

## **GCSE Business Studies**

### **King George V School**

#### **Year 10-Assessment 1- Companies**

**1. Explain each of the four stages in the growth of Marks and Spencer.**

Marks started off as a sole trader, as he was a hawker. The business, which was selling small items door to door, was run by just one person, Michael Marks. He had to start off as a sole trader, as he didn't have the capital or the experience required to enlarge his business, therefore he started with a small business and slowly started expanding. The second stage was when Michael Marks took on a partnership. He had to do this as he thought that this would help the business become more successful, as now there are two people to help run the company. So, Marks doesn't have to manage everything in the business; and the business can now receive more capital now that there are two people involved. The third stage was that the business was turned into a private limited company as Spencer became less reliable, so they couldn't stay as a partnership as each of them is responsible for each other's actions and this could cause trouble if both of them are not responsible. The fourth stage was that the business was changed from private limited company to public limited company. The decision to have the shares quoted on the Stock Exchange was decided to raise the capital so that the company can become more up-to-date and attract more customers.

**2. Explain two advantages that Marks would have of being part of a partnership rather than being a sole trader?**

One of the advantages of being a partnership rather than a sole trader is that the owners can specialise in different jobs. So, if each of them works in their specialised areas, then it is more beneficial. So, Spencer worked mainly at the warehouse and organised administration. While Marks focused on buying goods and looking for new areas to expand their company. This way the work load can be shared and therefore, if one of them wants a holiday or is sick, then the other one can cover for him. Another advantage is that there is more capital for the business as there are more owners to provide the capital; Spencer added £300 to become a partner. So with more capital they can afford to improve and expand the company.

**3. Explain what is meant by a non-executive director?**

Spencer became a non-executive director when the business was changed into a private limited company. He is still a major shareholder of the company. But he doesn't help with the day-to-day running of the company. Spencer still helps make the decisions about the company, and contributes ideas. But he doesn't execute the decisions made. That is done by the executive director which is Michael Marks. Marks helps with ideas, and he executes the ideas; therefore enforcing them.

**4. Give three reasons why Marks and Spencer would change from being a private limited company to a public limited company?**

Public Limited Company has much more capital available compared to a Private Limited Company. The capital acquired has been raised through having the shares quoted on the Stock Market, so the shares are available to the public. This means it can develop and expand the business more easily than a private limited company, as they have the financial resources to do

this. It can also benefit from economies of scale, because it is a large-size organisation. This means that they can buy in bulk, specialize and borrow more cheaply. So, the goods are produced at a lower unit cost. Consequently, more profit is made by the company.

**5. Marks and Spencer plc have both a Memorandum of Association and Articles of Association. Explain what these documents are.**

A memorandum of Association is a document that contains details of the external relationship of the limited company with the world at large. This would include the business name to ensure that it will have a different name from other limited companies. There is the capital clause, association clause, object clause situation clause and liability clause. The Articles of Association is the internal relationship of the limited company. This would include how directors are elected, how profits are divided, the number of directors and their rights and duties and finally how meetings are called and directed.

**6. Explain one problem that Marks and Spencer plc will have which it would not have had when it was a Ltd Company.**

One problem would be that as a public limited company, the shares are quoted on the Stock Exchange. So, there are a lot of shareholders and therefore, there needs to be a Board of Directors. This can create a problem as there can be conflict of interest between shareholders and Board of Directors. And if the business expands too much, then there can be communication problems or it might be difficult to handle the business. Therefore, it would be harder and therefore take longer to enforce ideas or decisions made to help improve and expand the company.