



Topic Tests for GCSE (9–1) OCR Business

Business 1: Business activity, marketing
and people

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Teacher's Introduction

This resource has been produced to support teaching and learning of **GCSE (9–1) OCR Business 1**. It is made up of a variety of end-of-topic test time-restricted questions, with suggested answers and a marking scheme. Each topic test will cover the same level of skills and depth of knowledge as the most difficult and longest questions in an actual GCSE examination. This resource also provides a suggested answer structure and examination tips, and highlights common errors made by students.

Remember!

Always check the exam board website for new information, including changes to the specification and sample assessment material.

Each test will:

- Reduce your workload as a teacher with on-hand topic tests and answers accompanied by suggested answer outlines
- Allow you as a teacher to diagnose students' knowledge, strengths and weaknesses after a specification topic has been taught
- Help students develop good examination technique, as it uses exam-style command words that will be used in the actual examination
- Encourage students to develop structured answers to meet the assessment objectives examined, as it allocates marks appropriate to the assessment objective
- Indicate how and why marks are awarded at each level of the higher-level questions
- Raise students' awareness of the examination's 'limited time' aspect

This resource can be used as:

- A very useful student revision guide, as all topics in the specification are addressed
- A formal class test of 40–60 minutes duration
- A multiple homework resource for students
- An examination revision guide for students
- A basis for an interactive teacher–student class review of a specification topic and how to approach answering an examination question on it in a structured way

The Examination Question Guidance section focus on **10** specific areas:

- Assessment objectives
- Command words
- Higher-level marking table for 'Discuss' and 'Evaluate' questions
- Examples of the questions you will get – with answers and marking schemes
- How each examination topic test question is structured
- Tips for answering a question
- Common mistakes made when answering a question
- Important note on suggested answers
- Feedback sheet
- Teacher's revision tick sheet

Important note on suggested content for answers

Please note that there may be correct answers other than those provided. Consequently, it is up to the teacher/examiner to decide whether any alternative answers given are worthy of credit.


November 2024

Examination Question Guide

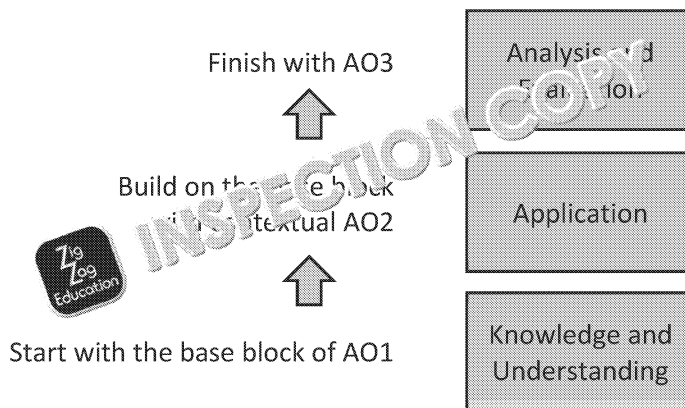
Assessment objectives

What they mean

An assessment objective (AO) is a target that the examiner expects the candidate to achieve in terms of the content and quality of their answer:

AO3 Analyse and Evaluate 	<p><i>Analyse (AO3a):</i> consider a possible consequence of a point you make and the circumstances it depends on.</p> <p><i>Evaluate (AO3b):</i> consider the pros/cons of any point you make and justify your final conclusion or recommendation based on your analysis of the circumstances on which it depends.</p>
AO2 Application	<p><i>Apply (AO2)</i> your knowledge and understanding to the specific context that the question is examining and the stimulus material is provided.</p>
AO1 Knowledge and Understanding	<p>Simply show <i>knowledge (AO1a)</i> in your answer, e.g. the correct definition; or, for the higher-level skill questions, show your <i>business understanding (AO1b)</i> of a specific business context, i.e. bring relevant concepts into your answer, say, by way of an example.</p>

You should think of AOs as building blocks for the structure of your answer, linked together by the common cement of the stimulus material and linking words and phrases:



Level of skill demanded

The increasing skill level required to satisfy each assessment objective:

AO1	AO2	
Knowledge and Understanding	Application	Analysis and Evaluation
<div style="background-color: #cccccc; padding: 5px;">Low level skill</div>		

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Command words

Meaning / AO level / mark awarded

The command word indicates the assessment objective level that is being examined in the question.

