BUS.EN2 Business ownership structures

AQA 8132 · Calculator allowed · about 60 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Show your working for any calculation: method marks are available even if your final answer is wrong. Thistledown Bakery and Golden Griddle Pancakes, used throughout this pack, are fictional businesses.

1 Which one of the following best describes 'unlimited liability'?

- ☐ A) The owner's responsibility for business debts is capped at the amount they invested
- ☐ B) The owner is personally responsible for ALL of the business's debts, with no upper limit
- ☐ C) The business has no debts at all
- ☐ D) The government pays off any debts the business cannot afford

(Total for Question 1 is 1 mark)

2 Which one of the following best describes 'limited liability'?

- ☐ A) An owner can only lose the money they have invested in the business
- ☐ B) An owner is personally responsible for every debt the business owes
- ☐ C) The business cannot be sued by its creditors
- ☐ D) The business does not have to keep any financial records

(Total for Question 2 is 1 mark)

3 State two features of a sole trader business.

(Total for Question 3 is 2 marks)

4 Rosa and Dev originally each ran separate sole-trader bakeries before deciding to join forces and form Thistledown Bakery as a partnership.

(a) State two advantages to Rosa and Dev of forming a partnership rather than each remaining a sole trader. **(2)**

(b) State two disadvantages to Rosa and Dev of forming a partnership rather than each remaining a sole trader. **(2)**

(Total for Question 4 is 4 marks)

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5 Rosa and Dev agree in their partnership agreement to share Thistledown Bakery's profit in the ratio 3:2 (Rosa:Dev), reflecting Rosa's larger initial investment. In its first year, Thistledown Bakery makes an annual profit of 60,000 pounds.
Calculate how much profit each partner receives. Show your working for each part.

(a) Calculate Rosa's share of the profit. **(2)**

....

(b) Calculate Dev's share of the profit, and confirm the two shares add up to the total annual profit. **(2)**

....

(Total for Question 5 is 4 marks)

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6 Which one of the following is a risk that BOTH Rosa and Dev face while Thistledown Bakery remains a partnership (rather than a limited company)?

☐ A) They only risk losing the money they have invested

☐ B) Their personal savings and possessions could be used to pay the business's debts

☐ C) The business automatically becomes a separate legal entity

☐ D) They must publish their accounts for competitors to see

(Total for Question 6 is 1 mark)

7 Thistledown Bakery, still trading as a partnership, gets into financial difficulty. It owes 20,000 pounds in debts, but its business assets are only worth 12,000 pounds.
Calculate the shortfall Rosa and Dev must cover personally between them, and show how much each of them owes if they share it in the same 3:2 ratio as their profits (question 5). Show your working for each part.

(a) Calculate the shortfall between the business's debts and its assets. **(2)**

....

(b) Calculate how much of the shortfall Rosa and Dev must each pay personally, using the 3:2 ratio, and confirm the two amounts add up to the total shortfall. **(2)**

....

(Total for Question 7 is 4 marks)

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8 Rosa and Dev decide to convert Thistledown Bakery from a partnership into a private limited company (Ltd), keeping the same 3:2 ownership split. They issue 10,000 shares in total: Rosa takes 6,000 shares and Dev takes 4,000 shares.
Explain the main change to Rosa and Dev's personal financial risk that results from this conversion.

(Total for Question 8 is 4 marks)

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9 Which one of the following is a genuine requirement of a private limited company (Ltd) that does NOT apply to a partnership?

- ☐ A) It must have at least one owner
- ☐ B) It must be registered with Companies House and file annual accounts
- ☐ C) It must always have exactly two owners
- ☐ D) It cannot ever raise finance from outside investors

(Total for Question 9 is 1 mark)

10 Thistledown Bakery Ltd declares a total dividend of 8,000 pounds for its first year as a company, to be paid to Rosa and Dev in proportion to their shareholding (question 8: Rosa 6,000 shares, Dev 4,000 shares, out of 10,000 shares in total).
Calculate how much dividend each of Rosa and Dev receives. Show your working for each part.

(a) Calculate Rosa's dividend. **(2)**

....

(b) Calculate Dev's dividend, and confirm the two dividends add up to the total dividend declared. **(2)**

....

(Total for Question 10 is 4 marks)

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11 Which one of the following is true of a public limited company (plc) but NOT true of a private limited company (Ltd) such as Thistledown Bakery Ltd?

