

Cambridge AS & A Level · Business 9609 · Notes

Business structure

AS

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What you need to know

By the end of this topic you should be able to:

1. **Describe the four economic sectors:** primary, secondary, tertiary and quaternary, and say which sector a business belongs to.
2. **Tell the public sector from the private sector**, and give examples of organisations in each.
3. **Explain why the relative importance of the sectors changes** over time, and what follows from those changes for businesses, workers and the country.
4. **Describe the main features of each type of business ownership:** sole traders, partnerships, private limited companies, public limited companies, franchises, co-operatives, joint ventures and social enterprises.
5. **Judge which type of ownership suits a particular business**, and why.
6. **Explain unlimited and limited liability** and why the difference matters to owners, lenders and investors.
7. **Explain the advantages and disadvantages of changing from one type of ownership to another**, for example a sole trader taking on partners, or a private limited company becoming a public limited company.

Local, national, international and multinational businesses, and entrepreneurs, are in the earlier topic, enterprise. How a business is organised inside (hierarchies, spans of control) is a different topic, organisational structure.

Understand it

The four economic sectors

Every business can be placed in a **sector** by what it does with resources:

Sector	What businesses do	Examples
Primary	Extract or grow natural resources (raw materials)	Farming, fishing, forestry, mining, oil drilling

Sector	What businesses do	Examples
Secondary	Manufacture or process raw materials into goods; also construction	A car factory, a bakery making bread, a builder
Tertiary	Provide services to consumers and other businesses	Shops, banks, transport, hotels, hairdressers
Quaternary	Provide knowledge-based services : information, research, ideas	Research and development, IT and data services, consultancy, market research agencies

The sectors are linked in a **chain of production**. A cotton farm (primary) sells cotton to a clothing factory (secondary), which sells shirts to a shop (tertiary), helped by a data company that analyses what customers buy (quaternary). One business can be in more than one sector: a farmer who grows fruit and also sells it at a market is in both the primary and the tertiary sector.

Public sector and private sector

- The **private sector** is the part of the economy **owned by individuals or private shareholders**. Most private-sector businesses aim to make a profit. Every type of ownership in this topic belongs to the private sector.
- The **public sector** is the part **owned or controlled by central or local government**: state schools and hospitals, the armed forces, and **public corporations** (state-owned businesses, such as a national railway or a state electricity company). It is paid for mostly from taxes, and its main aim is a service for citizens rather than profit.

A **public limited company is in the private sector**. "Public" means its shares can be bought by the public, not that the government owns it.

Why some organisations are in the public sector:

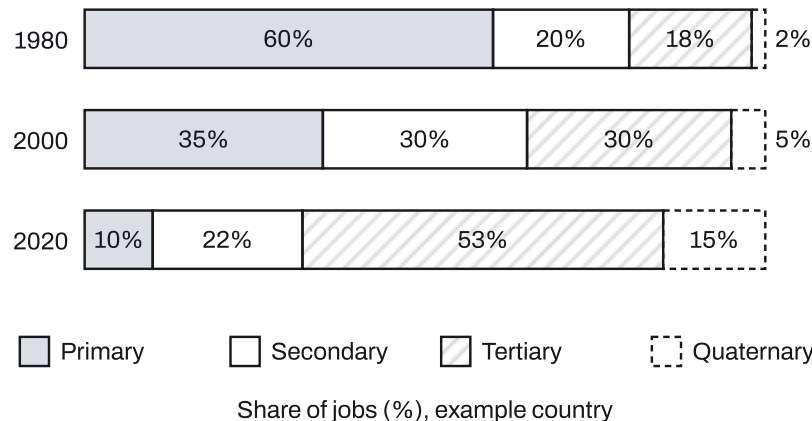
- to provide **essential services** that everyone should have, such as health care and education, whatever they can pay;
- to provide **public goods** the private sector would not supply because it cannot charge users, such as street lighting, defence and flood defences;
- to run **natural monopolies** (water, electricity networks), so that one supplier cannot exploit customers with high prices;
- to protect **strategic industries** and jobs, or to keep a vital service running in areas where it would make a loss.

