

### type of ownership

TABLE 4.1 Various Forms of Business Ownership

Structure	Ownership	Taxation	Liability	Use
Sole Proprietorship	1 owner	Individual income taxed	Unlimited	Owned by a single individual and is the easiest way to conduct business.
Partnership	2 or more owners	Individual owners' income taxed	Somewhat limited	Easy way for two individuals to conduct business
Corporation	Any number of shareholders	Corporate and shareholder based	Limited	A legal entity with shareholders or stockholders
S Corporation	Up to 75 shareholders	Taxed as a partnership	Limited	A legal entity with tax advantages for restricted number of shareholders
Limited Liability Company	Unlimited number of shareholders	Taxed as a partnership	Limited	Avoid personal lawsuits

### taxation

#### structure

#### tax

Sole proprietorship **individual income tax**

partnership **individual owner's income tax**

corporatoin **corporatoin & shareholder tax**

s corporatoin **see partnership**

LLC **see partnership**

c-corps **double tax**

### Advantages & Disadvantages

#### Sole Proprietorships

##### Advantages

- Ease and cost of formation
- Allow a high level of secrecy
- Owner keeps all profits
- Flexibility and control of the business
- Government regulation is minimal
- Taxes paid only once

##### Disadvantages

- Unlimited liability
- Scarce external funding
- Owners need diverse skills
- Success is tied to the owner
- Lack of qualified employees
- Higher taxation

#### Partnerships

##### Advantages

##### Disadvantages

### Advantages & Disadvantages (cont)

- Easy to organize
- Availability of capital & credit
- Combined knowledge and skills
- Swift decision making
- Government regulations are few
- Unlimited liability
- Responsible for each others' decisions
- A new agreement is needed if the partnership changes
- Difficult to sell a partnership interest
- Distribution of profits may be uneven
- Cannot find external funding as easily as large corporations

### Corporations

#### Advantages

- Limited liability
- Ease of transfer of ownership
- Perpetual life
- Securing funding is easier than for other forms of business
- Expansion potential

#### Disadvantages

- Double taxation
- Expensive to form
- Disclosure of information to the government and the public
- Owners and managers are not always the same and can have different goals

### Small Business

Small Business Any independently owned and operated business that is not dominant in its competitive area

Small Business Administration (SBA) An independent agency of the federal government that offers managerial and financial assistance to small businesses

Especially attractive industries to entrepreneurs:

- Retailing and wholesaling Selling directly to consumers (*Restaurants, Dry cleaners, Drugstores*)
- Services Attracts individuals whose skills are not required by large firms
- Manufacturing Small manufacturers excel at customization
- High technology Businesses that depend heavily on advanced scientific and engineering knowledge

Small businesses may obtain funding from their suppliers in the form of a trade credit

Suppliers allow the business to take possession of the needed goods and services and pay for them at a later date or in installments



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### Small Business (cont)

Organizations and programs exist to help small businesses:

- o Small Business Administration (**SBA**)
- o Small Business Development Centers (**SBDCs**)
- o Service Corps of Retired Executives (**SCOREs**)
- o Active Corps of Executives (**ACEs**)
- o Small Business Institutions (**SBIs**)
- o U.S. and Local Departments of Commerce
- o Other small businesses

Employs less than 500 people

### corporations

**Corporation** A legal entity, created by the state, whose assets and liabilities are separate from its owners can own and transfer property, enter into contracts, sue and be sued in court

Other Types of Business Ownership

**S-Corporation-** Corporation taxed as though it were a partnership with restrictions on shareholders, Very popular with entrepreneurs, representing nearly half of all corporate filings

### corporations (cont)

**Joint Venture** A partnership established for a specific project or for a limited time. Control can be divided equally, or one partner may control decision making

**Limited Liability Company (LLC)** Considered a blend of the best characteristics of corporations, partnerships and sole proprietorships

**Cooperatives or Co-ops** Organizations composed of individuals or small businesses that have banded together to reap the benefits of belonging to a larger organization

**Private Corporation** a few people who are closely involved in managing the business  
None of their stock is sold to the public

**Initial Public Offering (IPO)** Selling a corporation's stock on public markets for the first time

**Board of Directors** A group of individuals, elected by the stockholders to oversee the general operation of the corporation, who set the corporation's long-range objectives

### corporations (cont)

Creating a Corporation  
Incorporators **create** the corporation →  
Following state procedure of **chartering the corporation** →  
Incorporators **file legal articles** of incorporation with the state →  
**State issues a legal corporate charter** to the company →  
Owners **establish bylaws** and board of directors →

Corporations are typically owned by many individuals and organizations who own shares of the business

### partnerships

**Partnerships** A form of business organization defined by the Uniform Partnership Act as "an association of two or more persons who carry on as co-owners of a business for profit"

sub types:

