

Legal Structures for Business Organizations Self-Assessment Questions

1. Which of the following is true concerning the application of law to the legal structures that may be used in the operation of a business enterprise?
 - A. The law, where it exists, that governs legal structures that may be used in the operation of a business enterprise is state law.
 - B. The law, where it exists, that governs legal structures that may be used in the operation of a business enterprise is federal law.
 - C. The legal structures that may be used in the operation of a business enterprise are not the subject of any state or federal laws.
 - D. The only law that governs the legal structures that may be used in the operation of a business enterprise is the federal law on taxation.
 - E. The only law that governs the legal structures that may be used in the operation of a business enterprise is local municipal and county codes that require business licenses or business permits.

2. Which of the following professionals may need to be consulted for guidance in determining the most appropriate legal structure to be used in the operation of a business enterprise, such as an independent pharmacy?
 - A. Attorney
 - B. Certified Public Accountant
 - C. Financial planner
 - D. Tax advisor
 - E. All of the above

3. Which of the following is not one of the commonly recognized legal structures that may be used in the operation of a business enterprise, such as an independent pharmacy?
 - A. Sole proprietorship
 - B. Independent contractor
 - C. Partnership
 - D. Corporation
 - E. Limited Liability Company

4. Which of the following is the commonly recognized legal structure, for operation of a business enterprise, which is generally the easiest to form and does not require government approval?
 - A. Sole proprietorship
 - B. Independent contractor
 - C. Partnership
 - D. Corporation
 - E. Limited liability company

5. Which of the following is the commonly recognized legal structure, for operation of a business enterprise, which is generally associated with the most legal formality and requirements?
- A. Sole proprietorship
 - B. Independent contractor
 - C. General partnership
 - D. Limited partnership
 - E. Corporation
6. An association of two or more persons to carry on as co-owners a business organization or other undertaking for profit” best describes which of the following legal structures that may be used in the operation of a business?
- A. Joint venture
 - B. Partnership
 - C. Corporation
 - D. Limited liability partnership
 - E. Limited liability company
7. Which of the following is the name given to the legal structure, for operation of a business enterprise, which has characteristics of both individual and corporate identities?
- A. Closely held corporation
 - B. Family held corporation
 - C. Non-public corporation
 - D. Exempt company
 - E. Limited liability company
8. Which of the following represents the most significant disadvantage to using the legal structure of sole proprietorship for operation of a business enterprise?
- A. Impossible to raise capital and borrow money since there are no shares of stock to sell and issue.
 - B. Because the owner and the business are one in the same, the owner must make all of the decisions without the ability to consult with others.
 - C. Personal responsibility of the owner for all debts and liabilities of the business.
 - D. Double taxation of the income of the business.
 - E. Sole proprietorships are not allowed protection under the federal bankruptcy laws.
9. For purposes of income taxation under federal law, which of the following commonly recognized legal structures, for operation of a business enterprise, reports income using Internal Revenue Service Form 1065?
- A. Sole proprietorship
 - B. Independent contractor
 - C. Partnership
 - D. Corporation
 - E. Limited liability company

10. An independent pharmacy using the legal structure of a corporation could avoid double taxation on business income by electing, if the applicable criteria are met, to operate as which of the following forms of a corporation?
- A. Subchapter C corporation
 - B. Subchapter I corporation
 - C. Subchapter K corporation
 - D. Subchapter S corporation
 - E. Subchapter X corporation
11. With respect to the legal structure of a partnership, which of the following is the legal doctrine that governs the relationship of one partner to the other partners and of one partner to the partnership?
- A. Law of agency
 - B. Law of joint venture
 - C. Law of joint liability
 - D. Law of mutual liability
 - E. Law of estoppel
12. Which of the following is the name given to the written agreement that is usually prepared and executed by partners in order to formalize the establishment and operation of a partnership?
- A. Articles of joint venture
 - B. Articles of mutual venture
 - C. Articles of incorporation
 - D. Articles of partnership
 - E. Articles of establishment
13. John and Jane, both pharmacists, form a general partnership to operate an independent pharmacy. Jane handles most of the business matters of the partnership. According to their written agreement to form the partnership, either partner can conduct business, individually and without the other's consent and without limitation, on behalf of the partnership. With respect to John as a partner, which of the following is not true?
- A. John would be liable as a partner for a promissory note signed by Jane on behalf of the partnership for \$50,000.00 for recent capital improvements.
 - B. John would be liable as a partner for debts of the partnership to suppliers and others providing products and services to the partnership.
 - C. John would be liable as a partner for a civil liability judgment against the partnership resulting from a prescription dispensing error made by Jane.
 - D. John would be liable as a partner for sales tax due to the state from sales of taxable merchandise made by the partnership.
 - E. John would be criminally liable as a partner for fraudulent prescription claims submitted for reimbursement by Jane even if John did not know about the fraudulent claims.

14. Which of the following forms of the legal structure of a partnership allows for some partners to not have responsibility for debts and liabilities of the partnership?
- A. General partnership
 - B. Limited partnership
 - C. Closed partnership
 - D. Sheltered partnership
 - E. Silent partnership
15. Which of the following legal structures used in the operation of a business enterprise is subject to double taxation on the income of the business enterprise?
- A. Sole proprietorship
 - B. Partnership
 - C. Limited liability company
 - D. General corporation
 - E. Subchapter S corporation
16. Which of the following is the name given to the document that is filed with the state to obtain formal approval and recognition of the legal structure of a corporation?
- A. Charter
 - B. Articles
 - C. Filing
 - D. Permit
 - E. Authorization
17. Which of the following represents the single greatest advantage of using the legal structure of a corporation for the operation of a business enterprise?
- A. Can raise unlimited capital by issuance of shares of stock.
 - B. Many people can be owners and thereby divide the decision-making and work effort.
 - C. Protection for owners against personal responsibility of the debts and liabilities of the business.
 - D. Income of the corporation passes to the stockholders as ordinary income.
 - E. Corporations are allowed protection under the federal bankruptcy laws.
18. Which of the following is the correct Internal Revenue Service Form used for electing the special corporate recognition of a general corporation so that double taxation on business income is avoided?
- A. Form 5223
 - B. Form 3552
 - C. Form 3225
 - D. Form 2553
 - E. Form 2335

19. Which of the following is the name given to the document that is filed with the state to obtain formal approval and recognition of the legal business structure that has characteristics of both individual and corporate identifies?

- A. Charter of organization
- B. Articles of organization
- C. Filing for organization
- D. Permit for organization
- E. Authorization for organization

20. Which of the following is the name given to the owners of the legal business structure that has characteristics of both individual and corporate identifies?

- A. Shareholders
- B. Stockholders
- C. Members
- D. Partners
- E. Proprietors