

Types of business organisation: should Mei stay a sole trader?

Teacher guidance and answers | Original TBS classroom practice

Use this lesson after learners have been introduced to the types of business organisation. Learners calculate what a bakery owner could lose under unlimited and limited liability, sort the features of four types in pairs, judge a franchise and a joint venture, and recommend and justify one option. The tasks are planned to take about 55 minutes and have not been trialled in a classroom. The minutes include brief answer checking but not handing out materials or a full plenary; allow about 65 minutes in the timetable.

Curriculum fit

Cambridge IGCSE Business (0264) and Cambridge IGCSE (9-1) Business (0774) syllabuses for exams in 2027, 2028 and 2029, version 2 (published March 2025), Topic 1 Understanding business activity, 1.4 Types of business organisation, 1.4.1 Different types of business organisation (printed page 12 of both syllabuses): "sole traders, partnerships, private limited companies and public limited companies"; "advantages and disadvantages of different types of business organisation"; "recommend and justify a suitable type of business organisation to owners/management for a given situation"; "different forms of business organisation: franchises, joint ventures, social enterprises"; "advantages and disadvantages of franchises for the franchisor and franchisee"; "advantages and disadvantages of joint ventures". The wording of 1.4.1 is the same in both syllabuses. This lesson is not for Cambridge IGCSE Business Studies 0450, whose syllabus is for exams in 2026. Checked against the archived version 2 syllabuses; please confirm with your exams officer. This is a TBS lesson, not a Cambridge resource; it is not endorsed by Cambridge International Education and uses no Cambridge exam questions or mark schemes.

All business details and numbers are fictional; dollars are used for an international class. The answers are indicative teaching guidance only. There is no official mark tariff, level descriptor or AO allocation for these tasks and no grade claim is made.

Lesson plan (about 55 minutes of tasks, estimated)

Stage	Minutes	What happens
Starter: name the type	4	Six descriptions.
Task 1: what could Mei lose?	12	Unpaid debts and personal losses under three options.
Task 2: who carries the risk?	7	Creditors, the bank and a shareholder.
Task 3: sort the features	10	Pairs tick nine features; why not a public limited company.
Task 4: franchise or joint venture?	9	Franchise income; advantages and disadvantages.
Task 5: recommend and justify	9	Written recommendation.
Exit ticket	4	Two quick questions.
Total	55	

45-minute version: starter 3, Task 1 10, Task 2 5, Task 3 8, Task 4 7, Task 5 8, exit ticket 4 (total 45). The Task 3 rows do not depend on each other, so one partner ticks features 1 to 5 and the other 6 to 9, then they check each other's rows. In Task 4 pairs answer a together, then one partner answers b and c and the other d, and they explain their answers to each other. Ask for about 50 words in Task 5. This timing has not been trialled. The 45 minutes are task time only, so in a real 45-minute period, with handing out and feedback, move the exit ticket to homework.

Answers: starter, Task 1 and Task 2

Indicative guidance for teachers. This is not an exam board mark scheme and carries no marks or grades.

Starter: (i) sole trader; (ii) partnership; (iii) private limited company; (iv) public limited company; (v) franchise; (vi) joint venture.

Task 1a: $250,000 - 100,000 = \$150,000$ of unpaid debts.

Option	Limited or unlimited liability?	Money Mei put in (\$)	Unpaid debts Mei pays from her personal assets (\$)	Total Mei could lose (\$)	Mei's personal assets left (\$)
A: sole trader	unlimited	40,000	150,000	190,000	30,000
B: partnership	unlimited	40,000	75,000	115,000	105,000
C: private limited company	limited	40,000	0	40,000	180,000

Task 1b working: A, Mei pays all 150,000; $40,000 + 150,000 = 190,000$; $180,000 - 150,000 = 30,000$. B, $150,000 / 2 = 75,000$; $40,000 + 75,000 = 115,000$; $180,000 - 75,000 = 105,000$. C, limited liability, so Mei pays 0 of the debts and loses only the 40,000 paid for her shares; $180,000 - 0 = 180,000$. Common errors: forgetting the \$40,000 Mei put in; halving the debts in Option C; using 250,000 instead of 150,000 because the assets were not subtracted first. The Task 2 chart and the Task 5 table repeat these results so that a learner who went wrong can carry on; tell learners to check them against their own.

Task 1c: $250,000 - 40,000 = \$210,000$ unpaid. Mei pays all \$180,000 of her personal assets, so \$0 is left. $210,000 - 180,000 = \$30,000$ is still unpaid. Teaching point: in total Mei loses $40,000 + 180,000 = \$220,000$, everything she owns.

