

# Economical aspects of founding an aviation company

Štefan Černega – Pavol Bajusz

## Abstract

Founding a company is always connected to the choice of prospectus conception, legal form of entrepreneurship, amount and form of acquisition of initial capital deposit. Deposit of money and in kind contribution form the basic substance. Each form of entrepreneurship has its advantages and disadvantages.

## Key words

Founding a company, source of funds, financial indicator, joint stock company, unlimited liability partnership, limited liability partnership, limited liability company, cooperative.

## 1 Introduction

Founding a company is always connected with the choice of prospectus conception, legal form of entrepreneurship, amount and form of acquisition of initial capital deposit. Deposit of money and in kind contribution form the basic substance. Each form of entrepreneurship has its advantages and disadvantages.

## 2 Company Foundation

Foundation of the company is always connected to the solution of the three important questions:

- prospectus conception
- legal form of entrepreneurship
- amount and form of capital deposit

Amount and form of the initial capital deposit is fixed mainly by prospectus and its departmental trend. There is a difference between contribution of the capital requirements of the company focused on the organization of tourist trade (e.g. travel agencies with low order requirements) and contribution of the capital requirements of the company focused on aeronautics and its technique. Legal form of entrepreneurship is also closely related to the contribution of the capital into a business in the beginning of entrepreneurship. Therefore, it is important and necessary to choose the most suitable form of entrepreneurship. Beginning entrepreneur should decide if he is a sole trader or

if he and his partners found cooperative unlimited liability partnership, limited liability partnership, limited liability company or joint stock company.

## 2. A sole trader's business

A business of a sole trader are the most popular form of entrepreneurship in Slovak republic. The first contribution of capital is limited by personal amount of money.

The owner of the business is personally entitled to all profits, but on the other hand, he has unlimited responsibility for all losses, debts and other risks accompanying the business. Thus he has unlimited liability. It means that the owner's personal assets can be taken away. The end of the sole trader's business is very frequent because of low capital and lower possibilities to obtain external one. But on the other hand, there are a lot of companies of this type because the initial deposit is not very high

## 2.2 Unlimited liability partnership

It is a business owned by two or more people. The initial capital deposit comes from momentary or non-momentary articles of partnership. In this case, a basic stock is not compulsory. Each partner has unlimited liability for the debts incurred by the business. If the business defaults, the personal assets of the partners may be seized to repay debts.

Advantages of this businesses are simple organization structure and the fact that the business

is easy controlled. The business is usually controlled by its owner. The initial deposit is still not very high.

That each partner is legally responsible for the debts of the business, is perhaps the most important disadvantage of the unlimited liability partnership.

If there is a higher number of owners, conflicts in the control of the business may appear.

### **2.3 Limited liability partnership**

Both unlimited liability partnership and limited liability partnership belong to personal trading companies. Limited liability partnership has some features of limited liability company.

Advantage of this business is in the unprescribed amount of basic stock. Basic stock is not compulsory. Connection of personal company and limited liability company means higher credit flexibility of the business.

On the other hand, complicated sharing of the profit and unlimited liability of limited partners is the biggest disadvantage of limited liability partnership.

In this type of business, partners have limited liability to amount of their unpaid contribution.

### **2.4 Cooperative**

According to law, the Cooperatives have an obligation to create capital which consists of contributions of all partners. The number of partners is not limited. The personal assets of partners cannot be seized to repay debts of the cooperative. The cooperative is itself liable for its obligation.

The main advantages of cooperative are satisfaction and support of all its members, easy formation and discharge and limited liability.

The main disadvantage is a duty to create indivisible fund since the establishment of cooperative. It increases expenses for its establishment.

### **2.5 Limited liability company**

In foundation of the limited liability companies it is compulsory to have the basic capital, which consists of the contribution of capital from business partners. The minimal amount of the basic capital is assessed. Limited liability companies have to create and then bank up accumulated surplus.

Advantages of limited liability company are the possibility of its foundation by an individual, limited personal liability for the debts and actions of the LLC, the partners do not have to participate in management of the company.

Another advantage of limited liability company is relatively a small amount of assess needed to its foundation, low expenses, restricted number of partners and their fixation to the company.

The disadvantage may be an obligation to create accumulated surplus and its limited use.

### **2.6 Joint stock company**

In foundation of joint stock company, the basic stock is made by selling shares of stock. Shareholders as well as partners in joint stock companies are not liable for the obligations of its business. The personal assets of the shareholders cannot be seized to repay debts. Although they are usually liable for company debts that exceed the ability of the company to pay, the limit of their liability only extends to the face value of their shareholding. The main advantages of such a company are ability to obtain higher number of funds for investment, professional management of the company, separation owners of the company from its management. One of the disadvantages is the fact that foundation of the company may be complicated because of the administration.

