

***Business Essentials, 9e (Ebert/Griffin)***

**Chapter 3 Entrepreneurship, New Ventures, and Business Ownership**

1) The Small Business Administration is the government agency charged with owning small businesses.

Answer: FALSE

Explanation: The Small Business Administration is a government agency that assists small businesses.

Page Ref: 60

Difficulty: Easy

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

2) Small businesses produce more patents per employee than large patenting firms.

Answer: TRUE

Explanation: Small businesses are an important source of innovation as evidenced by the production of patents.

Page Ref: 61

Difficulty: Moderate

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

3) Most businesses in the United States are large businesses with more than 500 employees.

Answer: FALSE

Explanation: Almost 86 percent of all U.S. businesses have no more than 20 employees.

Page Ref: 61

Difficulty: Moderate

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

4) Major innovations are most likely to come from large corporations.

Answer: FALSE

Explanation: Most major innovations come from small businesses.

Page Ref: 61

Difficulty: Moderate

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

5) Manufacturing is overwhelmingly handled by big business.

Answer: TRUE

Explanation: Small business manufacturers account for less than 5 percent of the manufacturing industry.

Page Ref: 63

Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

6) People who assume the risk of business ownership with a primary goal of growth and expansion are called entrepreneurs.

Answer: TRUE

Explanation: Entrepreneurs are people who assume the risk of business ownership.

Page Ref: 64

Difficulty: Easy

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

7) Most successful entrepreneurs have a strong desire to be their own bosses.

Answer: TRUE

Explanation: Many entrepreneurs are attracted to small business because of opportunities for independence.

Page Ref: 64

Difficulty: Easy

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

8) A business plan demonstrates how an entrepreneur's business strategy will be implemented.

Answer: TRUE

Explanation: A business plan documents business strategy and implementation procedures.

Page Ref: 65

Difficulty: Easy

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

9) Franchisees may be obligated to contribute a percentage of sales to parent corporations.

Answer: TRUE

Explanation: The obligation to contribute a percentage of sales is a disadvantage from the franchisee's perspective.

Page Ref: 67

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

10) Loans are the most important sources of money for new businesses.

Answer: FALSE

Explanation: According to the National Federation of Independent Business, personal resources are the most important sources of money for new businesses.

Page Ref: 67

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Discuss the functions of different types of financial institutions in the monetary system

Skill: Concept

11) Lending institutions are more likely to help finance the purchase of an existing business rather than the start-up of a business from scratch.

Answer: TRUE

Explanation: This is the case because the risks are typically better understood for an existing business.

Page Ref: 67

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 3.3

Learning Outcome: Discuss the functions of different types of financial institutions in the monetary system

Skill: Application

12) A group of small investors who invest money in companies in return for partial ownership is known as a small-business development company.

Answer: FALSE

Explanation: A group of small investors who invest money in companies in return for partial ownership is called a venture capital company.

Page Ref: 68

Difficulty: Easy

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

13) Small-business investment companies (SBICs) may be sponsored by the federal government.

Answer: TRUE

Explanation: SBICs are federally licensed to borrow money from the SBA and to invest it in or lend it to small businesses, and they are themselves investments for their shareholders.

Page Ref: 68

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

14) The least common type of partnership is the general partnership.

Answer: FALSE

Explanation: The most common type of partnership is the general partnership.

Page Ref: 73

Difficulty: Easy

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

15) A limited liability corporation is a hybrid of a publicly held corporation and a partnership.

Answer: TRUE

Explanation: A limited liability corporation combines features of a publicly held corporation which benefits from limited liability and a partnership in which owners are taxed as partners.

Page Ref: 77

Difficulty: Easy

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

16) Many new businesses are started by people who have left big corporations.

Answer: TRUE

Explanation: More and more businesses are being started by people who have left big corporations and who want to put their experience to work.

Page Ref: 69

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 3.4

Learning Outcome: Explain the entrepreneurship process

Skill: Application

17) The failure rate among small businesses has been increasing in recent years.

Answer: FALSE

Explanation: The failure rate for small businesses has been decreasing in recent years.

Page Ref: 69

Difficulty: Moderate

Objective: 3.4

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

18) Neglect is a major factor that contributes to small business failure.

Answer: TRUE

Explanation: Other factors include managerial incompetence, inexperience, weak control systems, and insufficient capital.

Page Ref: 70

Difficulty: Moderate

Objective: 3.4

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

19) Low start-up costs and tax benefits are advantages of sole proprietorships.

Answer: TRUE

Explanation: Sole proprietorships can vary widely in size; a sole proprietorship is merely defined as a business owned and operated by one person.

Page Ref: 72

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

20) By law, each general partner is liable for all debts incurred in the name of the partnership.

Answer: TRUE

Explanation: Each general partner can be seen as a sole proprietor in terms of taxation and the repaying of debt.

Page Ref: 73

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

21) Corporations generate sales revenues proportionate to their number.

Answer: FALSE

Explanation: Corporations account for about 20 percent of all U.S. businesses but generate about 85 percent of all sales revenues.

Page Ref: 74

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

22) Corporations enjoy significant tax benefits when compared to sole proprietorships or partnerships.

Answer: FALSE

Explanation: The biggest disadvantage of regular corporations is double taxation, wherein the company pays income tax on profits and stockholders pay taxes on income from their investments in the company.

Page Ref: 76

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

23) An S corporation has stock that is widely held and available for sale to the general public.

Answer: FALSE

Explanation: An S corporation is a hybrid of a closely held corporation and a partnership. It is organized and operates like a corporation, but it is treated like a partnership for tax purposes.

Page Ref: 77

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

24) The board of directors of a corporation reports to the officers of the corporation.

Answer: FALSE

Explanation: The officers of the corporation report to the board of directors; the board of directors is elected by stockholders.

Page Ref: 77

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Discuss the factors that influence decisions about organizational structure

Skill: Concept

25) The Small Business Administration (SBA) may consider a business with many employees to be small as long as it has low annual revenues.

Answer: TRUE

Explanation: A government agency that assists small businesses, the SBA regards some companies with as many as 1,500 employees as small, but only if the business has relatively low annual revenues.

Page Ref: 60

Difficulty: Moderate

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

26) Entrepreneurs often enjoy working for large organizations.

Answer: FALSE

Explanation: Most entrepreneurs enjoy being their own bosses.

Page Ref: 64

Difficulty: Easy

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

27) A good rule of thumb for individuals starting a new business is to not rely on personal resources.

Answer: FALSE

Explanation: The most common funding source for new business start-ups is personal resources.

Page Ref: 67

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

28) Most venture capital companies do not lend money.

Answer: TRUE

Explanation: Venture capital companies invest money in exchange for partial ownership or representation on the board of directors.

Page Ref: 68

Difficulty: Easy

Objective: 3.3

Learning Outcome: Discuss the functions of different types of financial institutions in the monetary system

Skill: Concept

29) The number of minority-owned businesses has decreased in recent years.

Answer: FALSE

Explanation: African American-owned businesses have grown at a rate of about 48 percent during the most recent five-year period for which data were available, and Hispanic-owned businesses have grown at 31 percent.

Page Ref: 69

Difficulty: Moderate

AACSB: Multicultural and diversity understanding

Objective: 3.3

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

30) Many entrepreneurs are finding new opportunities in foreign markets.

Answer: TRUE

Explanation: Foreign markets are often targets for small businesses.

Page Ref: 69

Difficulty: Easy

Objective: 3.4

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

31) The Internal Revenue Service taxes partners as individuals.

Answer: TRUE

Explanation: Because partnerships have no legal standing as a distinct entity, the IRS taxes each partner as an individual.

Page Ref: 73

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

32) General partnerships generate a substantial percentage of total sales revenue in the United States.

Answer: FALSE

Explanation: Overall, U.S. partnerships are responsible for sales revenue of less than 6 percent of the total.

