

Chapter 4 Options for Organizing Business

True/False Questions

1) Kate runs a child care business out of her home. She employs one person to help prepare meals for the children, but she manages the business and is the only other employee. All of the profit from the business goes to Kate and is taxed at an individual rate. Kate's business is likely to be a sole proprietorship.

True False

2) A sole proprietor has limited liability in meeting the debts of his or her business.

True False

3) Sole proprietorships pay a lower marginal tax rate than do small corporations on income of less than \$75,000.

True False

4) Limited partners do not participate in the management of the business.

True False

5) One disadvantage of general partnerships is that the general partners have unlimited liability for the debts incurred by the business.

True False

6) The assets and liabilities of a corporation are separate from its owners.

True False

7) The two kinds of stock issued by corporations are common stock and dividend stock.

True False

8) An S corporation is taxed just like any other corporation.

True False

9) An acquisition occurs when one company purchases another company by buying most of its stock.

True False

10) A horizontal merger results when two firms in unrelated industries merge.

True False

Multiple Choice Questions

11) Which of the following forms of business ownership is the easiest to establish?

- A) partnerships
- B) sole proprietorships
- C) S corporations
- D) joint ventures
- E) C corporations

12) Which of the following is the most common form of business organization in the United States?

- A) partnerships
- B) sole proprietorships
- C) S corporations
- D) joint ventures
- E) C corporations

13) Matt is an independent contractor who trailers horses for several local stables. However, he is not an employee of any of the stables. Matt is most likely

- A) a corporate contractor.
- B) a sole proprietor.
- C) a limited partner.
- D) a general partner.
- E) an independent partner.

14) Which of the following statements is true about sole proprietorships?

- A) Most sole proprietorships have limited liability for their debts.
- B) Sole proprietorships are the least common form of business organization in the United States.
- C) Most sole proprietorships focus on services rather than on the manufacturing of goods.
- D) Sole proprietorships net far more sales and income than corporations.
- E) Sole proprietorships are typically small businesses employing fewer than 100 people.

15) Judy has realized that she does not like working for others. She wants to open a business in which she will have maximum control and the least interference from government regulations. Which of the following forms of business is best suited for Judy's needs?

- A) a joint venture
- B) an S corporation
- C) a sole proprietorship
- D) a partnership
- E) a C corporation

16) Catalina owns a small restaurant and is solely responsible for its debts and liabilities. She is

also entitled to all the profits the restaurant makes after paying off taxes and other expenses. Her business is an example of

- A) a joint venture.
- B) an S corporation.
- C) a sole proprietorship.
- D) a partnership.
- E) a C corporation.

17) Sole proprietorships are typically small businesses that

- A) are formed by two or more partners.
- B) provide their owners the advantage of limited liability.
- C) are managed by incorporators.
- D) employ fewer than 50 people.
- E) focus on providing a service rather than earning a profit.

18) All of the following are ways technology has helped sole proprietors succeed EXCEPT

- A) computers, copiers, scanners, and websites allow them to interact quickly with customers, suppliers, and others.
- B) smartphones and tablet computers allow them to work as they travel.
- C) e-mail and social networking have made it possible for them to develop in the services area.
- D) landline telephones allow them to make free long-distance calls to customers, suppliers, and others.
- E) Internet connections allow them to establish websites to promote their products.

19) Marta owns a small pet-grooming company. When a chain pet store with pet-grooming services opened across the street from her business, Marta lowered her prices and added more specialty grooming services. Her ability to make these decisions on the spot without anyone else's approval gave her a

- A) trade secret.
- B) guaranteed profit.
- C) competitive advantage.
- D) loyal customer base.
- E) quick profit.

20) The income earned in sole proprietorships is

- A) taxed twice.
- B) exempted from tax.
- C) taxed as personal income.
- D) quasi-taxable.
- E) taxed as business income.

21) Raj wants to open his own pub in his hometown that serves local spirits and food. Which of the following will he have to do to achieve this goal?

- A) He will need to hire a lawyer to help him obtain a liquor license.
- B) He will not require any licenses or permits to run this type of business.
- C) He will need to fill out paperwork to obtain the proper licenses and permits.

D) He will need to hire someone to fill out the complicated paperwork to get the necessary licenses and permits.

