The Bakery Decision

Weigh the resources, risks, and costs of incorporation

E.C.7.6 "Evaluate the costs and benefits of incorporation including the expansion of resources and reduction of risks."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline two ways incorporation could help the bakery, circle two costs or limits, and write 1 beside a condition that could change whether incorporation is worth the cost.

Should the Bakery Incorporate?

1. On Friday mornings, Maya and Luis sell bread from a rented kitchen. They operate as a partnership, so they can make decisions quickly without maintaining a separate corporation. A grocery chain offers to stock their loaves, but the order requires a larger oven and more workers. Their savings will not cover the expansion. They consider incorporating their bakery: creating a business that is legally separate from its owners. A corporation can sell shares to investors in exchange for cash, though issuing shares also means sharing ownership and, potentially, decisions. A bank might lend to either business form, but it will still check whether the bakery can repay.

2. The partners also worry about a customer's injury or an unpaid supplier bill. In a typical corporation, owners generally risk the money they invest rather than their personal savings for corporate debts and many business claims. That protection is not absolute. A lender might require Maya and Luis to personally guarantee a loan, making them responsible if the bakery cannot pay it. They could also be responsible for their own wrongful actions. Incorporation does not prevent accidents or erase debts; insurance and safe food-handling practices still matter. Limiting owners' financial exposure, however, could make a risky expansion easier to consider.

3. Setting up the corporation would require state filing fees and legal paperwork. It would also need separate records, required reports, and continuing compliance with state rules, which take time or money. The partners expect the grocery order to bring steady sales, but they have not signed a contract yet. If the order is confirmed and investors offer enough cash for the oven, the new resources and reduced personal exposure may outweigh those costs. If the order falls through, paying to form and maintain a corporation might be premature. The best choice depends on the likely gains, the remaining risks, and the price of the protection.

2 ANSWER WITH EVIDENCE

Use the passage

1. If an investor offers cash for shares, how could incorporation help the bakery expand, and what would the partners give up?

2. How would incorporation change the partners' exposure to an unpaid supplier bill, and what loan condition could weaken that protection?

3. Why might incorporation be worth its costs if the grocery order is confirmed, but not if it falls through?

4. Why should the partners still pay for insurance and food safety if they incorporate?

3 YOUR TURN

Your own words

Imagine you and a partner run a mobile bike-repair service and want to buy a second van. In 4 to 5 sentences, recommend whether to incorporate, explaining one resource benefit, one risk benefit, two costs or limits, and a condition that would change your recommendation.

ANSWER KEY

The Bakery Decision

HIGH SCHOOL · E.C.7.6

PART 1 · READ AND MARK

Underline two ways incorporation could help the bakery, circle two costs or limits, and write 1 beside a condition that could change whether incorporation is worth the cost. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	If an investor offers cash for shares, how could incorporation help the bakery expand, and what would the partners give up?	**Selling shares could raise cash for the oven and workers, but Maya and Luis would share ownership and possibly decisions.**
2	How would incorporation change the partners' exposure to an unpaid supplier bill, and what loan condition could weaken that protection?	**They would generally risk their investment rather than personal savings for the corporation's bill. A personal guarantee would make them responsible for a loan the bakery could not repay.**
3	Why might incorporation be worth its costs if the grocery order is confirmed, but not if it falls through?	**A confirmed order could bring sales that justify raising investment and paying the costs of incorporation. Without the order, the expansion and its benefits are less certain, while filing and ongoing costs remain.**
4	Why should the partners still pay for insurance and food safety if they incorporate?	**Incorporation does not prevent accidents, and owners may still be responsible for their own wrongful actions. Insurance and safe practices help address those remaining risks.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

I would incorporate the mobile bike-repair service if we had enough demand for a second van. Selling shares could raise money for the van, but we would share ownership. Limited liability could protect our personal savings from many business debts, though a personal loan guarantee could put them at risk. Filing fees and ongoing reports would cost time and money. If van bookings stayed low, I would delay incorporation because those costs might outweigh the benefits.

Accept either recommendation in Part 3 if the student weighs the requested benefits and costs or limits and explains a condition that could change the decision. For the marking job, students may select any two supported benefits and costs or limits, and may mark either confirmation or loss of the grocery order as the condition.