

STUDY GUIDE

Chapter 25

Entrepreneurial Investigation

Before you begin, complete the Entrepreneurial Investigation from this chapter. This investigation will show how entrepreneurs select a legal structure for the business. Answer the following questions. Be prepared to share your findings with your teacher or your class.

Imagine the following scenario: You and your best friend decide to open a gym together. You are a perfect team because you do the personal training, while your friend runs the business. After starting the gym, you soon find out that your friend opened a second location without telling you. Someone got hurt at that location, and now wants to sue you and your friend.

Do some research to reflect on the following questions:

- Are you responsible for this person being hurt (even though you didn't know about the location)?
- Do you think it's fair that business partners split the profit and the responsibility?
- What would you have done differently in this scenario?

Apply Your Knowledge

Use this space to respond to the *Apply Your Knowledge* questions at the end of each section. Use your responses from the *Entrepreneurial Investigation* above to help with your answer.

Section 25.1: What are the main differences between a sole proprietorship and a partnership? Think back to your investigation of the gym. What type of legal structure did your business have?

Section 25.2: What are the different types of corporations? Think about your investigation of the gym. How could have setting up a different legal structure avoided liability for you?

Section 25.3: What are the questions to ask in choosing a legal structure? Think back to your investigation of the gym. What legal structure would you have chosen if you could do it over?

Vocabulary Matching

Match the key terms from this chapter with its definition.

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| ___ 1. Legal structure in which the business is considered a “entity” under the law. | a. cooperative |
| ___ 2. Type of business ownership set up for the business. | b. corporation |
| ___ 3. Two or more individuals share the management, profit, and liability of a business. | c. dividend |
| ___ 4. Business owned, controlled, and operated by people who use its services. | d. incorporate |
| ___ 5. Combines the liability benefits of a corporation with the tax benefits of a sole proprietorship or partnership. | e. legal structure |
| ___ 6. Set up a corporation in accordance with the laws where the business is located. | f. limited liability |
| ___ 7. Business owner cannot be legally forced to use personal money and possessions to pay business debt. | g. limited liability company |
| ___ 8. Payment corporations make to their shareholders as a share of the profit. | h. nonprofit corporation |
| ___ 9. Operates not to provide profit for its shareholders, but to serve the good of society. | i. partnership |

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| ___ 10. Single individual owns the business, collects all profit, and has unlimited liability. | j. partnership agreement |
| ___ 11. Owners of a corporation. Also referred to as stockholders. | k. share of stock |
| ___ 12. Business owner can be legally forced to use personal money and possessions to pay the debts of the business. | l. shareholders |
| ___ 13. Unit of ownership in a corporation. | m. sole proprietorship |
| ___ 14. Legal document that clearly defines how the work, responsibilities, rewards, and liabilities of a partnership will be shared by the partners. | n. unlimited liability |

Concepts Review

As a review of the concepts of this section of the chapter, answer the questions below. Elaborate as much as you can to explain your answer.

1. What is the difference between limited liability and unlimited liability?

2. What are some of the advantages and disadvantages of forming a sole proprietorship?

3. What are some of the advantages and disadvantages of forming a partnership?

4. What is the difference between a general partnership and a limited partnership?
5. What are some of the advantages and disadvantages of forming a corporation?
6. How does a C corporation differ from a subchapter S corporation?
7. Why has the limited liability company become a popular business ownership option?
8. How is a nonprofit corporation different from a for-profit corporation?