Page Ref: 74

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Concept



33) The Small Business Development Center program consolidates information from various disciplines and institutions for use by new and existing businesses.

Answer: TRUE

Explanation: It is one of a number of SBA programs available to aid small businesses.

Page Ref: 68

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

34) Which entity is defined as independent and has little influence on its market?

A) corporation

B) joint venture

C) small business

D) partnership

E) government agency

Answer: C

Explanation: C) A small business is defined as independent with marginal influence in its market.

Page Ref: 60

Difficulty: Easy

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

35) Entrepreneurs often have more than one goal for starting a business and becoming self-employed. Which of the following reasons is the LEAST common goal of entrepreneurs?

A) to seek independence and be their own boss

B) to earn a comfortable living for a period of time

C) to grow and expand a current business

D) to meet community or social obligations

E) to provide for their financial needs

Answer: D

Explanation: D) Some entrepreneurs may start a business with the goal of meeting community or social obligations, but the other goals are far more common.

Page Ref: 64

Difficulty: Moderate

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

36) What is the name of the document in which an entrepreneur summarizes his or her business strategy for a proposed new venture?

- A) success chart
- B) director's guideline
- C) financial blueprint
- D) business plan
- E) balance sheet

Answer: D

Explanation: D) A business plan is a summary of the business strategy for the proposed new venture and how that strategy will be implemented.

Page Ref: 65

Difficulty: Easy

Objective: 3.3

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

37) What is the most significant disadvantage of owning a franchise?

- A) start-up costs
- B) operational guidelines
- C) difficulty obtaining loans
- D) double taxation
- E) competition

Answer: A

Explanation: A) Start-up costs are considered one of the most significant disadvantages of owning a franchise.

Page Ref: 66

Difficulty: Easy

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

38) Which of the following is the most significant disadvantage of starting a business from scratch?

- A) having few employees
- B) inability to franchise
- C) having competition
- D) coming up with new ideas
- E) the risk of failure

Answer: E

Explanation: E) There is much greater risk involved in starting a new business from scratch than in acquiring an already-existing business.

Page Ref: 67

Difficulty: Easy

AACSB: Dynamics of the global economy

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

39) What is the most important source of money for new business start-ups?

- A) banks
- B) the SBA
- C) personal resources
- D) government grants
- E) venture capital

Answer: C

Explanation: C) Most individuals starting a new business have to rely on personal finances to do so.

Page Ref: 67

Difficulty: Easy

Objective: 3.3

Learning Outcome: Discuss the functions of different types of financial institutions in the monetary system

Skill: Concept

40) Who constitutes the membership of SCORE?

- A) retired executives
- B) venture capitalists
- C) company officers
- D) commercial lenders
- E) successful entrepreneurs

Answer: A

Explanation: A) The Service Corps of Retired Executives is made up of retired executives who volunteer to help entrepreneurs start new businesses.

Page Ref: 68

Difficulty: Easy

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

41) Which of the following represents the fastest-growing segment of minority business ownership?

- A) African Americans
- B) Asians
- C) Hispanics
- D) Pacific Islanders
- E) Europeans

Answer: A

Explanation: A) The number of businesses owned by African Americans increased by 48 percent during the most recent five-year period for which data is available.

Page Ref: 69

Difficulty: Easy

AACSB: Multicultural and diversity understanding

Objective: 3.4

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

42) Which of the following types of businesses is most common in the United States?

- A) sole proprietorships
- B) general partnerships
- C) cooperatives
- D) corporations
- E) limited partnerships

Answer: A

Explanation: A) About 72 percent of all U.S. businesses are sole proprietorships.

Page Ref: 72

Difficulty: Easy

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

43) What percent of a business is the least amount that a master partner will retain?

- A) 10 percent
- B) 25 percent
- C) 50 percent
- D) 75 percent
- E) 80 percent

Answer: C

Explanation: C) The master partner retains at least 50 percent ownership and runs the business, while minority partners have no management voice.

Page Ref: 74

Difficulty: Easy

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

44) In which business sector are cooperatives still important?

- A) manufacturing
- B) automotive
- C) public utilities
- D) agriculture
- E) health care

Answer: D

Explanation: D) Although cooperatives make up only a minor segment of the U.S. economy, the role of cooperatives is important in agriculture.

Page Ref: 74

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

45) Which form of business ownership generates the most sales in the United States?

- A) sole proprietorship
- B) general partnership
- C) cooperative
- D) corporation
- E) limited partnership

Answer: D

Explanation: D) Corporations generate up to 85 percent of the total sales revenue of all businesses.

Page Ref: 75

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

46) Which type of business is legally considered a separate entity from its owners and is liable for its own debts?

- A) sole proprietorship
- B) corporation
- C) limited partnership
- D) cooperative
- E) general partnership

Answer: B

Explanation: B) A corporation is a business that is legally considered an entity separate from its owners and is liable for its own debts. The liability of the owners extends to the limits of their investments.

Page Ref: 75

Difficulty: Easy

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

47) Who are the owners of a corporation?

- A) board of directors
- B) financial officers
- C) stockholders
- D) top managers
- E) entrepreneurs

Answer: C

Explanation: C) Stockholders are the owners of shares of stock in a corporation.

Page Ref: 77

Difficulty: Easy

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

48) What are shares in a business that the business sells called?

- A) bonds
- B) profits
- C) stocks
- D) dividends
- E) loans

Answer: C

Explanation: C) Shares in a corporation are called stocks.

Page Ref: 77

Difficulty: Easy

Objective: 3.6

Learning Outcome: Describe the goals and stages of financial management for companies

Skill: Concept

49) Suppose BrightLights Online Video purchases another company, QuikFlix. What is this an example of?

- A) merger
- B) spin-off
- C) divestiture
- D) acquisition
- E) collapse

Answer: D

Explanation: D) An acquisition is when one company buys another company outright.

Page Ref: 78

Difficulty: Easy

Objective: 3.6

Learning Outcome: Describe the goals and stages of financial management for companies

Skill: Application

50) The U.S. Department of Commerce considers a business "small" if it has fewer than how many employees?

- A) 10
- B) 50
- C) 100
- D) 500
- E) 1,500

Answer: D

Explanation: D) The U.S. Department of Commerce considers a business "small" if it has fewer than 500 employees.

Page Ref: 60

Difficulty: Moderate

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

51) Which of the following industry groups is the fastest growing segment of small business enterprise?

- A) manufacturing
- B) wholesaling
- C) retailing
- D) transportation
- E) services

Answer: E

Explanation: E) Services is the fastest growing segment, probably because services require few resources.

Page Ref: 62

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

52) Which of the following types of venue is favored by small-business retailers?

- A) superstore
- B) catalog showroom
- C) specialty shop
- D) department store
- E) studio workroom

Answer: C

Explanation: C) Usually, people who start small retail businesses favor specialty shops that let them focus limited resources on narrow market segments.

Page Ref: 62

Difficulty: Moderate

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

53) What does a start-up company need in order to estimate the required size of a plant, store, or office, to decide how much inventory to carry, and to determine how many employees to hire?

- A) sales forecast
- B) tax estimate
- C) business objective
- D) stock options
- E) funding source

Answer: A

Explanation: A) In addition, a sales forecast helps the entrepreneur demonstrate an understanding of the current market, the strengths and weaknesses of existing firms, and the means by which the new venture will compete.

Page Ref: 65

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

54) What are specific locations of Ramada, McDonald's, and Subway examples of?

- A) government entities
- B) university sponsored businesses
- C) franchises
- D) networking businesses
- E) cooperatives

Answer: C

Explanation: C) All of these businesses represent an agreement between a franchisee and a franchiser. The franchisee buys the rights for a location from the franchiser, and runs the business independently.

Page Ref: 66

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 3.3

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application



55) Which of the following is the most significant disadvantage of franchising?