Drawbacks: with no profit motive and little competition, public-sector organisations can be **inefficient** and slow to change, and they depend on government budgets.

Why the importance of the sectors changes

As a country develops, the share of output and jobs in each sector moves in a typical pattern:

- **Low-income countries:** most people work in the **primary** sector (farming, mining).
- **Industrialising:** the **secondary** sector grows (factories), and people move from farms to towns.
- **High-income countries:** the **tertiary** sector employs most people, and the **quaternary** sector grows fastest. Manufacturing's share falls (**deindustrialisation**).



Reasons for the changes:

- **Rising incomes:** once people can afford food and goods, they spend extra income on services (holidays, eating out, health, entertainment), so demand for the tertiary sector grows.
- **Technology and productivity:** machines let far fewer workers produce the same food or goods, so jobs leave farming and then manufacturing.
- **Globalisation:** manufacturing moves to countries with lower labour costs, and the higher-income country imports goods instead.
- **Education and skills:** a better-educated workforce makes knowledge industries (research, software, finance) possible.
- **Depletion of resources:** mines and fishing grounds run out, and the primary sector shrinks.

Consequences:

- **Structural unemployment:** workers in declining industries (miners, factory workers) lose jobs, and their skills may not suit the growing sectors; they need retraining. Whole regions built on one industry can decline.
- **For businesses:** new opportunities in services and knowledge industries; firms in declining sectors must cut costs, move abroad or change what they do; a shortage of skilled labour pushes up wages in the growing sectors.
- **For the country:** higher incomes and living standards, but more imports of manufactured goods, and the government may need to spend on retraining and regional support.

Unlimited and limited liability

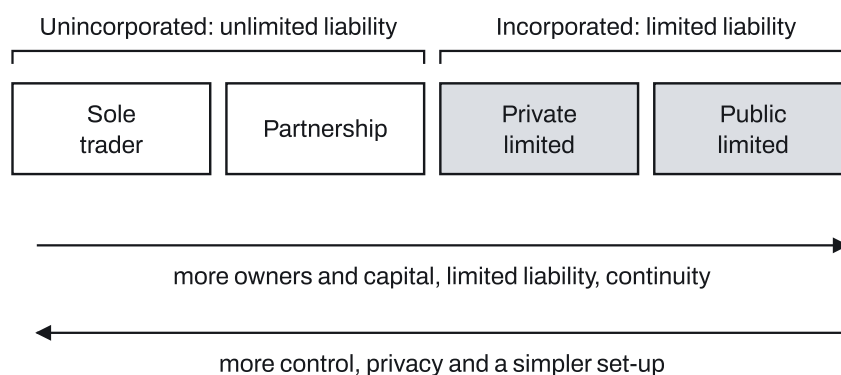
Liability is who has to pay a business's debts if it cannot.

- **Unlimited liability:** the owners are **personally responsible for all the business's debts**. If the business cannot pay, the owners can lose their **personal possessions** (house, car, savings). Sole traders and (most) partnerships have unlimited liability, because the business and the owner are **legally the same person**: the business is **unincorporated**.
- **Limited liability:** the owners (**shareholders**) can lose **only the money they invested** in shares, never their personal possessions. Companies have limited liability because a company is **incorporated**: it has a **separate legal identity** from its owners. The company can own property, sign contracts, sue and be sued in its own name, and it carries on if a shareholder dies or sells (**continuity**).

Why it matters:

- Limited liability **encourages people to invest**, because their risk has a cap: a shareholder who pays 6000 dollars for shares can never lose more than 6000 dollars. This lets companies raise large amounts of capital from many investors.
- Unlimited liability makes owners **careful**, and it gives lenders and suppliers the owner's personal assets as security, so a small unincorporated business may find it easier to get credit than its size suggests.
- Limited liability means **creditors carry more risk**, so banks often ask the directors of a small company for a personal guarantee, and companies must register and publish information about themselves.

Types of business ownership



Sole trader: a business **owned by one person**, who may still employ staff.