- ☐ A) It has limited liability
- ☐ B) It can sell shares to the general public on a stock exchange
- ☐ C) It must have at least one shareholder
- ☐ D) It is a separate legal entity from its owners

(Total for Question 11 is 1 mark)

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12 State one advantage and one disadvantage to Thistledown Bakery Ltd of converting into a public limited company (plc).

(Total for Question 12 is 2 marks)

13 Golden Griddle Pancakes is a fictional pancake-shop franchise. A new franchisee pays Golden Griddle Pancakes an initial franchise fee of 15,000 pounds, plus an ongoing royalty of 8% of weekly revenue, in exchange for using the Golden Griddle Pancakes name, branding and recipes.

A franchisee's shop generates weekly revenue of 3,000 pounds and trades for 50 weeks in its first year.

(a) Calculate the weekly royalty the franchisee pays to Golden Griddle Pancakes. **(2)**

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(b) Using your answer to part a, calculate the franchisee's total first-year cost: the franchise fee plus the royalties paid over the 50-week trading year. **(2)**

....

(Total for Question 13 is 4 marks)

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14 Explain one advantage and one disadvantage to someone of buying a Golden Griddle Pancakes franchise rather than starting an independent pancake shop.

(a) Explain one advantage to a franchisee of buying a Golden Griddle Pancakes franchise. **(2)**

(b) Explain one disadvantage to a franchisee of buying a Golden Griddle Pancakes franchise, referring to the figures in question 13. **(2)**

(Total for Question 14 is 4 marks)

15 Rosa and Dev, now running Thistledown Bakery Ltd (question 8), are considering two ways to expand: (1) opening a second Thistledown Bakery Ltd branch themselves, funding it with a bank loan, or (2) selling a Golden Griddle Pancakes-style franchise licence to let someone else open and run a second branch under the Thistledown Bakery name, in exchange for a franchise fee and ongoing royalties like those calculated in question 13.

Recommend which option Rosa and Dev should choose. Justify your answer using the figures and points made earlier in this pack.

(Total for Question 15 is 9 marks)

Mark scheme · BUS.EN2 Business ownership structures

Question 1

- **B1** B cao
- **Answer: B**

Question 2

- **B1** A cao
- **Answer: A**

Question 3

- **B1** owned and run by one person
- **B1** the owner keeps all the profit but has unlimited liability for the business's debts
- **Answer: Any two, e.g. owned by one person; owner has unlimited liability and keeps all the profit.**

Question 4

- (a) **B1** the workload and decision-making can be shared between the two partners
- (a) **B1** more capital is available to the business, since both partners can invest money
- **(a) Answer: Any two, e.g. shared workload/decision-making; more capital available since both partners invest.**
- (b) **B1** profit now has to be shared between the two partners, rather than kept entirely by one owner
- (b) **B1** decisions may take longer or lead to disagreements, since both partners must agree
- **(b) Answer: Any two, e.g. profit must be shared; decisions may take longer or cause disagreements.**

Question 5

- (a) **M1** 60,000 x 3/5 seen
- (a) **A1** 36,000 pounds cao
- **(a) Answer: 36,000 pounds.**
- (b) **M1** 60,000 x 2/5 seen
- (b) **A1** 24,000 pounds cao, with 36,000 + 24,000 = 60,000 confirmed
- **(b) Answer: 24,000 pounds; 36,000 + 24,000 = 60,000, matching the total annual profit.**

Question 6

- **B1** B cao
- **Answer: B**

Question 7

- (a) **M1** 20,000 - 12,000 seen
- (a) **A1** 8,000 pounds cao
- **(a) Answer: 8,000 pounds.**
- (b) **M1** 8,000 x 3/5 and 8,000 x 2/5 seen (ft from part a)
- (b) **A1** Rosa 4,800 pounds and Dev 3,200 pounds cao, with 4,800 + 3,200 = 8,000 confirmed
- **(b) Answer: Rosa 4,800 pounds, Dev 3,200 pounds; 4,800 + 3,200 = 8,000, matching the total shortfall.**