.Studying different kinds of business organizations I came to a conclusion that the most suitable kinds of business organizations for aeronautics company are two kinds of business organization: joint stock company and limited liability company

In the foundation of limited liability company, the minimal amount of the basic capital is not large. The company can be established by one person. So it eliminates problems related to management and bargaining about further progress of company.

And the most important reason for choosing this type of business company is limited personal liability for the debts and actions of the LLC . The personal assests of the shareholders cannot not be seized to repay the depts of the company. A shareholder is not personally liable for any of the debts of the company, other than for the value of their investment in that company.

Since the operation of aeronautics services is quite expensive, it seem to be more profitable to establish a joint stock company, despite the higher initial capital deposit. The problem can be solved by selling the shares, which give the company the necessary capital. In this case, the company cannot be founded by an individual. The person has to found other partners who will be willing to set up the business with him.

On the other hand, in Slovakia it is the most profitable to set up the business as joint stock company . For that reason, a majority of Slovak aeronautics companies are of this type.

### **3 Property and financial structure**

It is important to consider property and financial structure of a business if you want to establish it. It is one of the most important parts of prospectus because it will show us amount of money we need if we want to set up the business and how we raise this capital. Then we get a realistic picture of what the return of the project is.

### **4 Financial indicators**

The financial statements are important not only for owners, entrepreneurs, but also for external users who consult the financial statements.

The first step the beginning entrepreneur has to take is recount of financial funds he will need to start a business. Measurement cash flow can be used for calculating parameters which give

information about situation of the company. The cash flow is necessary, for example, when applying for a loan at a bank. It shows if and when bank gets its money back. It is a measure of a business's profits. It determines amount of money we suppose to get from product selling or service providing. The amount of money is compared to the one we need monthly to do a business. (purchase of equipment, rent, maintenance of stockfile, material, manufacturing overhead, etc.)

The next step is to put together balance, income and expenditure statement and result statement.

Budget processing is inseparable part of prospectus. Its aim is specification and quantification of the necessary sources: accounting of long-term assets, current assets, the expected profit range , expense range, profits in the variants, the compilation of the expected cash flow, calculation of investment returns. It is necessary to register initial payments and incomes, which get started the business such as loans from banks, loans from friends, financial support, leasing payments, machinery payments , initial license fees, legal fees, installation costs, initial stock files.

### **5 Financial aims of the business in the beginning**

In the beginning or before the beginning of starting the business I recommend those who want to start a business in aeronautics (but not only in aeronautics ) to prepare (within the scope of prospectus ) expected trade volume for the first year In this way they get the idea about size of their business. The first year net profit cannot be exactly estimated, but it is useful to have a clue. If we drawdown a loan at a bank, it is useful to know what amount of money we want to return to the bank in one year term. Without future plans it is impossible to start a business..

### **6 Financial resources**

Financing and starting the business can be done by various sources. The first and basic

source is financing of the business by own sources. Entrepreneur and his partners (if the business is established by more than one person) invest into the business their own sources.

The second source for establishing the business can be irretrievable contribution obtained from Office of Labour, Social Affairs and Family or European Social Fund. The contribution is meant to support entrepreneurship.

The third sources are banks and their long term or short term loans. If the prospectus is carefully prepared, the banks give credits to start business as well as to develop it.

Financial sources for entrepreneurship can be obtained from other sources too. A good example is National Agency for Development of Small and Medium Enterprises which offers retrievable and irretrievable loans to start the business. Within the bounds of this agency there are other agencies which help the entrepreneurs to start their business e.g. regional advisory and information centres *network (RAIC)*, business innovation centres (*BIC*) and first contact centres (*FCC*) and business incubation centres (*BIC*).

Non-governmental Slovak - American Enterprise Fund is other financial source which invests financial sources mainly as capital input or credit and offers advisory service for small and medium enterpriseres. There are two programs, Direct Investment SAEF and The Small Loan Program, which offer capital 50 000 USD - 4000 000 USD as a credit, capital participation or as a combination of the both.

Slovak Guarantee and Development Bank is a specialized bank institution. A support of small and medium entrepreneurship is provided through guarantee programs, contribution programs, loan programs and products of financial intermediation.

## 7 Conclusion

Based on the above mentioned it applies that a company does not have to be profitable from its earliest days. While the costs for its foundation start to return it may takes some time. It may take a year, two years or more. Sometimes the entrepreneurship fails. But if the starting entrepreneur establishes a good business plan,

proposes promotion budget and carefully adjust funds for business acquisition, gets funds for entrepreneurship from own or external sources, the success will come.

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## AUTHOR'S ADDRESS

Bc.Štefan Černega, [stefan.cernega@gmail.com](mailto:stefan.cernega@gmail.com)  
Ing Pavol Bajusz, [pavol.bajusz@tuke.sk](mailto:pavol.bajusz@tuke.sk)

Reviewer: Mgr. Peter Čekan, PhD.