- **Advantages:** easy and cheap to set up with little paperwork; the owner **keeps all the profit; full control** and quick decisions with no one to consult; chooses own hours; accounts stay private.
- **Disadvantages:** **unlimited liability**; capital is limited to the owner's savings and what they can borrow, so growth is hard; the owner carries all the risk and workload, with no one to share ideas or cover illness; **no continuity**: the business ends if the owner dies or stops.

Partnership: a business **owned by two or more people** who share the capital, the decisions and the profit. Partners usually sign a **deed of partnership**, a legal agreement saying how much each put in, how profits are shared and what happens if a partner leaves.

- *Advantages:* **more capital** than one person has; **shared skills** (one partner good at sales, another at finance) and shared workload; still fairly easy to set up, and accounts stay private.
- *Disadvantages:* **unlimited liability**, and partners are **bound by each other's decisions**: if one partner runs up a debt, all are liable for it; **profits are shared**; **disagreements** slow decisions and can break up the business; no shares can be sold to raise capital; **no continuity**: the partnership ends if a partner leaves or dies, unless the deed says otherwise.

Private limited company (Ltd): an incorporated business owned by **shareholders**, whose shares **are not sold to the general public** or on a stock exchange; they are sold privately (often to family, friends or employees), and existing shareholders usually must agree to any sale.

- *Advantages:* **limited liability**; **separate legal identity and continuity**; can raise more capital by selling shares privately; the original owners **keep control** because they choose who can buy shares; no risk of a hostile takeover.
- *Disadvantages:* legal costs and paperwork to set up (registration documents); accounts must be filed and **made available** to the public, so less privacy than a sole trader; capital is still limited because shares cannot be sold to the public; shares are hard for a shareholder to sell.

Public limited company (plc): an incorporated business whose shares **can be bought by anyone**, usually through a **stock exchange**.

- *Advantages:* can raise **very large amounts of capital** by selling shares to the public (a **flotation**), to pay for expansion; **limited liability** and **continuity**; status and publicity; banks lend more readily and on better terms; shareholders can easily sell their shares.
- *Disadvantages:* **expensive** to set up and float (legal, advertising and stock exchange costs) and needs a large minimum share capital; **accounts must be published**, so rivals can see them; **risk of a hostile takeover**, because anyone can buy enough shares to gain control; the original owners can **lose control**; **ownership is separated from control**: shareholders own it but directors and managers run it, and their aims can differ; pressure from shareholders for **short-term profits** and dividends.

Franchise: a **legal agreement** in which one business (the **franchisor**) lets another (the **franchisee**) use its **name, brand, logo and way of doing business** in return for an initial **fee** and a **royalty** (a share of sales or profit).

- *For the franchisee:* **lower risk**, because the brand and product are already known and proven; training, advice and help with suppliers; national advertising by the franchisor; bulk-buying through the franchisor. But: the fee and royalties cut profit; little freedom to choose products, prices or suppliers; the franchisor's bad publicity hurts every outlet; the contract may not be renewed.
- *For the franchisor:* fast growth using the franchisees' capital and effort, with less risk. But: it shares profit and has less day-to-day control over quality.

Co-operative: a business **owned and run by its members**, who share the profits, usually with **one member, one vote** however much each put in. Members can be the **workers** (a worker co-operative), the **customers** (a retail co-operative) or **producers** (farmers who join to sell their crops together).

- *Advantages:* members are **motivated**, because they own the business and share its profit; democratic, shared decisions; **producer co-operatives** gain buying and selling power by acting together.
- *Disadvantages:* decisions by vote can be **slow** and may follow what is popular rather than what is best; members may lack **management skills**; raising capital is hard because outside investors can't buy control; members' income from a share of profit is **unpredictable**; conflict between members.

Joint venture: two or more businesses **agree to work together on a particular project**, sharing the capital, risks, costs and profits. They often set up a separate business for it, and each partner business stays independent.

- *Advantages:* **shared costs and risks** of a large project; **shared expertise** (one business's technology with another's local knowledge); easier entry to a new market, often abroad.
- *Disadvantages:* **profits are shared**; partners may **disagree** over aims, culture or management; one partner's mistake damages both; it is hard to end if it fails.

