

Chapter I Business Environment

Section 2 Forms of Business Ownership



1. B	2. A	3. D	4. C	5. A	6. C	7. B	8. B	9. D	10. D
11. A	12. A	13. B	14. D	15. A	16. B	17. B	18. A	19. A	20. B
21. D	22. A	23. B	24. A	25. A	26. D	27. C	28. D	29. D	30. B
31. B	32. C	33. B	34. D	35. A	36. C	37. D	38. D	39. B	40. B
41. D	42. D	43. D	44. C	45. D	46. B	47. A	48. B		

- B**

Miss Young may not earn more profits even if she forms a partnership with Kitty.
A, C and D are incorrect. They are the advantages of forming a partnership. Miss Young can enjoy these benefits when forming a partnership with Kitty.
- A**

(1) is correct. Nicholas invests in the business (1) and enjoys limited liability. Therefore, he is a limited partner.
(2) is correct. Given that Brian does not enjoy limited liability and takes part in running the business, he is a general partner.
(3) is incorrect. In a general partnership, only general partners exist. Since Nicholas is a limited partner, the partnership is not a general partnership.
- D**

The profits tax rates of a sole proprietorship and a partnership in Hong Kong are the same. Thus, the sole proprietor does not enjoy a lower profits tax rate than any other forms of business enterprises.
A is correct. Given that there is only one owner in a sole proprietorship, he can make decisions on his own and thus the decision-making is flexible.
B is correct. Owners are required to bear unlimited liability according to the law.
C is correct. As there is only one owner in a sole proprietorship, the sources of capital are limited. It is difficult to expand the business. Thus, sole proprietorships are usually small in size.
- C**

A sole proprietorship is not required to disclose its financial information to the public.
A, B and D are disadvantages. The continuity of a sole proprietorship is not lasting. It will be closed down if its owner passes away, goes bankrupt or withdraws. In addition, it is not a legal entity and the owner needs to bear unlimited liability. As the production scale of sole proprietorship is usually small, it is difficult for sole proprietorships to compete with listed companies in terms of capital and the size of the business.
- A**

(1) is correct. Due to its small size and narrow sources of capital, a sole proprietorship faces difficulties in expanding its business.
(2) is incorrect. With a simple organisational structure, Peter can pay personal attention to employees and customers, enabling him to maintain good relationships with them easily.
(3) is incorrect. Decision-making in a sole proprietorship is flexible as Peter can make decisions by himself and does not need to discuss with others.

6. **C**
(1) is correct. The sole proprietor can be the only owner who engages in managing the firm. In addition, a sole proprietorship is not a legal entity.
(2) is correct. There are two types of partnership, which are general partnership and limited partnership. When there are only two owners in a limited partnership, only the general partner is involved in the operation of the business. Once he withdraws, goes bankrupt, or dies, the partnership will be closed down.
(3) is incorrect. A private limited company is a legal entity. The withdrawal, bankruptcy or death of the owner will not affect the continuity of the business.
7. **B**
There is only one owner in a sole proprietorship. It is unlikely for Mable to own an insurance company as it requires a huge sum of investment.
For other options, the capital required is relatively small and the businesses can be possibly owned by only one person.
8. **B**
A partnership will dissolve once a general partner goes bankrupt, dies, or withdraws. As a result, there is no lasting continuity in a partnership. In contrast, a private limited company enjoys lasting continuity.
A is incorrect. The profits tax rate of a private limited company in Hong Kong (16.5%) is higher than that of a partnership (15%).
C is incorrect. It is unjustifiable to conclude that running in the form of a private limited company has a lower risk of incurring a loss.
D is incorrect. No matter the business is a partnership or a private limited company, ownership cannot be transferred freely.
9. **D**
The word “limited” in “limited company” refers to limited liability enjoyed by shareholders. It means that if the company winds down, shareholders’ liabilities in the firm is limited to the amount they invest. Shareholders do not need to liquidate personal assets to repay debts of the company.
10. **D**
(1) and (3) are correct. Since firm A raises capital by issuing shares, it is a limited company, so it is as well a legal entity. However, it does not need to disclose its financial statements to the public and thus it is a private limited company.
(2) is correct. Since firm B is not a legal entity and the source of capital is provided by owners, it is a partnership.
11. **A**
Firm 3 must be a public limited company as this is the only form of business ownership that requires the business’s financial statements to be disclosed to the public. Among the three firms, it is the easiest for Firm 3 to raise capital because it can become listed and issue shares to the public in the stock market.
Considering Firms 1 and 2, neither of them can be a public limited company because their financial statements need not be disclosed to the public.