AOs and command words:

AO1	AO2	AO3
Explain Identify State	Calculate Complete Explain	Analyse Recommend Discuss Evaluate
Multiple-choice questions – various words and phrases		

Suggested outline for a structured answer response

Command word	Answer structure
MCQs (1 mark)	<ul style="list-style-type: none"> Can examine AO1a (1 mark), AO1b (1 mark) or AO2 (1 mark) Simply select one answer from the choice of A, B, C or D
State (1 mark)	<ul style="list-style-type: none"> Examines AO1a (1 mark). Correctly state what the question asks with one or two short sentences, for each statement you make.
Identify (1 mark)	<ul style="list-style-type: none"> Examines AO1a/b (1 mark). Correctly identify what the question asks. One word, or a very short sentence, should suffice for each statement you make.
Complete (2 marks)	<ul style="list-style-type: none"> Examines AO1a/AO2 (2 marks) Correctly fill in all missing data/words/phrases/figures
Explain (Non-contextual) (2 marks)	<ul style="list-style-type: none"> Examines AO1a (1 mark) and AO1b (1 mark). Make one appropriately correct point. Then develop it with a short explanation. You might use an example to clarify your explanation. No reference to the 'Text' is needed. Write at least two well-developed, structured and linked sentences for each statement you make.
Explain (Contextual) (2 marks)	<ul style="list-style-type: none"> Examines AO1a (1 mark) and AO2 (1 mark). Make one appropriately correct point referencing the 'Text' with a linked and relevant explanation clearly applied to the 'Text' to clarify your explanation. Correct and appropriate reference to the 'Text' must be made. Write at least two well-developed, structured and linked sentences for each statement you make.
Calculate (2/3 marks)	<ul style="list-style-type: none"> Examines AO1a/AO2 (2/3 marks). Show formula if required. Correctly calculate the answer and show all your working. Own figure rule applies. Clearly identify your final answer.
Analyse (3 marks)	<ul style="list-style-type: none"> Examines AO1a/b (1 mark), AO2 (1 mark) and AO3a (1 mark) Demonstrate knowledge/understanding by making a point and then answers the question. You might use an example to clarify your point. Apply that knowledge/understanding with direct reference to the 'Text' to correctly contextualise it. You might use an example to clarify your point. Give the consequence of your applied point. Again, use an example to clarify. Write at least three well-developed and linked sentences for each statement you make. A fully justified and contextual 'final judgement' is NOT required.

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Command word	Answer structure
Recommend (3 marks)	<ul style="list-style-type: none"> Examines AO3b (3 marks) <ul style="list-style-type: none"> Make your recommendation. Positively justify it within context... possibly giving an example. Give a contextual negative point explaining why the recommendation is not the best, possibly giving an example. Write at least three well-developed and linked sentences. Only one fully justified and contextual 'recommendation'.
Discuss (7/9 marks)	See: Higher-level marking table – 'Discuss/Evaluate'. Note that a fully justified and contextual 'final judgement' is required.
Evaluate (7/9 marks)	See: Higher-level marking table – 'Discuss/Evaluate'. Note that a fully justified and contextual 'final judgement' is required.

Important points to note about an answer structure

Note 1

- First, carefully **read the question** and make sure you know what you are being asked. **Underline the command word** to remind you of your answer structure.
- Next, carefully **read the Text (case study)** and underline relevant business words and phrases. These can be referenced in your answer.
- Then, **read the Text (case study) again**. Highlight information relevant to the question, and that adds value and depth to, your answer.
- Next, **plan** your answer structure.
- Finally, **write your answer**.

Note 2

- Read each question very carefully** to make sure that you answer only what you think you are being asked.
- Also, reading the question carefully will help you to ensure that you **structure your answer** around its **command word**.

Note 3

- With the 'Discuss' and 'Evaluate' questions, worth 7 or 9 marks.
- You must always clearly make **direct reference** to the case study **at least four** times to achieve the maximum marks. Questions worth 9 marks require **all five skill areas** (AO1a, AO2a, AO2b, AO2c, AO3a) to be addressed.

