

Past Paper Questions

Page 62

- 1. Nocha Ltd makes and sells ice cream. In the 1950s, Nick Nocha remained a sole trader instead of forming a partnership with his family. To what extent was this a good business decision? (7)**

As a sole trader, it is cheap to set up as not much capital is required. And it is easy to set up a business as there is no complicated paperwork or solicitors needed. As only Nick owns the business, he is his own boss. So he doesn't have to take orders from anyone and business decisions are made by him. Another advantage is that business affairs can be kept private and all profits go to Nick Nocha.

One of the disadvantages of staying as a sole trader is that there isn't anyone to share the work load with. So, Nick cannot take a holiday and there isn't anyone to cover for him if he is sick. Raising finance can also be difficult and therefore business expansion is difficult. The sole trader has unlimited liability, so it is possible for Nocha to lose everything, this is the same case in partnership unless one of the partners takes unlimited liability and then the other has limited liability. The sole trader is unincorporated. This means that the business and the trader are legally the same so if anything goes wrong, it is the owner who gets sued not the business. Another disadvantage is that there is too much responsibility for one person to handle, as it is difficult for one person to be an expert at everything. Where as in partnership, the partners can specialize in what they do best. In partnership, as there are more people, there is more capital and more ideas which help expand the business.

- 2. When they opened a new factory in 1970, the business became a private limited company. What business reasons might Nick Nocha have had for this change? (6)**

Nick Nocha might have chosen to set up a private limited company as it is easy and inexpensive to set up. In private limited company, the owners who are the invited shareholders have limited liability. So, if the business fails, then they only lose what they put into the business and nothing more. Whoever, as a sole trader, Nick Nocha would have had unlimited liability, so it is possible for him to lose everything he owns. As the shares are sold to invited people, the company is small and less bureaucratic than PLC; therefore, decisions can be taken more quickly. Nick Nocha might have also changed his business from being as a sole trader into a private limited company as there are too many responsibilities for one person and there is no one to share the workload with. Therefore, there are no holidays and there is no one to cover for him if he is sick. The ownership and control are closely connected, so the Board of Directors tend to be the ones who are the main shareholders.

- 3. One of the first business decisions made by the directors of Nocha Ltd was to offer franchises to its ice-cream van drivers. Assess the benefits to Nocha Ltd of selling these franchises. (7)**

The advantages of making Nocha Ltd into a franchise are that he can expand his business without the need for large amounts of capital. The franchisee, person who buys a franchise, can be motivated to make a success of the business, which will make the whole business more successful. Another reason why Nocha Ltd was changed into a franchise would be that more successful the franchise, the more royalty payments they would receive. The franchiser, which is Nocha,

The disadvantages would be that if they had set up their own branch, then they would receive all of the profits. There is also another risk, if the franchisee doesn't maintain the standards such as the quality or exploiting the consumers, then it could damage their trade name and reputation.