Firm 1 may then be a sole proprietorship or a private limited company because it has only one owner; Firm 2 may be a partnership, or a private limited company as well. The factor that distinguishes the two therefore lies on the ease of raising capital. Firm 1 therefore has to be a sole proprietorship because then the company can only be supported by the owner's own capital. Capital raising for Firm 1 is hence harder than Firm 2 because the latter can obtain capital from a pool of partners (if it is a partnership) or a pool of shareholders (if it is a private limited company).

Hence, A is the only feasible answer.

12. **A**

(1) is incorrect. In a general partnership, all partners need to bear legal responsibilities for the decisions made by any other partners.

(2) is incorrect. Since Nana Accounting is a general partnership, all partners are general partners.

(3) is correct. The admission of new partners must be approved by all general partners in a partnership. Yet, it should be noted that whether the consent of limited partners (if any) is needed is determined by the partnership agreement, if there is one.

13. **B**

(1) is correct. Since venturers in a joint venture need to communicate and cooperate with each other frequently, it is possible that there is a leakage of confidential product information to the other venturer(s).

(2) is correct. As venturers take part together in the management of the joint venture, disagreement about management may arise due to conflicting opinions and ideas.

(3) is incorrect. A joint venture does not necessarily have a standardised layout.

14. **D**

The profits tax rate of a company depends on its form of ownership.

A, B and C are incorrect. They are motives for a foreign company to form a joint venture. As foreign companies are not familiar with the overseas markets, forming a joint venture with a local company can help them acquire useful information of the local market and easily establish a good relationship with local customers. Risks can also be shared among venturers in the joint venture, and it is beneficial to the foreign companies when launching a new product.

15. **A**

(1) is correct. Given that a partnership has more owners, the agreement and consent of all partners are required to make a decision. Thus, the flexibility in decision-making is lower than a sole proprietorship.

(2) is incorrect. The profits tax rates of a sole proprietorship and a partnership are the same, i.e., 15%.

(3) is incorrect. A partnership does not necessarily have a lower risk of incurring a loss. It depends on the macro environment as well as the management of the business.

16. **B**

Only shareholders in a public limited company have the two characteristics mentioned – enjoying limited liability and being able to transfer their ownership freely without the consent of others.

A is incorrect. Shareholders in a private limited company cannot transfer their ownership freely. They need to obtain the approval from the board of directors.

C and D are incorrect. No matter it is a general or limited partnership, partners (owners) cannot transfer their ownership unless they obtain an approval from all other general partners. Moreover, the partnership has to be terminated when a general partner withdraws.

17. **B**
- (1) is correct. For private limited companies, more documents and procedures are needed in the registration process.
- (2) is incorrect. Only public limited companies need to disclose financial information to the public while private limited companies need not.
- (3) is correct. Limited companies are charged with a higher profits tax rate than partnerships.
18. **A**
- (1) is correct. For a private limited company, the transfer of shares has to be approved by the board of directors to prevent acquisition and control by unwanted parties.
- (2) is correct. Only public limited companies are required to disclose financial information to the public.
- (3) is incorrect. A private limited company usually has a smaller number of shareholders than a public limited company. Besides, it usually has a smaller operation scale and a weaker financial position, which results in a higher difficulty in borrowing money from financial institutions. Thus, it has a narrower source of capital.
19. **A**
- A limited company is a legal entity. Its owners (shareholders) enjoy limited liability, which means losses are limited to the amount they invest.
- B is incorrect. There can only be at most 50 shareholders in a private limited company.
- C is incorrect. Shares of private limited companies cannot be traded in the stock market freely before the agreement of other shareholders. Therefore, the invested amount is unable to be cashed in a short time. Yet, shares of public limited companies can be traded freely.
- D is incorrect. Only public limited companies can raise capital by issuing shares to the public, but not private limited companies.
20. **B**
- (1) is incorrect. A general partner does not enjoy limited liability and has even to liquidate personal assets to pay for the partnership's debts.
- (2) is correct. A limited partner does not take part in management.
- (3) is incorrect. A general partnership is bound by contracts signed by other partners on behalf of the partnership.
21. **D**
- All the options are possible ways for a private limited company to raise capital. For (1), it raises capital by equity financing. For (2) and (3), it raises capital by debt financing.
22. **A**
- (1) is correct. There may be nominal partners in a limited partnership, who do not contribute any capital but only their names to the business.
- (2) is correct. Generally, the set-up procedures of limited companies are more complex than that of partnerships.
- (3) is incorrect. An owner is a person who contributes part of the capital to the firm. A partner is a person who collaborates with others to run a business. In this regard, the meanings of them are different. For example, nominal partners are partners but not owners of the business.

