

Student _____

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Class _____

Teacher _____

CHAPTER 16 Types of Business Ownership

Reviewing Key Terms: Complete the Sentence



DIRECTIONS: Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided.

A. sole proprietorship

D. partnership

G. articles of incorporation

B. unlimited liability

E. general partner

H. corporate bylaws

C. limited life

F. limited partner

I. board of directors

J. franchise

1. How a business elects its directors and when stockholders will meet are examples of items in the _____.
2. A(n) _____ has equal decision-making authority with co-owners, usually takes an active role in operating the business, and has personal liability for all the losses or debts of the partnership.
3. A business owned by one person is a(n) _____.
4. A contractual agreement to sell a company's products or services in a designated geographic area is a(n) _____.
5. A business owned by two or more persons who agree voluntarily to operate the business for profit is a(n) _____.
6. A partner who does not take an active role in decision making or running the business is called a(n) _____.
7. The application to operate as a corporation is called the _____.
8. A(n) _____ is responsible for overseeing the general affairs of a corporation.
9. _____ is the responsibility of the business owner to pay the business debts out of personal assets.
10. _____ means that a business's life span or existence is determined by the owner's life span or the owner deciding to terminate the business.

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Understanding Key Concepts



DIRECTIONS: On a separate sheet of paper, answer the following questions.

1. What are the three types of business ownership in the United States, and how common is each one?
2. Ellen plans to open a flower shop and operate it under the name of Posey Green. She has persuaded her mother and best friend to work at the shop. What legal documents will Ellen probably need to set up her business?
3. List five advantages of a sole proprietorship.
4. Thomas opened a mural painting business. He is a talented painter, knows what kinds of paints to apply to different surfaces, and has a flair for selecting the perfect scene for a particular room. Although Thomas has more customers than he can handle, his income does not cover his expenses. In what area of his business do you think Thomas lacks expertise?
5. What six kinds of information does a partnership agreement usually include?
6. Penelope has agreed to be a limited partner in Masumi's restaurant business and added \$45,000 to Masumi's \$105,000 to make a total of \$150,000 in capital. How much is Penelope liable for if the business fails?
7. How do corporations and partnerships differ?
8. Describe a closely held corporation and explain how it differs from a publicly held corporation.
9. Intel Corporation wants to develop a new product line. How does it raise the necessary funds?
10. Why does forming a corporation cost a substantial amount of money?

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CHAPTER 16 Types of Business Ownership

Activity 1: Organizing a Business



SKILLS ACHIEVED

Reading, Writing, Acquiring and evaluating information, Organizing and maintaining information

OBJECTIVE: Complete a diagram of the advantages and disadvantages of different kinds of business organizations.

In Chapter 16, you learned that there are different ways to organize a business. Fill in the following charts with the advantages and disadvantages of each kind of business organization. In the last row, write an example of a business that you feel would benefit from that type of organization.

Sole Proprietorship	
Advantages	Disadvantages
Example:	

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Partnership	
Advantages:	Disadvantages:
Example:	

Corporation	
Advantages:	Disadvantages:
Example:	

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Activity 2: Exploring a Corporation's History



SKILLS ACHIEVED

Reading, Writing, Listening, Speaking, Acquiring and evaluating information, Interpreting and communicating information, Organizing and maintaining information, Teaching others, Selecting technology, Applying technology to task

OBJECTIVE: *Research the history of a well-known corporation and prepare and present a short report to a small group.*

While reading Chapter 16, you learned about several famous U.S. companies that began as sole proprietorships and partnerships. In this activity, you will select a corporation, explore its background and history, and present your findings to a small group. Begin by choosing a company you admire or whose products you are especially interested in. Then fill out the form on this and the next page.

For your research, you may want to see if your company has a Web site. You can also find companies' annual reports at many libraries. Finally, share the information you obtain with your group. Compare the corporate histories of the different companies researched by your group members. What similarities can you find in their histories? What are some differences?