**Limited Partnership** Has at least one general partner, who assumes unlimited liability, and at least one limited partner whose liability is limited to his or her investment in the business

### partnerships (cont)

**General Partner ship** Involves a complete sharing in both the management and the liability of the business

**Articles of Partnership** Legal documents that set forth the basic agreement between partners

### Define

**Products** Good and services with tangible and intangible parts, that provided satisfaction and benefits

**Stakeholders** a group that has a stake in the outcome of the business

**Inflation** a general increase in prices and fall in the purchasing value of money.

**Economics** the study of how resource are distributed

**Supply and demand** the amount of stuff and want

**Equilibrium price** were the Equilibrium price mach of the graph

**Business plan** a document setting out a business's future objectives and strategies for achieving them.(in detale)

### Distinguish among:

**Sole proprietorship** Businesses owned and operated by **one individual**.  
The most common form of business organization in the United States (Typically *employ fewer than 50* people)

### Distinguish among: (cont)

**Limited partner ship** Has at least **one general partner**, who *assumes unlimited liability*.  
**At least one limited partner** whose *liability is limited* to his or her investment in the business

### Distinguish among:

**Domestic corporations** If conducting business in the state in which it is chartered

**Foreign Corporation** If conducting business outside the state in which it is chartered

**Alien corporations** If conducting business outside the nation in which it is incorporated

### Distinguish among:

**Franchise** A **license** to sell another's products or to use another's name in business, or both

**Franchisee** The **company** that sells a franchise

**Franchiser** The **purchaser** of a franchise

### Distinguish among:

**business** Individuals and originations trying to earn a profit by providing products and satisfy peoples need and want

**non-profits** Individuals and originations that provides a good or serves that does **not share in the purpose** of earning money

### Stocks

**Preferred Stock** A *special* type of stock whose owners, though **[do] not generally having a say in running** the company, have a **claim to profits before other** stockholders do

**Common Stock** Stock whose owners **have voting rights** in the corporation, yet **do not receive preferential treatment** regarding dividends  
May vote by proxy, which allows stockholders to **assign their voting privilege** to someone else.

### resources

**Natural Resources** Land, forests, mineral, water, and other things **not made by people**

**Human Resources – also called Labor** The **physical and mental** abilities people use to produce goods and services

**Financial Resources – also called Capital** The **funds** used to acquire the natural and human *resources needed to provide products*

**Intangible Resources** Such as a good **reputation** for quality products or being *socially responsible*



### Economic systems

**Socialism** An economic system in which the **government owns and operates basic industries but individuals own most businesses**  
*(may allow a higher standard of living and is more stable; but taxes and unemployment are generally higher)*

**Capitalism - or Free Enterprise** which **individuals own and operate the majority of businesses** that provide goods and services

**Pure capitalism laissez-faire capitalism free-market:**

all economic decisions are made without government

**Modified capitalism:**

differs from pure capitalism as the government intervenes and regulates business to some extent

### quiz1

A new small retailer needs all the following except

manufacturing facilities.

One of the attractive features of franchising is that

franchisers have well-known names and products.

### quiz1 (cont)

The SBA considers businesses with up to \_\_\_\_\_ employees to be small businesses.

500

The \_\_\_\_\_ is an independent agency of the federal government that offers managerial and financial assistance to entrepreneurs.

Small Business Administration

Initially, the factor that probably affects a company's reputation more than anything else is poorly managed

growth.

Which of the following industries requires greater capital and has higher initial start-up costs for a small business?

High technology

An owner who uses personal assets to start a business is employing \_\_\_\_\_ financing.

equity

Approximately \_\_\_\_\_ of new employer businesses fail within the first five years.

half

### quiz1 (cont)

Franchising involves providing a(n) \_\_\_\_\_ to sell another's products, use another's name, or both.

license

Few businesses make money from the start.

Limited partners do not participate in the \_\_\_\_\_ of the business.

management

A(n) \_\_\_\_\_ is subject to double taxation.

C corporation

A(n) \_\_\_\_\_ occurs when two companies combine to form a new company, and a(n) \_\_\_\_\_ occurs when one company purchases another.

merger; acquisition

Which of the following is the easiest to dissolve?

Sole proprietorship

Which of the following is an advantage of the corporate form of organization?

Smooth transfer of ownership

Question 16 In a limited partnership, at least one partner has \_\_\_\_\_ liability.

unlimited

Liability is \_\_\_\_\_ in a sole proprietorship.

unlimited



### quize1 (cont)

The number of votes common stockholders are normally entitled to have for each share of stock is \_\_\_\_\_ one.

\_\_\_\_\_ can enter into contracts with other legal entities. Corporation s

All of the following would likely be found in a company's articles of incorporation except \_\_\_\_\_ expected profitability of the corporation.