Teacher note: the lesson holds the debts at \$150,000 in every option so that learners see only the effect of liability; in reality Jun's \$40,000 or Ken's \$10,000 would mean less borrowing. In many countries, if one partner cannot pay their share, creditors can ask the other partners for it, so Mei could pay more than half in Option B.

Task 2a: The company's creditors, such as the bank, the suppliers and the landlord, lose it because they are not paid.

Task 2b: If the company fails, the bank cannot take Mei's personal assets, so it may never get all of its money back. Teacher note: for this reason banks often ask the owners of a small new company to promise personally to repay its loan, which removes part of the protection of limited liability. A strong Task 5 answer may mention this.

Task 2c: As a shareholder Ken can lose at most his \$10,000; as a partner he could have to pay the business's debts from his own assets.

Answers: Task 3 and Task 4

Task 3: the ticks are shown as "tick". If pairs tick feature 2 for a sole trader, point out that a sole trader has only one owner. Feature 8: a sole trader's business or a partnership can be passed on or continued by agreement, but it does not carry on automatically as a company does.

Feature	Sole trader	Partnership	Private limited company	Public limited company
1. Owned by one person, who keeps all the profit.	tick			
2. Two or more owners share the profits and all have unlimited liability.		tick		
3. Owners can lose their personal assets if the business cannot pay its debts.	tick	tick		
4. Owners can lose only the money they paid for their shares.			tick	tick
5. Shares can be sold to the general public, for example on a stock exchange.				tick
6. Shares cannot be sold to the general public; often owned by a family.			tick	
7. Quick and cheap to set up, with few legal forms to complete.	tick	tick		
8. The business carries on if one of the owners dies.			tick	tick
9. Other people could buy enough shares to take control from the original owners.				tick

Task 3b, for example: Other people could buy enough shares to take control of Mei's recipes and quality. It is also not quick or cheap to set up, unlike her present business. Also accept: selling shares to the public suits businesses that need very large amounts of capital, not a three-shop bakery.

Task 4a: Each franchisee: $20,000 + 5\% \times 300,000 = 20,000 + 15,000 = 35,000$. Two franchisees: $2 \times 35,000 = \$70,000$.

Task 4b, for example: Advantage: Mei earns \$70,000 in the first year without paying for the new shops. Disadvantage: a poor franchisee could damage the Pandan Lane name. Also accept: the franchisees carry the risk of the new shops; Mei has less control over quality in the franchise shops.

Task 4c, for example: Advantage: a known name and tested recipes, so customers may come sooner. Disadvantage: it pays Mei 5% of its sales and must follow her rules. Also accept: training and support from Mei; less freedom to choose products or prices.

Task 4d, for example: Advantage: Riverbend shares the costs and risks and brings its coffee customers. Disadvantage: Mei must find \$35,000 more and share control and profits. Also accept: Riverbend's experience of running cafes; disagreements between the two businesses.

Answers: Task 5 (indicative guidance)

A well supported answer recommends one option, uses at least two figures, compares the choice with at least one other option and names one disadvantage of the choice. Example response (not a mark scheme): I recommend Option C, a private limited company. If the shops fail, Mei loses only the \$40,000 paid for her shares and keeps all \$180,000 of her personal assets, including her flat. As a sole trader she could lose \$190,000. Owning 80% of the shares, she keeps control of recipes and quality, unlike a partnership, where Jun shares every decision. The disadvantage is that a company costs more to set up, and Ken receives 20% of any profit paid out.

Learners may recommend the franchise (D) if they argue that Mei earns \$70,000 in the first year, does not pay for the new shops and is not responsible for the franchisees' debts, with the risk that a franchisee damages the Pandan Lane name. A partnership (B) can be justified by Jun's skills and \$40,000, if the answer deals with the \$115,000 Mei could lose. Accept any option justified with correct figures and linked to Mei's aims. Look for correct figures, a clear comparison and a judgement linked to Mei's situation. Do not award a grade or percentage from these tasks.

Answers: exit ticket

a. $45,000 / 3 = \$15,000$ each. b. \$0. Shareholders have limited liability, so they lose only the money they paid for their shares.

Sources and limits

Curriculum source: Cambridge IGCSE Business (0264) and Cambridge IGCSE (9-1) Business (0774) syllabuses for exams in 2027, 2028 and 2029, version 2, section 1.4.1 (printed page 12). The syllabus verifies the topic scope only. The tasks, figures, chart, timings and guidance are original TBS teaching design.

Limits: section 1.4.1 sets no calculations, so the liability calculation is a teaching device that makes an advantage and a disadvantage concrete. The syllabus does not use the words "limited liability" or "unlimited liability"; the lesson treats them as advantages and disadvantages of the types of business organisation. Laws differ between countries, so the rules and assumptions are stated on the learner pages. Social enterprises, also listed in 1.4.1, are not covered in this lesson.