Note 4

- I would, whenever relevant, **give an example** to clarify a point made in my answer.

Note 5

- A question with the **command word** 'Examine', 'Analyse', 'Recommend', 'Discuss' requires a clear and logical flow of connecting, or linking, sentences.
- To achieve this, **use words and phrases** such as alternatively; because; consequently; which / this will lead to; which / this will result in; in conclusion; and my final judgement.


Note 6

- A question with the **command word** 'Discuss' or 'Evaluate' needs a fully contextualised conclusion.
- For example:
 - Make your decision: *In conclusion, I believe that...*
 - Contextually justify your decision: *... because...*
 - Contextually link another relevant point: *Consequently...*

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Higher-level marking table – for ‘Discuss’ and ‘Evaluate’ questions

Level	AO1a	AO1b	AO2	AO3
9 marks	1 mark	1 mark	2 marks	2 marks
7 marks	-	-	2 marks	2 marks
Strong	 Knowledge demonstrated when required.	Understanding demonstrated when required.	Make two correct points and apply both to the ‘Text’. APP × 1 mark APP × 1 mark	Analyse the two points you apply to the ‘Text’. AN × 1 AN × 1
Good	K × 1 mark	U × 1 mark		
Weak			Make one weak point of application. APP × 1 mark	Limited analysis of that point. AN × 1

Note:

- Any point made must be fully developed, relevant and contextual. It may be supported by a relevant and relevant example.
- If any question is not answered, wrongly answered, or the answer is totally irrelevant, no marks are awarded.
- To get 7 marks in a 9-mark question your answer must **demonstrate all five** understanding, application, analysis and evaluation.

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Example test: Questions

Section A

1. A business plan is:
 - A A formal document that can never be changed once it is compiled
 - B A financial statement showing a business's profit or loss for a trading period
 - C A document against which future business operations can be judged
 - D A legal requirement of all businesses irrespective of its size or structure
2. A business can take many different forms of legal structure, from a sole trader to a public limited company. What business entity can sell its shares to the general public?
 - A Public limited company
 - B Private limited company
 - C Partnership
 - D Sole trader
3. The basic marketing mix has four elements. What element is concerned with the location of a business?
 - A Product
 - B Promotion
 - C Price
 - D Place
4. A large multinational conglomerate is worried about the quality of its business communication. Which of the following aspects of business communication is particularly important for a multinational conglomerate?
 - A It only needs to be communicated internally
 - B It has premises spread throughout the world and it's essential that they communicate with each other and their stakeholders
 - C It is legally bound to have effective communications
 - D It has a high rate of staff turnover if bad communications were to occur
5. Which of the following types of training is specifically for a business's new employees?
 - A Induction training
 - B On-the-job training
 - C Off-the-job training
 - D In-house training

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Section B

Text 1: Giovanni's Pizzeria

Giovanni De Luca opened a pizzeria in the central business district of Oxford city. Since then, his customer base has grown steadily, as has his reputation for good food, a 'students' staple diet', coupled with Giovanni's entrepreneurial skills and cooking skills. Five years later he opened another, smaller pizzeria in the city centre of Cambridge, a

At present, Giovanni employs 10 full-time experienced staff and four more on zero-hours contracts. All new employees of Giovanni undergo a 6-week induction training, and existing employees must undergo a 2-week refresher course. Staff turnover is high in both pizzerias. In his Oxford pizzeria only, Giovanni offers a home delivery service from midnight Monday to Saturday and to 10pm on Sundays.

Last year he made £100,000 worth of sales, incurring a cost of sales totalling £40,000 and other expenses of £10,000. Although he is happy with his profits to date, Giovanni is thinking about expanding his business. He is considering two options: A5 paper flyers printed by a printing company in Cambridge or a 10-minute regional radio spot on a radio station.

Giovanni is a very hard and conscientious worker and expects everyone associated with his business to be the same. However, this is at the expense of not having as much time as he would like to spend on his business. He is in total control of all aspects of his business and so he has always operated as a sole trader. After 25 years of work tends to take its toll, so now he is thinking about taking it easier and participating junior business partner.

