

### Be Your Own Boss

You have decided that you are going to start a new business giving horseback riding lessons. You need to decide which legal form you will use for your business. Choose a sole proprietorship, partnership, or corporation. Prepare 2 PowerPoint slides explaining why you chose the legal form you did and the advantages and disadvantages of your choice. Email the PowerPoint as an attachment.



### Think Critically

1. What would be the greatest advantage of starting a new business from scratch? What would be its greatest disadvantage? Do you think the advantages outweigh the disadvantages? Why or why not?

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### True or False

- \_\_\_ 1. A sole proprietorship enables two or more people to be in control of a business.
- \_\_\_ 2. You must file a written description of your business with the government when you raise money for a sole proprietorship.
- \_\_\_ 3. In a partnership, any losses will be shared by all the partners.
- \_\_\_ 4. A partnership agreement should include a procedure for dealing with the death of a partner.
- \_\_\_ 5. A partnership agreement identifies the investment contributed by each partner.
- \_\_\_ 6. A corporation's senior officers decide how much should be paid out in dividends.
- \_\_\_ 7. An S corporation's profits are taxed only as individual income, not as corporate income.
- \_\_\_ 8. The owner of a business may sell the business because of insufficient sales or profits.
- \_\_\_ 9. When purchasing an existing business, you should find out why the business is being sold, inspect the facility, and analyze the financial accounts for the last three years.
- \_\_\_ 10. The owner of a franchise must pay a weekly or monthly royalty fee to the seller of the franchise.

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### Multiple Choice

- \_\_\_ 1. A business with the legal rights of a person and which may be owned by many people is a (a) sole proprietorship, (b) partnership, (c) corporation, (d) dual partnership.
- \_\_\_ 2. A business is a sole proprietorship if (a) it is owned exclusively by one person, (b) it has fewer than ten employees, (c) it has the legal rights of a person, (d) all of these.
- \_\_\_ 3. A disadvantage of a sole proprietorship is that (a) it must remain small, (b) it is difficult to start, (c) government regulation is extensive, (d) only the owner contributes money.
- \_\_\_ 4. An advantage of a partnership is that (a) government regulations prevent disagreements, (b) decision making and responsibilities are shared, (c) it is easy to raise capital, (d) it has the legal rights of a person.



# what went wrong?

## PARTNERSHIP WOES

Stan and Peter met while working at a video production company. Stan was in charge of editorial and production. Peter ran the sales force. Stan decided to begin his own company and invited Peter to join him. SP Communications seemed like a perfect partnership. Peter would handle sales and administration while Stan managed clients and directed production.

Things seemed to be going well until Peter decided he wanted to be a part of the creative process. He spent most of his time producing videos rather than looking for new business. Because of their friendship,

Stan trusted that Peter was taking care of his side of the business.

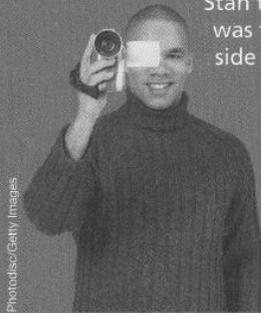
As it turned out, Peter wasn't very good at the creative tasks he attempted. He made mistakes that reduced expected profits. In addition, he wasn't making new sales

contacts, which was supposed to be his main job.

By the time Stan realized what was happening to the business, it was too late. There weren't any new sales. What Stan thought were profits were the result of Peter not paying their bills. Stan was left with more than \$150,000 in unpaid bills and other debts. Peter left the business. It took Stan three years to dig out of the financial mess and get his new company up and running successfully.

### THINK CRITICALLY

1. How might Stan and Peter have avoided the problems that led to the end of their partnership?
2. Why is this situation a good example of the difficulty in maintaining partnerships between friends?
3. What types of things should be spelled out completely between partners at the beginning of the partnership?



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Choose your partners wisely.