Exercise walk-through

Types of business organisation ▪ 1.4

eXercise

You must be able to

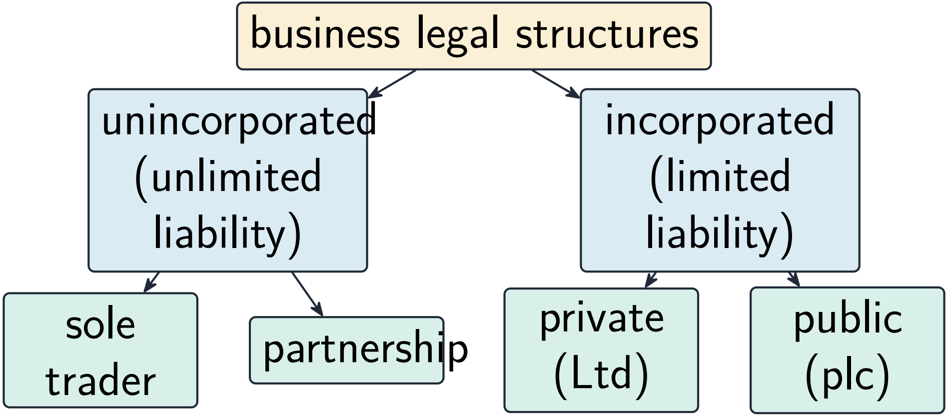
- explain limited and unlimited liability
- compare the four main types of business organisation
- analyse and recommend a type of organisation for a business

Method — Business types and liability

- **Unlimited liability 无限责任**: the owner is personally liable for all debts. **Limited liability 有限责任**: owners can lose only what they invested.
- **Sole trader 独资**: one owner — easy to set up, keeps all profit, but unlimited liability.
- **Private limited company (Ltd) 私人有限公司**: shareholders, limited liability, shares not sold to the public.
- **Public limited company (plc) 公众有限公司**: shares sold to the public; can raise large capital but risks takeover.

Answer shapes: K + App + An + Ev (a justified judgement, for "do you think" questions).

Method — Business types and liability



Business types split by liability: unincorporated (unlimited) and incorporated (limited)

Practice 2.1 ▪ 2 marks

Define the term *limited liability*.

Solution 2.1

Method: Business types and liability

Worked steps

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

Practice 2.2 ▪ 2 marks

Identify two advantages of being a sole trader.

Solution 2.2

Method: Business types and liability

Worked steps

any two of: easy and cheap to set up; the owner keeps all the profit; the owner makes all decisions; privacy $(1 + 1)$.

Practice 2.3 ▪ 2 marks

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

Solution 2.3

Method: Business types and liability

Worked steps

a plc can sell its shares to the public on the stock exchange; an Ltd cannot (2 for a clear difference; 1 for a partial idea).

Exam-style 3.1 ▪ 2 marks

Identify two features of a partnership.

Solution 3.1

Worked steps

any two of: owned by 2+ partners; share work, decisions and profit; usually unlimited liability; often a written agreement $(1 + 1)$.

Exam-style 3.2 ▪ 6 marks

Explain two benefits to the owners of forming a private limited company.

Solution 3.2

Method: Business types and liability

Worked steps

[6] For **each** of two benefits: K 1 + An up to 2 — e.g. *limited liability*: owners' personal assets are safe if the company fails → they can take bigger risks to grow. *Easier finance*: shares can be sold to family and friends → more capital than a sole trader can raise. Maximum 3 each.

Exam-style 3.3 ▪ 6 marks

A growing sole trader is deciding whether to become a private limited company. Do you think this is a good idea? Justify your answer.

Solution 3.3

Method: Business types and liability

Worked steps

[6] Both sides + judgement. **For:** limited liability protects the owner, and it is easier to raise finance to grow. **Against:** more paperwork and legal rules, accounts must be shared, and some control may be lost. **Judgement (Ev):** becoming an Ltd is worth it if the owner needs finance and wants protection to grow, but a small low-risk business may be fine staying a sole trader — it depends on the growth plans.