- A) high start-up costs
- B) risk of failure
- C) difficulty in obtaining financing
- D) lengthy contracts
- E) high cost of operation

Answer: A

Explanation: A) Start-up franchise prices tend to be high—the start-up fee for a McDonald's franchise is \$45,000.

Page Ref: 66

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

56) What is the major drawback of accepting venture capital?

- A) sharing company control
- B) having to pay high interest rates
- C) limiting expansion
- D) facing a short repayment period
- E) having to write a proposal

Answer: A

Explanation: A) Venture capitalists focus on turning a profit on their investments. In order to better ensure that they do, they typically invest in a business on the condition that they be given some control over the company.

Page Ref: 68

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

57) Which of the following are groups of small investors seeking to make profits on companies with rapid growth potential?

- A) community banks
- B) venture capital companies
- C) equity managers
- D) government securities dealers
- E) stock brokers

Answer: B

Explanation: B) Most venture capital companies do not lend money; instead, they supply capital in return for partial ownership or representation on boards of directors.

Page Ref: 68

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Discuss the functions of different types of financial institutions in the monetary system

Skill: Concept

58) Which of the following is federally licensed to borrow money from the Small Business Administration to invest in or lend to small businesses?

- A) SCORE
- B) SBICs
- C) SBDC
- D) FDIC
- E) SEC

Answer: B

Explanation: B) In addition, small-business investment companies are themselves investments for their shareholders.

Page Ref: 68

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

59) Which of the following helps entrepreneurs gain skills that are essential for running a business?

- A) ESOP
- B) SBICs
- C) SEC
- D) LLC
- E) SBA

Answer: E

Explanation: E) The Small Business Administration helps entrepreneurs improve their management skills.

Page Ref: 68

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

60) Which of the following is the most significant recent trend in small-business start-ups?

- A) entrepreneurs who cross over from big business
- B) increased opportunities for minorities
- C) increased opportunities for women
- D) emergence of e-commerce
- E) global economic downturn

Answer: D

Explanation: D) Because the Internet provides fundamentally new ways of doing business, entrepreneurs have created and expanded new businesses faster than ever before.

Page Ref: 68

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 3.4

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

61) According to SBA estimates, what percent of all new businesses can expect to survive for at least four years?

- A) 14 percent
- B) 24 percent
- C) 44 percent
- D) 64 percent
- E) 84 percent

Answer: C

Explanation: C) During the 1960s and 1970s, less than half of all new start-ups survived more than 18 months; only one in five lasted 10 years. Now, however, 44 percent can expect to survive for at least four years.

Page Ref: 69

Difficulty: Moderate

Objective: 3.4

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

62) Which of the following factors most contributes to small business failure?

- A) managerial incompetence or inexperience
- B) bad product design
- C) legal problems
- D) time spent raising capital
- E) personnel issues

Answer: A

Explanation: A) The four main reasons for small business failure are managerial incompetence, neglect, weak control systems, and insufficient capital.

Page Ref: 70

Difficulty: Moderate

Objective: 3.4

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

63) A new business should have enough capital to operate at least how many months without earning a profit?

- A) 1
- B) 2
- C) 4
- D) 6
- E) 9

Answer: D

Explanation: D) In addition, some experts recommend having enough capital to last one year.

Page Ref: 70

Difficulty: Moderate

Objective: 3.4

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

64) Which of the following legal forms of business is owned and usually operated by a person who is responsible for its debts?

- A) cartel
- B) corporation
- C) general partnership
- D) sole proprietorship
- E) limited partnership

Answer: D

Explanation: D) About 72 percent of all businesses are sole proprietorships; however, they account for only about 5 percent of total business revenues.

Page Ref: 72

Difficulty: Easy

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

65) What is a major drawback of sole proprietorships?

- A) limited funding
- B) work flexibility
- C) low start-up costs
- D) unlimited liability
- E) structured hours

Answer: D

Explanation: D) A sole proprietor is responsible for all debts incurred by the business, which increases the risk involved in doing business.

Page Ref: 72

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

66) When can a sole proprietorship legally be dissolved?

- A) sales exceed \$1 million
- B) the partners reorganize the firm's structure
- C) earnings are less than \$500,000
- D) the owner donates profits
- E) the owner dies

Answer: E

Explanation: E) Although the business can be reorganized by a successor, executors or heirs must otherwise sell its assets.

Page Ref: 72

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

67) What resources does a sole proprietorship primarily depend on?

- A) the corporation
- B) foreign investors
- C) capital markets
- D) those of the owner
- E) a committed clientele

Answer: D

Explanation: D) Therefore, sole proprietors often find it hard to borrow money to start up or expand; many bankers fear that they will not be able to recover loans if owners become disabled or insolvent.

Page Ref: 72

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

68) What type of business has two or more owners who share in the operation of the firm and are financially responsible for its debts?

- A) corporation
- B) partnership
- C) cooperative
- D) conglomerate
- E) nonprofit

Answer: B

Explanation: B) Partners may invest equal or unequal sums of money and may earn profits that bear no relation to their investments.

Page Ref: 73

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

69) What is the most common type of partnership?

- A) limited partnership
- B) corporate partnership
- C) general partnership
- D) sole partnership
- E) cooperative partnership

Answer: C

Explanation: C) A general partnership is similar to a sole proprietorship but is owned by more than one person.

Page Ref: 73

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

70) Who invests all of the funds needed for a business but plays no role in its management?

- A) silent partner
- B) sole proprietor
- C) general partner
- D) principal
- E) director

Answer: A

Explanation: A) A silent partner is a partner who invests all of the funds needed for a business and therefore gets a return on the investment if the business earns a profit, but plays no role in its management.

Page Ref: 73

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

71) What is the most important advantage of general partnerships?

- A) the unlimited liability of the partnership
- B) the ability to grow with the addition of new talent and money
- C) the ease of implementing an effective control system
- D) the increased role of luck
- E) the need for minority partners

Answer: B

Explanation: B) New partners can join a general partnership at any time by investing their time and money.

Page Ref: 73

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

72) What do both sole proprietorships and partnerships lack?

- A) trust
- B) legal standing
- C) continuity
- D) shared vision
- E) adaptable processes

Answer: C

Explanation: C) When one partner dies or leaves, the original partnership dissolves, even if one or more of the other partners want it to continue.

Page Ref: 73

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

73) Which of the following is a partner who actively manages a firm and has unlimited liability for its debts?

- A) limited partner
- B) general partner
- C) stockholding partner
- D) public partner
- E) silent partner

Answer: B

Explanation: B) A general partner is also known as an active partner because he or she plays an active role in the management of the partnership.

Page Ref: 74

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

74) What percent of all businesses in the United States are corporations?

- A) 15 percent
- B) 20 percent
- C) 50 percent
- D) 75 percent
- E) 85 percent

Answer: B

Explanation: B) There are about 4.93 million corporations in the United States; this accounts for about 20 percent of all U.S. businesses.

Page Ref: 74

Difficulty: Moderate

AACSB: Dynamics of the global economy

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

75) What type of company has stock that is widely held and available for sale to the general public?

- A) private corporation
- B) public corporation
- C) general partnership
- D) limited liability corporation
- E) professional corporation

Answer: B

Explanation: B) When shares are publicly issued, the firm becomes a publicly held (or public) corporation; stock is widely held and available for sale to the public.

Page Ref: 76

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Describe the goals and stages of financial management for companies

Skill: Concept



76) What type of corporations are those comprised of doctors, lawyers, or accountants most likely to be?

- A) private
- B) public
- C) subchapter S
- D) professional
- E) multinational

Answer: D

Explanation: D) While the corporate structure protects members from unlimited financial liability, they are not immune from unlimited liability and are subject to partnership taxation.

Page Ref: 77

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

77) Two businesses, Rio Books and Devereaux Holdings, collaborate to create and run a new bookselling business. What is this action called?

