2023 Marking Key for Task One

**Part A – Setting up a business**

1. Explain the legal requirements for registering a business name. (5 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Full explanation requires a discussion on the following: | |
| Identifies not all business names need to be registered (first and surname) | 1 |
| Identifies importance of a business name | 1 |
| Identifies name availability with ASIC | 1 |
| Identifies fee must be paid | 1 |
| Identifies name must be included on formal correspondence | 1 |
| *Accept any other reasonable comment* |  |
| **Total** | **/5** |
| **Answer could include, but is not limited to** | |
| A business name is the name your business operates under. Your business name identifies you to your customers and allows you to differentiate yourself from your competitors. A business name helps your customers to make an emotional connection to your business and brand [1].  There’s no need to register if you or your business partner are trading under your first name and surname. [1].  You will need to check the availability of your business name(1/2) with the Australian Securities and Investment Commission (ASIC) [1/2].  -Once you have confirmed your chosen business structure, you must pay a fee (1/2) to ASIC (1/2)  - for registering your business name (currently $39 for 1 year and $92 for 3 years).  You will need to display your business name on official business correspondence such as quotes, invoices and receipts [1].   * When applying you need to provide your business structure (1) * When applying you need an ABN | |

1. Describe the legal requirements for setting up an Australian Business Number and registering for GST.

(7 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Legal requirements for setting up an Australian Business Number (ABN): | |
| Defines ABN | 1 |
| Describes the legal requirements for setting up an ABN | 1-2 |
| **Subtotal** | **/3** |
| Legal requirements for registering for GST: | |
| Defines GST | 1 |
| Describes the $75,000 benchmark to register for GST | 1 |
| Describes the legal requirements for registering for GST | 1-2 |
| **Subtotal** | **/4** |
| **Total** | **/7** |
| **Answer could include, but is not limited to** | |
| An ABN is a unique 11 digit number that identifies your business to the government and community [1]. You can use an ABN to identify your business to others when ordering and invoicing, claiming goods and services tax (GST) credits, claiming energy grants credits and getting an Australian domain name [1-2].  - When applying you need to provide your business structure (1)  - When applying you need to provide details of business associates (1)  - When applying you need to provide details of business activities (1)  - When applying you need to provide proof of identity (1)  Goods and services tax (GST) is a tax of 10% on most goods and services sold or consumed in Australia [1].  You must register for GST if your business has sales turnover of $75,000 or more [1]. If registered, your business must collect GST from customers [1]. A GST Business Activity Statement must be completed at regular intervals to reconcile amounts owing to the ATO [1].   * Not for profits must register for GST if business has sales turnover of $150,000 or more (1) * Uber and taxis must register for GST regardless of sales turnover (1) * Able to register by form, by phone or with a BAS agent (1) | |

1. Briefly describe the characteristics of a sole trader, partnership and small proprietary company. (9 marks)
   * *number of owners*
   * *liability of owners*
   * *ability to raise capital or borrow funds*
   * *distribution of profits*
   * *transfer of ownership*
   * *separate accounting or legal entity*
   * *continuity of existence*

|  |  |
| --- | --- |
| **Description** | **Marks** |
| **For each of the three types of small business ownership structures** | |
| Explains the characteristics of a sole trader, referring to at least **five** of the syllabus points | 3 |
| Describes the characteristics of a sole trader, referring to at least **three** of the syllabus points | 2 |
| Identifies one or two characteristics of a sole trader | 1 |
| **Sub Total** | **/3** |
| Explains the characteristics of a partnership, referring to at least **five** of the syllabus points | 3 |
| Describes the characteristics of a partnership, referring to at least **three** of the syllabus points | 2 |
| Identifies one or two characteristics of a partnership | 1 |
| **Sub Total** | **/3** |
| Explains the characteristics of a small proprietary company, referring to at least **five** of the syllabus points | 3 |
| Describes the characteristics of a small proprietary company, referring to at least **three** of the syllabus points | 2 |
| Identifies one or two characteristics of a small proprietary company | 1 |
| **Sub Total** | **/3** |
| **Total** | **/9** |
| **Answer could include, but is not limited to** | |
| **Sole trader**   * + one owner making all operational decisions   + liability is unlimited which means the owners assets can be accessed to cover business debts   + ability to raise capital or borrow funds is limited to the owner’s personal collateral   + all profits are distributed to the owner   + business name and assets may be sold to new owners   + business will be a separate accounting entity but will not be recognised as a separate legal entity   + business will cease to exist if the owner dies   P**artnership**   * + 2-20 owners (exemptions apply for more partners in specific industries e.g., law and accounting)   + liability is unlimited which means the partners assets can be accessed to cover business debts   + ability to raise capital or borrow funds is increased with access to all partner’s capital and collateral   + profits are distributed evenly according to the *Partnership Act 1895(WA),* or as set out in a Partnership Agreement   + transfer of ownership will end the partnership, unless stipulated in a Partnership Agreement   + partnership will be a separate accounting entity but will not be recognised as a separate legal entity   + partnership will cease to exist if a partner dies, unless stipulated in a Partnership Agreement   **Small proprietary company**   * + up to 50 non-employee shareholders owning proportionate units in the company where ownership and management is separate   + liability is limited protecting shareholders personal assets from the debts of the business   + ability to raise capital or borrow funds is increased with greater access to shareholders capital   + profits are distributed via dividend in proportion to the shareholding of the owners   + transfer of ownership is via shares if the company Constitution allows.   + separate accounting entity   + an incorporated business formed by a legal process outlined in the *Corporations Act 2001* having a separate legal entity, meaning a company is able to enter into contracts, sue and be sued, and hold assets in their own name, taxed as a separate entity.   + company will continue to exist until wound up by a formal legal process.   + ASIC recognises company that meets two of the following criteria after 30/6/19 * Cpy controls less that $50M * Assets are less than $25M * Less than 100 employees   (Prior to 30/6/19 same criteria except less than 50 employees | |