Social enterprise: a business whose **main objectives are social and environmental**, which **reinvests most of its profit** in its social purpose rather than paying it out to owners. It trades like any business (it must cover its costs and make a surplus to survive), and often uses the **triple bottom line**: success is judged on profit, people (social) and planet (environment). A social enterprise can use any legal form; many are companies.

- *Advantages to the business:* a **strong reputation** and a unique selling point, so it **attracts customers** who share its values; **easier to recruit and keep staff**, who are motivated by the purpose; access to **government grants** and support; attracts **ethical investors**; profits reinvested fund growth.
- *Disadvantages:* social aims can **raise costs** (paying fair prices, employing people who need training), so it is harder to compete on price; profit-seeking investors are less interested; conflict between social aims and survival.

Choosing the right type of ownership

No type is best for every business. Ask:

- **How much capital is needed?** A market stall needs little (sole trader); a factory or airline needs a lot (company).
- **How risky is it?** Riskier ventures suit limited liability.
- **How much control do the owners want to keep?** Selling shares to outsiders, especially to the public, means sharing control.
- **What are the aims?** Social aims suit a social enterprise or a co-operative; quick growth with a proven idea may suit a franchise.
- **Size and stage of the business.** Most businesses start as sole traders or partnerships, become private limited companies as they grow, and only a few become plcs.
- **Privacy and cost:** unincorporated businesses keep their accounts private and are cheap to run.

Changing from one type of ownership to another

Sole trader → partnership

- *Gains*: more capital from the new partner; extra skills and someone to share the workload and cover absence; more ideas.
- *Costs*: **loses sole control** and must agree decisions, which takes time; **profit is shared**; still **unlimited liability**, now for the partner's decisions too; risk of conflict; the cost of a deed of partnership; the business ends if a partner leaves.

Sole trader or partnership → private limited company

- *Gains*: **limited liability** protects the owners' homes and savings; continuity; can sell shares privately to raise capital; may look more established to customers and lenders.
- *Costs*: legal costs and paperwork to incorporate; accounts must be filed and made available; selling shares shares out ownership and profit.

Private limited company → public limited company

- *Gains*: access to **far more capital** by selling shares on the stock exchange, to fund expansion without more debt; existing shareholders can sell their shares easily; higher profile.
- *Costs*: **expensive flotation**; the **owners may lose control** as new shares dilute their stake, and the company is open to a **hostile takeover**; accounts must be **published**; shareholders may push for short-term profit rather than long-term plans.

A worked number: Kwame owns 52% of a private limited company's 400 000 shares, so he holds $0.52 \times 400\,000 = 208\,000$ shares and controls the company. If it becomes a plc and sells 600 000 new shares to the public, there are $400\,000 + 600\,000 = 1\,000\,000$ shares and Kwame's stake falls to $208\,000 \div 1\,000\,000 = 20.8\%$: he no longer has a majority.

Key facts and formulas

There is no formula list for this subject in the exam. "Learn it" means you must remember it.

Formula or fact	Status
Primary: extracts natural resources; secondary: manufactures and processes; tertiary: services; quaternary: knowledge-based services	Learn it
Public sector: owned or controlled by government; private sector: owned by individuals or private shareholders	Learn it
Unlimited liability: owners personally liable for all business debts (sole traders, partnerships)	Learn it
Limited liability: shareholders can lose only what they invested (companies)	Learn it

Formula or fact	Status
Incorporated: separate legal identity and continuity (Ltd, plc)	Learn it
Ltd: shares sold privately; plc: shares sold to the public, usually on a stock exchange, and accounts published	Learn it
Shareholder's stake = $\text{shares owned} \div \text{total shares} \times 100$	Learn it
Partner's share of profit = $\text{profit} \times \text{partner's part of the agreed ratio}$	Learn it

How to do it

We have tagged 22 questions on this topic (2021–2025), across Paper 1 and Paper 2. Eight of them have parts of more than one type, so the counts add up to 30.

