Limited and Unlimited Liability

1. Missing words
A sole trader is an ___________________ liability business owned by one person. This means that the owner of the business is fully responsible for the _______________ of the business if it fails. If the owner of a sole trader business is not able to pay the debts, s/he will be declared ___________________. A private________________________ company is a small family business with shareholders. The shareholders have ___________________ liability. This means that if the business fails, the shareholders only lose the amount they have _________________ in the business. **Missing words from: limited, invested, unlimited, private limited, debts, bankrupt**

2. Limited or Unlimited Liability?
Place the following words under the correct heading. Do they relate to limited or unlimited liability?

<table>
<thead>
<tr>
<th>Sole Trader</th>
<th>High Personal Risk</th>
<th>Shareholders</th>
<th>Low Personal Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Limited Company</td>
<td>Responsible for all debts</td>
<td>Lose only the amount invested</td>
<td></td>
</tr>
<tr>
<td>Protection</td>
<td>Separate from owner</td>
<td>Business and owner seen as one</td>
<td></td>
</tr>
<tr>
<td>Loss of personal possessions</td>
<td>Risk of bankruptcy</td>
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3. Unlimited Liability | Limited Liability

3. Multiple Choice

3.1 A shareholder in a private limited company has
a) Unlimited liability
b) Limited liability
c) Complete control over the company
d) No rights, because it isn’t a public company

3.2 Which of the following features relates to a sole trader business?

a) Limited liability
b) Easy to sell shares to new investors
c) Complete control over the business
d) A legal requirement to have an accountant produce financial accounts for the business

3.3 Lisa is a plumber who runs her business as a sole trader. Her business has performed poorly over the past year and she has run up debts of £65,000. Lisa invested £100,000 of her own money in the business and used her flat as security for a loan of £50,000. Her house is worth £250,000. She owes £15000 to her suppliers. If she closes her business, how much of the debt is Lisa responsible for paying?

a) £65,000  b) £50,000  c) £15,000  d) £100,000

4. Which type of ownership?
Lucy is a sole trader who runs an events management company. She employs 3 people and for each event she runs she has to borrow up to £100,000 for materials and venue hire. She does not get paid by her customers until after the event has taken place.

4.1 Outline two advantages to Lucy of staying as a sole trader and two advantages to Lucy of setting up a limited company

4.2 Advise Lucy as to which type of business ownership is best for her. Give reasons for your answer.
55. ANSWERS - Limited and Unlimited liability

1. Unlimited...debts...bankrupt...limited...limited...invested

2. Unlimited Liability

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3.1 B

3.2 C

3.3 A

4.1 Advantages of sole trader– control, keeps all profits, privacy; Advantages of limited – limited liability, less risk, access to capital

4.2 Student choice and justify