- A) corporatization
- B) vertical merger
- C) joint venture
- D) strategic alliance
- E) institutional investment

Answer: C

Explanation: C) Joint ventures abound in numerous industries. Unlike in a strategic alliance, each partner in a joint venture owns a share of the new enterprise.

Page Ref: 78

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Application

78) Which of the following occurs when two firms combine to create a new company?

- A) acquisition
- B) takeover
- C) venture
- D) divestiture
- E) merger

Answer: E

Explanation: E) A merger occurs when Company A, for example, merges with Company B to create Company C.

Page Ref: 78

Difficulty: Easy

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

79) Why is it difficult to compare relative job growth for different-sized businesses?

- A) Sourcing up-to-date employment figures is difficult.
- B) Many small businesses experience rapid unreported growth.
- C) Spheres of influence overlap between the small and big business sectors.
- D) Staff size of small businesses tends to change faster than staff size of big businesses.
- E) It is hard to determine the cutoff point at which a small business becomes a large business.

Answer: E

Explanation: E) Relative job growth among businesses of different sizes is not easy to determine. There are different parameters governing the size of a small versus a big business and additionally there is no precise point where such a differentiation can be clearly identified.

Page Ref: 61

Difficulty: Difficult

AACSB: Analytic skills

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

80) Why do attitudes about entrepreneurship vary internationally?

- A) Decision making in big business can overlook local customs.
- B) Attitudes towards risk-taking in business are culturally determined.
- C) Consumer attitudes are influenced by economic cycles.
- D) Foreign-owned companies can be unresponsive to local markets.
- E) International business is creating a global village.

Answer: B

Explanation: B) In many cultures, such as the United States, the entrepreneurial spirit is highly valued. However, in some Asian countries, the entrepreneurial spirit is often tempered by the need for consensus.

Page Ref: 63

Difficulty: Difficult

AACSB: Multicultural and diversity understanding

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

81) Olivia has found a viable business, a small furniture store, she is interested in purchasing. She has learned that the store is supplied by reliable vendors and has a steady stream of local and online buyers. What should be Olivia's next step at this point?

- A) Analyze the furniture store's past financial statements.
- B) Start negotiating a purchase price with the current owner.
- C) Approach a banking institution about financing her purchase.
- D) Consult a marketing agency about ways to reach more customers.
- E) Search for vendors that can provide similar products at lower costs.

Answer: A

Explanation: A) While what Olivia has learned about the state of the business is positive, it is still in her best interest to continue to do due diligence and more closely examine the business.

Page Ref: 66

Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Application

82) Viola wants to be a business owner, and is contemplating whether to start her own business or open a franchise.

Which of the following, if true, would be a compelling reason for Viola to open a franchise rather than start a new business?

- A) The franchiser requires \$3,000 in start-up costs and a 5 percent monthly royalty fee.
- B) The franchiser tightly controls and monitors the service protocol.
- C) The franchisee is responsible for developing all marketing materials.
- D) The company has only recently become a franchise.
- E) There are several other franchises with the same company in the area.

Answer: A

Explanation: A) The start-up cost for most franchises is around \$50,000 and the royalty fee is usually between 6 and 10 percent. The substantially lower costs of \$3,000 and 5 percent would be a compelling reason to take on a franchise if it also has acceptable growth potential.

Page Ref: 66

Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

83) Approximately what percent of all U.S. businesses employ 20 or fewer people?

- A) 86 percent
- B) 66 percent
- C) 46 percent
- D) 26 percent
- E) 16 percent

Answer: A

Explanation: A) According to 2006 census data, 85.95 percent of all businesses employ 20 or fewer people; this illustrates how important small business is to the U.S. economy.

Page Ref: 60

Difficulty: Difficult

Objective: 3.4

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

84) Each year, between 600,000 and 650,000 new businesses are launched in the United States. Approximately how many businesses fail each year?

- A) 50,000 to 100,000
- B) 100,000 to 250,000
- C) 250,000 to 500,000
- D) 500,000 to 700,000
- E) 700,000 to 1 million

Answer: D

Explanation: D) For example, in 2009, 627,200 new firms started and another 595,600 closed down.

Page Ref: 68

Difficulty: Moderate

Objective: 3.4

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

85) By what percent has the number of African American-owned businesses increased over the past five-year period?

- A) 18 percent
- B) 28 percent
- C) 48 percent
- D) 68 percent
- E) 78 percent

Answer: C

Explanation: C) The number of businesses owned by African Americans increased by 48 percent during the most recent five-year period for which data are available and now totals 2 million.

Page Ref: 69

Difficulty: Moderate

AACSB: Multicultural and diversity understanding

Objective: 3.4

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

86) Which figures reflect the current size and the growth in Hispanic-owned businesses for the last five years?

- A) 2.25 million and 31 percent
- B) 2.75 million and 41 percent
- C) 3.15 million and 71 percent
- D) 3.55 million and 81 percent
- E) 4.25 million and 85 percent

Answer: A

Explanation: A) Figures of 31 percent totaling about 2.25 million businesses reflect strong growth for this group.

Page Ref: 69

Difficulty: Difficult

AACSB: Multicultural and diversity understanding

Objective: 3.4

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

87) What is the main reason why women start new businesses?

- A) need to earn more money
- B) preference for working alone
- C) opportunities for family members
- D) control in organizing their time
- E) desire to employ other women

Answer: D

Explanation: D) Some 46 percent of woman cite being able to gain control over their schedule as the reason why they are attracted to starting their own businesses.

Page Ref: 69

Difficulty: Difficult

AACSB: Multicultural and diversity understanding

Objective: 3.4

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

88) What is the most effective way for an entrepreneur to become a competent manager?

- A) working alone
- B) relying on luck
- C) getting a college degree
- D) being open to opportunities
- E) working for a successful company first

Answer: E

Explanation: E) Few successful business owners succeed alone or straight out of college. Most spend time in successful companies or partner with others to bring expertise to a new business.

Page Ref: 71

Difficulty: Moderate

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

89) Lucy has organized her craft shop as a sole proprietorship. Her sister has warned Lucy about the legal principle holding her responsible for paying off all of the debts of the business. What is the name of this principle?

- A) unlimited liability
- B) limited liability
- C) privity
- D) unrestricted debt
- E) accountability

Answer: A

Explanation: A) Sole proprietors face unlimited liability, meaning that they are liable for paying all debts incurred by the business.

Page Ref: 72

Difficulty: Difficult

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

90) Shirley is opening a flower shop and has decided to operate as a sole proprietorship. Which of the following is NOT an advantage Shirley will have in operating her business?

- A) freedom
- B) simplicity of operation
- C) limited liability
- D) low start-up costs
- E) choice of location

Answer: C

Explanation: C) A major drawback for sole proprietors is unlimited liability, whereby a sole proprietor is personally liable for all debts incurred by the business.

Page Ref: 73

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

91) Kent and Patrick have decided to start a landscaping business. One of the first things that they do is sign a document that describes the investments and responsibilities of the partners and makes provisions for the allocation of profits and dissolution of the business. What is the name of this document?

- A) articles of incorporation
- B) partnership charter
- C) partnership agreement
- D) corporate charter
- E) financial proposal

Answer: C

Explanation: C) The partnership agreement is strictly a private document; no laws require partners to file agreements with any government agency.

Page Ref: 73

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

92) Today, what percent of all businesses in the United States are registered as sole proprietors?

- A) 94 percent
- B) 72 percent
- C) 54 percent
- D) 28 percent
- E) 10 percent

Answer: B

Explanation: B) However, sole proprietors account for only 5 percent of total revenues.

Page Ref: 75

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

93) Why are lenders most willing to loan to corporations?

- A) Continuity and legal status are assured.
- B) Links with owners and founders are established.
- C) Professional management teams can be changed.
- D) Commitment to expansion is readily available.
- E) Brand and marketing strategies can be diversified.

