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| *Indicate the answer choice that best completes the statement or answers the question.* |

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| 1. A \_\_\_\_\_ refers to a partnership in which all partners can take an active role in managing the business and have unlimited liability for any claims against the firm.   |  |  |  | | --- | --- | --- | |  | a. | limited partnership | |  | b. | general partnership | |  | c. | limited liability partnership | |  | d. | publicly traded partnership | |

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| 2. In a sole proprietorship, any debts the company incurs are:   |  |  |  | | --- | --- | --- | |  | a. | taxed only if the owner has not taken a loan. | |  | b. | treated as the owner's personal income. | |  | c. | considered to be the owner's personal liabilities. | |  | d. | used to purchase preferred stocks of the company. | |

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| 3. Jovi's Corner, a toy store, abruptly closes down after the death of its owner. Without an heir or an experienced person to manage the store, Jovi's Corner is shut down, and the property is sold off to another party. The profits are donated to an orphanage. In the given scenario, Jovi's Corner is most likely an example of a \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | limited liability company | |  | b. | corporation | |  | c. | limited partnership | |  | d. | sole proprietorship | |

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| 4. Which of the following statements is true of sole proprietors?   |  |  |  | | --- | --- | --- | |  | a. | They mostly pay high salaries and substantial perks to their employees. | |  | b. | Their death or retirement does not legally cease the company from existing. | |  | c. | They often must perform tasks in areas where they lack expertise. | |  | d. | Their earnings are taxed only as income of the company. | |

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| 5. Tania starts a bookstore with her friend. However, owing to other commitments, Tania is unable to help with the daily operations of the bookstore. Therefore, Tania proposes that she would not actively participate in managing the business but would provide financial support to the business. By doing this, she would be sharing the profits equally with her friend, without incurring any of the business debts personally. In this scenario, Tania is a(n) \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | general partner | |  | b. | limited partner | |  | c. | quasi partner | |  | d. | active partner | |

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| 6. Which of the following statements is true of the formation of a partnership?   |  |  |  | | --- | --- | --- | |  | a. | Working out the details of a partnership agreement is always a simple process. | |  | b. | Forming a partnership requires issuance of fresh stock to the public. | |  | c. | Partnerships are created by filing a document called the articles of organization. | |  | d. | Partnerships can be established based on a simple verbal agreement. | |

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| 7. A(n) \_\_\_\_\_ cannot distribute dividends to its members.   |  |  |  | | --- | --- | --- | |  | a. | S corporation | |  | b. | C corporation | |  | c. | not-for-profit corporation | |  | d. | statutory close corporation | |

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| 8. Harvey, a shareholder in Braxwell Technologies, reinvests 10% of the dividends received from the company back into it, partly to evade taxes and partly to support the company. This scenario reflects the concept of \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | cash disbursements | |  | b. | tunneling | |  | c. | retained earnings | |  | d. | asset stripping | |

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| 9. When people use the term "corporation" without specifying which type, they are generally referring to a(n) \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | statutory close corporation | |  | b. | nonprofit corporation | |  | c. | S corporation | |  | d. | C corporation | |

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| 10. Inkglot Technologies, a medium-sized corporation, is allowed to have only 35 stockholders at any point of time. However, all stockholders of the company can actively participate in the management of the company while still maintaining limited liability. Given this information, Inkglot Technologies is most likely a(n):   |  |  |  | | --- | --- | --- | |  | a. | S corporation. | |  | b. | C corporation. | |  | c. | not-for-profit corporation. | |  | d. | statutory close corporation. | |

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| 11. Green Haven is an organization whose earnings are exempt from federal and state income taxes. Individuals who contribute money to the organization can avail the benefit of tax deduction. However, the organization is barred from distributing dividends to its members. Given this information, Green Haven is most likely a(n):   |  |  |  | | --- | --- | --- | |  | a. | S corporation. | |  | b. | C corporation. | |  | c. | not-for-profit corporation. | |  | d. | statutory close corporation. | |

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| 12. The nature of work and the workflow in the animation department of Hanzel Talkies, a movie production company, completely differs from that of other departments in the company. Hence, Hanzel Talkies decides to branch the animation department out into a new company by selling the stock to outside investors. In this scenario, Hanzel Talkies is using a strategy called a(n):   |  |  |  | | --- | --- | --- | |  | a. | conglomerate merger. | |  | b. | acquisition. | |  | c. | carve-out. | |  | d. | cross-boundary subsidization. | |

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| 13. Identify a true statement about limited liability companies (LLCs).   |  |  |  | | --- | --- | --- | |  | a. | The owners of LLCs can elect to have the company treated as a partnership for tax purposes. | |  | b. | Unlike corporations, LLCs are required to hold regular board meetings. | |  | c. | Unlike S corporations, the owners of LLCs cannot include foreign investors and other corporations. | |  | d. | Most states permit banks, insurance companies, and nonprofit organizations to operate as LLCs. | |

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| 14. Flaira, a high-end clothing brand in Florida, signs a licensing agreement with a firm in Honolulu to allow the latter to use Flaira's brand name, trademark, and business methods to operate the same clothing business in Honolulu. In exchange, the Honolulu firm has to pay the owner of Flaira an annual fee. This scenario is an example of a(n) \_\_\_\_\_.   |  |  |  | | --- | --- | --- | |  | a. | conglomerate merger | |  | b. | sole proprietorship | |  | c. | franchise | |  | d. | acquisition | |

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| 15. A \_\_\_\_\_ is a type of franchising arrangement in which the franchisor makes a product and licenses the franchisee to sell it.   |  |  |  | | --- | --- | --- | |  | a. | crave-out trade | |  | b. | non-disclosure agreement | |  | c. | distributorship | |  | d. | divestiture | |

**Answer Key**

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| 2. c |

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| 3. d |

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| 4. c |

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| 5. b |

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| 6. d |

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| 7. c |

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| 8. c |

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| 9. d |

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| 10. d |

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| 11. c |

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| 12. c |

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| 13. a |

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| 14. c |

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| 15. c |