

Section 3-2 Review Questions

Name \_\_\_\_\_

**MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.**

- 1) In a sole proprietorship, how many people are responsible for the business? 1) \_\_\_\_\_  
A) one                                      B) one or more                                      C) at least two                                      D) any number
  
- 2) Which of the following is not an advantage of a sole proprietorship? 2) \_\_\_\_\_  
A) inexpensive to set up  
B) no partners to split profits with  
C) business income and costs are reported on the owner's personal tax return  
D) unlimited liability
  
- 3) Which type of business ownership has "double taxation?" 3) \_\_\_\_\_  
A) C corporation                                      B) limited liability company  
C) nonprofit corporation                                      D) sole proprietorship
  
- 4) Which type of business ownership provides unlimited liability for its owners? 4) \_\_\_\_\_  
A) nonprofit corporation                                      B) C corporation  
C) sole proprietorship                                      D) all of the above
  
- 5) Which advantage does a general partnership have over a sole proprietorship? 5) \_\_\_\_\_  
A) it has a lower tax rate  
B) it provides more than one person for financial backing  
C) it provides limited liability  
D) all of the above
  
- 6) What disadvantage does a general partnership have over a sole proprietorship? 6) \_\_\_\_\_  
A) each partner is responsible for the business actions of the others  
B) profit is split between the partners  
C) partners may have trouble agreeing on policies  
D) all of the above
  
- 7) An employee-owned corporation is called a(n) 7) \_\_\_\_\_  
A) ESOP                                      B) subchapter S corporation  
C) C Corporation                                      D) nonprofit corporation
  
- 8) Sole proprietorships with employees are required to have 8) \_\_\_\_\_  
A) EIN                                      B) tax I.D. number and EIN  
C) tax I.D. number                                      D) none of the above
  
- 9) Which type of business is tied to the life span of its owners? 9) \_\_\_\_\_  
A) C corporation                                      B) nonprofit corporation  
C) limited partnership                                      D) none of the above
  
- 10) Members of a cooperative business are individuals who 10) \_\_\_\_\_  
A) are employed by the business                                      B) buy the goods of the business  
C) use the services of the business                                      D) all of the above

**TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.**

- 11) Unlimited liability means that a business owner cannot be legally forced to use personal money and possession to pay business debt 11) \_\_\_\_\_
- 12) Business owners with limited liability only risk the money specifically invested in the business. 12) \_\_\_\_\_
- 13) A sole proprietorship is the simplest and least expensive option for business ownership. 13) \_\_\_\_\_
- 14) The level of liability for a business owner depends on the type of ownership structure of the business. 14) \_\_\_\_\_
- 15) A sole proprietorship has limited liability for any business debt. 15) \_\_\_\_\_
- 16) In a general partnership, all partners have unlimited liability. 16) \_\_\_\_\_
- 17) Cooperatives often share their earnings with their members as dividends. 17) \_\_\_\_\_
- 18) The profits made by nonprofit corporations are distributed to its donors. 18) \_\_\_\_\_
- 19) A subchapter S corporation is taxed twice: once through the corporation's profits and then again through the shareholder's dividends. 19) \_\_\_\_\_
- 20) Corporations are easier to set up than sole proprietorships. 20) \_\_\_\_\_

**SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.**

- 21) A business owner's \_\_\_\_\_ is his or her legal obligation to use personal assets to pay the debts of the business. 21) \_\_\_\_\_
- 22) This type of liability means a business owner can be legally forced to use personal money and possessions to pay business debt. 22) \_\_\_\_\_
- 23) This type of liability means a business owner cannot be legally forced to use personal money and possessions to pay business debt. 23) \_\_\_\_\_
- 24) In which type of business ownership does a single individual own the business, collect all profit from it, and have unlimited liability for its debt? 24) \_\_\_\_\_
- 25) An entrepreneur who wants to hire employees must obtain an Employer Identification \_\_\_\_\_ (EIN). 25) \_\_\_\_\_
- 26) A(n) \_\_\_\_\_ is a type of business organization in which at least two individuals share the management, profit, and liability. 26) \_\_\_\_\_
- 27) A(n) \_\_\_\_\_ is a legally defined type of business ownership in which the business itself is considered a "person" under the law. 27) \_\_\_\_\_
- 28) Owners of a corporation are called \_\_\_\_\_. 28) \_\_\_\_\_
- 29) Each share in a corporation may earn its owner a(n) \_\_\_\_\_, which is a portion of the corporation's profit. 29) \_\_\_\_\_
- 30) A(n) \_\_\_\_\_ is a business owned, controlled, and operated for the mutual benefit of its members. 30) \_\_\_\_\_

## Answer Key

### Testname: 3-2 REVIEW QUESTIONS

- 1) A
- 2) D
- 3) A
- 4) C
- 5) B
- 6) D
- 7) A
- 8) B
- 9) C
- 10) D
- 11) FALSE
- 12) TRUE
- 13) TRUE
- 14) TRUE
- 15) FALSE
- 16) TRUE
- 17) TRUE
- 18) FALSE
- 19) FALSE
- 20) FALSE
- 21) liability
- 22) unlimited
- 23) limited
- 24) sole proprietorship
- 25) number
- 26) partnership
- 27) corporation
- 28) shareholders or stockholders
- 29) dividend
- 30) cooperative