E) He will need to pay over \$10,000 for the necessary licenses and permits.

22) Brenda runs a bookstore in her local community. She started the business with her own money and solely manages the day-to-day operations of the business. Which of the following is true in this scenario?

A) Brenda's business will be constantly regulated by federal and state laws.

B) Brenda must file articles of incorporation to start her business.

C) Brenda can easily dissolve the business whenever she wants.

D) Brenda will have to share her profits with stockholders.

E) Brenda's business will be subjected to double taxation.

23) All of the following statements are true of the government regulation of sole proprietorships EXCEPT

A) many government regulations apply only to businesses that have a certain number of employees.

B) securities laws apply only to corporations that issue stock.

C) sole proprietors must obey employee and consumer protection regulation.

D) sole proprietorships have the most freedom from government regulation.

E) sole proprietors must follow all laws, including federal, state, and local regulations, securities laws, and employee and consumer protection regulation.

24) Which of the following is a disadvantage of sole proprietorships?

A) sharing of profits with major stockholders

B) lack of continuity

C) lack of business control

D) stringent government regulations

E) absence of a tax-exempt retirement account

25) Which of the following forms of business ownership is directly linked to the life of its owner?

A) a sole proprietorship

B) an S corporation

C) a C corporation

D) a cooperative

E) a franchise

26) Which of the following forms of business ownership requires owners to perform the most functions and possess diverse skills to make decisions?

A) an S corporation

B) a C corporation

C) a joint venture

D) a cooperative

E) a sole proprietorship

27) Salma owns a pharmacy near a hospital. She started the business with a personal loan and is wholly responsible for repaying it. Salma also needs to pay personal income tax on the profits

generated from the business. Her business is an example of

- A) a joint venture.
- B) an S corporation.
- C) a sole proprietorship.
- D) a cooperative.
- E) a C corporation.

28) _____ can be considered as both an advantage and a disadvantage of a sole proprietorship.

- A) Taxation
- B) Transparency
- C) Secrecy
- D) Continuity
- E) Liability

29) Which of the following statements is true regarding the sources of funds available to a sole proprietor?

- A) Sole proprietors pay lower interest rates on funds borrowed from banks than do large corporations.
- B) Sole proprietors have access to many sources of funds.
- C) Often, sole proprietors must pledge a car, a house, other real estate, or other personal assets to guarantee a loan.
- D) Sole proprietors can sell stocks and bonds to the public to raise money.
- E) Sole proprietors cannot obtain funds from commercial banks.

30) When Dr. Taylor, a local dentist, died, his children sold his dental office to a young, new dentist who just moved to the area. What is likely to be the greatest challenge this new dentist will face initially in taking over the business?

- A) replacing the outdated equipment with new equipment
- B) assuring customers that the business will continue to meet their needs
- C) convincing Dr. Taylor's employees to stay with the business
- D) finding new employees for the business
- E) finding a partner to help run the business

31) Which of the following is a reason it is difficult for sole proprietorships to hire qualified employees?

- A) Many large corporations are downsizing and outsourcing tasks, so there are less well-trained employees available for small businesses.
- B) It is difficult for sole proprietorships to match the wages and benefits offered by large corporations.
- C) There is more room for advancement within sole proprietorships.
- D) Sole proprietorships prefer to spend their high profits on running the business rather than on hiring qualified employees.
- E) Sole proprietors prefer to do all the work themselves, so they don't want to hire qualified employees.

32) Which form of business ownership is LEAST used in the United States?

- A) S corporations
- B) joint ventures
- C) sole proprietorships
- D) C corporations
- E) partnerships

33) A _____ has been defined as "an association of two or more persons who carry on as co-owners of a business for profit."

- A) partnership
- B) sole proprietorship
- C) C corporation
- D) cooperative
- E) quasi-public corporation

34) All of the following are keys to a successful partnership EXCEPT partners must

- A) have different skill sets or resource contributions.
- B) maintain effective communication skills.
- C) focus on customer satisfaction and product quality.
- D) keep profit sharing equal regardless of contributions.
- E) maintain transparency with stakeholders.

35) A _____ involves a complete sharing in the management of a business.