1. Identify **one** factor that can impact on the success of Giovanni's business.
2. State **one** primary market research method that Giovanni could use.
3. Identify **two** elements of the marketing mix.
4. State **two** characteristics that Giovanni must have to become an entrepreneur.
5. Identify **two** possible advantages to a business of segmenting its target market.
6. State **two** possible objectives of Giovanni's second pizzeria in Cambridge during its opening.
7. Explain **one** reason why a business like a pizzeria would offer zero-hours contract delivery drivers.
8. Analyse **one** advantage to Giovanni's pizzerias of the location in which they operate.
9. Recommend whether using flyers or regional radio advertising would be the most effective method for Giovanni. Give reasons for your answer.
10. Explain **three** pricing methods that Giovanni might use in his Cambridge pizzeria.
11. Discuss, with reference to **Text 1**, whether or not Giovanni should consider taking on a junior business partner in the future.
12. Evaluate, with reference to **Text 1**, whether insisting that existing employees undergo induction training benefits Giovanni's pizzerias.

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Example test: Answers and mark schemes

Section A

Question	Answer	Mark
1.	C	[1]
2.	A	[1]
3.	D	[1]
4.	B	[1]
5.	A	[1]

Section B

Key: **K** = Knowledge
U = Understanding
AP = Application
AN = Analysis
E = Evaluation

1. The actions of its owner. ✓ (K = 1 mark)
2. Interview. ✓ (K = 1 mark)
3. Product. ✓ (K = 1 mark)
Price. ✓ (K = 1 mark)
4. Be a risk-taker. ✓ (K = 1 mark)
Be creative. ✓ (K = 1 mark)
5. It helps the business to organise a more effective marketing campaign. ✓ (U = 1 mark)
It helps the business to develop products and/or services suited to a specific market. ✓ (U = 1 mark)
6. To survive in the face of existing competition. ✓ (U = 1 mark)
To at least break even in revenue and cost terms. ✓ (U = 1 mark)
7. The frequency of home delivery orders is difficult to estimate ✓ (K = 1 mark)
employ drivers only as and when they are needed, thereby saving the pizza company money. ✓ (U = 1 mark)

(Note that there is no need to reference 'Text 1' so there are no marks for applying knowledge to 'Text 1')

That is:

- Make a point for 1 mark.
- Expand on that point for 1 mark.

8. Both of Giovanni's pizzerias are situated in a university city centre ✓ (K = 1 mark)
get extensive footfall not only from locals but also from the student population. ✓ (U = 1 mark)
increased sales and therefore profits for both pizzerias. ✓ (AN = 1 mark)

That is:

- Make a correct point demonstrating knowledge for 1 mark.
- Apply it to 'Text 1'; that is, contextualise it for 1 mark.
- Give a contextual analysis of the point made – that is, a consequence – for 1 mark.

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9. Giovanni should choose to advertise using the A5 paper flyer ✓ (E = 1 mark) his potential customers only. Regional radio would target too wide an audience directly handed to local passers-by. ✓ (E = 1 mark) Also, using paper flyers is a cheaper option than regional radio, but it would also improve Giovanni's business with his local printer and so his sales might increase. ✓ (E = 1 mark)

That is:

- Make a clear recommendation for an alternative.
- Contextually positively justify your recommendation by giving a valid reason other than the alternative. ✓ (1 mark)
- Give one clear negative point explaining why the alternative is unsuitable. ✓ (1 mark)

10. In his Cambridge pizzeria, Giovanni might use:

1. Promotional pricing – that is, selling his pizzas at a low price but only for a short time – especially in the early life of his smaller pizzeria. It could be complementary to the paper flyers he is thinking of using. Such a dual approach is likely to increase sales. ✓ (E = 1 mark)
2. Competitive pricing – that is, selling his pizzas at the same price as do his competitors. ✓ (K = 1 mark) By doing this he will know the price that his Cambridge pizzeria operates in a crowded market; therefore he will have a range of prices to consider. ✓ (AP = 1 mark)
3. Penetration pricing – that is, selling his pizzas at a lower price than the market in order to attract customers and then gradually raise prices over time to a level relatively acceptable to competitors. ✓ (E = 1 mark) This is a promotional gimmick – which is not sustainable in the crowded Cambridge market in which his pizzeria operates. ✓ (AP = 1 mark)

(Note that there is a requirement for contextualisation; that is, reference 'Text 1' so that the answer is clearly contextualised.)

