

# Chapter 1 Business Environment

## Section 2

### Forms of Business Ownership



1. Miss Young is a professional architect. She decides to set up an architecture firm on her own. However, Kitty, her best friend who is also an architect, invites her to form a partnership together. Which of the following is **NOT** a reason for Miss Young to accept the invitation?
- A. She could have wider sources of capital.
  - B. The business could earn more profits.
  - C. Risks and workload of the business could be shared with Kitty.
  - D. More expertise could be pooled together.

2. The involvement of Brian and Nicholas in a partnership is shown below.

	<u>Limited liability</u>	<u>Investing in the business</u>
Brian	No	Yes
Nicholas	Yes	Yes

Which of the following statements are correct?

- (1) Nicholas is a limited partner.
  - (2) Brian is a general partner.
  - (3) The business is a general partnership.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
3. Which of the following is an **INCORRECT** description about a sole proprietorship in Hong Kong?
- A. The owner has a high flexibility in decision-making.
  - B. The owner bears unlimited liability.
  - C. The scale of a sole proprietorship is usually small.
  - D. The owner enjoys a lower profits tax rate than any other forms of business enterprises.
4. Which of the following is **NOT** a disadvantage of a sole proprietorship?
- A. It lacks continuity.
  - B. It is not a legal entity.
  - C. Its financial conditions have to be disclosed to the public.
  - D. It has narrow sources of capital.

5. Peter sets up his business in the form of a sole proprietorship. Which of the following is/are the disadvantage(s) of this form of business enterprise?
- (1) difficult to expand business
  - (2) difficult for the owner to maintain a good relationship with staff and customers
  - (3) less flexible in decision-making
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
6. There is only one owner taking part in the management of the business. If he withdraws, goes bankrupt or dies, the business has to be terminated. The business can be a \_\_\_\_\_.
- (1) sole proprietorship
  - (2) partnership
  - (3) private limited company
- A. (1) only
  - B. (2) only
  - C. (1) and (2) only
  - D. (1), (2) and (3)
7. Mable runs her business in the form of a sole proprietorship. Which of the following is the least likely to be run by Mable?
- A. a tutorial school
  - B. an insurance company
  - C. a fast food restaurant
  - D. a convenience store
8. Many partnerships in Hong Kong choose to change to private limited companies. Which of the following is the reason?
- A. The profits tax rate is lower.
  - B. The business entity can enjoy lasting continuity.
  - C. The risk of incurring a loss is lower.
  - D. Ownership can be transferred freely.
9. What is the meaning of the word 'limited' in 'limited company'?
- A. When the company liquidates, its liability is limited.
  - B. The maximum amount of liability of the company is limited.
  - C. The number of shareholders is limited.
  - D. The liability of shareholders in the company is limited.

10. The following shows the information of two firms:

	Firm A	Firm B
Source of capital	Raised by issuing shares	Provided by the owners
Number of owners	8	17
Legal entity	?	Not a legal entity
Disclosure of financial statements to the public	Not required	Not required

Which of the following statements are correct?

- (1) Firm A is a legal entity.
- (2) Firm B is a partnership.
- (3) Firm A is a private limited company.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

11. The following shows the information about Firm 1, Firm 2 and Firm 3.

	Firm 1	Firm 2	Firm 3
Number of owners	1	48	12
Disclosure of financial statements to the public	Not required	Not required	Required
Ease of raising capital	Low	Medium	High

Firm 1, Firm 2 and Firm 3 may be a \_\_\_\_\_, a \_\_\_\_\_ and a \_\_\_\_\_ respectively.