- A) sole proprietorship
- B) limited partnership
- C) joint venture
- D) joint partnership
- E) general partnership

36) At AgroCorp, each owner has unlimited liability for the debts of the business. It has several business units that focus on many product categories at once which allowed the company to become a leader in category management in the agricultural market. AgroCorp is an example of a

- A) general partnership.
- B) limited partnership.
- C) joint venture.
- D) C corporation.
- E) strategic alliance.

37) A _____ has at least one general partner, who assumes unlimited liability and at least one other partner, whose liability is limited to his or her investment in the business.

- A) general partnership
- B) sole proprietorship
- C) limited partnership
- D) C corporation
- E) joint venture

38) When are limited partnerships generally used?

- A) when a firm sells its stock to the public
- B) when a project is risky and the chance of loss is great
- C) when articles of incorporation are mandatory
- D) when all partners wish to share equal liability
- E) when all partners want to participate in the management of a business

39) Josh has been asked to be a part of a new business venture that develops wind-energy technologies. Since the business involves high risk, he does not want to be held completely liable for the firm's debts if the project fails. In this case, Josh is most likely to prefer to participate as

- A) a member of a cooperative.
- B) a limited partner.
- C) a general partner.
- D) an owner of an S corporation.
- E) a sole proprietor.

40) OilSource, a national oil provider, is a partnership that is traded on securities exchanges. This allows it to have the tax benefits of a limited partnership but the liquidity of a corporation.

OilSource is an example of

- A) a master limited partnership.
- B) a general partnership.
- C) a C corporation.
- D) an S corporation.
- E) a joint venture.

41) The legal documents that identify the basic agreements between partners are called

- A) articles of proprietorship.
- B) partnership charters.
- C) articles of incorporation.
- D) articles of partnership.
- E) partnership bonds.

42) Articles of partnership usually cover issues such as

- A) criteria for recruiting and hiring employees.
- B) demographic prerequisites for selecting a partner.
- C) salaries of contract employees.
- D) provisions for leaving the partnership.
- E) classes of public stock to be issued.

43) Alan, Gary, and Paul are starting a new law firm together, and they are drafting articles of partnership. All of the following are items they should include EXCEPT

- A) the business's name, purpose, and location.
- B) the authority and responsibility of each partner.
- C) the total money and assets of each partner's estate.
- D) the duration of the agreement.
- E) how much each partner is allowed to withdraw.

44) Kim, Diana, and Courtney are starting their own after-school tutoring business, and they are

drafting articles of partnership. All of the following are issues they should consider EXCEPT

- A) how to manage customer information.
- B) what to do if one partner dies.
- C) how to resolve disputes.
- D) what actions should be required or prohibited.
- E) what to do if a partner is absent or becomes disabled.

45) The decision-making process in a partnership tends to be faster when

- A) there are numerous partners who all want to solely control the management of the business.
- B) there are few partners and all of them are involved in the day-to-day activities of the business.
- C) the partnership is a foreign corporation that conducts its business outside the state in which it was incorporated.
- D) the partnership is a domestic corporation with numerous partners.
- E) there are numerous partners, and the firm has issued public stock.

46) Michael Wong and Sanjay Patel, both lawyers, start a law firm together. Both of them have unlimited liability for the debts of the business, and the management of the firm is equally shared between them. This law firm is an example of

- A) a general partnership.
- B) an S corporation.
- C) a sole proprietorship.
- D) a limited partnership.
- E) a C corporation.

47) Which of the following is an advantage of a partnership?

- A) unlimited liability
- B) unrestricted access to funds
- C) proportional distribution of profits
- D) few regulatory controls
- E) lack of business responsibility

48) Insurance, Inc. is a large insurance company with partners that specialize in home, auto, and business insurance. Since each partner specializes in a different area of insurance, customers would be likely to

- A) take their business to a sole proprietor, rather than this partnership.
- B) view the service as lower quality than that provided by one person.
- C) question the qualifications of each partner.
- D) prefer to work with one person who has diverse skills.
- E) view the service as higher quality than that provided by one person.

49) Which of the following is a disadvantage of a partnership?

- A) difficulty of selling the partnership interest
- B) difficulty of forming the business
- C) limited liability faced by the partners
- D) insufficient capital and credit
- E) stringent government regulations

50) Paula is a partner in a local hardware store. She has decided to sell her partnership interest. What is one challenge that Paula will face?