That is:

- Make a correct point for 1 mark (× 3).
- Expand on that point, with application to 'Text 1', for a further 1 mark (× 3).

11. On the positive side, it would lighten Giovanni's workload ✓ (AP = 1 mark) and would allow him more free time to spend with his family. ✓ (AN = 1 mark)

On the other hand, Giovanni likes to be in total control of all aspects of his business. However, by taking on an active partner he would be relinquishing some of that control, which is likely to cause Giovanni concern. ✓ (AN = 1 mark)

Finally, in conclusion, I think that taking on a partner is a good idea that ✓ (E = 1 mark) as it will allow him more free time to be with his family. ✓ (E = 1 mark) The senior experience of a partner in the partnership and would therefore have a positive impact on the business. ✓ (E = 1 mark)

That is:

- Make two correct contextual points for application to Giovanni for 2 marks.
- Analyse both points for 2 marks.
- Come to **one single and fully justified** conclusion for 3 marks.

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12. In-house training is on-the-job training. ✓ (K = 1 mark) This means that a pizzeria will get the necessary training from an experienced selected employee they work. ✓ (U = 1 mark)

A benefit to any of Giovanni's pizzerias of offering in-house training to employees is that the business does not have to pay as much money to the same extent as off-the-job training would. An employee who has been with the pizzeria a while and therefore knows all the ropes will still be working, under the guidance of an experienced member of staff, so the pizzeria will not lose any money. ✓ (AN = 1 mark)

A drawback to any of Giovanni's pizzerias offering in-house training to employees is that it is more expensive than off-the-job training. An experienced member of staff who has been with the pizzeria a while and therefore knows all the ropes will still be working, under the guidance of an experienced member of staff, so the pizzeria will not lose any money. ✓ (AP = 1 mark) Such 'on-the-job' practice' but nevertheless are still 'taught' and passed on to the trainee. ✓

Overall, I think that Giovanni should continue to insist that existing employees receive in-house training ✓ (E = 1 mark) as it has obviously proved cost-effective over the long term. ✓ (E = 1 mark) Also, Giovanni has a low rate of staff turnover so, on the whole, employees are likely to be happy with the situation. So in this case, Giovanni would be wise to 'if it ain't broke, don't fix it'. ✓ (E = 1 mark)

That is:

- Demonstrate knowledge of the business term (in-house training) in the context of the business for 1 mark
- Demonstrate contextual understanding of that business term for 1 mark
- Make two correct contextual points for application to Giovanni's pizzeria for 2 marks.
- Analyse both points for 2 marks.
- Come to **one single and full** contextual conclusion for 3 marks



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How each examination topic test question is structured

Section A will have:

- 10–15 multiple-choice questions requiring an answer to a command phrase.

Section B will have:

- A 'Text' (a short case study).
- A number of short, medium and longer-answer questions requiring answers to Identify, State, Calculate, Complete, Explain, Analyse, Recommend, Discuss and Evaluate.

The duration of each topic test will be 40 or 60 minutes and all questions must be answered.

Tips for answering a question

- Read the question thoroughly and highlight its command word and any specific information.
- Carefully read the case study (Text stimulus material) and highlight business scenarios it contains.
- Carefully read the question to get a clear understanding of what it is asking you to do – be specific and do not waffle!
- Mentally (think about) and/or physically (make bullet points on a spare sheet) refer to the question's command word, assessment objective(s) and the question's mark value.
- Always answer the questions using appropriate business vocabulary.
- Always apply your business knowledge by giving a relevant contextual example. Always give appropriate reference to relevant material in the stimulus case study scenario.
- If the answer requires calculations to be made, you must show all your working. Your answer stands out clearly and distinctly.
- Use a black ink pen to write your answer.
- If required to draw a diagram, graph or chart, use a straight edge then carefully draw constituent parts in black. A rough outline should be first practised on a separate sheet of paper.
- Do not write or doodle in the margins of your answer page.
- Your handwriting and answer presentation must be clear, logical and legible. Present the example so that the examiner must be able to read and understand. You will do your best if you take a little time trying to decipher your answer.
- Memorise mathematical formulae required by the examination specification.
- Avoid any repetition in your answer, including not repeating the question itself.
- Do not leave any multiple-choice question unanswered – even if it is a wild guess.

