***Chapter 1 Examination preparation solutions***

1. Public limited and private listed companies both involve the establishment of a separate legal entity, which provides limited liability for their shareholders. Both types of companies can access further capital by choosing to sell more shares. Both company structures are complex and expensive to establish and they must adhere to government reporting and compliance requirements, which create a significant administrative burden. The difference is: private companies are restricted to 50 shareholders, and their shareholders cannot sell without permission from all shareholders in the company. As a result, private companies are more suited to family businesses. Whereas anyone can buy or sell shares in a public company, because they are listed on the Australian Stock Exchange. A publicly listed company has a much larger growth potential compared to a private limited company because there is no limit to the number of shareholders.
2. The term unlimited liability means that a business owner is responsible (or jointly responsible) for all of the losses or debts incurred by the business up to the value of their personal assets. The business structures that involve unlimited liability include sole trader and general partnership. Unlimited liability means that a business owner may lose all of their personal assets, for example their house, car etc., trying to repay debts owed by the business.
3. A mission statement communicates the purpose of the business or its reason for existing. Whereas the vision statement outlines the aspirations and values of the business. For example, a mission statement might be ‘to produce the highest quality home air conditioners’. The associated vision statement might be ‘to manufacture in a way that respects all stakeholders, including customers, employees and the environment’.
4. It is important for all businesses to have clearly articulated objectives. Objectives are essentially a set of priorities created by the owners / managers of the business. Businesses generate strategies to assist them to achieve their objectives. Together, objectives and strategies provide a sense of direction, goals for employees to focus their efforts towards. Without objectives, a business will not be able to determine effectively whether it is progressing. Objectives provide businesses with benchmarks that they can use to evaluate their progress.