### quize2

The early economy of the United States was marked by colonists who operated a society based primarily on \_\_\_\_\_ agriculture .

All of the following are associated with the manufacturing and marketing economies except \_\_\_\_\_ farming.

When there is only one business providing a product in a given market, there exists \_\_\_\_\_ a monopoly.

According to the text, profit is the reward for business in exchange for the \_\_\_\_\_ risks taken in providing products.

### quize2 (cont)

Factors of production are \_\_\_\_\_ resources used to produce goods and services.

What is the primary lesson to be learned from the economic scandals of the early 21st century? Ethical conduct and corporate social responsibility are very important.

The goal of business is to \_\_\_\_\_ profits. earn

All the following are factors of production used to make goods and services except \_\_\_\_\_ customers.

Financial resources are also known as \_\_\_\_\_ capital .

Economic contraction occurs when \_\_\_\_\_ spending declines.

A continuing rise in prices over a period of time refers to \_\_\_\_\_ inflation.

When a business fails or does not make a profit, \_\_\_\_\_ owners have the most to lose.

\_\_\_\_\_ is the study of how resources are distributed for the production of goods and services within a social system. Economics

### quize2 (cont)

\_\_\_\_\_ can be harmful if individuals' incomes do not increase at the same pace as rising prices because it reduces their buying power. Inflation

If a business is to be successful in the long run, it must produce quality products, operate efficiently, and be \_\_\_\_\_ socially responsible.

The sum of all goods and services produced in a country during a year in relation to population is called \_\_\_\_\_ gross domestic product per capita.

Most economic systems \_\_\_\_\_ exist in a mixed form.

Communist societies \_\_\_\_\_ appear to be efficient and equitable, at least in theory.

Socialism \_\_\_\_\_ has government ownership of basic industries.

Which of the following questions is not addressed by all economic systems? How should the goods and services be marketed?



### quize2 cap

The **early economy** of the United States was marked by colonists who operated a society based primarily on **agriculture**.

**Farming** is **not** associated with the **manufacturing and marketing economies**.

When there is only **one business** providing a product in a given market, there exists a **monopoly**.

**Profit** is the **reward** for **business** in **exchange** for the **risks** taken in providing products.

**Factors of production** are **resources used** to produce goods and services.

**Ethical conduct** and **corporate social responsibility** are the primary lessons to be learned from the economic **scandals of the early 21st century**

The **goal** of business is to earn **profits**.

**Customers** is **not** a factors of **production** used to make goods and services.

economic **contraction** occurs when **spending declines**.

A continuing **rise in prices** over a period of time refers to **inflation**

When a business fails or does not make a profit, the **owners have the most to lose**.

**Economics** is the study of how **resources are distributed** for the production of goods and services within a social system.

**Inflation** can be **harmful** if individuals' **incomes** do not increase at the same pace as rising **prices** because it reduces their buying power.

If a business is to be **successful in the long run**, it must produce **quality** products, operate **efficiently**, and be **socially responsible**.

The sum of all goods and services **produced in a country** during a year in relation to population is called gross domestic product per capita.

**GDP**

**Most economic** systems exist in **amixed form**.

### quize2 cap (cont)

**Communist** societies **appear** to be **efficient** and equitable, at least in **theory**.

**Socialism** has **government** ownership of **basic** industries.

How should the goods and services be **marketed** is **not addressed** by all **economic** systems.

### quize1 cap

-

One of the **attractive features** of franchisers is thier **well-known** names and products.

The **SBA** considers businesses with up to **500** employees to be small businesses.

The **Small Business Administration** is an **independent** agency of the federal **government** that offers *managerial* and *financial assistance* to entrepreneurs.

Initially, the factor that probably affects a company's **reputation** more than anything else is **poorly managed growth**.

The **High technology** industries requires **greater capital** and has higher initial start-up costs for a small business?

An owner who uses **personal assets** to start a business is employing **equity financing**.

Approximately **half** of new employer businesses **fail** within the first five years.

**Franchising** involves providing a **license** to sell another's products, use another's name, or both.

Few businesses make money from the start.

**Limited partners** do **not** participate in the **management** of the business.

A **C corporation** is subject to **double taxation**.

An **merger** occurs when two companies combine to **form a new company**, and an **acquisition** occurs when one **company purchases another**.

**Sole** proprietorship is the easiest to **dissolve**

### quize1 cap (cont)

**Smooth transfer** of ownership is an advantage of the **corporate** form of organization

In a **limited partnership**, at least one partner has unlimited liability.

Liability is unlimited in a **sole proprietorship**.

The number of **votes common stockholders** are normally entitled to is **one per stock**

**Corporations** can enter into contracts with other **legal entities**.

**Expected profitability** of the corporation would likely **not** be found in a company's **articles of incorporation**

