# Lecture 9 Questions

# Question One

Paul has been in business as a sole trader for several years running a hardware store. Nick runs a similar store in a nearby town. Nick has contacted Paul to see if he would be interested in forming a business partnership with him. His view is that there could be several advantages to running the two stores in partnership: for example, a larger business is in a much better position to take advantage of discounts and special bulk buy offers. Paul and Nick meet to discuss the proposition. Nick suggests that, as the stores are of similar size and have the same profit level, the profits of the partnership should be split 50:50. Nick assures Paul that there’s no need for any ‘red tape’: ‘there’s none of the form-filling you get with starting up a company’.

Paul asks you, a small business adviser, for some advice on the proposal. He is not quite clear on the legal status of a partnership and wonders what formalities would be involved in setting up the partnership.

**Required:**

Advise Paul on the pros and cons of setting up in partnership with Nick.

# Question Two

Juan runs a business which manufactures lathes and other specialised tools. For some years now he has rented the workshop premises from which the business operates. However, he has recently received a letter from the local government authority, informing him that his workshop is to be demolished to facilitate the construction of a new road. Juan’s business has done reasonably well in recent years and he currently has no borrowings. He would like to buy a workshop unit. He reckons that, as prices of commercial property are increasing rapidly, it would be a good investment and it would save him having to pay rent.

**Required:**

Advise Juan on the best way of financing the purchase of the workshop.