Common mistakes made when answering a question

- An incorrectly structured answer that does not correctly correspond to the command word and assessment objective(s) being assessed.
- Writing too much for a short-answer question worth 1–2 marks.
- Writing too little for a medium-to-long-answer question worth 3–9 marks.
- Not applying the answer to the question or the Text (case study) stimulus material.
- Not knowing formulae needed for calculation questions.
- Not completing the entire question in the allotted time.
- Not reading the question properly and answering a question you think is the one that has actually been asked!
- Not writing in clear, properly constructed, linked sentences to form a meaningful answer.
- Not having a clear break between one paragraph and another.
- Not giving a completely specific answer to a question that requires such.

Important notes on suggested content for answers

Please note that there may be correct answers other than those provided. Consequently, the teacher/examiner to decide whether any alternative answers given are worthy of marks.

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Test 1: Business activity (1.1.1–1.1.3)

Section A

- Which one of the following **must** have the trait of being a risk-taker?
 A An accountant
 B A shop-floor worker
 C An entrepreneur
 D A store manager
- When a gap appears in a market, it is usually filled by?
 A Business activity
 B Supplier apathy
 C Entrepreneurial demand
 D Trade unions
- What is the basic role of any business enterprise?
 A To provide goods and/or services
 B To provide jobs for people
 C To help its local community
 D To pay tax to the government
- Which one of the following statements is true?
 A Business uncertainty can be statistically calculated
 B Business risk and business uncertainty are the same
 C The probability of a business risk cannot be statistically calculated
 D The probability of a business risk can be statistically calculated
- In the world of business activity, which of these statements is false?
 A Entrepreneurs are risk-takers
 B Profit maximisation might not be the only aim of an entrepreneur
 C Entrepreneurs are not risk-takers
 D Entrepreneurs do not need a university degree to start a business
- A business plan is a very useful document for a business to have, but what will it not be used to do?
 A Be used to help get a loan
 B Help reduce business risk
 C Be used to help plan financial success
 D Be used to help plan a business
- What would be the most likely reason for a business not drawing up a business plan?
 A None of its competitors had drawn up a business plan
 B It lacked the skilled personnel that could draw one up
 C It was reacting to a sudden and unexpected gap that arose in its market
 D It lacked the finance to draw one up
- As the business environment is very dynamic, a business should:
 A Not prepare for a changing business environment
 B Ignore changes in its current environment and rigidly stick to the business plan
 C Not construct a business plan
 D Have a flexible and changeable business plan that responds to and reflects changes in the business environment
- A new small business start-up is not likely to have which legal business structure?
 A Public limited company
 B Partnership
 C Private limited company
 D Sole trader
- Which of the following is most likely to have accounted for the growth in the number of businesses in the late nineteenth century?
 A Passing of the Partnership Act
 B Introduction of the limited liability company
 C Revelation of the first postage stamp
 D Drafting of the Companies Act

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17. State **two** characteristics of an entrepreneur.

- 1.
- 2.

18. Identify **two** rewards a successful business owner might enjoy.

- 1.
- 2.

19. Explain **two** risks the sole owner of a small new business start-up might face.

- 1.
- 2.

20. Explain **two** purposes of a business plan.

- 1.
- 2.

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21. Explain any **two** main section headings a business plan is likely to have.

- 1.
- 2.



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22. Explain the main features of any **three** types of business ownership.

- 1.
- 2.
- 3.



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23. Analyse **two** disadvantages to Mary and May of drawing up a business plan.

- 1.
- 2.



