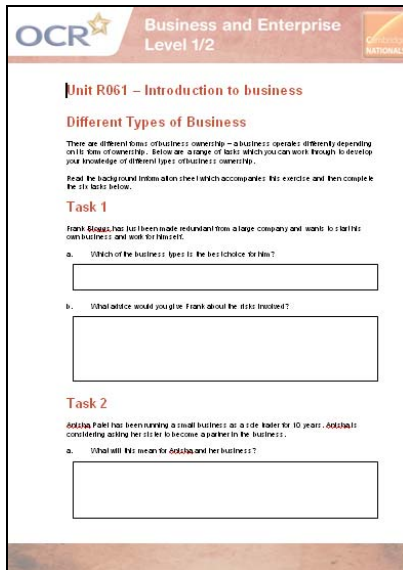


## Unit R061 – Introduction to business

### Different Types of Business

#### *Instructions and answers for Teachers*

*These instructions should accompany the OCR resource 'Different Types of Business', which supports Cambridge Nationals in Business and Enterprise Level 1/2 Unit R061 – Introduction to business.*



The screenshot shows the OCR resource 'Different Types of Business' worksheet. It includes the OCR logo, the title 'Unit R061 – Introduction to business', and the sub-title 'Different Types of Business'. The text explains that there are different forms of business ownership and provides a range of tasks for learners to work through. The tasks are:

- Task 1:** Frank Gloger has just been made redundant from a large company and wants to start his own business. Learners are asked to identify the best choice for him and provide advice on the risks involved.
- Task 2:** Adisha Patel has been running a small business as a side trade for 10 years and is considering asking her sister to become a partner. Learners are asked to explain what this means for Adisha and her business.

**Associated Files:**  
Different Types of Business

**Expected Duration:**  
Reading time – 10-15  
minutes

Task completion – 30-45  
minutes

This resource comprises of six tasks.

There are different forms of business ownership – businesses operate differently depending on their form of ownership. Below are a range of tasks that learners can work through to develop their knowledge of different types of business ownership.

Learners should read the background information sheet that accompanies this exercise and then answer the questions in the six tasks below.

Task 5 is also available as an on screen gap fill exercise.

## Task 1

Frank Bloggs has just been made redundant from a large company and wants to start his own business and work for himself.

- a. Which of the business types is the best choice for him?

Sole trader – minimal start-up costs and he only has himself to worry about.

- b. What advice would you give Frank about the risks involved?

If the business fails he will lose all his investment and also be personally liable for any debts accrued by the business. He needs to consider this before he starts trading.

## Task 2

Anisha Patel has been running a small business as a sole trader for 10 years. Anisha is considering asking her sister to become a partner in the business.

- a. What will this mean for Anisha and her business?

Anisha will no longer be a sole trader. All decisions will have to be made by both partners giving her less of a say in her own business.

There may also be considerations around the need to share profit with someone else and also the joint responsibility for legal and financial risks.

- b. If her business grows and becomes more successful what other business ownership options does Anisha have?

Anisha's business could become a limited company which means she will only lose her investment in the business if it folds, but she will have less control as the decisions may be made by the shareholders.

### Task 3

Virgin Group Ltd employs 50,000 people across 34 different countries, but is still a private limited company (Ltd). How does one man, Richard Branson, manage to keep control of his company?

It is obviously impossible for one man to make all of the decisions that are needed within the Virgin Group Ltd and therefore Richard Branson largely delegates daily decision making to managers within the business. However, he maintains overall control by retaining ownership of the majority of the shares.

### Task 4

A Public Limited Company (plc) is a business which is owned by shareholders who have bought shares on the stock market.

If the business does not create the expected amount of profit how does this affect the shares?

The share price is likely to drop and the business will not be worth as much.

## Task 5 (Word version)

Complete the following sentences by filling in the blanks using the words from the table below.

The shares in a public limited company (plc) can be bought and sold publicly on the stock exchange. However private limited company shares are only traded privately, often between family and friends. A private limited company must have the letters Ltd after its name.

Where a sole trader converts their business to a private limited company and sells shares to others, the original owner can lose some level of control as they are answerable to shareholders.

Both plc and Ltd companies enjoy limited liability, which means that personally the shareholders can only lose the money that they have invested in the company. A big difference between a company and a sole trader is that the company has to pay corporation tax instead of income tax.

control	Corporation	income	liability	Ltd	owner	public	shareholders	shares	sole
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## Task 5 (on screen quiz version)

Exit


### Different Types of Business: Gapfill Activity

The shares ✓ in a public ✓ limited company (plc) can be bought and sold publicly on the stock exchange. However, private limited company shares are only traded privately, often between family and friends. A private limited company must have the letters Ltd ✓ after its name. Where a sole trader converts their business to a private limited company and sells shares to others, the original owner ✓ can lose some level of control ✓ as they are answerable to shareholders ✓.

Both plc and Ltd companies enjoy limited liability ✓ which means that personally the shareholders can only lose the money that they have invested in the company. A big difference between a company and a sole ✓ trader is that the company has to pay corporation ✓ tax instead of income ✓ tax.



**Business and Enterprise** Level 1/2



## Task 6

In the space below, explain the major differences between a sole trader and a private limited company.

Answers could include:

	<b>Sole trader</b>	<b>Private limited company</b>
Ownership	Individual	Shareholders
Liability	Unlimited	Limited to level of investment
Taxation	Personal income tax	Corporation tax
Reporting	Personal tax return	Annual accounts
Profit	Retained by the individual	Shared by the shareholders

## Background information

There are four main types of business:

1. Sole trader
2. Partnership
3. Private Limited Company
4. Public Limited Company

### Sole trader

A sole trader is the easiest type of business to set up, all that is required is to register with the tax office and keep good records to enable the tax to be paid once a year. As well as being the simplest type of business to set up but it is also the most risky. All finance, debt or legal issues are the responsibility of the owner and it may be difficult to get financial backing from external investors.

Effectively the owner is the business, so John Smith, trading as JS Trading, is liable for all the work done as well as paying any debts if the business folds. However all the profits belong to the owner, who must then pay personal income tax on that money.

### Partnership

The set up of a partnership is similar to that of a sole trader, however, the business is owned by two or more people. In a partnership each partner has responsibility for the business. This includes finance, legal issues, a share of property and profits. There is usually a 'Deed of Partnership' which details rights and responsibilities within the partnership. It is possible to have 'sleeping partners', these are people who do not have any part in the day to day running of the business but still share the financial responsibility and profit. Many accountants and solicitors are partnerships.

### Private Limited Company (Ltd)

In a private limited company, ownership liability is limited to the value of the shares in the company. This means that any debts are the company's debts and not the owners. There is a Director of the company, and the company must keep and declare annual accounts as well as meeting various legal requirements such as registering the business name. These businesses come in various sizes from small family firms to large multinationals businesses, for example Virgin Group Ltd. The majority shareholder retains control of the business but all of the shareholders can have a say in the running of the business.

### Public Limited Company (plc)

A plc also has shares but these can be owned by anyone and are bought and sold through the stock market. The business is owned by the shareholders who receive a share of the profits, and it is managed by the Board of Directors. The business must produce annual reports and accounts, which are accessible to the public, and have at least two directors and a qualified company secretary.



*These activities offer an opportunity for English skills development.*