1. Explain the type of legal ownership structure you would recommend to your client. Justify your recommendation. (5 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Provides a relevant and justified recommendation | 4–5 |
| Provides a recommendation supported with some reasoned explanations | 2–3 |
| Provides a brief, superficial and/or unsupported recommendation | 1 |
| **Total** | **/5** |
| **Answer could include, but is not limited to** | |
| No reference to working with others so partnership is not recommended.  Reference to not wanting to manage time consuming and expensive reporting requirements so a small proprietary company is not recommended.  **Sole trader is recommended:**   * easy and inexpensive to set up and establish with minimal reporting obligations * all profits are distributed to the owner * owner makes all operational business decisions * will have unlimited liability which will need to be considered * losses will also be worn solely by the owner * will be solely responsible for raising capital | |

1. Identify and explains TWO external sources of finance available to your client. (6 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| For each of the **two** external sources of finance | |
| Explains an appropriate source of finance with a minimum of **5 points and refers back to client** | 2-3 |
| Describes an appropriate source of finance with a minimum of **3 points** | 1-2 |
| Identifies an appropriate source of finance | 1 |
| **Subtotal** | **/3** |
| **Total** | **/6** |
| **Answer could include, but is not limited to** | |
| * **Loan from financial institution**– Can apply to a bank or other financial institution for a long-term loan with a set maturity date and fixed or variable interest cost. Will need collateral as security. * **Lease finance** – Can use a leasing company to rent the coffee cart over a period of time, freeing up cash for other business requirements. The coffee cart would remain the property of the lessor. * **Loan from family and friends –** Can ask family members or friends for money, often with little or no interest cost. Family and friends will often not require collateral but may risk relationships if the coffee van business does not work out and the business is unable to generate enough profit to repay the loan.   **Do not accept the following options:**  *Mortgage - not property*  *Overdraft - not appropriate for a long-term income producing asset*  *Trade creditors – not inventory*  *Crowdfunding – no market for a coffee van venture* | |

1. Describe THREE factors that will be considered by a financial institution when approving finance and relate each of these to your client’s business. (9 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Identifies one to three factors that will be considered by a financial institution when approving finance | 1-3 |
| Describes one to three factors that will be considered by a financial institution when approving finance | 1-3 |
| Relates one to three factors that will be considered by a financial institution when approving finance to the business. | 1-3 |
| **Total** | **/9** |
| **Answer could include, but is not limited to** | |
| * **Liquidity**– Financial institutions will be interested in whether a business will be able to repay its debt commitments as and when they fall due. The business will need appropriate cash flow and working capital to maintain liquidity in the early stages of the business. The bank may ask for budgeted future cash flows to determine the projected receipts and payments of the business. * **Collateral** – Financial institutions will be interested in the quality and quantity of the assets of the business that can be used as security on the loan in the event that the business is unable to keep up with repayments of interest and capital. The bank may ask for your apartment to be provided as security over a loan. * **Customer history –** Financial institutions will be interested in the experience of the owner and the business plan the owner has in place. They will also be interested in future projections. A good credit rating and previous repayment history will be favourable for the client. The bank may charge a higher rate of interest as the business is new and therefore carries a higher risk to the bank. | |

1. Describe which source of finance you would recommend to your client. Justify your recommendation. (3 marks)

|  |  |
| --- | --- |
| **Description** | **Marks** |
| Provides a relevant and justified recommendation | 3 |
| Provides a recommendation supported with some reasoned explanation | 2 |
| Provides a brief, superficial and/or unsupported recommendation | 1 |
| **Total** | **/3** |
| **Answer could include,** | |
| Bank Loan is recommended. A medium to long term loan will have flexible repayment options. Your client has a favourable relationship with their current financial institution, a good credit history and collateral in the form of his apartment.  Lease also accepted for 3 marks must relate back to client and give a strong explanation. | |

Evidence of research (6 marks)

|  |  |
| --- | --- |
| Description | Marks |
| Locates a variety of relevant resources and uses these to conduct comprehensive research | 5 |
| Locates a variety of relevant resources and uses these to conduct mostly comprehensive research | 4 |
| Locates a variety of relevant resources and uses these to conduct research | 3 |
| Locates relevant resources and uses these to conduct research | 2 |
| Locates few relevant resources and uses these to conduct limited research | 1 |
| **Sub Total** | **/5** |
| Uses the correct format for bibliography **Sub Total** | **/1** |
| **Total** | **/6** |