

SOLUTIONS**Learning Goal 5****Multiple Choice**

1. b The partners are personally liable for all partnership debts and together have legal ownership of the assets.
2. d
3. d
4. d No financial activity takes place that needs to be reported for the Wednesday night group.
5. b
6. a
7. d The equation applies to every economic entity.
8. c There is no personal liability for this potentially dangerous product.

SOLUTIONS

Learning Goal 5, continued

Reinforcement Problems

LG 5-1.

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| a. How many owners form a proprietorship? | One owner |
| b. What document brings a corporation into existence? | The charter |
| c. What is the length of life of a partnership? | The lesser of the existing group of partners or the term written in the partnership agreement. |
| d. What entity is most difficult to form? | A corporation |
| e. What entity is technically easy to form but for practical purposes has many potential complications? | A partnership (A partnership technically can be formed with a verbal agreement and by individuals behaving as partners, but this is very unwise.) |
| f. What entity is a legal “person” that incurs liability separate from the owners of the entity? | A corporation |
| g. The owners of what business are called “stockholders” or “shareholders”? | A corporation |
| h. As an owner, you will have personal liability if you form what type of entity? | A proprietorship or general partnership |
| i. What is the most common form of business? | A proprietorship |
| j. What form of business is easiest to create? | A proprietorship |
| k. What are the three biggest advantages of a corporation? | (1) No personal liability, (2) potentially greater resources, (3) often easier to transfer ownership than a partnership |
| l. How many owners form a partnership? | Two or more |
| m. How many owners form a corporation? | One or more (One person can own all the stock.) |
| n. What is the length of life of a corporation? | Unlimited life |
| o. What are the main disadvantages of a proprietorship? | (1) Personal liability, (2) limited resources |
| p. The owner of a proprietorship writes herself a check from the business bank account. What is this payment called? | This is called a “withdrawal” or a “drawing.” (It is not a salary expense of the business.) |
| q. What indicates ownership in a corporation? | Common stock |
| r. What is the type of entity that potentially can obtain the most money from investors? | A corporation |