Answer: A

Explanation: A) The biggest advantage of being a corporation is limited liability. Another advantage is continuity, as a corporation can, in theory, continue forever.

Page Ref: 75

Difficulty: Difficult

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept



94) American Business Machines is organized as a corporation. Its income will be taxed at the corporate level and also on shareholder returns as dividends. What is this situation known as?

- A) dual costs
- B) double taxation
- C) regulatory costs
- D) double ownership
- E) financial balancing

Answer: B

Explanation: B) The biggest disadvantage of incorporation is double taxation. First, a corporation pays income taxes on company profits; in addition, stockholders then pay taxes on income returned by their investments in the corporation.

Page Ref: 76

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

95) What is a *small business*?

Answer: A small business is an independently owned business that has relatively little influence on its market.

Explanation: A small business is considered to be an independent business which has relatively little influence on its market.

Page Ref: 60

Difficulty: Easy

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

96) What is an *entrepreneur*?

Answer: An entrepreneur is a business person who accepts both the risks and the opportunities involved in creating and operating a new business venture.

Explanation: Entrepreneurs are people who assume the risk associated with business ownership.

Page Ref: 62

Difficulty: Easy

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

97) What is a *merger*?

Answer: A merger occurs when two firms combine to create a new company.

Explanation: An example of a merger is the recent merging of United Airlines and Continental to form the world's largest airline.

Page Ref: 78

Difficulty: Easy

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

98) What is a *divestiture*?

Answer: With a divestiture, a corporation decides to sell part of its existing business operations to another corporation, for example to focus more specifically on its core business.

Explanation: In a divestiture, a corporation decides to sell part of its existing business operations to another corporation.

Page Ref: 79

Difficulty: Easy

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

99) Why might an entrepreneur wish to purchase an existing business rather than start one from scratch?

Answer: An entrepreneur may wish to purchase an existing business because of an increased chance for success. An existing business will have established working relationships with lenders, suppliers, and the community. The track record of an existing business gives potential buyers a much clearer picture of what to expect than any estimate of new business prospects.

Explanation: The advantage of buying an existing business is better chances of success, as business relationships have already been established and past records give an indication of future business possibilities.

Page Ref: 66

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

100) What are the advantages and disadvantages for a franchisee?

Answer: The advantages of franchising include access to managerial and financial help, the benefits of the selling corporation's expertise and experience, and reduced chances of failure. The disadvantages of franchising include significant start-up costs and continued obligations to contribute a percentage of sales to parent corporations.

Explanation: Advantages include access to managerial and financial help, and the benefits of the selling corporation's expertise and experience, which can support increased chances of success. The disadvantages include significant start-up costs and ongoing commitments to contribute a percentage of sales to parent corporations.

Page Ref: 66

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

101) Describe three disadvantages of operating a business as a sole proprietorship.

Answer: The disadvantages of sole proprietorships include unlimited liability, lack of continuity, and limited financing options. A sole proprietor is totally responsible for all of the debts of the business and may have to give up personal assets to repay those debts. A sole proprietorship lacks continuity because the business dissolves with the death of the owner. Finally, sole proprietors have a limited ability to secure financing, relying mostly on their personal resources.

Explanation: The disadvantages of sole proprietorships include unlimited liability, lack of continuity, and limited financing options.

Page Ref: 72

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

102) Discuss the advantages and disadvantages of partnerships.

Answer: Advantages of partnerships include their ability to grow with the addition of new talent and money, ease of organization, and independent legal status. Disadvantages are unlimited liability, potential lack of continuity, difficulty of transferring ownership, and little or no guidance for resolving internal conflicts.

Explanation: Advantages of partnerships include their ability to grow with the addition of new talent and money, ease of organization, and independent legal status. Disadvantages include unlimited liability, potential lack of continuity, difficulty of transferring ownership, and little or no guidance for resolving internal conflicts.

Page Ref: 73

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

103) Explain limited liability in a corporation.

Answer: Limited liability is the legal principle holding investors liable for a firm's debts only to the limits of their personal investment in it.

Explanation: The biggest advantage of corporations is limited liability: Investor liability is limited to personal investment (through stock ownership) in the corporation. In the event of failure, the courts may seize and sell a corporation's assets but cannot touch the investors' personal possessions.

Page Ref: 75

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Synthesis

104) Explain a tender offer.

Answer: A tender offer is an offer to buy shares made by a prospective buyer directly to a corporation's shareholders. A corporation can be taken over against the will of its managers through a tender offer.

Explanation: A tender offer is an offer to buy shares made by a prospective buyer directly to a corporation's shareholders, who then make individual decisions about whether to sell.

Page Ref: 75

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

105) A corporation must be managed on the principles of corporate governance. Explain what this is.

Answer: Corporate governance is the role of shareholders, directors, and other managers in corporate decision making and accountability. This governance is established by a firm's bylaws and usually involves stockholders, the board of directors, and officers.

Explanation: Corporate governance is the role of shareholders, directors, and other managers in corporate decision making and accountability.

Page Ref: 77

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

106) Explain the role of a corporation's board of directors.

Answer: The board of directors is responsible for communicating with shareholders and other stakeholders and for setting financial policy on issues such as dividends, major spending, and executive compensation.

Explanation: The board is legally responsible and accountable for corporate actions.

Page Ref: 78

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Application

107) How is the U.S. economy affected by small businesses?

Answer: Small businesses affect the U.S. economy through job creation and innovation, and by making products for and selling products made by big businesses. Small businesses are an important source of new jobs in the United States. Innovations are as likely to come from small businesses as big businesses. Finally, most of the products made by big businesses are sold to consumers by small businesses. Big businesses often depend on small businesses as suppliers as well.

Explanation: By creating jobs, fostering innovation, and providing goods and services, small businesses have a positive effect on the U.S. economy.

Page Ref: 60-61

Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

108) Discuss four sources of financing for starting up a small business.

Answer: Financing for starting up a new business may come from personal resources, bank loans, venture capital firms, or small-business investment companies (SBICs). The most important source of financing for a small business is the owner's personal resources. Bank loans are a second source of financing. Venture capital firms invest money in a business in return for stock. These firms are groups of small investors seeking to make profits on companies with rapid growth potential. SBICs take a more balanced approach in their choices than do venture capital firms. SBICs are federally licensed to borrow money from the SBA to invest in or lend to small businesses.

Explanation: Financing for starting up a new business may come from personal resources, bank loans, venture capital firms, or SBICs.

Page Ref: 67-68

Difficulty: Difficult

Objective: 3.3

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

109) Discuss the advantages and disadvantages of corporations.

Answer: The advantages include limited liability, continuity, and the ability to raise money. Among the disadvantages are transferring ownership such as through a tender offer, higher start-up costs, and double taxation.

Explanation: The biggest advantage of incorporation is limited liability: Investor liability is limited to personal investment (through stock ownership) in the corporation. The biggest disadvantage of incorporation is double taxation.

Page Ref: 75

Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

110) Describe the three distinct bodies of corporate governance that are specified in a corporation's bylaws.

Answer: Stockholders are the owners of a corporation who buy shares of ownership. The board of directors is a group of people elected by stockholders to oversee the management of the corporation. Corporate officers are top managers hired by the board to run the corporation on a day-to-day basis.

Explanation: Corporate governance covers the roles of shareholders, directors, and other managers in corporate decision making and accountability.

Page Ref: 77

Difficulty: Difficult

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Concept

111) Explain entrepreneurship and describe key entrepreneurial characteristics.

Answer: Entrepreneurs are people who assume the risk of business ownership. Entrepreneurship is the process of seeking business opportunities under conditions of risk. Some entrepreneurs have a goal of independence and financial security, whereas others want to launch a new venture that can be grown into a large business. Most successful entrepreneurs are resourceful and concerned for customer relations. They have a strong desire to be their own bosses and can handle ambiguity and surprises. Today's entrepreneur is often an open-minded leader who relies on networks, business plans, and consensus and is just as likely to be female as male. Finally, although successful entrepreneurs understand the role of risk, they do not necessarily regard what they do as being risky.