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24. Discuss, with reference to **Text 1**, the implications of Mary being a sole trader

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25. Evaluate, with reference to **Text 1**, whether Mary and May should form a partnership

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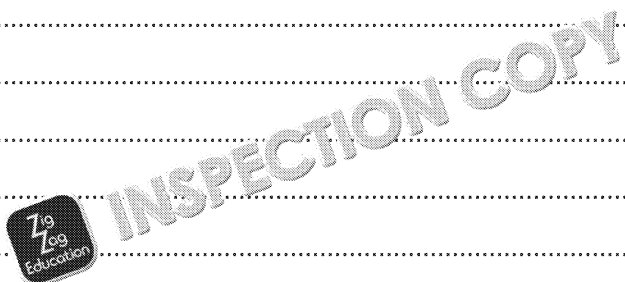
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Test 1: Business activity (1.1.1–1.1.3)

Section A

- Which one of the following **must** have the trait of being a risk-taker?
A An accountant
B A shop-floor worker
C An entrepreneur
D A store manager
- When a gap appears in a market, it is usually filled by?
A Business activity
B Competition
C Supplier apathy
D Trade unions
- What is the basic role of any business enterprise?
A To provide goods and/or services
B To provide jobs for people
C To help its local community
D To pay tax to the Inland Revenue
- Which one of the following statements is true?
A Business uncertainty can be statistically calculated
B Business risk and business uncertainty are the same
C The probability of a business risk cannot be statistically calculated
D The probability of a business risk can be statistically calculated
- In the world of business activity, which of these statements is false?
A Entrepreneurs are risk-takers
B Profit maximisation might not be the only aim of an entrepreneur
C Entrepreneurs are not risk-takers
D Entrepreneurs do not need a university degree to start a business
- A business plan is a very useful document for a business to have, but what will it not do?
A Be used to help raise a loan
B Guide the firm to financial success
C Help reduce business risk
D Be used to help attract investors
- What would be the most likely reason for a business not drawing up a business plan?
A None of its competitors had drawn up a business plan
B It lacked the skilled personnel that could draw one up
C It was reacting to a sudden and unexpected gap that arose in its market
D It lacked the finance to draw one up
- As the business environment is very dynamic, a business should:
A Not prepare for a changing business environment
B Ignore changes in its current environment and rigidly stick to the business plan
C Not construct a business plan
D Have a flexible and changeable business plan that responds to and reflects the business environment
- A new small business start-up is not most likely to have which legal business structure?
A Public limited company
B Private limited company
C Partnership
D Sole trader
- Which of the following is most likely to have accounted for the growth in the number of small businesses in the late nineteenth century?
A Passing of the Partnership Act
B Revelation of the first postage stamp
C Introduction of limited liability
D Drafting of the Elements of the Law of Contract

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11. Which one of these formal business legal structures is your local corner shop most likely to be?
A Charity
B Sole trader
C Private limited company
D Public limited company
12. What type of business legal structure is created when two or more people join together with a view to making profit?
A Limited company
B Sole trader
C Social enterprise
D Partnership
13. A multinational conglomerate is most likely to be a:
A Public limited company
B Limited liability partnership
C Registered charity
D Sole trader
14. One advantage that a shareholder in a limited company has over the owner of a sole trader is:
A All shareholders in a limited company are guaranteed a return on their share
B All shareholders in a limited company are exempt from paying taxation
C The shareholder in a limited company is protected by limited liability
D The shareholder in a limited company will never lose their initial investment
15. Who is most likely to share liabilities and losses in a prearranged way?
A All shareholders in a public limited company
B All partners in a partnership
C All shareholders in a private company
D All stakeholders in a limited company



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Text 1: From field to table – the birth

Mary and May have been friends for many years. One day, during their very frequent coffee mornings at May's house, Mary came up with what she considered to be a good business idea. Her idea was to produce coffee table mats woven from specially treated straw. May was not too interested as she did not possess the ideal characteristics to be an entrepreneur.

Mary, however, went ahead with her idea and over the next few months drew up a business plan, secured finance, supplies, equipment and so on. She knew there would be risk, but also rewards. At the end of the year, she set up a small sole trader business, calling it 'From field to table'. This arrangement allowed Mary to keep all the profits and make all business decisions herself. However, she had full legal responsibility for all aspects of the business, including its debts.

Mary and May's coffee mornings continued. One day May asked Mary if she could help her to set up a business but only on the grounds that they form a private limited company. They were advised that this would offer them the protection of limited liability as well as the ability to raise additional capital by issuing shares privately. However, its downside would be the time and money it would take to set up and the administration involved. Mary agreed, and soon after 'From field to table Ltd.' was formed.

