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Chapter 3: Types of Business Ownership

Check Your Answers: Section Assessment

Section 1

Review Key Concepts
1. Advantages include easy set-up, more skills and knowledge, more available capital, total control by partners, and profits are only taxed once.

2. Advantages include easy set-up, simple licensing and paperwork, total control, profits to owner, profits taxed once, and few government regulations.

3. A general partner has decision-making authority, an active role in operations, and unlimited liability. A limited partner does not have decision making authority and is liable for the original investment.

4. Increased competition can cause lower prices for consumers and sellers, but producers may make less profit on the product. A decrease in competition benefits the producer as prices and costs for consumers and sellers are higher.

5. A monopoly causes an increase in prices for consumers as they have to pay whatever the business charges for the product. The business profits from the increased profit.

6. Sole proprietorships and partnerships pay tax as individuals, once a year, with the profits declared as income. They do not have to pay federal or state business taxes.

Higher Order Thinking
7. Sample response: My uncle should be a limited partner so that I can control the business and he will not lose additional money if my venture does not work.

21st Century Skills
8. Collaborate with Others A sample partnership agreement might read: Jacob – and Seth – do hereby enter into a partnership for ABC Web Creations, a design firm specializing in building and maintaining Web sites. Jacob and Seth will each contribute $250 in initial investment. All profits are to be shared and divided equally. Jacob will be responsible for the bookkeeping. Seth and Jacob will equally share the responsibilities of building and maintaining the Web sites. Seth will be responsible for marketing the business. Should the business be dissolved, all assets will be equally divided.

Mathematics
9. Partnership Sam's initial investment = 45% × $250,000 = $112,500; Beth's initial investment = 30% × $250,000 = $75,000; Sanjay's initial investment = 25% × $250,000 = $62,500