Question type	Questions
Explain a business-structure term in the case context	9
Define a type of ownership or sector	7
Explain advantages or disadvantages of one type of ownership	6
Evaluate or recommend a choice or change of ownership	3
Analyse the advantages of one type of ownership	2
Explain or analyse the problems of changing ownership	2
Explain why organisations operate in the public sector	1

The marks are for four skills: **K** (knowledge: a correct point or definition), **App** (application: using the business in the question or a real example), **An** (analysis: a chain of consequences) and **Eval** (evaluation: a supported judgement). Below, (K), (App), (An) and (Eval) after a sentence show the mark it earns.

1. Explain a business-structure term in the case context (9 questions)

"Explain the term sole trader / partnership / public limited company / primary sector" [3] (Paper 2, part (a)(ii)):

- The core idea first (K):** sole trader = **one person owns** the business; partnership = **two or more owners**; plc = a limited company whose shares **can be sold to the public**; primary sector = businesses that **extract or grow natural resources**.
- One or two further features** that set it apart from the other types (App): unlimited or limited liability, unincorporated or incorporated, continuity, deed of partnership, who keeps the profit, no shares.

3. **Context** (App): the business in the case or another example: "two friends opening a bicycle repair shop; Ana and Ben would sign a deed of partnership, and if the shop could not pay a supplier, either of them could be made to pay from their own savings".

Variations you will meet:

- **Public limited company**: the marks come in order. First a feature of **any** limited company (limited liability, shareholders, separate legal identity), then what makes it **public** (shares sold to the general public through a stock exchange, accounts published), and only then an example. Saying "owned by the government" scores nothing.
- **Sole trader**: it is about **legal ownership** by one person, not "one person working alone"; it may employ staff. Show how it differs from other types (unlimited liability, no shares).
- **Primary sector**: natural resources or raw materials (K), the process (extraction, farming, fishing, mining) and an example product or business from the case (fruit, oil, coal).
- **Multinational or national business** (these are explained in the enterprise topic): a **national** business operates only in **one** country; a **multinational** has **operations or capital in more than one country**, not just export sales.
- **Co-operative or shareholders**: owned by members with a vote each; shareholders are the **owners** of a company (not stakeholders in general).

2. Define a type of ownership or sector (7 questions)

[2] (Paper 1 part (a), and the older Paper 2 (a)(i)): 2 marks for a precise definition, 1 for a partial one.

Term	Full definition (2)	Partial (1)
Partnership	A business owned by two or more people who share its capital, management and profits	"A business with shared management"
Private limited company	An incorporated business with limited liability whose shares are not sold to the general public	"A company with shareholders"
Franchise	A legal agreement letting one business trade using another's name, brand and way of doing business, for a fee and royalties	"Using another business's logo"
Co-operative	A business owned and run by its members, who share decisions (one member, one vote) and profits	"A business that works together"
Social enterprise	A business with mainly social or environmental objectives that reinvests its profit for that purpose rather than paying it to owners	"A business with a triple bottom line"
Public sector	Organisations owned or controlled by central or local government	"Organisations funded by the government"

3. Explain advantages or disadvantages of one type of ownership (6 questions)

"Explain one advantage to a business of being a social enterprise" [3] (Paper 1 part (b)):

1. **Name one advantage** (K): attracts customers, easier recruitment and retention, government grants, ethical investors, reinvested profit for growth.
2. **Develop it** in two linked steps (App, App): "Customers who share its values choose it over rivals (App), so demand rises and it can charge a little more without losing sales (App)."

The advantage must be to the **business**, not to society: "it helps the community" scores nothing here.

Variations you will meet:

- **Older Paper 1 papers ask for "two advantages" or "two limitations" [3]:** two points clearly explained earn 3; a list of two earns 1. Explain both, briefly.
- **Paper 2, "one disadvantage to [the case's] employees of it being a co-operative" [3]:** the point (K) plus **two references to the case** (App, App). For example: profit-share income is unpredictable; decisions by members' vote are slow; members may lack management skills; conflict over a big decision in the case.
- Typical points: partnership limitations (unlimited liability, bound by partners' decisions, shared profit, conflict, no continuity); franchise advantages to the buyer (known brand, so lower risk; training and support); joint venture advantages (shared costs and risk, shared expertise, easier entry to a new market).

