GB1.5 Business ownership

AQA 8132 · Calculator allowed · about 60 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Show your working for any calculation. In your longer answers, use relevant business terminology and apply your points clearly to the scenario given.

1 Which one of the following is an example of unlimited liability?

- ☐ A) A shareholder in a private limited company only loses the money they invested
- ☐ B) A sole trader is personally responsible for all of the business's debts
- ☐ C) A member of a private limited company only loses their investment
- ☐ D) A franchisee's liability is limited to the franchise fee they paid

(Total for Question 1 is 1 mark)

2 State two features of a sole trader business.

(Total for Question 2 is 2 marks)

3 State two reasons why a sole trader might find it difficult to raise enough finance to expand the business.

(Total for Question 3 is 2 marks)

4 Tomasz runs 'Tomasz Plumbing' as a sole trader.

(a) Explain one advantage to Tomasz of being a sole trader. **(3)**

(b) Explain one disadvantage to Tomasz of being a sole trader. **(3)**

(Total for Question 4 is 6 marks)

---

5 State two features of a partnership business.

(Total for Question 5 is 2 marks)

---

6 Which one of the following best describes a partnership?

- ☐ A) A business owned by one person with unlimited liability
- ☐ B) A business owned by between two and twenty people who usually share profits and unlimited liability
- ☐ C) A business owned by shareholders who can buy shares on a stock exchange
- ☐ D) A business that pays a fee to use another firm's name and branding

(Total for Question 6 is 1 mark)

7 Aisha and Ben set up 'A&B Design Studio' as a partnership, sharing profits equally between them.

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

(b) A&B Design Studio makes an annual profit of 48,000 pounds. Aisha and Ben share this profit equally. Calculate how much profit each partner receives. **(2)**

....

(Total for Question 7 is 4 marks)

---

8 Explain the meaning of the term 'limited liability' for the owners of a private limited company (Ltd).

(Total for Question 8 is 3 marks)

---

9 Which one of the following is most likely to be a disadvantage of converting a business from a sole trader into a private limited company (Ltd)?

- ☐ A) The owner gains limited liability
- ☐ B) The business must publish annual accounts, which competitors can see
- ☐ C) The business can never raise additional finance
- ☐ D) The original owner automatically loses all control of the business

(Total for Question 9 is 1 mark)

10 Compare a partnership with a private limited company (Ltd) as forms of business ownership.

(a) State two similarities between a partnership and a private limited company. **(2)**

(b) State two differences between a partnership and a private limited company. **(2)**

(Total for Question 10 is 4 marks)

---

11 Which one of the following is true of a public limited company (plc) but NOT true of a private limited company (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 run day-to-day by directors

(Total for Question 11 is 1 mark)

---

12 State one advantage and one disadvantage to a business of becoming a public limited company (plc).

(Total for Question 12 is 2 marks)

13 Fresh Bites Coffee is a fictional coffee-shop franchise. A franchisee pays Fresh Bites Coffee an initial fee plus an ongoing percentage of sales, in exchange for using the Fresh Bites Coffee name, branding and business format.

(a) Explain one reason why someone might choose to buy a Fresh Bites Coffee franchise rather than start an independent coffee shop. **(3)**

(b) Explain one risk to the franchisee of buying a Fresh Bites Coffee franchise. **(3)**

(Total for Question 13 is 6 marks)

---

14 Deniz currently runs 'Deniz Bikes' as a sole trader bicycle-repair shop and is considering converting the business into a private limited company (Ltd).
Recommend whether Deniz should convert Deniz Bikes into a private limited company. Justify your answer.

(Total for Question 14 is 9 marks)

Mark scheme · GB1.5 Business ownership

Question 1

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

Question 2

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

Question 3

- **B1** one acceptable reason, e.g. banks may see a sole trader as higher risk because of unlimited liability, making loans harder to obtain
- **B1** a second acceptable reason, e.g. a sole trader cannot raise capital by selling shares, unlike a limited company
- **Answer: Any two, e.g. banks may view sole traders as higher risk (unlimited liability), so loans can be harder to get; a sole trader cannot sell shares to raise capital.**

Question 4

- (a) **B1** identifies an advantage, e.g. Tomasz has full control over all business decisions
- (a) **B1** develops the point, e.g. this means he can respond quickly to a customer's request without needing to consult anyone else
- (a) **B1** links clearly to a likely business outcome, e.g. this quick, personal service can help keep customers satisfied and generate repeat business
- **(a) Answer: Tomasz has full control over decisions, so he can respond quickly to customers, which helps keep them satisfied and generates repeat business.**
- (b) **B1** identifies a disadvantage, e.g. Tomasz has unlimited liability
- (b) **B1** develops the point, e.g. this means that if the business cannot pay a debt, Tomasz's personal assets (such as his house or savings) could be used to pay it
- (b) **B1** links clearly to a likely outcome, e.g. this creates significant personal financial risk for Tomasz that an owner with limited liability would not face
- **(b) Answer: Tomasz has unlimited liability, so his personal assets (e.g. savings, his house) are at risk if the business cannot pay its debts, creating significant personal financial risk.**

