TYPES OF BUSINESSES

CHAPTER 2

Multiple choice

1.	D	**6.**	B	**11.**	C	**16.**	C
2.	A	**7.**	D	**12.**	B	**17.**	B
3.	D	**8.**	B	**13.**	B	**18.**	D
4.	B	**9.**	C	**14.**	C	**19.**	B
5.	A	**10.**	C	**15.**	B	**20.**	A

Matching terms

Includes the department and agencies of all levels of government, as well as government business enterprises	**Public sector**
Consists of businesses that exploit natural resources (raw materials)	**Primary industry**
Consists of businesses that use raw materials to produce goods	**Secondary industry**
Consists of businesses that provide services to the economy	**Tertiary industry**
Businesses that are officially registered as a company and are subject to the requirements of the Corporations Law	**Companies**
A business operated jointly by two or more people, that allows investment without assuming responsibility for the businesses debts	**Limited partnership**
A business structure under which the owners cannot be held liable for the acts and debts of the business	**Incorporated enterprise**
A company limited to between 2 and 50 shareholders with shares that cannot be sold to the general public through the stock exchange	**Proprietary company**
A company which is listed on the stock exchange and whose share-holders have limited liability	**Public company**
An incorporated organisation that is owned and controlled by its members and was set up to provide certain common benefits for those members	**Cooperative**

Short answers

Question 1

(a) i) A sole trader business is owned and operated by a single person. A partnership on the other hand may have between 2 and 50 joint owners (up to 200 for some exceptions).

ii) In a sole trader business the one owner is completely free to make business decisions and operate without interference. In a partnership, disagreements can often arise, as all partners must agree over decisions regarding the strategic direction or running of the business.

(b) Advantages:

i) A partnership does not rely on the skills and judgement of only one person – it can access a pool of skills and expertise.

ii) It is often easier to get access to finance, as the combined partners can offer more assets as security for a loan.

Disadvantages

i) Disagreements can arise over the direction of the business as major decisions must be agreed upon by all partners.

ii) Profits must be shared amongst a larger number of people.

(c) Option 1: Greta and Giovanni could turn their business into a Limited Partnership. Here, investors would be encouraged to invest in the business yet still retain limited liability from the debts of the business. The extra funds provided by these investors could be used for expansion.

Option 2: Greta and Giovanni could incorporate their business by becoming a company. Forms would then need to be lodged with and approved by ASIC. The business would become a private company capable of having up to 50 shareholders. These shareholders could invest in the business (providing funds for expansion) yet still possess limited liability.

Question 2

(a) A cooperative is an incorporated organisation, owned and controlled by its members. They are set up to provide certain common benefits for members.

(b) Feature 1: A cooperative does not pay tax on its profits if they are distributed as dividends, bonuses or rebates to members. University students would prefer this, as their marginal tax rate (subsequently taxed on these payouts) would often be below the company tax rate.

Feature 2: Members are not responsible for the cooperative's debts. For students without experience in the business community, this is an attractive method of ensuring they can't be held responsible if the business fails – especially as it is unlikely that they would be able to cover large losses from a student income.

(c) Method 1: A cooperative requires at least 7 members. With 7 or more members the potential to raise the start up finance from member contributions is strong – increasing this number would allow for increased start up capital.

Method 2: The bookshop could apply or a business loan. However, given the nature of those involved in the start-up it is likely that the bank would require significant assets as collateral.