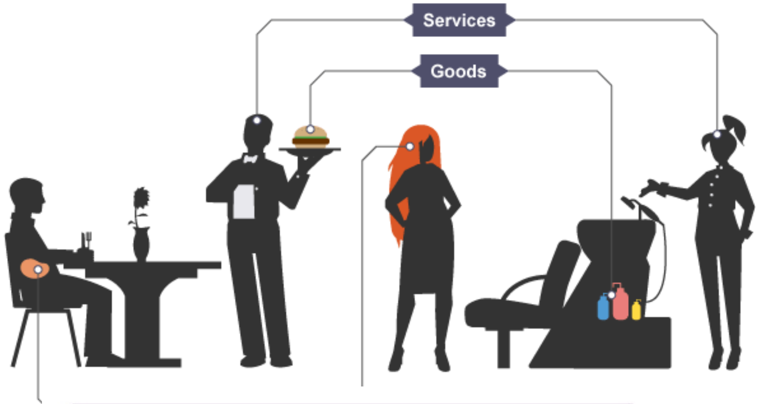
The Sir John Colfox Academy

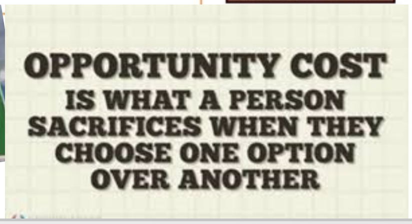
Inspiring Learning, Achieving Excellence

Knowledge Organiser
The purpose and nature of businesses
(Papers 1 & 2)



Needs vs wants

- There are some goods we (as humans) **need**:
  - Water
  - Shelter
  - Heat / light
  - Food
- There are some goods we (as consumers) **want**:
  - Garden furniture
  - A gold watch
- A business will need to work out what customers need and want so they can satisfy those needs



What is an entrepreneur?

An entrepreneur is an individual with an idea for a business

An entrepreneur risks his or her own money to start a business enterprise with the intention of making a profit

Factors of Production (Factor Inputs)

Factors of production are the inputs available to supply goods and services in an economy.

Description	Factor	Factor	Description
Natural resources available for production	Land	Labour	The human input into the production process
Entrepreneurs organise factors of production and take risks	Enterprise	Capital	Goods used in the supply of other products e.g. tech

Chain of production

At every stage there is: __**Added Value**__

Primary sector - Raw materials

Secondary sector - manufacturing/ construction

Tertiary Sector - services

Disposable Income - the money left after essential spending, for luxuries & treats

Businesses must respond to change quickly, if they want to survive in a competitive market, factors which can cause change include:

Government (laws/Taxes)/Changing fashions/Technology/interest rates/new competition

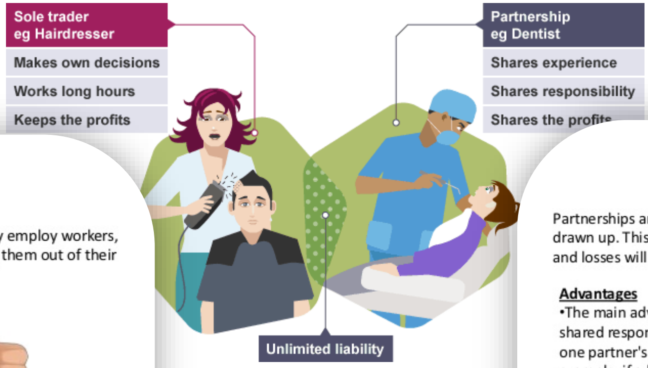
The Sir John Colfox Academy

Inspiring Learning, Achieving Excellence

Knowledge Organiser

Ownership (Papers 1 & 2)

Unlimited Liability: Owners and business are “one”, therefore owner has to repay any business debts, from personal assets



Limited Liability: business is incorporated, separating business & owner - so debts are only repaid if the business has value to do so.

Sole Traders

A sole trader describes any business that is owned and controlled by one person, although they may employ workers, e.g. a newsagent's shop. The owners are **personally liable** for the firm's debts, and may have to pay them out of their own pocket. This is called **unlimited liability** (personally liable for or debts) .

Advantages
- The firms are usually small, and easy to set up.
- Generally, only a small amount of **capital** needs to be invested, which reduces the initial start-up cost.
- The wage bill will usually be low, because there a few or no employees.
- It is easier to keep overall control, because the owner has a **hands-on** approach to running the business and can make decisions without consulting anyone else.

Disadvantages
- The sole trader has no one to share the responsibility of running the business with. A good hairdresser, for example, may not be very good at handling the accounts.
- Sole traders often work long hours and find it difficult to take holidays, or time off if they are ill.
- Developing the business is also limited by the amount of capital personally available.
- There is also the risk of unlimited liability, where the sole trader can be forced to sell personal assets to cover any business debts.

Public Corporations

are organisations set up by an Act of Parliament and are run by a Board of Directors appointed by the Government.

E.g. The BBC

Partnership

Partnerships are businesses owned by two or more people. A contract called a deed of partnership is normally drawn up. This states the type of partnership it is, how much capital each party has contributed, and how profits and losses will be shared.

Advantages
- The main advantage of a partnership over a sole trader is shared responsibility. This allows for **specialisation**, where one partner's strengths can complement another's. For example, if a hairdresser were in partnership with someone with a business background, one could concentrate on providing the salon service, and the other on handling the finances.
- More people are also contributing capital, which allows for more flexibility in running the business.
- There is less time pressure on individual partners.
- There is someone to consult over business decisions

Disadvantages
- The main disadvantage of a partnership comes from shared responsibility.
- Disputes can arise over decisions that have to be made, or about the effort one partner is putting into the firm compared with another.
- The distribution of profits can cause problems. The deed of partnership sets out who should get what, but if one partner feels another is not doing enough, there can be dissatisfaction.
- A partnership, like a sole trader, has **unlimited liability**.

Voluntary Organisations

Charities and non-profit organisations exist to help a particular cause. Charities aim to raise money to help their cause, or to raise awareness of an issue or the plight of a section of society.

Charities are run by a board or committee made up of trustees.

Charities raise funds from public donations, sales from the charities own high street shops, ecommerce sales, Government grants and lottery funding, as well as more traditional fundraising from raffles and sponsored events such as 10km walks.

Limited Companies

There are two types of limited companies **private** and **public.** A **public limited** company (PLC) can sell its shares on the Stock Market, while a **private limited** company (Ltd) cannot.

Advantage of PLC	Disadvantage PLC
Raise large amount of **capital** (money) from share issue.	Become too large resulting in poor **labour relations** (relationship between workers and management).
Produce goods at lower unit cost.	Risk of takeover by rival companies who have bought shares in the company .
Large plc's may find it easier to borrow from banks.	Conflict of interest between shareholders and the Board of Directors.

Advantage of Ltd	Disadvantage of Ltd
Easy and inexpensive to set up.	Profits have to be shared
Share can be sold to family	Accounts are not private
Share holders have limited liability (can only loose money they put in business, do not pay of debts using their own money).	Not all decisions are made by owners
Death and illness wont affect the running of the company.	Share cant be sold on the stock market.

Social Enterprise™

TRADING FOR PEOPLE AND PLANET

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.”