- A) Her partners could refuse to let her sell her partnership interest, trapping her in the partnership.
- B) The business could be disrupted and financing could be reduced.
- C) Selling her partnership interest may violate the articles of partnership and she may need to pay fines.
- D) It is difficult to place a value on a partner's share of the partnership.
- E) She is bound by her partners' valuation of her share of the company, and they may deem her value as less than she does.

51) Which of the following statements is true of taxation in partnerships?

- A) They pay taxes before distributing profits.
- B) They report their share of profits as partnership incomes.
- C) They are exempted from tax.
- D) They pay taxes at the income tax rate for individuals.
- E) They are taxed based on the number of shareholders.

52) In a limited partnership,

- A) the partners can operate the business only for limited time period.
- B) the profits earned by the owners are limited by government regulations.
- C) all the partners have limited liability.
- D) at least one partner has unlimited liability.
- E) the partners are free from any liability for the debts of the business.

53) Partnerships are quasi-taxable organizations. This means that they

- A) do not pay taxes when submitting the partnership tax return to the Internal Revenue Service.
- B) are completely exempted from paying taxes.
- C) are subjected to double taxation.
- D) need to pay a high rate of tax irrespective of whether or not a profit is made.
- E) have to pay taxes only if they decide to adopt initial public offering.

54) Which of the following is true of the distribution of profits earned by a partnership?

- A) They are distributed equally irrespective of the capital provided by each partner.
- B) They are distributed based on the work each partner puts into the business.
- C) They are distributed based on the credit rating of each partner.
- D) They are distributed in the proportions specified in the articles of partnership.
- E) They are distributed as per the guidelines in the articles of incorporation.

55) Which of the following is an advantage of partnerships over sole proprietorships?

- A) Partnerships are easy to form, whereas sole proprietorships are not.
- B) In partnerships, all owners have limited liability, whereas in sole proprietorships, they have unlimited liability.
- C) Partnerships make possible the greatest degree of secrecy, whereas sole proprietorships do not.
- D) In partnerships, the owners have access to more funds than in sole proprietorships.

E) In partnerships, the owners have complete control of the business, whereas in sole proprietorships, they do not.

56) All of the following are areas that can cause friction in a partnership EXCEPT

- A) the diverse skills of the partners.
- B) a change in goals or objectives of one partner but not the other.
- C) the fact that limited partners have no voice in the management of the business, but they may bear most of the risk.
- D) when two business partners cannot resolve disputes.
- E) the fact that the general partner reaps a larger share of the benefits.

57) Xavier starts an investment management firm along with his friend Abdul. They decide to equally share the profits and have unlimited liability for the debts of their business. Such unlimited liability can be a distinct disadvantage for Xavier if he has

- A) fewer financial resources than Abdul.
- B) more financial resources than Abdul.
- C) comparable financial resources to Abdul.
- D) the exact same financial resources as Abdul.
- E) the status of a limited partner.

58) Stephanie is a partner in a local hair salon. Without consulting her partners, she ordered some expensive hair products that she thought would greatly improve their business. However, the products were too expensive for the salon's customers, so they sat on the shelves. What impact will Stephanie's decision have on her partners?

- A) She bears the financial responsibility for her decision, so her partners will not be affected.
- B) Her partners may eliminate her from the partnership to avoid having to use their personal resources to pay for her decision.
- C) Her decision could impact the money her partners invested in the business but not their personal resources.
- D) Her decision could impact her partners' profits but not their personal resources.
- E) Her decision may put her partners' personal resources in jeopardy.

59) _____ are profits of a corporation that are distributed in the form of cash payments to stockholders.

- A) Common stocks
- B) Bonds
- C) Retained earnings
- D) Dividends
- E) Preferred stocks

60) A(n) _____ is a legal entity, created by the state, whose assets and liabilities are separate from its owners.

- A) general partnership
- B) unlimited partnership
- C) corporation
- D) proprietorship

E) strategic group

61) _____ are typically owned by many individuals and organizations who own shares of the business in the form of stocks.

- A) General partnerships
- B) Limited partnerships
- C) Sole proprietorships
- D) Corporations
- E) Franchises

62) Which of the following statements is true about corporations?

