Who Owes What?

Sort firms by who is responsible for business debts.

SS24.E.5 "Compare and contrast types of business firms, including sole proprietorships, partnerships, and corporations. 5a Evaluate the role of profit as an incentive for short- and long-term decisions by corporations, partnerships..."

NAME _____ DATE _____

LIMITED LIABILITY

A corporation's owners usually risk only what they invested when the business owes money. They are not normally responsible for its ordinary debts with their personal assets.

An incorporated pottery studio cannot pay for clay. Its owners may lose their investment, but they do not normally have to pay the bill themselves.

UNLIMITED LIABILITY

A sole proprietor or general partner can be personally responsible for business debts. Their personal assets may be used to pay those debts.

Two general partners who grow apples cannot pay for fertilizer. Both partners may have to cover the debt personally.

1 SORT

8 items

Circle LIMITED or UNLIMITED for each numbered firm, then choose two items and explain which detail helped you classify each one.

1.	1. A corporation sells bicycles and cannot pay its wholesaler.	LIMITED UNLIMITED
2.	2. A corporation operates a movie theater and owes back rent.	LIMITED UNLIMITED
3.	3. A sole proprietor runs a car wash and owes a bank.	LIMITED UNLIMITED
4.	4. A corporation makes solar panels and cannot pay its shipping bill.	LIMITED UNLIMITED
5.	5. Two general partners operate a dental clinic and owe a supplier.	LIMITED UNLIMITED
6.	6. A sole proprietor repairs phones and owes a lender.	LIMITED UNLIMITED
7.	7. A corporation publishes textbooks and cannot pay for printing.	LIMITED UNLIMITED
8.	8. A corporation runs a grocery chain and owes a contractor.	LIMITED UNLIMITED

2 PROVE IT

Explain your thinking

Pick two items from Part 1. For each one, tell how you knew where it belonged.

ITEM # _____ **HOW I KNEW** _____

ITEM # _____ **HOW I KNEW** _____

3 MAKE YOUR OWN

One of each

Write one new business-debt example for LIMITED and one for UNLIMITED. Name the type of firm in each example.

LIMITED _____

UNLIMITED _____

CHALLENGE

In two sentences, compare how the chance of profit and the risk of unpaid debt might shape a corporation's and a sole proprietor's decision to expand.

ANSWER KEY

Who Owes What?

GRADE 12 · SS24.E.5

PART 1 · SORT

#	ITEM	CATEGORY	WHY
1	1. A corporation sells bicycles and cannot pay its wholesaler.	**LIMITED**	The firm is a corporation, so its owners normally have limited liability for its debts.
2	2. A corporation operates a movie theater and owes back rent.	**LIMITED**	The firm is a corporation, so its owners normally have limited liability for its debts.
3	3. A sole proprietor runs a car wash and owes a bank.	**UNLIMITED**	A sole proprietor is personally responsible for business debts.
4	4. A corporation makes solar panels and cannot pay its shipping bill.	**LIMITED**	The firm is a corporation, so its owners normally have limited liability for its debts.
5	5. Two general partners operate a dental clinic and owe a supplier.	**UNLIMITED**	General partners are personally responsible for partnership debts.
6	6. A sole proprietor repairs phones and owes a lender.	**UNLIMITED**	A sole proprietor is personally responsible for business debts.
7	7. A corporation publishes textbooks and cannot pay for printing.	**LIMITED**	The firm is a corporation, so its owners normally have limited liability for its debts.
8	8. A corporation runs a grocery chain and owes a contractor.	**LIMITED**	The firm is a corporation, so its owners normally have limited liability for its debts.

PART 2 · PROVE IT

Accept any explanation that names the deciding feature from the rule box for the chosen item.

PART 3 · MAKE YOUR OWN (SAMPLE ANSWERS)

- **LIMITED**: A corporation operates a planetarium and cannot pay its lighting vendor.
- **UNLIMITED**: Two general partners run a canoe tour company and cannot pay for repairs.

Challenge: A corporation may expand to seek higher profits even if it must borrow, since its owners usually risk only their investment on ordinary business debts. A sole proprietor may expand more cautiously to seek future profits because unpaid business debts can put personal assets at risk.

For the explanations, accept answers that identify the firm's legal structure and connect it to responsibility for debt. Assume ordinary business debts with no personal guarantees; limited liability does not protect an owner who personally guarantees a loan.