

## The importance of limited liability - Westwick

Edward and Reece Westwick, two brothers, worked for a number of building companies before deciding to set up their own business as scaffolders. Health and safety laws today mean that scaffolding is needed for most building jobs above first floor height level. So they expected to get plenty of work from builders needing scaffolding to be put up.

They have to decide what type of business they would form. Edward was the older brother and had more experience. They could have agreed to set up as a sole trader with Edward as the owner and Reece as an employee. However, Reece was not keen on simply being an employee. He wanted to be the joint owner of a business. So they are probably going to set up a private limited company. They would both be shareholders, owning half the company each. Setting up a private limited company would also have the advantage that it would reduce risks if the business did not do as well as they hoped.

1. Explain, using the Westwick brothers as an example, what is meant by (a) limited companies and (b) shareholders. (6)
  2. Why might setting up a limited company reduce risks for the two brothers? (3)
  3. Consider **two** possible advantages for the two brothers of Edward becoming a sole trader and employing Reece, rather than setting up a limited company and both being shareholders. (6)
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