Page Ref: 64

Difficulty: Easy

AACSB: Reflective thinking skills

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

112) Describe the business plan and the start-up decisions made by small businesses. Identify sources of financial aid available to small businesses.

Answer: The starting point for virtually every new business is a business plan, in which the entrepreneur summarizes business strategy for the new venture and shows how it will be implemented. Entrepreneurs must also decide whether to buy an existing business, operate a franchise, or start from scratch. Further, common funding sources include personal funds, family and friends, savings, lenders, investors, and government agencies. Venture capital companies are groups of small investors seeking to make a profit on companies with rapid growth potential. Most of these firms do not lend money but rather invest it, supplying capital in return for partial ownership. Lending institutions are more likely to finance an existing business than a new business because the risks are better understood.

Page Ref: 65-66

Difficulty: Easy

AACSB: Reflective thinking skills

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

113) Explain sole proprietorships and partnerships. Discuss the advantages and disadvantages of each.

Answer: The sole proprietor is owned and usually operated by one person. There are tax benefits for new businesses that are likely to suffer losses in early stages. One drawback is unlimited liability. Another disadvantage is lack of continuity. Finally, a sole proprietorship depends on the resources of a single individual. The general partnership is a sole proprietorship multiplied by the number of partner-owners. The biggest advantage is its ability to grow by adding new talent and money. A partnership is not a legal entity. It is just two or more people working together. Partners are taxed as individuals, and unlimited liability is a drawback. Partnerships may lack continuity, and transferring ownership may be hard. No partner may sell out without the consent of the others.

Page Ref: 72-73

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

114) Describe corporations. List their advantages and disadvantages.

Answer: A corporation is a business that is legally considered a separate entity from its owners. They may sue and be sued; buy, hold, and sell property; make and sell products; and be tried and punished for crimes. An advantage of incorporation is limited liability: Investor liability is limited to personal investments in the firm. Another advantage is continuity. Corporations also have advantages in raising money. By selling stock, they expand the number of investors and available funds. One disadvantage is that a corporation can be taken over against the managers' will. Also, start-up costs are high. Corporations are regulated and must meet legal requirements in the states in which they are chartered. A drawback to incorporation is double taxation. Different kinds of corporations help businesses take advantage of incorporation without assuming all of the disadvantages.

Page Ref: 75-76

Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept

115) Explain the basic issues involved in managing a corporation.

Answer: Corporations sell shares, called stock, to investors who then become stockholders and the real owners. Profits are distributed among stockholders in the form of dividends, and managers serve at their discretion. The governing body of a corporation is its board of directors. Most board members do not participate in day-to-day management but rather hire a team of managers. This team, called officers, is usually headed by a chief executive officer, or CEO, who is responsible for overall performance.

Page Ref: 77-78

Difficulty: Difficult

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Concept



The Miller brothers (Jack, Bill, and Evan) are about to fulfill a lifelong dream. They are buying a thousand-acre farm and plan to grow cotton. Seeking independence, they are not interested in bringing in any outside owners. They have obtained financing from the Farm Credit Bureau that will allow them to finance the purchase of the farm and some equipment. The brothers are realistic and expect to work very long hours. However, they have a few critical decisions left to make.

116) Should the Miller brothers' farm be considered a small business?

Answer: The Miller brothers' farm should be considered a small business. A small business is independently owned and managed. It cannot be a part of another business and must have little influence in its market. A family farm would definitely meet these standards. As there are hundreds, if not thousands, of farms growing cotton in the United States, the Miller brothers' farm will have little to no influence in the market for cotton.

Page Ref: 60

Difficulty: Easy

AACSB: Reflective thinking skills

Objective: 3.1

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

117) Should the Miller brothers develop a business plan? Why or why not?

Answer: A business plan would help the brothers develop and describe their business strategy and demonstrate how it will be implemented. It would also describe the abilities and experiences each of the brothers can contribute to running the cotton farm. Three different people probably have three different areas of expertise. The business plan would also define legal elements, describe how the business will be organized, and address accounting and finance issues. It would specifically address what the three men's goals and objectives are, what strategies they will use to attain these, and how the strategies will be implemented.

Page Ref: 65

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.3

Learning Outcome: Explain the entrepreneurship process

Skill: Application

118) Assuming the farm is organized as a general partnership, what are the advantages?

Answer: The advantages of a general partnership include the ability to grow by adding new talent and money, easy formation with few legal requirements, and tax benefits since a partnership is taxed at the individual level.

Page Ref: 73

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

119) Assuming the farm is organized as a general partnership, what are the disadvantages?  
Answer: The disadvantages of a general partnership include unlimited liability in that the partners are personally liable for all debts incurred by the business, and a lack of continuity in that the business legally dissolves when a partner leaves or dies.

Page Ref: 73

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

120) Assuming the farm is organized as a private corporation, what are the advantages?  
Answer: The advantages of a private corporation include limited liability in that owner liability is limited to personal investments in the business, and continuity that allows that the legal life of the business is independent of owners.

Page Ref: 75

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

121) Assuming the farm is organized as a private corporation, what are the disadvantages?  
Answer: The disadvantages of a private corporation include significant start-up costs and double taxation, in which profits are taxed at corporate and individual levels.

Page Ref: 75-76

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

122) Assuming the farm is organized as an S corporation, what are the advantages?  
Answer: The advantages of an S corporation include limited liability, in that the owner liability is limited to personal investment in the business, and continuity.

Page Ref: 77

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

123) Assuming the farm is organized as an S corporation, what are the disadvantages?  
Answer: The disadvantages of an S corporation include significant start-up costs and stringent legal requirements.

Page Ref: 77

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

124) Assuming the farm is organized as a limited liability corporation, what are the advantages?  
Answer: The advantages of a limited liability corporation include limited liability, in that owner liability is limited to personal investment in the business, and continuity.

Page Ref: 77

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.6

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

125) Assuming the farm is organized as a limited liability corporation, what are the disadvantages?

Answer: The disadvantages of a limited liability corporation include significant start-up costs and additional regulation.

Page Ref: 77

Difficulty: Moderate

AACSB: Reflective thinking skills

Objective: 3.6

Skill: Application

126) The Miller brothers are not sure how to organize their business. What are their options in terms of legal form?

Answer: The three general forms of business ownership are sole proprietorship, partnership, and corporation. Obviously, the business is unlikely to be organized as a sole proprietorship, as there can be only one owner. Since the brothers have indicated that they do not wish to bring in outside owners, they may wish to consider organizing as a general partnership. Finally, the brothers may wish to investigate forms of corporate ownership, including the private corporation, S corporation, or limited liability corporation. The public corporation form is not appropriate, as it would allow others to buy an interest in the farm.

Page Ref: 74

Difficulty: Difficult

AACSB: Analytic skills

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

127) Which form of business ownership would you recommend for the Miller brothers? Why?  
Answer: Answers will vary and should be based on the advantages and disadvantages identified in answers to previous questions related to the Miller brothers' scenario.

Page Ref: 77

Difficulty: Difficult

AACSB: Analytic skills

Objective: 3.5

Learning Outcome: Describe the role of small businesses in the economy

Skill: Application

An entrepreneur, Christina Rossini, is planning to open a small chain of 4 to 6 pizza stores under the brand name "Redenda Pizza." The name comes from combining the first names of the entrepreneur's grandparents. Christina wants to have a competitive advantage by offering innovative and distinct specialty pizzas and by offering the freshest ingredients. However, she is concerned that without proper planning, her venture will not be successful.