Company _____

Source of information _____

What is the company's business? _____

When was the company formed? _____

Where was the company formed? _____

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Who founded the company? What were the backgrounds of the founders? _____

What kind of organization did the founders first use? _____

When did the company become a corporation? _____

Why did the company decide to become a corporation at that time? _____

When did the company first offer stock to the public? _____

Why did the company decide to offer stock? _____

Other information about the company's history _____

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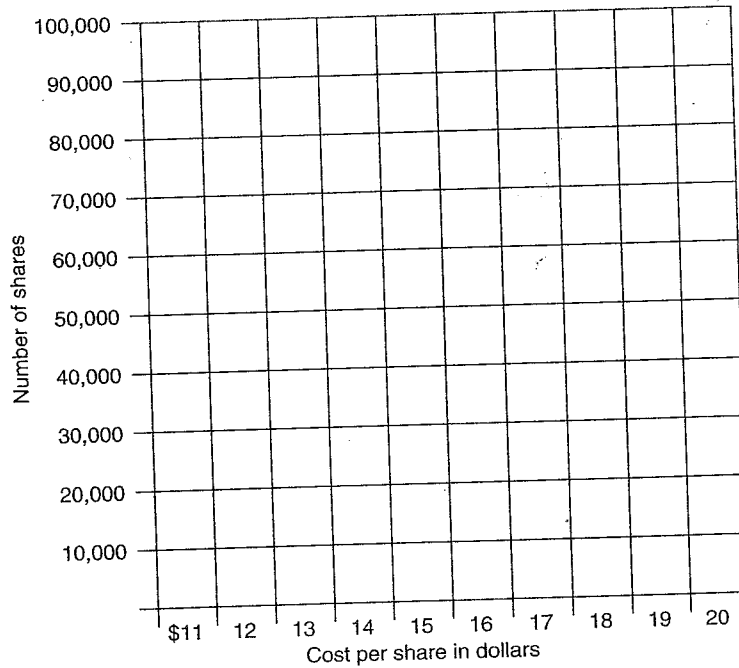
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Math-Building Skills: Going Public



Jenny Song and Mikayla Banbury own an in-line skate and skateboard shop. Their business is a great success, and they have decided to try to expand into other cities in their state. To raise money for this expansion, they are going to sell stock in their company. They must raise \$1 million, but are unsure how many shares to sell and at what price. You can help them.

DIRECTIONS: Below you will find a bar graph. The vertical axis shows the number of shares the partners must sell. The horizontal axis shows the price of each share. Show how many shares must be sold at five different prices to earn the partners' goal of \$1 million. Then fill in the bar for each possibility.



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Finance Online: Researching Fast-Food Franchises



You or a friend have probably worked at a fast-food franchise at one time. Have you ever thought about owning one? What do you think it would take to be the boss?

Use the Internet to find out about buying franchises from two companies—McDonald's and Subway. Visit the Web sites for both fast-food companies. Compare the advice they give and support they offer to franchisees. Then answer the questions below.

Keywords Used	Site Names	Web-Site Addresses	Information Offered

1. Which Web site offers more information about the practical side of buying a franchise? List two topics that the Web site discusses.

2. Choose one company and describe the procedure for obtaining a franchise.

3. Which franchise seems like a better fit for someone like you? Explain your choice.

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Your Financial Portfolio Worksheet



Setting Up a Partnership

What kind of business would you start with a partner? With another student, discuss how you would share responsibilities if you started a partnership together. In what ways might you finance the business? What skills and character traits do each of you have that might complement each other in a partnership? Fill in the following worksheet to create a basic business plan.

1. Type of business _____

2. Name of business _____

3. Skills and character traits of each partner:

Partner A _____

Partner B _____

4. Location—be specific _____

5. Competition _____

6. Start-up costs _____

Equipment and Supplies	Cost
Total	

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7. Schedule _____

8. Responsibilities of each partner:

Partner A _____

Partner B _____

9. Revenue

10. Creating the Partnership—Draft an agreement that defines how much each partner would invest and what each partner's responsibilities would be.

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Software
Activity
(Optional)

Quicken Application

Establishing Accounts for a New Business



OBJECTIVE: Establish appropriate bank accounts, income and expense categories, and asset and liability accounts for a new business using Quicken software.

Practice Situation

Jenna Gilbert has decided to open a small antique shop called "Jenna's Antiques." She will organize her new business as a sole proprietorship. Jenna would like to use Quicken to set up her accounts. She has already entered the beginning balance of her checking account of \$5,000 and has set up an income category for Antique Sales. Complete the setup of Jenna's asset accounts and expense categories based on the information below.