- A) They can't enter into contracts with individuals.
- B) They can't sue or be sued in court.
- C) Only mega-companies can incorporate.
- D) They account for the majority of all U.S. sales and income.
- E) Many smaller firms typically elect to incorporate as C corporations.

63) Local Lumber, a small lumber company, decides to incorporate. It wants to have greater flexibility than traditional corporations. What type of corporation would work best for this company?

- A) S corporation
- B) C corporation
- C) domestic corporation
- D) foreign corporation
- E) alien corporation

64) All of the following are elements of creating a corporation EXCEPT

- A) most states require a minimum of three incorporators.
- B) the new corporation's name cannot be similar to that of another business.
- C) the procedure for chartering a corporation is the same in all states.
- D) a corporation's name must end in "company," "corporation," "incorporated," or "limited" to show that the owners have limited liability.
- E) each state has a specific procedure for incorporating a business.

65) Alan, Jason, and Greg want to incorporate their small roofing business. To do so, they must file legal documents with the appropriate state office. What are these legal documents called?

- A) corporate charters
- B) corporation bylaws
- C) articles of partnership
- D) corporate doctrines
- E) articles of incorporation

66) Which of the following articles of incorporation items is found in the Model Business Corporation Act issued by the American Bar Association?

- A) information about salaries of employees in a corporation
- B) guidelines for hiring new employees in a corporation
- C) information about the personal assets of a corporation's stockholders

- D) provisions for promoting an employee within a corporation
- E) provisions for the regulation of internal corporate affairs

67) _____ are legal documents that the state issues to companies based on information the company provides in the articles of incorporation.

- A) State bonds
- B) Corporation contracts
- C) Corporate charters
- D) Articles of proprietorship
- E) Articles of partnership

68) Louis, Carl, and David have secured a charter for their car dealership. They hold an organizational meeting to establish the corporation's bylaws and elect a board of directors. What is one thing the bylaws might do?

- A) determine how many employees their corporation will have
- B) set up committees of the board of directors
- C) determine the type of customers their corporation will have
- D) describe the type of products their corporation will sell
- E) describe the types of services their corporation will offer

69) A corporation doing business outside the state in which it is chartered is known as

- A) a vertical corporation.
- B) a horizontal corporation.
- C) a domestic corporation.
- D) an alien corporation.
- E) a foreign corporation.

70) A corporation doing business in the state in which it is chartered is known as

- A) a vertical corporation.
- B) a horizontal corporation.
- C) a domestic corporation.
- D) a quasi corporation.
- E) an alien corporation.

71) Which of the following statements is true of private corporations?

- A) Their stock can be bought or sold by anyone.
- B) They do not pay taxes on their income.
- C) Their workforce usually consists of fewer than 50 employees.
- D) They are owned and managed by just one or a few people.
- E) They are required to disclose financial information publicly.

72) Wilson's Wishing Wells, Inc. is a company that produces wells and well equipment. It has been owned and operated by the Wilson family for 50 years. The Wilsons own all the corporation's stocks, and they are not required to disclose financial information publicly. What type of business is this?

- A) domestic corporation
- B) public corporation

- C) sole proprietorship
- D) private corporation
- E) limited partnership

73) Which of the following is a defining characteristic of public corporations?

- A) Their stock can be bought, sold, or traded by anyone.
- B) They do not pay taxes on their income.
- C) Their stockholders do not receive any dividends.
- D) They are owned and managed by just one or a few people.
- E) They are not required to disclose any financial information to their stockholders.

74) GloboTron is a large company that produces home entertainment technology. GloboTron has stock that anyone can buy, sell, or trade, but since it is a large company, its stockholders are far removed from its management. However, it must disclose its financial information to the public under specific laws that regulate the trade of stocks and other securities. What type of business is this?

- A) public corporation
- B) private corporation
- C) general partnership
- D) limited partnership
- E) domestic corporation

75) Organizations such as the National Aeronautics and Space Administration and the U.S. Postal Service that are owned by the federal, state, or local governments are known as

- A) S corporations.
- B) sole proprietorships.
- C) private corporations.
- D) quasi-public corporations.
- E) limited liability companies.