128) Christina is trying to identify potential problems in order to avoid them or at least be better positioned to react if they cannot be avoided. In doing so, Christina should account for all of the following possibilities EXCEPT:

A) the possibility that years in the future scientists may give a new communicable disease a name that sounds similar to "Redenda"

B) the possibility that a significant number of her potential customers could be allergic to one or more of her ingredients

C) the possibility that seasonal variations in the availability of ingredients could affect the price of those ingredients

D) the possibility that advertising "fresh" ingredients may prevent Redenda Pizza from using less-expensive ingredients

E) the possibility that many customers are reluctant to try new pizza recipes

Answer: A

Explanation: A) Identifying things that could go wrong is an important part of planning, but it is unrealistic to try to account for every possibility. The event in Choice A would be devastating if it happened, but how could it be avoided? There's no good way to tell whether this name (or any other distinctive name) will take on a negative meaning. Christina could go around the world and beg scientists not to name a disease anything that sounds like "Redenda," but that's not a good use of time. Right now, there's nothing wrong with the name, and so Choice A is a risk that Christina will have to take.

The other choices are all reasonable possibilities that could be accounted for during planning.

Page Ref: 65

Difficulty: Difficult

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

129) Answers to which of the following questions would be LEAST relevant to determining whether Christina has located a good opportunity in starting Redenda Pizza?

- A) Are there other pizza restaurants in the immediate vicinity of the planned location?
- B) Is the business of other pizza restaurants in the city growing?
- C) Does the planned location of the restaurant have competitive rent?
- D) Will Redenda Pizza offer unique ingredients in its food offerings?
- E) Would Christina bring unique talents and ideas to a restaurant business?

Answer: C

Explanation: C) The rent of the planned location is not of direct relevance to how good the opportunity is, because the success of the restaurant is independent of how good the rent is: even if the rent is competitive, that would not be sufficient for the success of the restaurant. On the other hand, the questions of whether there is sufficient demand for pizza restaurants and not too much supply of them are directly relevant to the question of whether there is a good opportunity for a pizza restaurant, as is the question of whether Christina will bring unique things to a pizza restaurant that would enhance its chances of success.

Page Ref: 65

Difficulty: Difficult

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

130) Which of the following, if true, would strengthen the case that Christina has a good opportunity in opening a new pizza restaurant?

- A) There are many existing pizza restaurants in Christina's city.
- B) The pizza business in Christina's city has remained largely unchanged for many years.
- C) Restaurant consumers in Christina's city mostly frequent Mexican restaurants.
- D) Pizza restaurants require several experienced employees to be successful.
- E) Pizza restaurants can be found in almost any town in the United States.

Answer: B

Explanation: B) If the pizza business has remained largely unchanged for a period of time, this represents an opportunity for Christina to bring something different to the local industry and thereby attract customers because of the newness involved. Choice A would indicate that consumer needs are already met by other establishments, and Choice C implies that demand for pizza restaurants is low in Christina's city, indicating little opportunity. Choices D and E do not strengthen the case of a pizza restaurant being a good opportunity for Christina.

Page Ref: 65

Difficulty: Moderate

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

131) Which of the following, if true, would NOT strengthen the case that Christina has personal characteristics necessary for her new business to succeed?

- A) She is willing to take risks.
- B) She is motivated.
- C) She works well with others.
- D) She is a "big picture" thinker.
- E) She follows directions carefully.

Answer: E

Explanation: E) Following directions carefully may be a useful general characteristic for a worker, but it is of no particular help in being an entrepreneur. Rather, good leadership characteristics and being able to work well with a variety of people who will be involved in the business contribute to being a successful entrepreneur. A good entrepreneur must be willing to take risks, or there will be no chance to start a business, which is inherently risky. It takes motivation to see a new business through to success, and it takes "big-picture" thinking to keep all the factors in mind that are necessary for a business's success.

Page Ref: 65

Difficulty: Moderate

Objective: 3.1

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

132) Which of the following BEST explains why flexibility is an important quality that Christina needs for success?

- A) It takes a certain amount of money to start a business.
- B) It often helps to have a business partner in a new business.
- C) Starting a new business requires a great deal of planning.
- D) Starting and running a new business involves many unpredictable factors.
- E) An entrepreneur must be extremely competent in business skills.

Answer: D

Explanation: D) Starting a new business requires planning, but also the ability to adjust to the inevitable eventualities in which things do not go according to plan and improvise so that goals can still be reached. Flexibility does not directly relate to acquiring start-up money, or to having a business partner or business skills.

Page Ref: 64-65

Difficulty: Difficult

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

Short and Shearer are two friends who want to begin an entrepreneurship as business partners. They need to decide whether to start up a new business or to buy an existing business. To do this, Short and Shearer need to weigh the pros and cons of each in order to see what the best strategy for them would be.

133) Which of the following, if true, would strengthen the case for Short and Shearer buying an existing business?

- A) Short and Shearer have a lot of ideas as to the kind of business they would like to own.
- B) An existing business would have an existing customer base that Short and Shearer would inherit.
- C) An existing business for sale might have difficulties that Short and Shearer would inherit.
- D) Short and Shearer greatly value independence.
- E) Existing small businesses are usually carrying debts.

Answer: B

Explanation: B) Having an existing customer base would make doing business easier, because they could count on a relatively reliable source of revenue right away. If an existing small business has debts or other difficulties that Short and Shearer would inherit, this would weaken the case for buying it. If Short and Shearer value independence, this means they should be entrepreneurs, but it would not strengthen the case for their buying an existing business over starting their own. If they have a lot of business ideas, this does not strengthen the case for buying an existing business, although it would strengthen the case for them starting a new business of their own.

Page Ref: 66

Difficulty: Moderate

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

134) Which of the following, if true, would weaken the case for Short and Shearer buying an existing business?

- A) Short and Shearer could more easily obtain financing for the purchase.
- B) Buying an existing business involves fewer legal hurdles than starting a new one.
- C) Franchises have more potential for success than single-facility businesses.
- D) Short and Shearer have limited funds to start with.
- E) Existing businesses cost less to purchase than new ones.

Answer: D

Explanation: D) If Short and Shearer have limited funds, they would probably not be in a good position to pay the full purchase price for an existing business, which tends to have a lot of existing value. If it costs less, however, or they could easily obtain financing, or it involves fewer legal hurdles, these would strengthen the case for buying an existing business. It is not given whether Short and Shearer are looking at buying a franchise or a single-facility business, so if a franchise is preferable, this does not weaken the case for their buying an existing business.

Page Ref: 66

Difficulty: Moderate

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

135) Which of the following, if true, would strengthen the case for Short and Shearer's starting a new business of their own?

- A) Starting a new business would put a lot of demands on their time.
- B) Starting a new business involves more risk than purchasing an existing one.
- C) Starting a new business would give them a lot of freedom and independence.
- D) Starting a new business would mean hiring many new employees right away.
- E) Starting a new business involves a lot of stress for the proprietors.

Answer: C

Explanation: C) If Short and Shearer are entrepreneurs, this makes it highly likely that they value freedom and independence, in which case this would strengthen the case for starting a new business of their own. Risk, stress, demands on their time, and having to hire several new employees are all weaknesses to the case being made.

Page Ref: 66

Difficulty: Moderate

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

136) Which of the following, if true, would weaken the case for Short and Shearer's starting a new business?

- A) Starting a new business allows an entrepreneur to determine their own working hours.
- B) Starting a new business allows an entrepreneur to establish their own clientele.
- C) Starting a new business allows an entrepreneur to use their own ideas.
- D) Starting a new business gives a potential for a feeling of great accomplishment.
- E) Starting a new business involves using an untested business model.

Answer: E

Explanation: E) An untested business model involves risk to the entrepreneur, since it increases the chances that the business might fail. Determining one's own working hours and clientele, using one's own ideas, and having the potential for giving a sense of accomplishment would all strengthen the case for starting a new business.

Page Ref: 66

Difficulty: Moderate

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking



137) In order to help ensure success for their new business, which of the following questions would be LEAST helpful for Short and Shearer to periodically ask themselves?