Question 5

- **B1** one acceptable feature, e.g. owned by between two and twenty partners (typically)
- **B1** a second acceptable feature, e.g. partners usually share unlimited liability for the business's debts
- **Answer: Any two, e.g. owned by two or more partners; partners usually have unlimited liability.**

Question 6

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

Question 7

- (a) **B1** one acceptable advantage, e.g. the workload and decision-making can be shared between the two partners
- (a) **B1** a second acceptable advantage, e.g. 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) **M1** 48,000 / 2 seen
- (b) **A1** 24,000 pounds cao
- **(b) Answer: 24,000 pounds each.**

Question 8

- **B1** identifies that owners/shareholders only risk losing the money they have invested in the business
- **B1** develops the point, e.g. their personal possessions and savings outside the business cannot be used to pay the business's debts
- **B1** links clearly to an outcome, e.g. this makes owning shares in a company less financially risky than being a sole trader or a partner
- **Answer: Owners of a Ltd only risk losing the money they invested; their personal savings/possessions cannot be used to pay business debts, making it less risky than being a sole trader.**

Question 9

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

Question 10

- (a) **B1** one acceptable similarity, e.g. both usually have more than one owner sharing decisions
- (a) **B1** a second acceptable similarity, e.g. in both, profit is shared between the owners (partners share profit; shareholders receive dividends)
- **(a) Answer: Any two, e.g. both usually have more than one owner; in both, profit is shared between the owners.**
- (b) **B1** one acceptable difference, e.g. a partnership has unlimited liability, while a Ltd has limited liability for its owners
- (b) **B1** a second acceptable difference, e.g. a Ltd is a separate legal entity from its owners, while a partnership generally is not
- **(b) Answer: Any two, e.g. partnership = unlimited liability, Ltd = limited liability; Ltd is a separate legal entity, a partnership generally is not.**

Question 11

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

Question 12

- **B1** one acceptable advantage, e.g. the business can raise large amounts of capital by selling shares to the general public
- **B1** one acceptable disadvantage, e.g. the original owners risk losing control if enough shares are bought by an outside investor (risk of takeover)
- **Answer: Advantage: can raise large amounts of capital from public share sales. Disadvantage: risk of losing control/takeover if outside investors buy enough shares.**

Question 13

- (a) **B1** identifies a reason, e.g. the franchisee gets to use an already well-known, trusted brand and business format
- (a) **B1** develops the point, e.g. this reduces the risk of the business failing, since the format has already proven successful elsewhere
- (a) **B1** links clearly to an outcome, e.g. this makes it easier for the franchisee 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, which lowers the risk of failure and makes it easier to attract customers quickly.**
- (b) **B1** identifies a risk, e.g. the franchisee must pay an ongoing percentage of sales to Fresh Bites Coffee
- (b) **B1** develops the point, e.g. this reduces the amount of profit the franchisee keeps compared with running a fully independent business
- (b) **B1** links clearly to an outcome, e.g. this could make it harder for the franchisee to build up savings or reinvest in their own shop
- **(b) Answer: The franchisee must pay an ongoing percentage of sales to Fresh Bites Coffee, which reduces the profit they keep and makes it harder to build savings or reinvest.**

Question 14

- **Level 1** (1-3): Makes simple, undeveloped comments about converting to a Ltd, with little application to Deniz's situation and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for or against converting, applying it to Deniz's situation, but does not fully weigh both sides or reach a clearly justified recommendation.
- **Level 3** (7-9): Weighs arguments for and against converting, applies them clearly to Deniz's situation, and reaches a justified recommendation supported by the analysis given.
- **Indicative content:**
  - For converting: Deniz gains limited liability, protecting his personal assets if the business gets into debt.
  - For converting: it becomes easier to raise additional finance, e.g. by selling shares privately to family, friends or investors.
  - For converting: the business becomes a separate legal entity, which can appear more credible to suppliers and customers.
  - Against converting: it involves more administration and cost, e.g. registering with the relevant authority and filing annual accounts that competitors can see.
  - Against converting: Deniz loses some of the simplicity and privacy of being a sole trader.
  - Against converting: if Deniz Bikes is small and low-risk, the benefits of limited liability may not outweigh the extra cost and admin.
  - Judgement: the recommendation should depend on Deniz's level of debt/risk and his growth plans; if he plans to expand and take on more financial risk, converting is likely worthwhile, but if the business stays small, remaining a sole trader may be simpler and cheaper.