23. **B**
As Andrew enjoys limited liability and can sell his shares in the stock market, he owns shares of a public limited company. Please note that even if Andrew holds shares of a public limited company, he can perform daily business duties. This is because managers have the chance to be given a company's shares as a reward for good performance.
24. **A**
Firm A is a public corporation. This is because it aims to promote social well-being and the capital is provided by the government.
Firm B is a public limited company. Its capital is raised by issuing shares to the general public.
Firm C is a private limited company. Its capital cannot be raised by issuing shares to the general public but inviting new shareholders.
25. **A**
(1) is correct. (2) and (3) are incorrect. A nominal partner is, legally, not a partner because he neither owns a part of the firm nor participates in running the business. He does not contribute any capital to the business and thus has no ownership. However, he discloses his identity in the business because he is often a well-known and well-connected person whose name provides credibility and recognition to the firm.
26. **D**
(1) is incorrect. Promotional and management fees have to be paid regardless of the profitability of the franchisees.
(2) is correct. The franchisor would assist franchisees in setting up their new businesses by giving them advice and trainings.
(3) is correct. Usually, the franchisor would provide the franchisees with reliable raw materials, so as to control the quality of their products.
27. **C**
(1) is incorrect. By joining a franchise, Benny can benefit from the well-known brand name which attracts more customers.
(2) is correct. The freedom of operation is restricted as franchisees need to follow rules set by the franchisor. The franchisor may also have control over the operation of the shop.
(3) is correct. The franchisees do not have any guaranteed return from the franchisor.
28. **D**
(1) is incorrect. The franchisee CANNOT gain full control of the business despite the payment of royalties to the franchisor as it still has to comply with the regulations given by the franchisor.
(2) is correct. The operation of a franchise is standardised to maintain a consistent image.
(3) is correct. Sometimes franchisor may provide loans with terms more favourable than bank loans.
29. **D**
The franchisor provides a variety of assistance to the franchisee, ranging from accounting system, providing credit to purchase inventory to staff training. Thus, the franchisee can undoubtedly set up a business quickly.
A is incorrect. The franchisor can also benefit as the expansion of the brand name is accelerated. In addition, it receives franchise fees from its franchisees.

B is incorrect. The franchisee operates the business in accordance with the franchisor's instructions. It is hard for him to market his own unique products under the control of the franchisor.

C is incorrect. The franchisee is not employed by the franchisor, but runs on its own. The franchisee earns the net profit of the business and is responsible for its loss, if any.

30. **B**

(1) is correct. Benny needs to consider his ability to pay the start-up fees, which is usually a huge amount. He needs to pay for, for example, site selection and franchise fees. Also, a minimum investment amount should be contributed.

(3) is correct. Whether he prefers more freedom or more assistance should be considered as a franchisee is usually subject to many rules.

(2) is incorrect. Profits are kept by individual franchisees but not shared with other franchisees.

31. **B**

(1) is correct. A public corporation is set up by statute, such as the Ocean Park Corporation.

(3) is correct. They are independently run on a commercial basis.

(2) is incorrect. A public corporation is a separate legal existence.

32. **C**

(1) and (3) are correct. Public enterprises provide important services, like water supply, on a non-commercial basis. This is because the government needs to ensure that the public can receive basic goods and services. Sometimes these industries are necessarily controlled to ensure a stable supply of related goods or services.

(2) is incorrect. Public enterprises aim to provide basic goods and services to the public at a relatively low price rather than making profits to generate extra income for the government. The income generated only accounts for a small proportion of the government revenue.

33. **B**

Public enterprises aim to provide important goods and services to help the poor meet their basic needs in daily life.

A, C and D are correct. Public enterprises like Hong Kong Post do not face direct competition in the market and they thus lack incentive to improve their services and operation efficiency. In this regard, the decision-making process is slow. Losses suffered due to poor management have to be borne by taxpayers.

