GCSE Business
Business Activity

Business Ownership

Public Sector

Definition: Organisations owned and controlled by the government.

Examples: NHS, Police, Education, Armed Forces

Aims & Objectives:
1. Provide a service
2. Improve accessibility to others
3. Avoid wasteful duplication of resources

Public sector	Private sector
Provides Public goods	Profit incentive to be efficient
Not affected by recession	Entrepreneurs create jobs where needed
Government jobs to protect environment	Less bureaucracy and scope for corruption
Helps reduce inequality in society	Doesen't require taxes to fund

Private Sector

Definition: Businesses run by private individuals

Examples: sole traders, partnerships, Ltd.'s and Plc.'s

Unlimited Liability

Definition: Means that the owners of a business are responsible for all of the debts of a business. Personal belongings may need to be given up to pay the debts of the business.

Sole Trader

Definition: Businesses owned by one person who has unlimited liability. Other people can be employed but there is only one owner.

Advantages:
- ☑ **Profit ➔** can keep all profit / no need to share
- ☑ **Making decisions ➔** without consulting others / will be speedy
- ☑ **Own boss ➔** free to choose / any example
- ☑ **Independence ➔** can work at own pace
- ☑ **Easy to set up ➔** few formalities ➔ therefore cheaper to set up
- ☑ **Have a job ➔** may not be able to find one elsewhere

Disadvantages:
- ☒ **Unlimited liability ➔** responsible for debts of the business
- ☒ **More responsibility ➔** relies heavily on their own ability to make decisions ➔ may work long hours and have limited holidays, as there is no one to cover them
- ☒ **Limited sources of resources**

Advice available to Start Up businesses

There are many places that people can go to when thinking of starting up a business. Examples include:

- **Business Wales**
  https://businesswales.gov.wales/
  This is a government run website-based information resource, for those individuals who are thinking of starting a business or wanting to grow their business and are seeking information, advice and guidance.

- **Commercial Banks**
  Many of the high street banks offer a dedicated service to small businesses and offer advice on how to construct a business plan and gain financial approval.

- **The Prince's Trust**
  https://www.princes-trust.org.uk/
  They work with 18 to 30-year-olds to turn big ideas into a business reality through their Enterprise programme and offer training and mentoring support to funding and resources.

- **British Chambers of Commerce**
  http://www.britishchambers.org.uk/
  They provide continued advice and support for local businesses. The BCC is a strong campaigning voice for the interests of business, delivers services that help business grow and is the premier private sector source of advice and support for international trade.

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Partnerships

Features:
- A business that is owned by between 2 and 20 people
- A business that is owned/run by at least 2 people
- An unincorporated business
- A business with unlimited liability

Advantages:
- ☑ **Raise more capital than sole traders ➔** individuals may not be able to raise sufficient capital alone
- ☑ **Extra skills / expertise in business ➔** may be able to specialise in aspects of business to provide a better service
- ☑ **More people to make decisions ➔** more considered approach to running the business ➔ more ideas which may lead to success
- ☑ **Shared responsibility and more flexibility ➔** reduce pressure on individuals such as duties / working hours ➔ able to take time off ➔ debts / losses can be shared
- ☑ **Easy to set up ➔** may involve no legal requirements ➔ Deed of Partnership possible

Disadvantages:
- ☒ **Partners may disagree ➔** time used up in discussion ➔ decisions take longer
- ☒ **Profits will be shared ➔** compared to a sole trade where the owner can keep all profits to themselves
- ☒ **Some partners may not work as hard as others ➔** may demoralise/ lead to arguments
- ☒ **Continuity ➔** also applies to sole trader ➔ but effect on surviving partners if one leaves
- ☒ **The owners will still have unlimited liability ➔** the partners will be held responsible for the debts of the business

Deed of Partnership

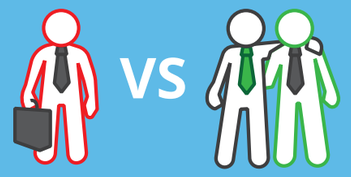
Definition: A legal document which is an agreement between partners that sets out the rules of the partnership, such as how profits will be divided and how the partnership will be valued if someone wants to leave.

It contains:
- Names of partners
- How profits are to be shared
- Suggests how it can help overcome partnership problems
- Shows proportion of ownership to determine distribution of profits
- Shows duties/responsibilities of partners indicating who does what
- Conditions for end of partnership to show distribution of assets
- Liability of partners in case of business debts

Suggest and explain two advantages to Sam and Mary of being in a business partnership

Suggestions comparing with sole trader might include:
- extra money to invest ➔ more people in business
- more skills/specialisation ➔ partners can do tasks for which best suited
- share workload ➔ share ideas ➔ two heads better than one
- can cover ➔ for holidays/illnesses etc.
- share risks/losses ➔ each can input own resources

Suggestions comparing with limited companies might include:
- business affairs kept private ➔ no need to publish accounts
- less chance of takeover ➔ no one can buy in without owner's permission



Why Move From A Sole Trader to a Partnership?

