**Entrepreneurship**

**And**

**Small Business Management**

Homework 4

Chapter 6

Following are 20 questions: 16 multiple choice questions worth 4 points each and four open questions worth nine points each.

1) The key to choosing the right form of ownership is \_\_\_\_\_\_\_\_.

A) envisioning where your business will be in 10 years

B) understanding the characteristics of each form and knowing how they affect your business and personal circumstances

C) forming either an S corporation or a limited liability company since they are the only forms that offer owners liability protection

D) irrelevant since choosing a form of ownership is merely a technicality and has little impact on the business and its owner(s)

2) Which of the following issues would influence an entrepreneur's choice of a form of business ownership?

A) Tax considerations

B) Management succession plans

C) Liability exposure

D) All of the above

3) The most common form of business ownership that is also the simplest to create is the \_\_\_\_\_\_\_\_.

A) sole proprietorship

B) partnership

C) corporation

D) S corporation

4) The most critical disadvantage of the sole proprietorship is \_\_\_\_\_\_\_\_.

A) the owner's unlimited personal liability

B) limited access to capital

C) lack of continuity

D) limited skills and abilities of the owner

5) A partnership agreement defines how the partners will be compensated. Normally, \_\_\_\_\_\_\_\_.

A) partners are ***not*** entitled to salaries or wages, but are compensated by a share of the profits of the business

B) the general partner's salary is set at two times the salaries of the limited partners

C) both general and limited partners are permitted salaries, but all silent or dormant partners are compensated only by sharing in the profits

D) while the agreement establishes payout schedules, it does ***not*** spell out what constitutes profit

6) Probably the most important reason to have a partnership agreement is that \_\_\_\_\_\_\_\_.

A) it identifies the name of the partnership and protects that name from infringement by others

B) it states the location and the purpose of the business

C) it determines how the partnership and the partners will pay taxes

D) it resolves potential sources of conflict that, if not addressed in advance, could later result in partnership battles and dissolution of an otherwise successful business

7) All of the following are advantages of a partnership ***except*** \_\_\_\_\_\_\_\_.

A) partnerships are relatively easy and inexpensive to establish

B) partnerships avoid double taxation since the partnership itself is not subject to federal taxation

C) partnerships have the greatest ability to accumulate capital of all of the forms of ownership

D) partnerships offer the ability to combine the management and business skills of two or more people in a complementary and powerful fashion

8) In a partnership, the \_\_\_\_\_\_\_\_ partner(s) has (have) unlimited liability for the partnership's debts.

A) limited

B) dormant

C) nominal

D) general

9) In a general partnership, \_\_\_\_\_\_\_\_.

A) each partner is held responsible for an agreement/decision made by any one of the partners

B) partners can be held responsible only for decisions they make personally

C) no partner can be held legally responsible for decisions since the partnership itself is a legal entity

D) no decision is binding unless all partners agree to it in writing

10) \_\_\_\_\_\_\_\_ is a special type of limited partnership in which ***all*** partners who, in many states must be considered to be professionals, are limited partners.

A) Limited liability partnership (LLP)

B) Master limited partnership (MLP)

C) General partnership

D) Limited partnership

11) A \_\_\_\_\_\_\_\_ partner is a person who makes financial investments in a partnership, does not take an active role in managing the business, and whose liability for the partnerships' debts is limited to the amount they have invested.

A) limited

B) master

C) dormant

D) silent

12) Acme Corporation is chartered in Delaware, but its primary area of operation is in South Carolina. In South Carolina, Acme would be considered a(n) \_\_\_\_\_\_\_\_ corporation.

A) alien

B) domestic

C) foreign

D) local

13) The "Das Spelunker" corporation, formed in Germany and conducting business in the U.S., is considered to be a(n) \_\_\_\_\_\_\_\_ corporation.

A) alien

B) domestic

C) foreign

D) distant

14) Which of the following is true regarding the corporate form of ownership?

A) Generally has the greatest ability to accumulate capital.

B) Most complex form of ownership.

C) Separate legal entity in the eyes of the law.

D) All of the above

15) A corporation receives its charter from the \_\_\_\_\_\_\_\_.

A) federal government

B) state

C) board of directors

D) stockholders

16) Which of the following statement(s) is/are true?

A) Closely held corporations are owned by only a few shareholders — often family members.

B) Most closely held corporations require shareholders interested in selling their stock to offer it first to the corporation. This is known as the right of first refusal.

C) Shares of stock the corporation itself owns are called treasury stock.

D) All of the above

**Open Questions**

1) What factors should an entrepreneur consider when choosing a form of ownership? List and describe four.

2) What is a corporation? Explain the advantages and the disadvantages of a corporation. Cite and explain three advantages and three disadvantages of a corporation.

3) What is an S corporation? Explain the advantages and the disadvantages of an S corporation.

**For Question 4, read the story below and then answer the question.**

Duke has been a successful used car dealer for 25 years in the same location, operating as a proprietorship. In those 25 years, he has expanded his operation and become the largest independent car dealer in a city of 85,000 people. Few people in town can boast of a business reputation better than Duke's. As he says, "I've always done business in a fair and honest fashion, and I've tried to give my customers an honest deal. The public has responded well, and last year the business revenue increased to an all-time high of $830,000."

As the business has grown, so have Duke's liabilities. On a given day, Duke will have cars worth from $350,000 to $450,000 as inventory on the lot. "Twenty years ago, if I'd asked the bank for a line of credit of $200,000, they'd have tossed me out the front door. There is no question that today business is different."

"On my last visit to the accountant, he suggested I consider incorporating. I guess he knows what he's talking about. That's all you hear today – 'you gotta be a corporation.' I guess he's right. But, to tell you the truth, I don't know."

**4.)** Should Duke incorporate? Why or why not? And if he did, should choose to open a C corporation or an S corporation? Explain.