

Knowledge and Understanding

Ownership

Sole trader	One person owns and finances a business	
Partnership	2-20 partners own and finance a business	
Private limited company LTD	Shares are sold to family and friends	
Public limited company PLC	Shares are sold to anyone on the stock exchange	

Unlimited Liability

The owners of the business **ARE** responsible for the debt of the business. They may have to sell their personal possessions if the business gets into debt.

Limited Liability

The owners of the business **ARE NOT** responsible for the debt of the business. They **DO NOT** have to sell their personal possessions if the business gets into debt. They only lose their **INITIAL INVESTMENT**.

Analysis

Sole Trader

Advantages

- Owner **keeps ALL of the profit** THEREFORE can decide what to do with it.
- Owner makes **ALL of the decisions** THEREFORE can decide on the objectives for the business.

Disadvantages

- **Unlimited liability** THEREFORE the owners are responsible for the debt and may lose personal possessions which makes it more **RISKY**.
- May be **difficult to get a loan** THEREFORE more difficult to finance any short term (overdraft) and long term (loan) issues.

Partnership

Advantages

- **More ideas and skills** THEREFORE the business is likely to be more efficient.
- **Increased amount of start-up capital** THEREFORE easier to start the business off.

Disadvantages

- **Unlimited liability** THEREFORE the owners are responsible for the debt and may lose personal possessions which makes it more **RISKY**.
- There may be **arguments** between partners **BECAUSE** they have different views.

Private Limited Company LTD

Advantages

- Can **sell shares** to family and friends **THEREFORE** raise more capital to invest into the company.
- **Limited liability** **THEREFORE** shareholders are not responsible for the debt of the business, they only lose their initial investment which makes it less risky.

Disadvantages

- Dividends are paid to shareholders **THEREFORE** a percentage of the profits will have to be distributed.
- It **takes time and money** to become incorporated **THEREFORE** there is an additional cost of time and money

Public Limited Company PLC

Advantages

- Can **sell shares** on the stock exchange **THEREFORE** raise more capital to invest into the company.
- **Limited liability** **THEREFORE** shareholders are not responsible for the debt of the business, they only lose their initial investment which makes it less risky.

Disadvantages

- **Dividends** are paid to shareholders **THEREFORE** a percentage of the profits will have to be distributed.
- It **takes time and money** to become incorporated **THEREFORE** there is an additional cost of time and money

Evaluation

Reasons to change to an LTD or PLC:

- Ability to raise capital from selling shares
- Limited liability protects shareholders from company debt

In context:

If a business is growing and requires more capital to invest into the business=change to a LTD or PLC

If a business is growing, there is likely to be more risk therefore changing to a LTD or PLC=limited liability

Knowledge

1. What is a sole trader?
2. How many partners can be in a partnership?
3. What does LTD stand for?
4. Who does an LTD sell shares to?
5. What does PLC stand for?
6. Who does a PLC sell shares to?
7. What does unlimited liability mean?
8. Who has unlimited liability?
9. What does limited liability mean?
10. Who has limited liability?
11. What are shareholders?
12. What are shareholders paid once or twice a year?
13. What is a deed of partnership and who signs it?
14. Which two ownerships are incorporated?

Analysis

JFC is a chicken shop in the middle of Sheffield. James wants to expand and has an objective of opening an additional 3 chicken shops in the next 3 years. He is currently a sole trader, however requires investment to open the second shop in the next few months. He is considering becoming an LTD.

1. Analyse one advantage of James becoming an LTD. 3 marks.

Analysis

Joe wants to set up his own barbers shop in the centre of Bristol. He has savings of £1000, which will cover the first month's rent and buy some equipment he needs. His friend Mark has expressed an interest into going into business with Joe. He also has some savings he is willing to invest.

1. Analyse one advantage of Joe becoming a sole trader. 3 marks
2. Analyse one disadvantage of Joe becoming a partnership. 3 marks.
3. Recommend whether Joe should go as a sole trader or go into partnership with Mark. 3 marks