4. Evaluate or recommend a choice or change of ownership (3 questions)

"Evaluate whether [business] should change from a private limited company to a public limited company" [12], "should [sole trader] enter a partnership with [person]" (Paper 2), or "Discuss whether a franchise is the best way for a new entrepreneur to start a business" (Paper 1). Marks: **2 K, 2 App, 2 An, 6 Eval**.

1. **K:** what the two forms are and how they differ (shares on a stock exchange vs sold privately, published accounts, takeover risk, liability).
2. **App:** use the case data all the way through: who owns what share, the plans that need money, how the business is financed now.
3. **An:** one developed chain **for** the change ("as a plc it could raise far more capital from new shareholders, so it could pay for its new products without borrowing, so...") and one **against** (loss of control, takeover risk, cost, short-termism).
4. **Judgement (Eval):** answer the question directly ("MLC should stay a private limited company for now, because...") and say **what it depends on:** how much finance is needed and whether other sources exist, how much control the owners want to keep, the objectives, the state of the market. Small judgements as you go, then a final one in context.

For a partnership decision, weigh more capital and skills against shared profit, conflict and unlimited liability for the partner's actions. For a franchise, weigh the proven brand, training and support against the fees, royalties and loss of freedom.

5. Analyse the advantages of one type of ownership (2 questions)

"Analyse two benefits to [owner] of operating as a sole trader" [8] (Paper 2) or "Analyse the advantages of a plc as a legal structure" [8] (Paper 1). For each point, 1 K + 1 App + 2 An:

1. **Benefit** (K): keeps all the profit; makes all decisions; low start-up cost; chooses own hours; privacy. (Plc: raises large share capital, limited liability, continuity, credit-worthiness.)
2. **App**: a fact from the case ("he set up the business with his own redundancy money").
3. **Chain** (An, An): "he does not need to consult anyone, so he can react before the national supermarket does, so he keeps customers and his revenue grows".

You don't need to define a sole trader first; the knowledge marks are for the **benefits**. For a plc, pick advantages that a private limited company does **not** have: limited liability is true of both, so it is a weaker choice than access to public share capital.

6. Explain or analyse the problems of changing ownership (2 questions)

"Analyse the disadvantages to a sole trader of changing to a partnership" [8] or "Explain the problems..." [5]: take two (or for [5], two or three) problems and develop each into consequences:

1. **Problem** (K): loss of sole control; slower shared decisions; shared profit; liable for partners' actions; conflict; cost of the deed; the business ends if a partner leaves.
2. **Chain** (An, An): "decisions now need the partner's agreement, so a chance to buy cheap stock may be missed while they argue, so costs are higher than they would have been".

Write about **disadvantages only** if that is what is asked: examiners report answers drifting into benefits, which earn nothing.

7. Explain why organisations operate in the public sector (1 question)

"Explain two reasons why some organisations operate in the public sector" [3]: two reasons, each explained: to provide essential services everyone needs whatever they can pay (health, education); to provide services the private sector would not supply because they can't make a profit (street lighting, rural transport); to stop a natural monopoly exploiting customers. Two clearly explained reasons earn 3.

Worked examples

Example 1

(a) Define the term franchise. [2]

(b) Explain one limitation of a partnership as a form of business ownership. [3]

(a) A franchise is a legal agreement in which one business allows another to trade using its name, brand and way of doing business (1), in return for a fee and a share of sales (1).

(b) A partnership has unlimited liability (K). The partners are personally responsible for all the business's debts, and each partner is bound by the others' decisions (App), so if one partner signs a contract the business cannot pay, the others may have to sell their own possessions to pay it (App).

Example 2

Leila is a sole trader who runs a catering business. She plans to open a café and needs 60 000 dollars, but she has only 20 000 dollars. Her friend Omar, an experienced chef, has offered to invest 40 000 dollars and become her partner, with profits shared in the same ratio as the capital each puts in. Leila's catering business made a profit of 45 000 dollars last year.