- A. sole proprietorship ..... private limited company ..... public limited company
- B. private limited company ..... public limited company ..... partnership
- C. sole proprietorship ..... private limited company ..... partnership
- D. partnership ..... listed company on Growth Enterprise Market ..... listed company on the Main Board

12. Nana Accounting is a general partnership formed by Michael, Peter and Helen. Which of the following statements are **INCORRECT**?
- (1) Michael and Helen are free from the legal responsibilities bound by the contracts signed by Peter.
  - (2) There may be a limited partner in the partnership.
  - (3) Agreement must be reached among existing partners before the admission of new partners.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
13. Eight Limited, an American bookstore, is going to form a joint venture with YES Company, a local bookstore in Hong Kong. Which of the following is/are the disadvantage(s) for Eight Limited to form this business?
- (1) leaking product information to YES Company
  - (2) conflicts between partners
  - (3) a standardised layout
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
14. Which of the following is **NOT** a motive for a foreign company to form a joint venture with a local company?
- A. collecting valuable information through the local company
  - B. building up a good relationship with local customers more easily
  - C. sharing risks of launching new products in the market
  - D. enjoying a lower profits tax rate
15. Compared with a sole proprietorship, a general partnership \_\_\_\_\_ .
- (1) has lower flexibility in decision-making
  - (2) has a higher profits tax rate
  - (3) has a lower risk of incurring a loss
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only

16. Mr Chui is one of the owners of a firm. He enjoys limited liability and he can freely transfer his ownership of the firm without the approval of other owners.

The firm is a \_\_\_\_\_ .

- A. private limited company
- B. public limited company
- C. limited partnership
- D. general partnership

**Based on the following information, answer Questions 17 to 18.**

Andrew and Victor are deciding to set up a bookshop. They want to register their business in the form of a private limited company instead of a partnership.

17. Which of the following are the disadvantages of setting up a private limited company over a partnership?

- (1) The setup procedures are more complicated.
- (2) It needs to disclose financial information to the public.
- (3) The profits tax rate is higher.

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

18. Compared with a public limited company, a private limited company \_\_\_\_\_ .

- (1) has a lower risk of being taken over
- (2) needs not disclose financial information to the public
- (3) has a wider source of capital

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

19. The similarity of a private limited company and a public limited company is that \_\_\_\_\_ .

- A. owners do not bear unlimited liability
- B. there are no limitations on the maximum number of shareholders
- C. the invested amount is frozen and difficult to be cashed in a short period
- D. they can raise capital from the public through issuing shares

20. Which of the following descriptions about a partnership is/are correct?
- (1) A general partner's maximum loss is confined to the amount invested.
  - (2) A limited partner contributes capital to the partnership but does not take part in management.
  - (3) A general partnership is not bounded by contracts signed by any of the partners on behalf of the partnership.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
21. Which of the following are ways for a private limited company to raise capital?
- (1) issue ordinary and preference shares
  - (2) issue debentures
  - (3) borrow funds from financial institutions
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
22. Which of the following descriptions about partnership are correct?
- (1) There may be partners who do not contribute any capital in a limited partnership.
  - (2) The setup procedures of a partnership are simpler than that of a limited company.
  - (3) The meanings of 'partner' and 'owner' are the same.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
23. Andrew is one of the owners of a business. He needs not perform daily business duties or pay the company's debts with his personal assets. Yesterday, he sold some of his shares in the stock exchange.
- The business that Andrew owns is a \_\_\_\_\_ .
- A. limited partnership
  - B. public limited company
  - C. sole proprietorship
  - D. private limited company



24. The following shows the information of three business enterprises.

	Firm A	Firm B	Firm C
Board of directors	Members appointed by the government	Members appointed by shareholders	Members appointed by shareholders
Capital	Initially provided by the government	Raised by issuing shares to the general public	Raised by inviting new shareholders
Objective	To promote social well-being	To make profit	To make profit

A is a \_\_\_\_\_, B is a \_\_\_\_\_ and C is a \_\_\_\_\_.