34. **D**

Together Happy Restaurant is a limited company and it enjoys lasting continuity. The withdrawal, death or bankruptcy of any owners does not affect the continuity of the business. Furthermore, the financial information needs not be disclosed to the public, indicating that it is a private limited company.

35. **A**

Since the company is a private limited company, Lily and Julie enjoy limited liability. This means that their liability is limited to their investment. Thus, they do not need to repay the debts of the company by liquidating their personal assets if it winds down.

36. **C**
All companies are separate legal entities, which enable them to have lasting continuity.
A is incorrect. Private limited companies cannot issue shares to the public.
B is incorrect. Preference shareholders do not have voting rights in the annual general meeting.
D is incorrect. Only public limited companies are required to disclose their financial information to the public.
37. **D**
Since MNCs are usually listed public limited companies, there is a separation of ownership and management. They usually employ professional managers to operate the businesses.
38. **D**
A nominal partner does not contribute capital or participate in the daily operation of the firm, thus Vicky is the nominal partner in the partnership.
39. **B**
Some nominal partners are famous people, and the partnership relies on their publicity to establish reputation and attract customers. Some other nominal partners are professionals in certain aspects, and they can provide professional and useful advice for the business. However, nominal partners cannot directly take part in the running of the business and thus they cannot share the workload of running the business.
40. **B**
A sole proprietorship does not enjoy limited liability and the sole proprietor has to bear all the losses. Both sole proprietorships and limited companies are private enterprises which aim at maximising profit and are privately owned.
41. **D**
In Hong Kong, there is no upper limit for the number of partnership starting from 2004 (when the former limit of 20 persons was abolished). The upper limit for a private limited company is currently 50 persons.
42. **D**
(1) is correct. Limited partners enjoy limited liability and are thus responsible to only part of the debts, which is limited to his invested amount.
(2) is incorrect. Limited partners are entitled certain percentages of the net profit of the firm, despite not taking part in the management.
(3) is incorrect. According to Limited Partnerships Ordinance, a limited partnership is not dissolved due to the described situations.
43. **D**
There are many types of partners, including general partners, limited partners and nominal partners. Among them, only general partners are personally liable for all obligations of the partnership upon liquidation or bankruptcy.
A is incorrect. The maximum number should be 50 instead.
B is incorrect. Members of joint ventures can be sole proprietorships, partnerships or limited companies.
C is incorrect. A franchisee owns its business and bears the set-up cost of the franchise. It is just limited by its franchisor in certain aspects like the strict control of operation procedures.

44. **C**
(1) is incorrect. Public corporations are not managed by the government but by boards of directors appointed by the government.
(2) is incorrect. Public corporations operate on a self-financing basis. Their profit and loss do not affect government revenue. Government revenue is affected by the profit and loss of government departments.
(3) is correct. The government establishes public corporations with a purpose to increase efficiency in operations, when compared to government departments.
45. **D**
The old business is a sole proprietorship and the new one is a public limited company. In a sole proprietorship, there is only one owner. However, there is no restriction on the maximum number of shareholders in a public limited company, so more people can invest in the company, widening the source of capital.
A is incorrect. The profits tax rate of sole proprietorships in Hong Kong is 15% while that of limited companies is 16.5%. Profits tax rate is not lowered.
B is incorrect. Disclosing the financial information may not be an advantage. Competitors may make use of the information for comparison and formulating strategic plans.
C is incorrect. In a public limited company, management and ownership are separated. Owners do not manage the company. Instead, the company is managed by the board of directors elected in the annual general meeting.
46. **B**
As only Raymond will be involved in the daily operations, he is a general partner. A nominal partner is not involved in daily operations but is liable for the act of the partnership. Thus, Nelson is a nominal partner. As Ryan has limited liability, he is a limited partner.
47. **A**
(1) is correct. Nominal partners do not share the profits of the partnership but may be paid a consultation fee by the partnership.
(2) is correct. The reason for inviting nominal partners is mainly their expertise or reputation.
(3) is incorrect. Nominal partners are not owners of the firm. They do not contribute money to the company.
48. **B**
Franchisees have to pay franchise fees regularly to franchisors. Thus, it is a disadvantage to John.
A is incorrect. Although confidential information may be leaked to John, it is not a disadvantage from John's perspective. John may learn from the information and set up his own fitness centre in the future.
C is incorrect. John needs not pay for the development of the franchise system. It is the disadvantage to Cindy.
D is incorrect. Operations of a franchise store are generally standardised. The logos, uniform and products are usually the same in different franchise stores in the same franchise system.