76) Assure Pharma Corp., a private corporation, became a public corporation when it sold its stock to raise the money it required for global expansion. As a result, anyone could buy, sell, or trade the stocks of the company. The process adopted by Assure Pharma Corp. to raise money is referred to as

- A) factoring.
- B) bartering.
- C) franchising.
- D) initial public offering.
- E) angel investment.

77) AgroCorp is a public corporation that experienced difficulty growing its agricultural products during an especially dry summer season. Wanting the flexibility to make decisions for restructuring AgroCorp's operations, its managers bought all the stock, thus

- A) making it quasi-public.
- B) making an initial public offering.
- C) shutting it down.
- D) taking it private.

E) converting it to a nonprofit.

78) Which of the following is a corporation that provides a service, but is neither owned by the government nor focuses on earning profits?

- A) an S corporation
- B) a government subsidiary
- C) a nonprofit corporation
- D) a quasi-public corporation
- E) a C corporation

79) SunRay Foundation, a corporation owned and managed by volunteers, supplies medicines and vaccines to impoverished people in Asia and Africa. Its focus is not on earning a surplus but on serving the community. SunRay Foundation is an example of

- A) a limited partnership.
- B) a domestic corporation.
- C) a nonprofit corporation.
- D) a quasi-public corporation.
- E) a private corporation.

80) All of the following are true of 501(c)(3) organizations EXCEPT

- A) they receive certain tax exemptions.
- B) they include public charities.
- C) their donors may reduce their tax deductibility for their donations.
- D) they include private operating foundations that sponsor and fund their own programs.
- E) they must answer to their shareholders.

81) A _____ is elected by the stockholders of a corporation to oversee its general operation.

- A) board of stockholders
- B) preferred stockholder
- C) board of directors
- D) chief executive
- E) silent partner

82) Which of the following is true regarding the role of the board of directors?

- A) Board members are directly responsible for the daily operations of the firm.
- B) Board members have dramatically increased company oversight since the passage of the Sarbanes-Oxley Act.
- C) Board members have a duty of care and loyalty to oversee the management of the firm.
- D) Board members are responsible for the short-term, but not the long-term, objectives of the corporation.
- E) Board members do not get involved in how firm's funds are used.

83) Amanda is a professor at a local college who serves on the board of directors for EduPub, a leading academic publisher. She is a valued member of the board because she brings her unique perspective from the field, and she is qualified, knowledgeable, and independent of the company.

- Amanda is
- A) an inside director.

- B) an outside director.
- C) a corporate officer.
- D) a chief executive officer.
- E) a field director.

84) Owners of common stock within a corporation

- A) act as the board of directors.
- B) are completely isolated from its operations.
- C) have the right to make a cumulative claim to dividends.
- D) are restricted from exercising preemptive rights.
- E) receive dividends after preferred stockholders.

85) Which of the following statements is true of preferred stockholders?

- A) They are eligible to vote by proxy.
- B) They are the voting owners of a corporation.
- C) They have the right to exercise preemptive rights.
- D) They have a claim to profits before other stockholders do.
- E) They are generally the decision-makers in the day-to-day running of an organization.

86) Which type of stockholders usually has the right to vote and elect the board of directors?

- A) a preferred stockholder
- B) a common stockholder
- C) a capital stockholder
- D) a perpetual stockholder
- E) a proxy stockholder

87) A written authorization that assigns a stockholder's voting privilege to another is called

- A) profit deed.
- B) stock certificate.
- C) preemptive right.
- D) leveraged buyout.
- E) proxy.

88) The right of owners of common stock to have the opportunity to purchase new shares of stock is called a

- A) first offer right.
- B) preemptive right.
- C) stock-split right.
- D) profit-sharing right.
- E) cooperative right.

89) Ken wants to buy stock in AgroCorp, a large agricultural company. Since he lives in the city where the company is headquartered, he wants to attend their annual meetings and vote for the board of directors. He also wants to maintain a 5% ownership of the company, so having priority in purchasing new shares on the marketplace is very important to him. What type of stock should he purchase?

- A) proxy stock
- B) dividend stock
- C) preferred stock
- D) common stock
- E) preemptive stock

90) The form of business ownership that has the ability to raise capital most easily is a

- A) public corporation.
- B) private corporation.
- C) sole proprietorship.
- D) joint venture.
- E) limited partnership.

91) Which of the following is an advantage that corporations provide as a form of business ownership?

