Exercise walk-through

Business structure ▪ 1.2

eXercise

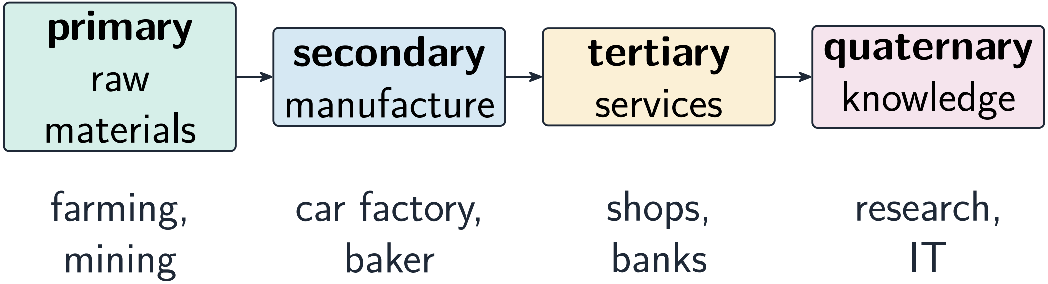
You must be able to

- describe each legal form and who owns it
- explain the difference between **limited 有限责任** and **unlimited liability 无限责任**
- analyse and evaluate a change of legal structure for a business

Method — Sectors of business activity

- **Sectors: primary 第一产业** (extract raw materials), **secondary 第二产业** (make goods), **tertiary 第三产业** (services), **quaternary 第四产业** (knowledge/R&D).
- **Private sector 私营部门** (privately owned, usually for profit) vs **public sector 公共部门** (government-owned, for services).

Method — Sectors of business activity



Business activity moves from raw materials through manufacture to services

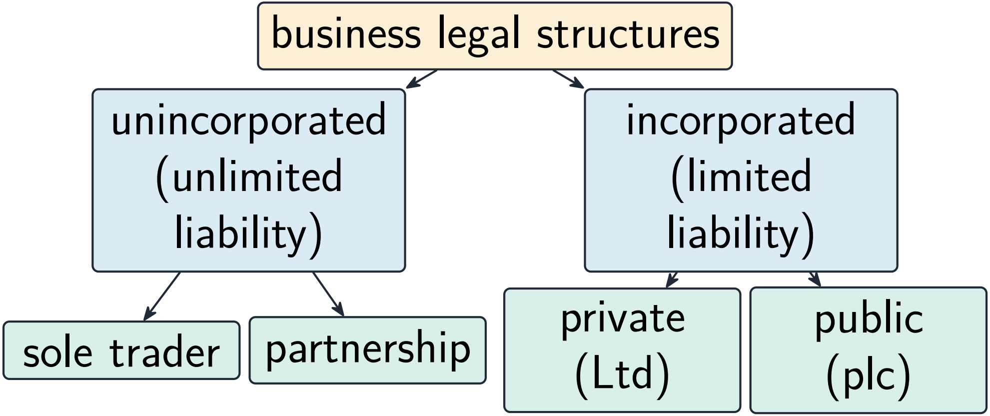
Method — Legal forms and liability

- **Limited liability:** owners lose only the money invested — personal assets safe. **Unlimited liability:** personally liable for **all** debts.
- Other forms: **franchise 特许经营**, **joint venture 合资企业**, **social enterprise 社会企业**.

Answer shapes (marked by **level of response** on the AOs — AO1 knowledge, AO2 application, AO3 analysis, AO4 evaluation):

- **Explain [3]:** name the point (AO1) + develop why it matters for this firm (AO2).
- **Evaluate "should X change to Y?" [12]:** argue both sides (AO3), then judge *in context* (AO4) — it depends on the firm's size, need for finance, and the owner's attitude to risk and control.

Method — Legal forms and liability



Legal forms split by liability: unincorporated (unlimited) and incorporated (limited)

Practice 2.1 ▪ 3 marks

Identify the sector (primary, secondary, tertiary or quaternary) of each: (a) a coal mine; (b) a car factory; (c) a hairdresser.

Solution 2.1

Method: Sectors of business activity

Worked steps

(a) primary; (b) secondary; (c) tertiary $(1 + 1 + 1)$.

Practice 2.2 ▪ 2 marks

Define the term *limited liability*.

Solution 2.2

Method: Legal forms and liability

Worked steps

the owners can lose only the money they have invested; their personal assets are protected (2 for a clear definition; 1 for a partial idea).

Practice 2.3 ▪ 2 marks

State two features of a **sole trader** business.

Solution 2.3

Method: Legal forms and liability

Worked steps

any two of: owned by one person; easy and cheap to set up; owner keeps all the profit; owner has unlimited liability; owner makes all decisions $(1 + 1)$.

Practice 2.4 ▪ 2 marks

State one difference between a private limited company (Ltd) and a public limited company (plc).

Solution 2.4

Method: Sectors of business activity

Worked steps

a plc sells shares to the public on the stock exchange; an Ltd sells shares only to a small private group (e.g. family and friends) (2 for a clear difference; 1 for a partial idea).

Exam-style 3.1 ▪ 3 marks

Explain one benefit to the owners of forming a private limited company (Ltd).

Solution 3.1

Method: Legal forms and liability

Worked steps

[3] **AO1** 1 — name a benefit (limited liability; easier to raise finance; separate legal identity). **AO2** up to 2 — develop why it helps these owners, e.g. limited liability protects the owner's house if the company fails, so they can take bigger risks to grow (2 developed / 1 limited).

Exam-style 3.2 ▪ 8 marks

Analyse two advantages to a business of operating as a **franchise**.

Solution 3.2

Method: Legal forms and liability

Worked steps

[8] For **each** of two advantages: **AO1** 1 + **AO2** 1 + **AO3** up to 2. Example chains — *known brand*: customers already trust the brand → sales start quickly → lower risk of failure. *Support/training*: the franchisor provides marketing and training → fewer early mistakes → more chance of survival. Maximum 4 per advantage, 8 total.

Exam-style 3.3 ▪ 12 marks

A successful sole trader is deciding whether to change into a private limited company (Ltd). Evaluate this decision.

Solution 3.3

Method: Legal forms and liability

Worked steps

[12] **AO1** 2 / **AO2** 2 / **AO3** 2 / **AO4** up to 6 (L3 5–6 supported judgement in context; L2 3–4 without context; L1 1–2 limited). **For** becoming an Ltd: limited liability, easier to raise finance, more credibility. **Against**: set-up cost and legal rules, must publish accounts, some loss of control and privacy. Judgement: worth it if the owner needs finance and wants to protect personal assets to grow, but a small, low-risk firm may be better staying a sole trader — it depends on the growth plan and risk.