.

3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.
4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Attach every important number to a source, period, currency, entity, and responsible person.
- Prefer a traceable estimate with stated assumptions to an impressive number with hidden assumptions.
- Use automation to strengthen evidence and consistency, never to remove accountability.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Qualified local legal and tax review before formation or conversion.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **Entity-separation control over bank, assets, expenses, and contracts.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Calendar for filings, renewals, meetings, and ownership records.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Choosing solely for the lowest formation fee

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Assuming limited liability removes personal guarantees or misconduct exposure

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Starting a partnership without written authority and exit terms

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Using a group of entities while moving money between them without intercompany records

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain sole proprietorship in plain language and in professional terms?
- ☐ Can I explain partnership in plain language and in professional terms?

- ☐ Can I explain company in plain language and in professional terms?
- ☐ Can I explain cooperative in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Sole proprietorship to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Partnership. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Company could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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    "Partnership: an arrangement in which two or more persons carry on an activity together and share rights, obligations, results, or control under law and agreement.",
    "Company: a legally constituted organization that may hold rights and obligations separately from its owners, subject to the law of formation.",
    "Cooperative: a member-owned organization designed to serve shared economic or social needs through jointly controlled activity.",
    "Business group: two or more entities connected through ownership, control, significant influence, common management, or coordinated economic purpose.",
    "Limited liability: a legal feature that generally limits an owner's loss from entity obligations to the amount invested or committed, subject to law and exceptions.",
    "Control: the practical power to direct relevant activities and influence returns, established through rights and circumstances rather than ownership percentage alone.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S003 — OECD-INFE, *Core Competencies Framework on Financial Literacy for MSMEs*.** 2018; accessed 2026-08-31. Financial capability for entrepreneurs and small-business managers. Source: https://www.oecd.org/en/publications/oecd-infe-core-competencies-framework-on-financial-literacy-for-msmes_220101c9-en.html
- **S007 — U.S. Small Business Administration, *Plan your business*.** accessed 2026-08-31. Business plans, market research and startup-cost planning. Source: <https://www.sba.gov/counseling/plan-your-business/>
- **S008 — U.S. Small Business Administration, *Launch your business*.** accessed 2026-08-31. Entity choice, registration, permits, banking and insurance. Source: <https://www.sba.gov/counseling/launch-your-business/>
- **S009 — U.S. Small Business Administration, *Manage your business*.** accessed 2026-08-31. Ongoing compliance and financial management. Source: <https://www.sba.gov/counseling/manage-your-business/>

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

Jurisdiction note. Global educational foundation; local law, tax, reporting, consumer-protection, licensing, and professional requirements must be checked separately.

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