

Business Management

Unit 3 – Chapter 1

Exam Questions

SOLUTIONS

Key knowledge point – Types of Businesses

2018 End of Year Exam

Question 1

a. Define the term 'partnership' as a type of business.

2 marks

A partnership is a type of business where 2 – 20 people combine their knowledge, time and capital to own and operate the business together. A partnership will have perpetuity as a result, and will continue to exist if one partner leaves, but will also have unlimited liability where all partners are responsible to repay any losses made by the business.

2017 End of Year Exam –

Question 1

a Define the term "Sole Trader". (1 mark)

A sole trader is a small business, owned and operated by a single proprietor, often with the primary objective of making a profit.

b Outline on reason why a business may choose to operate as a Partnership rather than as a Sole Trader (2 marks)

A partnership is a structure that can consist of 2 to 20 people and combines the expertise and capital of these people. They also have unlimited liability, however, a business may choose to operate under this structure as it means there's more perpetuity for the business, in that even if one person leaves or passes away, the life of the business will still continue. If this were the case with a sole trader the business would no longer operate.

2019 Insight - Question 1

a. Define 'private limited company' as a type of business and distinguish this type of business from a public listed company. 4 marks

A private limited company is a type of business that is owned by between two and fifty shareholders.

It differs from a public listed company as it is not listed on the Australian Securities Exchange (ASX), meaning its shares can't be freely traded.

Mark allocation: 4 marks

- 1 mark for identifying that a private limited company is 'owned'
- 1 mark for identifying that ownership comprises between two and fifty shareholders/people
- 2 marks for distinguishing between a private limited and a public listed company

2018 Insight - Question 1

c. Describe two features of a social enterprise and distinguish this form of business structure from a private limited company. 6 marks

A social enterprise is a business that produces goods and services for the market, but operates with the primary objective of fulfilling a social need. The business will want to make a profit because that profit will be reinvested back into the business so that it can continue to fulfil the social need.

Social enterprises are often run just like commercial businesses and, unlike charities, they do not rely on donations as their main source of income. It is possible that some social enterprises will seek funding from the government to support their social objective(s); however, social enterprises exist to benefit society, rather than owners. These types of enterprises have been established to offer opportunities for local unemployed people, to provide vocational training or lifelong learning opportunities for disadvantaged people in the community and to focus on waste minimisation and recycling projects.

Both social enterprises and private limited companies seek to make a profit; however, a private limited company will distribute some or all of its profit back to the shareholders of the business, as shareholders often require this profit share as their income.

Mark allocation: 6 marks

While it is expected that questions worth 6 marks will be marked globally, the nature of this question allows for students to break the question into specific parts that must be addressed.

- 4 marks for stating the features of a social enterprise
- 2 marks for distinguishing this business structure from the other structure identified only one distinction required as a minimum

2017 Insight - Question 1 (12 marks)

Glen Hardy and Aimee Callinan are in talks to establish a restaurant business in a local shopping centre complex. They are currently discussing the type of business ownership structure they will adopt.

a. Describe two features of a partnership as a form of business ownership. 4 marks

A partnership is a business owned by two or more people, with most partnerships having a maximum of 20 partners.

A partnership does not operate as a separate legal entity from the owners. Therefore, the owners are subject to unlimited liability, making them personally responsible for the debts of the business.

Each partner will contribute capital to the establishment of the business and will share in the profits of the business in proportion to the capital contributed. Hence the partners need not be equal and some partners may contribute capital only and not work in the business (known as a silent partner). With multiple owners, a partnership allows for shared decision-making, shared responsibility and a share of the workload in operating the business, making it easier for the business to start operating.

Mark allocation: 4 marks

- 2 marks for describing unlimited liability as a feature of a partnership
- 2 marks for describing shared responsibility and decision-making as a feature of a partnership

b. Compare two aspects of Glen and Aimee operating as a private limited company rather than a partnership. 4 marks

By operating as a private limited company, Glen and Aimee would benefit from limited liability. This means that, should the business have to fold due to financial problems, the two owners would be limited in their liability for the debts of the business to the amount of their investment in the business. If they were to operate as a partnership, they wouldn't have that protection and so would be liable for all the debts of the business, to the extent where their personal assets may be used to pay these debts.

Secondly, the tax paid by a company could be lower than the tax paid by the two owners as partners in the business. Company tax is a flat rate (a fixed percentage) whereas the partners in a partnership are subject to PAYG income tax, which is a progressive tax, and the percentage of tax incurred increases as the incomes of the partners increase (as the profits of the business increase).

Mark allocation: 4 marks

2 marks for each aspect.

- 1 mark for explaining how that aspect is derived by operating as a private limited company
- 1 mark for explaining how this aspect is different for a partnership