- A) How well does our firm's operation align with the business plan?
- B) How many employees do we have?
- C) How are we handling our finances?
- D) How are our employees performing?
- E) How much debt can we afford to carry?

Answer: B

Explanation: B) Number of employees in itself is not an indicator of a business's health. The business could be doing very well with few employees, or floundering with many employees (or vice versa). On the contrary, keeping to the business plan, handling finances wisely, ensuring that employees are performing well, and making sure that the amount of debt the business is carrying is appropriate are all very helpful, if not essential, questions that small-business owners should ask themselves periodically.

Page Ref: 66

Difficulty: Moderate

Objective: 3.2

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

Sam and Nina want to start a dry-cleaning service and need to decide on the best form of business ownership, based on their respective abilities and the kind of business they want to run. They could either jointly own the business as a partnership, or one of them could own it as a sole proprietorship.

138) Which of the following, if true, would strengthen the case for Nina running the business as a sole proprietorship?

- A) Sam is experienced in dry-cleaning.
- B) Sam has a wide base of existing customer contacts.
- C) Sam is not willing to take on legal liability in the company.
- D) Nina is relatively new to the dry-cleaning business.
- E) Nina is not much of a "people person."

Answer: C

Explanation: C) If Sam does not want to take on legal liability, then he should not be one of the owners of the company, which would leave Nina as being sole proprietor. On the other hand, if Sam is experienced in the dry-cleaning business (Choice A) or has existing customer contacts (Choice B), it might strengthen the case for his being co-owner of the business. If Nina is relatively new to the business (Choice D), then this would weaken the case for her being sole proprietor, as would Nina's not being a "people person" (Choice E), since owning and running a business requires constant interaction with a wide variety of people.

Page Ref: 74

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

139) Which of the following, if true, would weaken the case for Nina running the business as a sole proprietorship?

- A) Nina has a degree in accounting.
- B) Nina's parents also ran a dry-cleaning business.
- C) Nina had the initial idea to start the new business.
- D) Sam is anxious to take on a lead role in the business.
- E) Sam does not have any previous dry-cleaning experience.

Answer: D

Explanation: D) If Sam wants to take on a lead role in the new business, then he will be willing to take on the responsibility of being one of the owners of the business, in which case Nina should not be sole proprietor. Choice A: If Nina has a degree in accounting, this might come in useful in business ownership, so it does not weaken the case for sole proprietorship. If Nina's parents ran a dry-cleaning business (Choice B), or Nina had the initial idea to start the business (Choice C), it might strengthen the case for her being one of the owners, but not for being sole proprietor. Choice E: If Sam does not have any previous dry-cleaning experience, that would weaken the case for him being one of the owners, and therefore strengthen the case for Nina being sole proprietor.

Page Ref: 74

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

140) Which of the following, if true, would strengthen the case for Sam and Nina owning the business in a partnership?

- A) Sam and Nina have very different personalities.
- B) Sam and Nina have the same skill sets.
- C) Sam and Nina are both motivated and energetic.
- D) Nina has good leadership qualities.
- E) Sam has a strong marketing background.

Answer: C

Explanation: C) Being motivated and energetic are necessary qualities for the demands of business ownership, so if Sam and Nina both have these qualities, it would strengthen the case for joint ownership. Having different personalities (Choice A) or the same skills (Choice B) would not necessarily strengthen the case for joint ownership, because those personalities and skills might not be appropriate for ownership. Choice D: Nina having good leadership qualities strengthens the case for her being owner, but not for joint ownership. Likewise, Sam's having a strong marketing background (Choice E) may strengthen the case for his participation in ownership, but not for joint ownership in particular.

Page Ref: 74

Difficulty: Difficult

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

141) Which of the following, if true, would weaken the case for Sam and Nina owning the business in a partnership?

- A) Sam and Nina have different personalities.
- B) Sam and Nina have known each other for many years.
- C) Sam and Nina have conflicting ideas about what would make a dry-cleaning business succeed.
- D) Nina is experienced in finance but not in equipment repair.
- E) Sam is experienced in dry-cleaning but not skilled as an administrator.

Answer: C

Explanation: C) Partners should be on the same page in terms of their basic expectations on how to establish and grow the business. If Sam and Nina disagree on fundamental elements of the dry-cleaning business, they'd be better off starting their own sole proprietorships. The case for joint ownership between them would not be weakened by the other choices, which are compatible with a partnership arrangement.

Page Ref: 74

Difficulty: Moderate

Objective: 3.5

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

Three friends want to start a warehousing and distribution business in a major city. They know that they each want to be co-owners of the new business, with a stake in its profits. The new business will therefore be a corporation, but they need to determine which kind of corporation it should be so that it will best fit their interests in the business.

142) Which of the following, if true about the owners' plan for the new business, would strengthen the case that it should be registered as an S corporation?

- A) They want their shareholders to be personally liable for the corporation's debts.
- B) They want to have an unlimited number of shareholders.
- C) They do not want the company to have to pay a corporate income tax.
- D) They do not want to have to meet any start-up requirements.
- E) They don't want to have a board of directors.

Answer: C

Explanation: C) An S corporation does not have to pay corporate income taxes, so this would fit the owners' plans. The shareholders of an S corporation are not personally liable for the company's debts (Choice A), and the number of shareholders (Choice B) is limited to 100 for an S corporation. An S corporation does have to meet start-up requirements (Choice D), and shareholders elect a board of directors (Choice E).

Page Ref: 77

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

143) Which of the following, if true about the owners' plan for the new business, would weaken the case that it should be registered as an S corporation?

- A) They want the company to be able to change its procedures over time.
- B) They want the company to be able to change its board membership if needed.
- C) They want the company to grow as quickly as they can grow it.
- D) They want the company to be able to issue multiple classes of stock.
- E) They want to pay income taxes via the individual tax returns of the shareholders.

Answer: D

Explanation: D) An S corporation is allowed to issue only one class of stock. It is free, however, to change its procedures (Choice A) and board membership (Choice B) over time, and to grow as quickly as it can (Choice C). Choice E: An S corporation does not pay a corporate income tax—shareholders pay taxes through their own individual tax returns.

Page Ref: 77

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

144) Which of the following, if true about the owners' plan for the new business, would strengthen the case that it should be registered as a limited liability corporation (LLC)?

- A) They want the company to be able to issue stock and offer stock benefits to employees.
- B) They want to form the company quickly and inexpensively.
- C) They don't want owners to have to pay personal taxes on company profits.
- D) They want the company's profits to be distributed however they choose.
- E) They want to operate consistently in multiple states.

Answer: D

Explanation: D) Unlike an S corporation, which must allocate its profits in proportion to a shareholder's interest, an LLC's profits can be distributed however the owners choose. Choice A: An LLC has ownership interests but cannot issue stock. Choice B: Paperwork requirements for starting up an LLC can be noteworthy, as both state and federal bureaucracies are involved. Choice C: Owners of an LLC do have to pay self-employment taxes on profits. Choice E: LLC's may face inconsistent operating requirements, such as dissolution dates, in various states.

Page Ref: 77

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking

145) Which of the following, if true about the owners' plan for the new business, would weaken the case that it should be registered as an LLC?

- A) They want the company to maintain its current membership.
- B) They do not want to be liable for the company's debts.
- C) They want the company's funding to come from shareholders.
- D) They want to set the management details in advance.
- E) They want the company to be registered both federally and with the state.

Answer: C

Explanation: C) An LLC will not have shareholders, because it cannot issue stock. An LLC can set its membership details in an operating agreement (Choice A) and members do have liability protection (Choice B). An LLC can specify management details in its articles of organization or an operating agreement (Choice D), and it registers with both federal and state authorities (Choice E).

Page Ref: 77

Difficulty: Moderate

Objective: 3.6

Learning Outcome: Explain the entrepreneurship process

Skill: Critical Thinking