

# Sole Trader Decisions and Risk

Independence, workload, finance, and unlimited liability in small business start-up

**SL**

Worksheet

<b>Suggested time</b> 50 minutes	<b>Total marks</b> 40	<b>Focus</b> sole traders, risk, finance, workload, independence
<b>Assessment</b> Trimester worksheet	<b>Student</b> Name: _____ Class: _____	<b>Calculator</b> Not required

Teacher-created IB-style worksheet. Use relevant business terminology and support longer answers with balanced reasoning. Credit well-justified alternatives that fit the context.

## Section A - Multiple choice (5 marks)

Choose one correct answer for each question.

- A sole trader is a business that is [1]
  - owned and managed by one person
  - owned by shareholders and directors
  - controlled equally by all employees
  - funded only by government grants
- Unlimited liability means that [1]
  - the owner can never make losses
  - the owner may have to use personal assets to repay business debts
  - the business must sell unlimited quantities
  - the owner has unlimited access to bank loans
- Which is most likely to be an advantage of sole trading? [1]
  - Decisions must be approved by shareholders
  - The owner can respond quickly without consulting partners
  - The business can sell shares to the public
  - Personal risk is reduced by incorporation
- Which problem commonly affects sole traders? [1]
  - Too much access to external finance
  - Difficulty building brand recognition and securing finance
  - Legal duty to hold an AGM
  - Profits must always be shared equally
- Which personal attribute is especially important for a sole trader? [1]
  - Dependence on close supervision
  - Self-discipline
  - A large board of directors
  - Political authority

## Section B - Short answer (13 marks)

- Define a sole trader. [2]

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- Explain one reason sole traders often work long hours. [3]

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8. Explain one advantage and one disadvantage of being a sole trader. [4]

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9. Distinguish between the independence of a sole trader and the financial security of an employee in a large organization. [4]

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### Section C - Data response / case study (12 marks)

#### Lina Lens Studio

Lina runs a photography business as a sole trader. She covers weddings, community events, and small corporate jobs. Her reputation is growing, but some larger clients prefer to deal with incorporated suppliers. Lina currently does almost all administrative work herself and says she sometimes turns down jobs when she is ill because no one can replace her.

She wants to buy better camera equipment and editing software to improve quality and accept larger contracts. Lina is proud of her independence, but she worries about debt and the personal financial risk of a major claim or business downturn.

Selected financial and operating data	Value
Lina's savings available for investment	\$9,000
Cost of upgraded equipment and software	\$14,000
Part-time editing assistant per month	\$600
Average fee per wedding contract	\$950
Average fee per corporate event	\$1,400
Average number of contracts per month last year	6
Average hours worked per week	58

10. Calculate the additional funds Lina needs to buy the upgraded equipment if she uses only her savings, and explain one implication of this gap. [4]

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11. Explain how unlimited liability affects Lina's decision about expanding the business. [4]

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12. Recommend whether Lina should remain a sole trader for the next 12 months. [4]

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### Section D - Extended response (10 marks)



## Teacher answer key and marking guidance

Indicative answers are provided below. Equivalent valid points and alternative recommendations should receive credit when they are accurate and appropriately applied.

### Section A answers

Q	Answer	Guidance
1	A	A sole trader is owned and usually managed by one individual.
2	B	There is no legal separation between owner and business.
3	B	One clear benefit is speed and independence in decision-making.
4	B	Sole traders often rely on savings and may be seen as risky borrowers.
5	B	Sole traders must motivate themselves and manage time independently.

### Section B marking guidance

**Q6** A sole trader is a business owned and usually managed by one person. Award 2 marks for a precise definition that includes single ownership.

**Q7** The owner handles marketing, finance, customer service, purchasing, and operations, so the workload is concentrated in one person. Award up to 3 marks for identifying the reason and explaining the effect on time pressure.

**Q8** Advantage may include independence, quick decisions, or keeping all profits. Disadvantage may include unlimited liability, isolation, or limited finance. Award up to 4 marks for one developed advantage and one developed disadvantage.

**Q9** A sole trader chooses clients, prices, and working methods but accepts uncertainty and full responsibility. An employee usually has less control but often receives more regular income and support. Award up to 4 marks for a clear contrast.

### Section C marking guidance

**Q10** Additional funds needed = \$14,000 - \$9,000 = \$5,000. Implications may include borrowing, delaying investment, or using cheaper equipment. Award up to 4 marks for correct calculation and one developed implication.

**Q11** If the business fails or faces legal claims, Lina may have to use personal assets to repay debts. Expansion that requires borrowing therefore increases personal risk. Award up to 4 marks for a developed explanation in context.

**Q12** Answers may recommend staying a sole trader for flexibility and low complexity, or changing later because larger contracts and risk now matter more. Award up to 4 marks for balanced reasoning and a supported recommendation.

### Section D marking guidance - Q13

#### Indicative content:

- Sole trading is easy to set up and suits businesses built around personal reputation and skill.
- The owner can adapt quickly and keep all profits, which may motivate effort and innovation.
- However, long hours, isolation, and limited access to finance can slow growth.
- Unlimited liability becomes more serious as contracts, borrowing, or legal exposure increase.
- For some creative businesses, starting as a sole trader may be sensible before later incorporation.
- Judgement should consider size, risk exposure, growth ambitions, and the owner's capabilities.

**Overall judgement:** High-quality responses weigh both early-stage simplicity and later-stage risk rather than making a one-sided claim.

Marks	Descriptor
0	No relevant business knowledge or unsupported assertions only.
1-3	Limited understanding. Few relevant points. Little or no application to the question or context.
4-6	Reasonable understanding with some relevant application. Some balance may be present but analysis is uneven.
7-8	Good understanding and clear use of business terminology. Balanced analysis with relevant support and a justified line of argument.
9-10	Strong, well-structured evaluation. Accurate and selective use of evidence, clear judgement, and fully justified conclusion.