# **Chapter 16 – Forms of Business**

# **Section 16.1 Sole Proprietorships and Partnerships**

# **What You’ll Learn**

## Describe how to form and run a sole proprietorship.

## List the advantages and disadvantages of a sole proprietorship.

## Explain the rights and responsibilities of partners.

## Identify the different types of partners.

## Explain how a partnership can be terminated.

## Knowing the differences between sole proprietorships and partnerships will help you decide which form of business is best for you.

## **Key Terms**

## Sole proprietorship

## Unlimited liability

## Partnership

## Joint liability

## Dissolution

## Dissociation

## Limited partnership

## Limited liability partnership (LLP)

## **Academic Vocabulary**

## Perpetual

## Dormant

## Incompetence

## A **sole proprietorship** is a business owned and operated by person.

## It is the most type of business.

# 

## Sole proprietorships have several :

* They are to form
* The owner has total control of the business
* The owner gets to keep the profits
* The profits are taxed only once as income

# Sole proprietorships also have some :

* The business must be by the owner
* The owner has unlimited liability
* If the owner dies or closes the business, the business to exist

# 

## **Unlimited liability** means the business owner is responsible for all suffered by the business.

# 

## A **partnership** is a form of business in which or more persons carry on as co-owners of a business for profit.

# 

## Partnerships have advantages over sole proprietorships:

* More is available to partnerships.
* Partners share the of work.
* Partners share .

# Partnerships also have some disadvantages:

* Partners must share the .
* All partners have a say in running the business, so can arise.
* Partners are for the actions of other partners.

# Partnerships can be formed in ways:

1. By agreement
2. By of existence

# A partnership by agreement is formed by the valid of all the parties.

## The partnership agreement is called the of Partnership.

# 

## A partnership by proof of is formed by the way two or more parties do business together, such as sharing in the profits of a business venture, even if it is not called a partnership.

# 

## Partners share certain rights:

* The right to partnership property
* The right to share in the business
* The right to in the profits

# Partners also share certain :

* The duty to be to the business
* The duty to obey the Articles of Partnership and partnership decisions
* The duty of due care, which means a partner must work to the of his or her ability

## Type of Partners:

## General Partner – plays role in management and is now to public

## Secret Partner – general partner who active but is kept .

## Silent Partner – active and not know to public

## Dormant Partner – general partner who not active and kept secret.

## Limited Partner – liability is to investment

## Partnership Rights

## Property Rights - must identify property that to partnership, not individuals

## Right to Manage the firm - unless stated in partnership agreement, each has voice in managing

## Right to share in profits - unless stated in partnership agreement, each has equal share in profits

## Enforcement Rights

### The right to the firm’s books

### The right to an account

### The right to dissolve the partnership

## Partnership Duties:

## Loyalty – tell others about profits

## – obey articles of partnership

## Due care – work to the best of their ability

# 

## The up of a partnership, or any business entity, is called a **dissolution**.

# 

## Dissolution of a partnership can occur by:

* the of the partners
* operation of law, in the case of bankruptcy or death of a partner
* a court , which a partner can obtain because of the actions of another partner

## Other Types of Partnerships

## Limited Partnership

### Formed by or more persons

### One or more general partner

### One or more limited partner

## Registered Limited Liability Partnership

### Registered

### Each partner responsible for the acts of the other

# **16.1 Wrap Up**

# **1.** An advantage of a partnership is:

### You get to keep all the profits.

### You have total control of the business

### You share the burden of work

### You don’t have to pay taxes

# 2. Unlimited liability means a business owner is not liable for losses suffered by the business.

### True or False

# 3. The breaking up of a partnership is called a:

### partnership by proof of existence

### disintegration

### termination

### dissolution

## 4. What is a sole proprietorship?

## 5. What is a partnership?

## 6. What is a limited partnership?

# **Section 16.2 Corporations and Limited Liability Companies**

# **What You’ll Learn**

## Characterize corporations.

## Explain the different types of corporations

## Discuss the steps involved in forming a corporation

## Explain what a limited liability company is

## List the steps in forming a limited liability company.

## Knowing how to form a corporation or limited liability company will help you if you want to expand your business.

## **Key Terms**

## Corporation

## Share

## Shareholder

## Articles of incorporation

## Certificate of incorporation

## Limited liability company (LLC)

## Expropriation

## **Academic Vocabulary**

## Domestic

## Process

## Similar

## A **corporation** is a business entity by law as if it is an individual person, separate from its owners.

## A corporation can own property, pay taxes, and make just like a person.

# Ownership of a corporation is divided into shares. Each is a unit of ownership. The owners of **shares** are called shareholders.

# 

## Corporations have several advantages:

## They can obtain amounts of capital through the sale of shares.

## Shareholders’ liability is to the amount of shares they own.

## A corporation continues to even after the founders, managers, and directors are gone.

# 

## Corporations also have disadvantages:

## They are taxed : on the corporation’s profits and on the shareholder’s profits.

## They face numerous government regulations.

## The founders of the corporation can control of the business to shareholders or the board of directors.

# **Corporations can be:**

* Public or private
* Stock on nonstock

## Public corporations are created and owned by the for the public interest and supported mostly by public funds.

## Private corporations are owned by private individuals and may be for profit or nonprofit.

## C corporation – taxation

## S corporation – single taxation, but limited partners

# 

## Nonprofit corporations, such as charitable organizations, are owned through rather than the sale of stock and are called nonstock corporations.

# 

## To a corporation, it is necessary to file with the state a legal document called the **articles of incorporation**.

## The articles of incorporation describe the structure and of the corporation.

# 

## Another of business that combines the features of a corporation and a partnership is a **limited liability company (LLC)**.

# 

## An LLC is created like a corporation by articles of organization.

## Like a corporation, an LLC gives its owners liability.

# As in a partnership, the owners of an LLC can the company themselves and dissolve the company in the same way as a partnership.

**16.2 Wrap Up:**

# **1.** A corporation is treated by law as if it is a person separate from its owners.

### True or False

# 2. To create a corporation, it is necessary to file a legal document called:

### the statute of limitations

### the articles of incorporation

### the articles to the constitution

### the articles of impeachment

## 3. What is a corporation?

## 4. What is the difference between a public and private corporation?

## 5. What is a limited liability company?

## 6. What des “perpetual existence” refer to?

## 7. What is the difference between a C corporation and an S corporation?

## 8. What is the difference between a domestic and foreign corporation?