(a) Calculate Leila's share of a profit of 45 000 dollars after the partnership is formed. [2]

(b) Analyse two disadvantages to Leila of changing from a sole trader to a partnership. [8]

(a) The capital ratio is $20\,000 : 40\,000 = 1 : 2$, so Leila gets $\frac{1}{3}$ (1). Her share is $45\,000 \times \frac{1}{3} = 15\,000$ dollars (1).

(b) **Disadvantage 1: shared profit.** In a partnership the profit is shared between the partners (K). Omar puts in twice as much capital as Leila, so he takes two-thirds of the profit (App). If the café makes the same 45 000 dollars as last year, Leila's income falls from 45 000 to 15 000 dollars (An), so unless the café makes much more profit than the catering business did, she is worse off for her extra work (An).

Disadvantage 2: loss of control. As a sole trader Leila made every decision herself; now she must agree them with a partner (K). Omar is the experienced chef and the bigger investor, so he may want to decide the menu and prices (App). Disagreements slow decisions down, for example over which suppliers to use (An), so the café may react slowly to customers, and if the conflict grows the partnership could break up, ending the business (An).

Each disadvantage earns $K + App + 2\,An$, so $4 + 4 = 8$.

Example 3

Kwame's Kitchens (KK) is a private limited company that makes kitchen furniture. It has 400 000 shares, and Kwame, the founder, owns 52% of them. KK wants to build a second factory costing 20 million dollars. It already has large bank loans. The directors are considering changing KK to a public limited company and selling 600 000 new shares to the public.

Evaluate whether KK should change from a private limited company to a public limited company. [12]

Knowledge. In a private limited company shares are sold only privately, with the shareholders' agreement; in a public limited company anyone can buy shares through a stock exchange, and the company must publish its accounts (K). Both have limited liability (K).

For the change. KK needs 20 million dollars for the factory but already has large bank loans (App), so more borrowing would raise its interest costs and its risk. Selling shares to the public raises the money without any interest or repayments (An), so KK can build the factory and grow its sales while keeping its debt under control (An).

Against the change. Kwame now holds $0.52 \times 400\,000 = 208\,000$ shares. After 600 000 new shares there will be 1 000 000 shares, so his stake falls to 20.8% (App). He loses his majority, so other shareholders could outvote him on plans for the business, and anyone could build up enough shares for a hostile takeover, so the company Kwame founded could end up run by people with different aims (An). Floating is also expensive, and the accounts would be published, so rivals could see KK's costs and profit margins.

Judgement. KK should become a plc only if the second factory is essential to its objectives and no other source of finance is available, because a public share issue can raise 20 million dollars without adding to its already high debt, which a few private investors are unlikely to manage (Eval). It depends on how much Kwame values control: if he wants to keep running KK his own way, a smaller step, such as selling some shares privately to a few investors (which raises less money) or building the factory in stages, may be better (Eval). It also depends on demand: if the market for kitchens is growing strongly, the extra capacity could pay back quickly and justify the change (Eval). On balance, with its borrowing already high and a large project to fund, becoming a plc is the stronger option for KK's growth, even though Kwame gives up control (Eval).

The marks: 2 K, 2 App, 2 An (developed chains for and against), and 6 Eval for a supported judgement in context that says what it depends on.

Common mistakes

- **Thinking a public limited company is owned by the government.** A plc is in the **private** sector. Examiners report this every few years, and some answers even claim a plc gets government funding.
- **Mixing up limited and unlimited liability.** Sole traders and partnerships have **unlimited** liability; many candidates say a sole trader has limited liability.
- **Advantages a private limited company also has.** When asked about the advantages of a **plc**, limited liability is a feature of every company; the plc's real advantage is selling shares to the public.
- **A sole trader is "one person working alone".** It is one person who **owns** the business; it can have employees. Show how it differs from the other types (unlimited liability, no shares).
- **Advantages to society instead of the business.** "Explain one advantage to a business of being a social enterprise" wants the benefit **to the business** (customers, staff, grants, investors), not what it does for the community.
- **Confusing sectors.** The primary sector extracts and grows; examiners report candidates describing the secondary sector instead. A fruit farm is primary; selling the fruit at a market is tertiary.
- **Confusing shareholders and stakeholders.** Shareholders own a company; stakeholders are anyone affected by it.
- **Writing about benefits when disadvantages are asked** (and the other way round). It earns nothing.
- **Defining when it isn't asked.** In "Analyse two benefits to Frank of being a sole trader", the knowledge marks are for the **benefits**, so a definition of a sole trader wastes time.