- A) The owners of corporations do not have to share their profits with stockholders.
- B) The income earned by corporations is taxed only once.
- C) Corporations have the most freedom from government regulations.
- D) The process involved in forming corporations is very easy and inexpensive.
- E) It is easy to transfer ownership in corporations.

92) Which of the following is a disadvantage of corporations?

- A) The owners will have limited access to external funds in a corporation.
- B) The owners will have unlimited liability for the debts of a corporation.
- C) The formation of a corporation can be costly and it faces double taxation.
- D) The transfer of ownership in a corporation is very difficult.
- E) The life expectancy of a corporation is very short and it lacks continuity.

93) Which of the following is an advantage of a corporation over a partnership?

- A) A corporation only pays taxes once, while a partnership is subject to double taxation.
- B) Setting up a corporation is easier, while setting up a partnership requires legal charters.
- C) A corporation does not need to send out quarterly financial statements, but a partnership does.
- D) A corporation has fewer regulatory controls than a partnership.
- E) As a legal entity, a corporation can enter into contracts without as much difficulty as a partnership.

94) Due to a severe recession, GloboTech is struggling to operate and earn profits. In the current economic state, people don't have extra money to buy its televisions, stereos, and home theater systems. If these economic conditions continue, GloboTech will be forced to

- A) produce more essential items.
- B) lower the prices of its products.
- C) become a nonprofit organization.
- D) file bankruptcy.
- E) expand into national or international markets.

95) Megan works for a large corporation, and sometimes, she finds it difficult to see how she fits into the corporate picture. However, recently, her company has established an employee stock

ownership plan. Which of the following is a benefit of this type of plan?

- A) It can boost employee productivity.
- B) It can make employees feel that their work benefits only the owners.
- C) It can provide employees with higher regular wages.
- D) It can build a partnership between managers and owners.
- E) It allows employees to take over the management of the company.

96) A _____ is a partnership established for a specific project or for a limited time.

- A) joint venture
- B) cooperative
- C) C corporation
- D) sole proprietorship
- E) conglomerate

97) Which of the following statements is true of joint ventures?

- A) They enjoy reduced government regulations when compared to general partnerships.
- B) They are mostly formed to last forever.
- C) They are set up not to make profits but to provide service to the community.
- D) They are popular in situations that call for large investments.
- E) They restrict the number and types of shareholders in the organization.

98) Jim and Carol both work in the real estate market. One day, a great investment property came on the market, and they decided to pool their money to buy and renovate it. They plan to spend six weeks on the renovation, and they hope to make a nice profit when they turn around and sell it. Jim and Carol's partnership is an example of

- A) a cooperative.
- B) a joint venture.
- C) a limited partnership.
- D) an S corporation.
- E) a limited liability company.

99) A(n) _____ is a form of business ownership that is taxed as though it were a partnership, is popular among entrepreneurs, and represents almost half of all corporate filings.

- A) worker cooperative
- B) S corporation
- C) C corporation
- D) consumer cooperative
- E) general partnership

100) In an S corporation, net profits and losses of the corporation pass to the owners. What effect does this have?

- A) It eliminates double taxation.
- B) It gives the owners unlimited liability.
- C) It allows the corporation to have unlimited shareholders.
- D) It makes the operation of the corporation easier.
- E) It gives the corporation a limited lifespan.

101) Which of the following forms of business ownership provide limited liability but is taxed like a partnership?

- A) a sole proprietorship
- B) a cooperative
- C) a C corporation
- D) a general partnership
- E) a limited liability company

102) Gwen is a doctor who is forming her own medical practice. She wants her practice to be flexible, simple to run, and free from required meetings, minutes, or resolutions. Her goal is to blend the best characteristics of corporations, partnerships, and sole proprietorships. What form of business ownership seems most in-line with Gwen's goals?

- A) S corporation
- B) joint venture
- C) limited liability company
- D) C corporation
- E) cooperative

103) Which of the following is a difference between limited liability companies (LLCs) and S corporations?

- A) LLCs are taxed as partnerships, whereas S corporations are taxed as corporations.
- B) LLCs are found only in the United States, whereas S corporations are present worldwide.
- C) LLCs are very simple to run, whereas S corporations are not.
- D) LLCs provide limited liability to owners, whereas S corporations do not.
- E) LLCs require the members to hold meetings, whereas S corporations do not.

