

Guided Reading Activity

Business Organization

Lesson 1 *Forms of Business Organization*

Review Questions

Directions: Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

A. Sole Proprietorships

Main Idea: A sole proprietorship is a business owned and operated by a single individual or owner. Although you are your own boss, you also have total liability, and you may lack the skills needed to run a business successfully.

1. A sole proprietorship is easy to _____, because it involves almost no requirements. It is also easy to _____ because decisions do not need to be approved by a co-owner or boss.
2. A sole proprietor does not have to pay separate business income _____ and can keep all the _____.
3. A sole proprietor has unlimited _____ for his or her business, which means that he or she is fully responsible for all of the business's losses and debts. A sole proprietor may also have trouble raising _____.
4. Because of _____ financial capital, a sole proprietorship may have trouble hiring the employees it needs and carrying enough _____ to satisfy customers and keep production flowing smoothly.

B. Partnerships

Main Idea: There are two types of partnerships—general and limited—and each has its own advantages and disadvantages as a business organization.

1. In a _____ partnership, all partners are responsible for the business's finances and _____.
2. In a _____ partnership, at least one _____ is not active in running the business and has limited responsibility and financial liability.

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3. Although a _____ may be formed with a handshake, formal _____ papers are usually drawn up to make the business arrangement official.
4. Partnerships are easy to start and, because each partner brings a different area of expertise, they are generally easy to _____; they also have an easier time attracting _____ than sole proprietorships.
5. One downside to a general partnership is that all partners are _____ for the acts of all other partners and have unlimited _____ for the business's debts and losses.
6. In a _____ partnership, each partner is liable for only the amount of his or her original _____ in the business.
7. The potential for _____ between partners is a disadvantage of partnerships, as is its limited _____—the partnership must be dissolved and reorganized if any partners leave or die.

C. Corporations

Main Idea: A corporation is a form of business organization that is legally seen as a separate entity with all the rights of an individual, which means it can buy and sell property, enter into legal contracts, and sue and be sued. In fact, a corporation can do almost anything you can do except vote.

1. A business must get a legal _____ before it can be formed into a corporation that may issue _____ and bonds.
2. The true owners of a corporation are its _____, who also receive _____ from the profits of the corporation.
3. Owners of common stock can _____ for a board of directors, but owners of _____ stock cannot.
4. Advantages of a corporation are that it can raise capital by selling stock and issuing _____, and its owners and managers have limited _____ for its actions or debts.

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5. As its own entity, a corporation has an unlimited _____, and ownership can easily be _____.
6. It is more _____ to start a corporation than other forms of business, and corporations are subject to more _____ than are most other types of business.

D. Franchises

Main Idea: A franchise is a temporary business investment that involves renting or leasing another firm's successful business model. Like other business structures, it has its benefits and drawbacks.

1. A _____ often pays thousands of dollars to run the business sold by the _____.
2. The owner of a franchise benefits from brand name recognition, access to professional _____, and nationwide advertising.
3. There is a substantial cost if a franchisee wants to _____ the franchise before the end of the contract, and at the end of the contract, all the franchisee has is the right to _____.

Summary and Reflection

Directions: Summarize the main ideas of the lesson by answering the questions below.

Suppose you wanted to go into business for yourself. What type of business would you like to run? Which form of business organization do you think is best suited to your business, to your temperament, and to your skills? Use examples to explain your answer.