Assets:

Store Equipment, valued at \$2,600 at 6/01/06
Antiques, valued at \$17,800 at 6/1/06

Expense Categories:

Rent	Water
Bank Charge	Telephone
Insurance	Miscellaneous
Electric	

Quicken Directions

1. Start your Quicken software and open problem SA16.qdf.
2. Click on **Tools** and choose *Account List*. *Jenna's Antiques—Checking Acct* has been set up. To establish Jenna's other asset accounts, click **Add Account** in the top menu of the Account List window.
3. Select **Asset** as the *Type of Account* to create, then click the **Next** button.
4. Enter the name *Store Equipment* in the Account Name field. Type *Store Equipment* in the Description field as well. Then, click the **Next** button.
5. Enter the date of 6/1/2006 and enter the value of the asset to be \$2,600. Click **Done**.
6. Follow the same procedure to add the asset account for *Antiques*, valued at \$17,800 on 6/1/2006.
7. Next, enter the income and expense categories for Jenna's business. From the **Tools** option in the top menu bar, select *Category List*.

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8. You will see four main items listed here: Antique Sales (Income account), Jenna's Antique's—Checking Acct (Bank account), Antiques (Asset account), and Store Equipment (Asset account).
9. To add the remaining categories, click **New** in the top menu of the Category List window. In the Set Up Category pop-up window, enter the first category name, *Rent*, in the Name field. Enter *Rent* in the Description field.
10. Select *Mandatory Expenses* from the pull-down menu for *Group*.
11. Verify that the radio button for Expense is selected, then click **OK**.
12. Repeat this process to add the remaining expenses for Jenna's business.
13. After all categories have been entered, print the Category List by clicking **Print** in the top menu of the Category List window.
14. Before Jenna begins operations, print a Balance Sheet Report for the period ended 6/1/2007. Click the Reports icon. Select the topic, *How is my business doing?* Click on *Balance Sheet Report* and enter the Report Balance as of date, 6/1/2007. Then click *Show Report*.
15. Print the report by clicking on **Print** in the top menu of the Balance Sheet window.
16. To save your work to a disk, click **File** in the Quicken menu. Select *File Operations*, then *Copy*. In the field provided, specify the disk drive and path to the directory for your file copy. Include the file name SA16***.qdf. (Replace *** with your initials.)

Interpreting Results

1. Based on the Balance Sheet Report, what are Jenna's Total Liabilities and Equity as she begins her business?

2. How will Jenna benefit from setting up her business accounts in Quicken?

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Drawing Conclusions

1. Discuss the benefits of organizing as a sole proprietorship.

2. If Jenna decides to hire employees to work for her in the antique store, what additional accounts would she need to add to her category list? Explain.

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SELF-ASSESSMENT QUIZ

DIRECTIONS: Circle the letter of the choice that best completes the statement or best answers the question.

1. If a sole proprietor intends to hire one or more employees, he or she needs (A) an EIN (B) a DBA (C) a GTE (D) an LLC.
2. An advantage of organizing a business as a sole proprietorship is (A) easy setup (B) unlimited life (C) limited liability (D) unlimited capital.
3. A disadvantage of a sole proprietorship is (A) lack of control (B) double taxation (C) unlimited liability (D) unlimited capital.
4. An example of a large corporation that started as a partnership is (A) Colgate-Palmolive (B) Campbell Soup Company (C) Corning (D) *Ebony*.
5. A limited partner's role in a business is usually limited to (A) decision making (B) creative input (C) running the business (D) investing money.
6. In a partnership, the legal right to sign contracts is called (A) agency (B) a partnership agreement (C) a corporate charter (D) a DBA.
7. The portion of United States businesses that are organized as corporations is about (A) 20 percent (B) 50 percent (C) 75 percent (D) 90 percent.
8. A corporate charter is a corporation's (A) request to operate (B) official registration (C) rules of operation (D) proof of ownership.
9. The people responsible for overseeing the general affairs of a corporation are its (A) partners (B) stockholders (C) board of directors (D) lawyers and accountants.
10. A business that is taxed only once but has limited liability is called a (A) publicly held corporation (B) closely held corporation (C) franchise (D) limited liability company.