- A. public corporation ..... public limited company ..... private limited company  
 B. public corporation ..... private limited company ..... public limited company  
 C. public limited company ..... public corporation ..... private limited company  
 D. public limited company ..... private limited company ..... public corporation
25. Which of the following statements about a nominal partner is/are correct?
- (1) A nominal partner discloses his identity in the business.  
 (2) A nominal partner is an owner of the partnership.  
 (3) A nominal partner invests capital in the partnership.
- A. (1) only  
 B. (1) and (2) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)
26. Which of the following is/are the characteristic(s) of a franchise?
- (1) Franchisees do not need to pay management and promotional fees when their businesses suffer losses.  
 (2) Franchisees receive training and advice from the franchisor.  
 (3) Raw materials franchisees used are usually provided by the franchisor or approved suppliers.
- A. (1) only  
 B. (2) only  
 C. (1) and (3) only  
 D. (2) and (3) only

Based on the following information, answer Questions 27 to 30.

Benny is a sole proprietor running a convenience store. He is considering whether to join 7-Eight, the franchised convenience store, or continue to run the store on his own.

27. Which of the following are **NOT** the advantages that Benny can enjoy if he joins 7-Eight?
- (1) His company can enjoy goodwill and well-known brand name brought by 7-Eight.
  - (2) He can decide on the ways to promote the products.
  - (3) He is guaranteed a minimum return.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
28. In running a business under a franchise, \_\_\_\_\_ .
- (1) the franchisee can gain full control of the business upon the payment of royalties to the franchisor
  - (2) the layout design of the franchised store is usually uniform
  - (3) the franchisee may obtain loans from its franchisor
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
29. Which of the following statements about franchising is correct?
- A. Only the franchisee benefits from franchising.
  - B. The franchisee can market his own unique products.
  - C. The franchisee can earn a fixed income from the franchisor.
  - D. The franchisee can set up a new business quickly under a franchise.
30. Before deciding whether to join 7-Eight, which of the following are the factors Benny should consider?
- (1) his ability to pay the start-up fees
  - (2) profit distribution among different franchisees
  - (3) the preference for independence or assistance in the operation
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)



31. Which of the following are characteristics of a public corporation?
- (1) It is set up by statute.
  - (2) It is not a separate legal entity.
  - (3) It runs on a commercial basis.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
32. Which of the following is/are the main reason(s) for the existence of public enterprises?
- (1) provide unprofitable but essential services
  - (2) generate extra income for the government
  - (3) control important industries
- A. (3) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
33. Which of the following is **NOT** a disadvantage of public enterprises?
- A. There is a lack of competition for public enterprises, which results in poor efficiency.
  - B. They cannot provide essential goods and services to the public to satisfy their basic needs.
  - C. Decision-making process is often slow.
  - D. Losses of public enterprises are paid by taxpayers.

**Based on the following information, answer Questions 34 to 35.**

Lily and Julie are running a fast food restaurant, called 'Together Happy Restaurant'. They both invested \$500,000 into it and share the profit earned equally. If one of them withdraws from it, it can still continue its operation. Besides, the financial position of the business does not need to be disclosed to the public, but they still publish the financial report to the public every year.

34. 'Together Happy Restaurant' is a \_\_\_\_\_ .
- A. public limited company
  - B. public corporation
  - C. general partnership
  - D. private limited company

35. Due to the economic recession, Together Happy Restaurant suffers losses amounting to \$700,000. Lily and Julie are going to close down the restaurant. After liquidating all assets of the restaurant, it still owes an amount of \$600,000 debts. In this case, Lily and Julie each needs to draw out \_\_\_\_\_ to repay the debts.
- A. \$0
  - B. \$150,000
  - C. \$300,000
  - D. \$600,000
36. Which of the following descriptions of limited companies in Hong Kong must be correct?
- A. All limited companies raise capital by issuing shares to the public.
  - B. All shareholders have voting rights in the annual general meeting.
  - C. All limited companies have a separate legal entity status.
  - D. All limited companies need to disclose its financial information to the public.
37. Which of the following is **NOT** a feature of multinational corporations (MNCs)?
- A. MNCs are capital intensive and use relatively advanced technology.
  - B. MNCs have a wide source of financing.
  - C. MNCs are slow in decision-making.
  - D. MNCs are mostly run by the owners.