104) An organization composed of individuals or small businesses that have banded together to reap the benefits of belonging to a larger organization is known as

- A) a cooperative.
- B) an S corporation.
- C) a sole proprietorship.
- D) a multinational firm.
- E) a general partnership.

105) North Farm Society is an association of farmers from rural communities. Its agenda is not to make profits but to help its members market their produce and purchase large quantities of fertilizer, seeds, and other supplies at discounted prices. Thus, North Farm Society is an example of

- A) a cooperative.
- B) an S corporation.
- C) a sole proprietorship.
- D) a limited liability company.
- E) a general partnership.

106) Which of the following is the best definition of a merger?

- A) when one company purchases another
- B) when a group of investors borrows money from banks and other institutions to acquire a company
- C) when a company splits into two separate companies
- D) when two companies combine to form a new company
- E) when a company buys most of the stock of another company

107) Big Lite Inc. purchases Canton Bulbs, its direct competitor, by buying most of its stock. In this scenario, Big Lite Inc. is involved in a(n)

- A) conglomerate merger.
- B) acquisition.
- C) vertical merger.
- D) leveraged buyout.
- E) franchise.

108) Big Sandwiches merges with its supplier, FC Ingredients, in an effort to have a constant supply of sauce for its sandwiches. This is an example of a

- A) shark repellent.
- B) vertical merger.
- C) conglomerate merger.
- D) white knight.
- E) horizontal merger.

109) Razor, Inc. and Tyros, Inc., two automobile companies, merged, reducing the number of corporations competing within the automobile industry. This merger is an example of a

- A) vertical merger.
- B) leveraged buyout.
- C) horizontal merger.
- D) shark repellent merger.
- E) conglomerate merger.

110) United Movies Inc., a movie production company, and Fox Apparel, a premium clothing brand, joined their businesses together. When these two companies from different industries join together, it is an example of a

- A) vertical merger.
- B) limited partnership.
- C) sole proprietorship.
- D) horizontal merger.
- E) conglomerate merger.

111) When a corporate raider wants to acquire or take over another company, it first offers to buy some or all of the other company's stock at a premium over its current price in

- A) a leveraged buyout.
- B) a preemptive merger.
- C) an initial public offer.
- D) a vote by proxy.
- E) a tender offer.

112) Auto Mart, a large auto-parts distributor, is attempting to acquire Rubber Meets the Road, a tire manufacturer. However, Rubber Meets the Road does not want to be taken over, so it issues a poison pill to try to head off the hostile takeover attempt. What does this entail?

- A) firing its board of directors for incompetence
- B) allowing stockholders to buy shares of stock at prices lower than the market value
- C) firing the entire executive committee
- D) requiring a majority of stockholders to approve the takeover
- E) filing a lawsuit to avoid the takeover

113) A corporate raider is trying to take over Big City Financial. In an attempt to avoid this hostile takeover, Big City Financial is requiring a large majority of stockholders to approve the takeover. Which of the following methods of evading a takeover attempt does this describe?

- A) a compliance buyout
- B) a tender offer
- C) a class action
- D) a poison pill
- E) a shark repellent

114) In the context of corporations, what is a white knight?

- A) a more acceptable firm that is willing to acquire the firm threatened by a hostile takeover
- B) an attempt to fend off a hostile takeover by selling stock at prices below the market value
- C) an attempt to fend off a hostile takeover by requiring the deal to be approved by a majority of shareholders
- D) an attempt to fend off a hostile takeover by raising capital through an initial public offering
- E) a group of investors who have borrowed money to acquire a firm

115) Tim and Andy, wealthy industrialists, borrow money from True Global Bank to acquire Univo Corp. They promise to repay the bank using the assets of Univo Corp. as collateral. In this scenario, Tim and Andy are involved in a

- A) horizontal merger.
- B) vertical merger.
- C) leveraged buyout.
- D) conglomerate merger.
- E) poison pill.

Essay Questions

116) In the context of the various forms of business ownership, discuss the two basic types of

partnerships.

117) Briefly discuss domestic, foreign, private, and public corporations.

118) What is a leveraged buyout? Discuss some of the advantages of mergers and acquisitions.