- **No decision in a "should it...?" question.** Many answers analyse both sides well, then don't recommend. The evaluation marks need a clear, justified recommendation in context.
- **Unrealistic changes of ownership.** Becoming a plc is not a way to fix a short-term cash problem: the flotation itself costs a lot and takes time.

How to get the marks

- **Command words.** *Identify*: name it. *Define*: the exact meaning, with the key features. *Explain*: a point, then why or how, with context. *Analyse*: points developed into chains of cause and effect. *Evaluate* or *Discuss*: both sides, then a supported judgement.
- **"Explain the term..." [3]**: the core idea earns the first mark; the other two come from features that set it apart (liability, shares, continuity, legal identity) and from the case. Start with the knowledge, then apply it.
- **Paper 1 [3] "explain one advantage"**: one point identified, then developed in two steps. If two are asked, explain both; a list earns 1.
- **8-mark analyse questions**: exactly two points, each with K, App and a chain of at least two links ending in an effect on the business (revenue, costs, profit, control, survival). A two-sided point ("...although this is only true while he stays healthy") also counts as developed analysis.
- **12-mark evaluate questions**: 2 K, 2 App, 2 An, 6 Eval. One good chain each way is enough analysis; spend the rest on weighing. Answer the question directly, use the case's numbers (who owns what share, how much finance is needed), and say what the decision depends on.
- **Context (App)** means using the business's details to support a point, not copying them out. In Paper 2, every part except the definitions needs the case.
- **Calculations** (shareholdings, profit shares): show the working; the method earns marks even if the arithmetic slips.

Quick check

1. Define the term co-operative. [2]
2. Name the sector of each business: (a) an oil drilling company, (b) a car factory, (c) a bank, (d) a company that researches new medicines for drug makers.
3. Two partners share profits in the ratio 3 : 2. Their partnership makes a profit of 45 000 dollars. How much does each receive?
4. A business closes with debts of 80 000 dollars and only 50 000 dollars of business assets. Explain what happens to the 30 000 dollars that is left unpaid if it was (a) a partnership, (b) a private limited company.
5. Explain one reason why a sole trader might change to a private limited company. [3]

Answers

1. A business owned and run by its members (1), who share its decisions, usually one member one vote, and its profits (1).
2. (a) primary; (b) secondary; (c) tertiary; (d) quaternary.
3. Total parts $3 + 2 = 5$. The first partner receives $45\,000 \times \frac{3}{5} = 27\,000$ dollars and the second $45\,000 \times \frac{2}{5} = 18\,000$ dollars.
4. Unpaid debt $= 80\,000 - 50\,000 = 30\,000$ dollars. (a) A partnership has unlimited liability, so the partners must pay the 30 000 dollars from their personal possessions. (b) A company has limited liability, so the shareholders lose only what they invested in shares; the creditors are left with the 30 000 dollars unpaid.
5. To gain limited liability (K). As a sole trader the owner's house and savings are at risk if the business fails (App), so as it grows and takes on bigger contracts and loans, becoming a company protects her personal assets and lets her raise capital by selling shares to family or investors (App).

Past questions to try

- **9609/13/M/J/22 Q5**: the disadvantages of a sole trader taking on a partner, then whether a franchise is the best way to start.
- **9609/13/O/N/22 Q2**: defining the public sector and why organisations operate in it.
- **9609/22/O/N/22 Q1**: part (a)(ii), explaining the term public limited company.
- **9609/11/M/J/22 Q1**: defining social enterprise and two advantages of being one.