3.1 · BUSINESS IN THE REAL WORLD

Lesson 2: Business ownership

KNOWLEDGE ORGANISER

🎯 Learning goals

- ✓ Describe sole traders, partnerships, Ltds and Plcs
- ✓ Explain the benefits and drawbacks of each structure
- ✓ Explain limited liability and who benefits from it
- ✓ Recommend a suitable structure for a business, with reasons

🔑 Key words

Sole trader A business owned and run by one person.

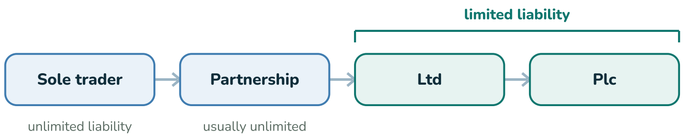
Partnership A business owned by two or more people who share responsibility.

Limited company A business owned by shareholders, with limited liability.

Limited liability Owners only risk the money they invested, not personal possessions.

Not-for-profit An organisation that reinvests surplus to achieve social aims.

📘 What you need to know



Ownership types: only Ltd and Plc companies have limited liability.

1. Unincorporated businesses: sole traders and partnerships

A **sole trader** is owned and run by one person — the simplest, cheapest way to start. The owner has **full control** and keeps all the profit, but faces **unlimited liability**: if the business cannot pay its debts, the owner's personal possessions (savings, even their home) are at risk. A **partnership** is owned by two or more people who share responsibility. Partners bring **shared skills and finance**, but they also share the profits and can **disagree**, and they usually still have unlimited liability.

2. Incorporated businesses: Ltd and Plc

A **private limited company (Ltd)** is owned by **shareholders** and has **limited liability** — owners only risk the money they invested, not their personal possessions. Its shares are **not** sold to the public. A **public limited company (Plc)** is bigger and sells shares to the **public** through the stock market, raising large amounts of money but giving up some control.

> *“Becoming a limited company protects the owners' personal possessions, but means more rules and shared control.”*

3. Limited liability and not-for-profits

Only **Ltd and Plc** companies have limited liability — this is the key advantage of ‘incorporating’. A **not-for-profit organisation** (such as a charity or social enterprise) reinvests any surplus to achieve **social or charitable objectives** rather than to enrich owners.

Sole trader

- ✓ Full control, keeps all profit.
- ✓ Quick and cheap to set up.
- ✗ Unlimited liability.
- ✗ Harder to raise finance.

Private limited company (Ltd)

- ✓ Limited liability protects owners.
- ✓ Easier to raise finance.
- ✗ More rules and paperwork.
- ✗ Profits and control shared.

✅ Test yourself

Cover the answers below, answer Q13–Q21, then check.

Q13 What is a sole trader?

Q14 One advantage and one disadvantage of a sole trader.

Q15 What is a partnership?

Q16 One advantage and one disadvantage of a partnership.

Q17 What is a private limited company (Ltd)?

Q18 What is a public limited company (Plc)?

Q19 What is limited liability?

Q20 Which business types benefit from limited liability?

Q21 What is a not-for-profit organisation?

ANSWERS

A13 A business owned and run by one person.

A14 Advantage: full control. Disadvantage: unlimited liability.

A15 A business owned by two or more people who share responsibility.

A16 Advantage: shared skills and finance. Disadvantage: shared profits and potential conflict.

A17 A business owned by shareholders, with limited liability, whose shares are not sold to the public.

A18 A business that sells shares to the public through the stock market.

A19 Owners are only responsible for business debts up to the amount they invested.

A20 Ltd and Plc companies.

A21 An organisation that reinvests surplus funds to achieve social or charitable objectives.