The Repair Shop Decision

Compare business forms through one owner's choices

E.3.1 "Explain the advantages and disadvantages of various types of firms including sole proprietorships, partnerships, and corporations."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline an advantage and circle a disadvantage for each business form so you can compare their trade-offs.

Who Should Own the Shop?

1. Maya wants to open a bicycle repair shop near a busy trail. If she operates as a sole proprietorship, she owns the business herself and can decide its hours and prices without consulting other owners. She also keeps the profits after paying expenses and taxes. But buying tools and renting space may strain her savings, since she cannot raise money by selling ownership shares. The business is not legally separate from Maya. If the shop cannot pay a debt, her personal assets could be at risk. Quick decisions may appeal to her, but the financial risk might not.

2. Maya could instead start the shop with Luis as a general partnership. Luis knows how to repair electric bicycles, while Maya knows customers along the trail. Together, they could combine money, skills, and work, allowing them to offer more services than either could alone. They would also share profits and major decisions, so disagreement about prices could slow a change. In a general partnership, each partner can be personally responsible for business debts, including obligations created by the other partner for the business. A written agreement could clarify responsibilities, but it would not automatically erase that liability.

3. Another option is a corporation that owns the shop as a separate legal entity. Maya could seek investors by selling shares, making it easier to fund several locations than relying only on her savings. Shareholders generally are not personally responsible for corporate debts beyond what they invested. However, setting up and running a corporation usually takes more paperwork and money than the other options. Investors may expect a say through voting for directors, and profits may need to be shared as dividends. Maya must weigh access to capital and limited liability against added costs and reduced control.

2 ANSWER WITH EVIDENCE

Use the passage

1. Maya wants to set the shop's hours without consulting another owner, but she worries about unpaid debts. Explain one advantage and one disadvantage of a sole proprietorship for her.

2. How could a general partnership with Luis improve the shop's services, and what decision-making problem could it create?

3. Compare the risk to Maya's personal assets in a general partnership and a corporation.

4. If Maya hopes to open several locations, explain one advantage of a corporation and one disadvantage she would need to consider.

3 YOUR TURN

Your own words

Two friends with limited savings want to start a weekend lawn-care service. They each have equipment, but they disagree about prices. Recommend either a general partnership or a corporation. In 4 to 5 sentences, explain an advantage and a disadvantage of your choice and why it fits better than the other form.

ANSWER KEY

The Repair Shop Decision

HIGH SCHOOL · E.3.1

PART 1 · READ AND MARK

Underline an advantage and circle a disadvantage for each business form so you can compare their trade-offs. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Maya wants to set the shop's hours without consulting another owner, but she worries about unpaid debts. Explain one advantage and one disadvantage of a sole proprietorship for her.	**She can set the hours herself, but her personal assets could be at risk if the shop cannot pay its debts.**
2	How could a general partnership with Luis improve the shop's services, and what decision-making problem could it create?	**Luis's electric bicycle repair skills could help them offer more services. Because they share major decisions, disagreements about prices could slow changes.**
3	Compare the risk to Maya's personal assets in a general partnership and a corporation.	**As a general partner, Maya could be personally responsible for business debts, including obligations Luis creates for the business. As a corporate shareholder, she generally would not be responsible beyond what she invested.**
4	If Maya hopes to open several locations, explain one advantage of a corporation and one disadvantage she would need to consider.	**Selling shares could help fund several locations, but a corporation usually costs more to set up and run, requires more paperwork, or gives investors a say.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I recommend a general partnership because both friends can contribute equipment and split the work. Combining their limited savings could help them buy supplies, but they must agree on prices and share profits. Each partner could be personally responsible for business debts, so they should discuss purchases before either signs a contract. A corporation would generally protect their personal assets from corporate debts, but its setup and ongoing paperwork may cost too much for a small weekend service.

Accept either recommendation if the response accurately explains an advantage and disadvantage of that form and compares it with the alternative. Do not accept a claim that a written partnership agreement automatically removes personal liability.