

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.**

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
s. What form of business organization is often selected by small business owners because it combines advantages of both a corporation and partnership?	Limited liability company (LLC)