Arguments in favour of a partnership:
- ☑ **Potentially more capital ➔** ideal for example if the business needs to find new premises as the current one is becoming too small
- ☑ **A new partner brings new skills**
- ☑ **Possibility of specialisation**
- ☑ **More ideas/problems can be shared**
- ☑ **Share workload ➔** presents an opportunity to reduce working hours/take holidays
- ☑ **Avoids need to employ somebody ➔** a risk ➔ new staff need training ➔ not sure of their capabilities

Arguments against forming a partnership (staying as a sole trader):
- ☒ **Original sole trader will lose their independence**
- ☒ **Will need to share profits ➔** though possible to generate more
- ☒ **Could result in disagreements/quarrels.** Though many family businesses are successful others end in acrimony
- ☒ **Decision making potentially slower ➔** need to consult/less flexibility
- ☒ **By employing a new worker the original sole trader could retain their independence** and also reduce their own working hours
- ☒ **If after a short time the new partner finds they want to leave the partnership, then the original sole trader is back to square one**

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Limited Liability

Definition: When the owners of a business are not responsible for the debts of a business. Personal belongings will not need to be given up to pay the debts of the business. The owners however will lose the money they invested in the business if it fails.

Private Limited Companies (LTD)

Definition: Businesses which are owned by shareholders who have limited liability. Their shares are not available to others except with the agreement of other shareholders. They are generally recognised with Ltd after the business name.

Advantages:

- ☑ **Limited liability** ➔ liable only for money invested ➔ if business fails ➔ the owner will not lose personal possessions
- ☑ **Continuity** ➔ business will not end if one of the shareholders / owners leave
- ☑ **More capital** ➔ by selling shares ➔ may be easier to get bank loans
- ☑ **Specialised management** ➔ shareholder / owners / managers can do the work they are skilled at
- ☑ **Divorce of ownership and control possible** ➔ the owner may not spend all time managing
- ☑ **Invited shareholders** ➔ able to maintain control

Disadvantages:

- ☒ **Legal procedure in setting up takes time and costs money**
- ☒ **Having to disclose the accounts** ➔ financial information filed with the Registrar can be looked at by the public/competitors
- ☒ **Profits have to be shared with the other shareholders**
- ☒ **Slower decision-making** ➔ especially if all shareholders have to be consulted

Public Limited Companies [Plc]

Definition: Businesses which are owned by shareholders who have limited liability. Their shares are available to others by selling to the general public often on the Stock Exchange. They are generally recognised with plc after the business name.

Advantages:

- ☑ **Limited liability** ➔ liable only for money invested ➔ if business fails ➔ the owner will not lose personal possessions
- ☑ **Continuity** ➔ business will not end if one of the shareholders / owners leave
- ☑ **More capital** ➔ by selling shares on the stock exchange ➔ may be easier to get bank loans
- ☑ **Specialised management** ➔ shareholder/owners /managers can do the work they are skilled at
- ☑ **Divorce of ownership and control possible** ➔ the owner may not spend all time managing
- ☑ **Invited shareholders** ➔ able to maintain control

Disadvantages:

- ☒ **Cost of setting up** ➔ with documents ➔ must have £50,000 share capital
- ☒ **Need to share profits** ➔ with shareholders
- ☒ **Affairs not kept private** ➔ need to publish accounts ➔ more expensive to produce
- ☒ **May lose control/may need to share decision making** ➔ if another shareholder gains majority control
- ☒ **Limited capital available** ➔ unable to use stock market/ reduced investors available
- ☒ **Restriction on share ownership** ➔ shareholders have to agree on sale of shares

Dividend

Definition: The term for the share of the profits of limited companies and Co-operatives.

Social Enterprises / Co-operatives

Social Enterprise: Businesses which operate for the benefit of the community, or its workers, or as a charity.

Co-operative: A business organisation that is owned by its customers / workers / producers / members ➔ they have a common purpose or aim ➔ they receive dividends ➔ they share /are consulted in decision-making

Examples: Big Issue, Eden Project, Co-operative, Devine Chocolate

Advantages:

- ☑ Community interested company
- ☑ Positive Public Relations
- ☑ Benefits society

Charities

Definition: Organisations set up to provide help and raise money for those disadvantaged in society.

They are not established to make profits but they can earn surpluses.

Charities can often have a narrow focus (single issue) in what they are trying to achieve.

Charities raise the majority of their finances through voluntary donations, but more and more charities now operate retail outlets as well.