16. State **one** purpose of a business.
17. State **two** characteristics of an entrepreneur.
18. Identify **two** rewards a successful business owner might enjoy.
19. Explain **two** risks the sole owner of a small new business start-up might face.
20. Explain **two** purposes of a business plan.
21. Explain **two** common section headings a business plan is likely to have.
22. Explain **two** main features of any **three** types of business ownership.
23. Analyse **two** disadvantages to Mary and May of drawing up a business plan.
24. Discuss, with reference to **Text 1**, the implications of Mary being a sole trader.
25. Evaluate, with reference to **Text 1**, whether Mary and May should form a private limited company.

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Answers

Test 1: Business activity (1.1.1–1.1.3)

Section A

1.	C	[1]	6.	B	[1]	11.	B	[1]
2.	A	[1]	7.	C	[1]	12.	C	[1]
3.	A	[1]	8.	D	[1]	13.	A	[1]
4.	D	[1]	9.	A	[1]	14.	C	[1]
5.	C	[1]	10.	C	[1]	15.	B	[1]

Section B

16. • To supply goods
• To supply services
17. • Self-assurance
• Risk-taker
• Creativity
• Determination
18. • Monetary, in the form of profit, cash reward, etc.
• Non-monetary, such as a sense of personal satisfaction, kudos, etc.
19. Points to consider:
- Being 'swamped' by competitors
 - Cash flow shortages
 - 'Burnout' through mental/physical stress
20. Points to consider:
- Minimise risk
 - Budget / plan ahead
 - Get a bank loan
 - Do not encourage investors
21. Points to consider:
- Nature and purpose of the business
 - Business legal structure
 - Aims and objectives
 - Physical location
 - Areas covering marketing, finance, resource sourcing, human resources and personnel
22. • **Sole trader** – one owner, no limited liability, owner has total responsibility for a profits but bears all losses. Mostly 'corner shops', fish and chip shop, general grocery shop, etc.
- **Partnership** – two or more owners, shared responsibilities, shared profits and losses, no limited liability, provision for a deed of partnership. Usually founded by farmers, accountants, agents, etc.
- **Private limited company (Ltd)** – must have at least one shareholder, enjoys limited liability, is an entity in itself, most popular type of business in the UK, large entities, e.g. Iceland, Marks & Spencer.
- **Public limited company (PLC)** – must have at least two shareholders, enjoys limited liability, is an entity in itself. They are medium-to-large business operating in the public domain, e.g. British Petroleum, Tesco, Lloyds TSB.

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23. A business plan is a written, reviewable and 'liquid' document usually drawn up prior to the course of direction the business intends to take over the years, thereby helping it to play a very useful part in helping it strive for success.

Disadvantages to Mary and May of drawing up a business plan may include:

- It takes time to draw up a business plan, during which Mary and May's unique ideas may be lost.
- It would be a good idea for Mary and May to seek professional advice when drawing up a business plan as they are homemakers and not 'clued-up' entrepreneurs. Professional advice is not cheap.
- Time is the enemy of a business plan in so far as the predictions might not be realistic due to the ever-changing business environment coupled with the fickle nature of people. Maybe even the availability of the material source.

24. On the upside:
- Mary would be her own boss and therefore would be making her own decisions.
 - Mary would keep all the profits herself (excluding the HMRC slice).
 - Mary would be able to implement her ideas about how the business is run.

On the downside:

- Mary would have unlimited liability and so have sole responsibility for all 'From field to table' it incurs.
- Operating as a sole trader, expansion possibilities for Mary's business are limited as long as her personal finance is concerned.
- Mary has the burden of making all important business decisions herself and has the sole responsibility or even blame if she makes bad decisions. This could put a strain on her mental health.

25. Mary and May should form a private limited company because:
- They will both have the protection of limited liability and so not lose their personal assets if 'From field to table Ltd.' fails.
 - 'From field to table Ltd.' will have continuity of existence as a legal entity as itself and not Mary and May.
 - If Mary and May wanted to expand their business in the future, as its own legal entity it could raise a substantial amount of capital by the private issue of shares, e.g. to family and friends.

On the other hand, Mary and May could find that:

- Private companies take time to set up, and cost money to do so.
- Certain restrictions apply to private companies so Mary and May would probably not be able to raise as much capital and that does not come cheap.

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