Question 8

- **B1** identifies the change, e.g. Rosa and Dev now have limited liability instead of unlimited liability
- **B1** explains what this means, e.g. as shareholders, they can now only lose the money they invested in their shares
- **B1** contrasts with the previous position, e.g. unlike in question 7, their personal savings and possessions outside the business can no longer be used to pay the company's debts
- **B1** links to an outcome, e.g. this significantly reduces the personal financial risk Rosa and Dev face if the business runs into debt in future
- **Answer: Rosa and Dev now have limited liability: as shareholders they can only lose the money invested in their shares, so unlike in question 7, their personal savings could not be used to cover a future shortfall, significantly reducing their personal financial risk.**

Question 9

- **B1** B cao
- **Answer: B**

Question 10

- (a) **M1** 8,000 x (6,000 / 10,000) seen
- (a) **A1** 4,800 pounds cao
- **(a) Answer: 4,800 pounds.**
- (b) **M1** 8,000 x (4,000 / 10,000) seen
- (b) **A1** 3,200 pounds cao, with 4,800 + 3,200 = 8,000 confirmed
- **(b) Answer: 3,200 pounds; 4,800 + 3,200 = 8,000, matching the total dividend declared.**

Question 11

- **B1** B cao
- **Answer: B**

Question 12

- **B1** one acceptable advantage, e.g. the business could raise much larger amounts of capital by selling shares to the general public
- **B1** one acceptable disadvantage, e.g. Rosa and Dev risk losing control if enough shares are bought by outside investors (risk of takeover)
- **Answer: Advantage: could raise much larger amounts of capital from public share sales. Disadvantage: Rosa and Dev risk losing control if outside investors buy enough shares (risk of takeover).**

Question 13

- (a) **M1** 3,000 x 0.08 seen
- (a) **A1** 240 pounds cao
- **(a) Answer: 240 pounds.**
- (b) **M1** 15,000 + (240 x 50) seen (ft from part a)
- (b) **A1** 27,000 pounds cao
- **(b) Answer: 27,000 pounds.**

Question 14

- (a) **B1** identifies an advantage, e.g. the franchisee uses an already well-known, trusted brand and a proven business format, reducing the risk of failure
- (a) **B1** links clearly to an outcome, e.g. this makes it easier to attract customers quickly compared with building an unknown, independent brand from scratch
- **(a) Answer: The franchisee uses an already trusted brand and proven format, lowering the risk of failure and making it easier to attract customers quickly.**
- (b) **B1** identifies a disadvantage, e.g. the franchisee must pay the 15,000 pound fee and an ongoing 8% royalty, totalling 27,000 pounds in year one (question 13)
- (b) **B1** links clearly to an outcome, e.g. this reduces the profit the franchisee keeps and makes it harder to recover this cost or reinvest quickly, compared with running a fully independent shop
- **(b) Answer: The franchisee must pay 27,000 pounds in total in year one (question 13), reducing the profit kept and making it harder to recover this cost or reinvest quickly.**

Question 15

- **Level 1** (1-3): Makes simple, undeveloped comments about the two expansion options, with little or no use of the pack's figures and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for or against one option, using some of the pack's figures, but does not fully weigh both sides or reach a clearly justified recommendation.
- **Level 3** (7-9): Weighs the evidence for and against both options, using the liability, dividend and franchise figures from this pack, and reaches a justified recommendation supported by that analysis.
- **Indicative content:**
    - For opening a second branch themselves: Rosa and Dev keep full control and all of the profit and any dividend from the new branch, rather than sharing revenue as royalties (as in question 13, where royalties alone cost a franchisee 12,000 pounds in year one).
    - For opening a second branch themselves: as a Ltd (question 8), Rosa and Dev already have limited liability, so a bank loan for the new branch would not put their personal assets at the same risk that the unlimited-liability shortfall in question 7 did.
    - Against opening a second branch themselves: they must find and manage the new site, staff and finance themselves, taking on all of the operational risk and repayment commitment of the loan.
    - For franchising it out instead: Rosa and Dev could earn a steady franchise fee plus ongoing royalty income (as in question 13) with much less day-to-day risk and effort than running the branch themselves, since the franchisee bears the operating risk.
    - Against franchising it out: they lose some control over how the Thistledown Bakery brand is run day to day, and royalty income (8% of revenue) is smaller than keeping 100% of a branch's own profit.
    - Judgement: a reasonable recommendation is that if Rosa and Dev have the funds and management time to run a second branch well, opening it themselves keeps more of the profit and control; if they lack the time or want lower risk, selling a franchise licence, similar to the Golden Griddle Pancakes model, is the safer route to expansion income.