**Based on the following information, answer Questions 38 to 39.**

Lilian, Fiona, Vicky and Brian are forming a limited partnership together. Only Lilian, Fiona and Brian will contribute capital to the partnership. Only Brian will engage in the daily operation of the business and repay outstanding debts when the firm winds down.

38. Who is the nominal partner in this partnership?
- A. Lilian
  - B. Brian
  - C. Fiona
  - D. Vicky
39. What is/are the reason(s) to admit nominal partners into a partnership?
- (1) enhance the reputation of the business
  - (2) receive professional advice from them
  - (3) share the workload of running the business with Brian
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

40. One of the differences between a sole proprietorship and a limited company is that the former is of \_\_\_\_\_ while the latter is of \_\_\_\_\_ .
- A. limited liability ..... unlimited liability
  - B. unlimited liability ..... limited liability
  - C. public ownership ..... private ownership
  - D. private ownership ..... public ownership
41. Which of the following concerning the maximum number of owners in a partnership and a private limited company in Hong Kong is correct?
- |    | <u>partnership</u> | <u>private limited company</u> |
|----|--------------------|--------------------------------|
| A. | 20                 | 50                             |
| B. | 20                 | 20                             |
| C. | not specified      | 20                             |
| D. | not specified      | 50                             |
42. Which of the following descriptions about limited partners in Hong Kong is/are **INCORRECT**?
- (1) Limited partners are liable for only parts of the debts of the firm when the business terminates.
  - (2) Limited partners do not share any profits of the business.
  - (3) Death or bankruptcy of a limited partner terminates the business.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
43. Which of the following statements regarding business ownership is correct?
- A. The maximum number of shareholders of private limited companies is 20.
  - B. Only limited companies can participate in joint venture.
  - C. Franchisees' businesses are fully owned by franchisors.
  - D. Only general partners are personally liable for all remaining liabilities of the partnership upon liquidation.
44. Which of the following is/are **INCORRECT** description(s) regarding a public corporation?
- (1) It is managed by the government.
  - (2) Its profit is treated as government revenue.
  - (3) The aim for their setup is to enhance efficiency in operations.
- A. (1) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (1), (2) and (3)

45. Edward started a trading firm in Hong Kong on 1 January 20X7 as the sole owner. One year later, he decided to change the form of business ownership of the firm and invited six people to invest in and join the business as owners. All owners have limited liability for the firm. Their ownerships can be freely transferred. Which of the following may be the reason behind Edward's decision?
- Profits tax rate is lower.
  - Financial information can be disclosed so as to attract more investors.
  - Different owners can contribute different abilities to improve the management of the firm.
  - The sources of capital are wider.

46. Nelson, Raymond and Ryan jointly set up a business in the form of a limited partnership.

The partnership agreement contains the following terms:

- Only Raymond will be involved in the daily operations of the partnership.
- Raymond and Nelson will be liable for the act of the partnership.
- Ryan will have limited liability.

Which of the following correctly matches the partners and their corresponding types?

	<u>Nelson</u>	<u>Raymond</u>	<u>Ryan</u>
A.	limited partner	general partner	limited partner
B.	nominal partner	general partner	limited partner
C.	general partner	nominal partner	limited partner
D.	limited partner	nominal partner	general partner

47. Which of the following statements about nominal partners are correct?

- They are usually paid a consultation fee.
  - They are invited to join the company due to their expertise or reputation.
  - They contribute money to the company.
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)

48. Cindy operates a fitness centre which also runs a franchise system. John joins Cindy's company as a franchisee. Which of the following is a possible disadvantage from John's perspective?

- Confidential information of the company may be leaked to John.
- John has to pay franchise fees regularly.
- A huge investment is required to develop the franchise system.
- Operations in different franchise shop are not standardised.