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ABSTRACT

This three-part curriculum for entrepreneurship education is primarily for postsecondary level, including four-year colleges and adult education, but it can be adapted for special groups or vocational teacher education. The emphasis of the seven instructional units in Part II is establishing a business. Unit E focuses on the three major types of business ownership: sole proprietorship, partnership, and corporation. Information on franchising and cooperatives is also included. Topics include basic steps in establishing each form; choosing the right form of ownership or organization; characteristics, advantages, and disadvantages of each form of organization; and different types of operations in relation to the types of ownership. Material is organized into three levels of learning which progress from simple to complex concepts: Exposure, Exploration, and Preparation/Adaptation. Each level contains preassessment; teaching/learning objectives; substantive information (questions in margins guide the students' reading); activities, including a postassessment; and a self-evaluation. Definitions of important terms are found at the beginning of the unit; a bibliography and listing of sources for further information are appended. The four-page instructor's guide contains the teaching/learning objectives, teaching/learning delivery suggestions, and pre/postassessment suggested responses. (YLB)

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Research and Development Series No. 194 B-5

PACE

A PROGRAM FOR ACQUIRING COMPETENCE IN ENTREPRENEURSHIP

PART II: Becoming an Entrepreneur
UNIT E: Choosing the Type of Ownership

CE 028 158

The National Center for Research in Vocational Education
The Ohio State University
Columbus, Ohio 43210

1980

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PART II: BECOMING AN ENTREPRENEUR

UNIT E: CHOOSING THE TYPE OF OWNERSHIP

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FOREWORD

Traditionally vocational education has been geared primarily to preparing students for employment--to preparing employees. Yet there is another career path available; students can learn how to set up and manage their own businesses. They can become entrepreneurs.

Vocational education, by its very nature, is well suited to developing entrepreneurs. It is important that entrepreneurship education be developed and incorporated as a distinct but integral part of all vocational education program areas. A Program for Acquiring Competence in Entrepreneurship (PACE) represents a way to initiate further action in this direction.

The strength behind these instructional units is the interest and involvement of vocational educators and successful entrepreneurs in the state of Ohio and across the nation. Special recognition is extended to the project staff: Lorraine T. Furtado, Project Director and Lee Kopp, Program Associate. Appreciation is also expressed to the many who reviewed and revised the drafts of the units: Ferman Moody, Hannah Eisner, and Sandra Gurvis. We owe a special thanks to those consultants who contributed to the content of this publication: Carol Lee Bodeen, Louis G. Gross, Douglass Guikema, Peter G. Haines, Philip S. Manthey, Charles S. McDowell, Mary E. McKnight, Steven R. Miller, Barbara S. Riley, Barbara A. Rupp, Ruth Ann Snyder, Robert L. Suttle, Florence M. Wellman and Roy H. Young.

Robert E. Taylor
Executive Director
The National Center for
Research in Vocational Education

HOW TO USE PACE

A Program for Acquiring Competence in Entrepreneurship (PACE) is a curriculum responsive to the need for instruction in entrepreneurship. It is primarily for postsecondary level, including four year colleges and adult education, but it can also be adapted for special groups. PACE is divided into three parts (1) Getting Ready to Become an Entrepreneur, (2) Becoming an Entrepreneur (establishing a business), and (3) Being an Entrepreneur (operating a business).

Each of the three parts has a set of instructional units which relate to that topic. Within these units, the material is organized into three levels of learning: Exposure, Exploration, and Preparation/Adaptation. These levels of learning progress from simple to complex concepts.

The levels of learning will enable you to use the PACE materials to suit your individual needs. You may find it best to work with the exposure level of one unit and the exploration level of another. Or, you may choose to pursue one level throughout the entire series. You might also want to work through two or more levels in one unit before going on to the next unit.

Before beginning a unit, discuss with your instructor what level or levels of learning in that unit are most appropriate to your goals and abilities. Read the unit overview and look through the pre/post-assessments for the three levels to help you in your choice. Also check the list of definitions you might need to look up or research for that level.

When you are ready to start, turn to the level you have chosen, take the preassessment and identify those items which you feel need special attention in the unit. Also look at the learning objectives; they will tell you what you should be able to do by the time you finish that level of learning.

As you read, you will notice questions in the margins alongside the substantive content portion of each level. Use these questions to guide your reading.

At the end of each level of learning are activities which help you become involved with the content presented in the unit. You and your instructor can decide on how many activities you should do; you may want to do several or you many need to do all.

Then, evaluate yourself. Is there any material that you need to review before you take the postassessment? The difference in your answers on the pre/postassessments should show you how much you have grown in your knowledge of entrepreneurship.

When you and your instructor feel that you have successfully completed that level, you are ready to begin another level of learning, either in the same unit or in another.

OVERVIEW OF THE UNIT

When you are getting your business started, you will have to decide which type of ownership would be best for your firm. This unit will focus on the three major types of business ownership: sole proprietorship, partnership, and corporation. Information on franchising and cooperatives is also included. The basic steps to take to establish each form will be discussed.

The main purpose of this unit is to discover what form of business ownership or organization is "right" for you. This often depends on your background and resources. The unit will also look at the characteristics, advantages, and disadvantages of each form of business organization. Different types of business operations in relation to the three types of ownership (e.g., a clothing store versus a beauty parlor versus a gasoline station versus a manufacturing plant) will be discussed.

DEFINITIONS TO KNOW BEFORE YOU BEGIN

As you read through a level, you might find some unfamiliar words. Listed below are several business terms used in each level. Knowing these before you begin might help you to better understand that level.

EXPOSURE

- stock
- profit margin
- dividends

EXPLORATION

- sole proprietorship
- partnership
- corporation
- franchise
- franchisee
- franchisor
- cooperative
- stock
- line of credit

PREPARATION/ADAPTATION

- sole proprietorship
- liability
- partnership
- limited partner
- silent partner
- dormant partner
- secret partner
- nominal partner
- drawing account
- par value
- non-par value
- dividend
- charter
- by-laws
- franchise
- cooperative
- arrears
- tax bracket
- franchisee
- franchisor
- deficit
- subsidiary

PACE

PATH OF STUDY

PART I -- GETTING READY TO BECOME AN ENTREPRENEUR

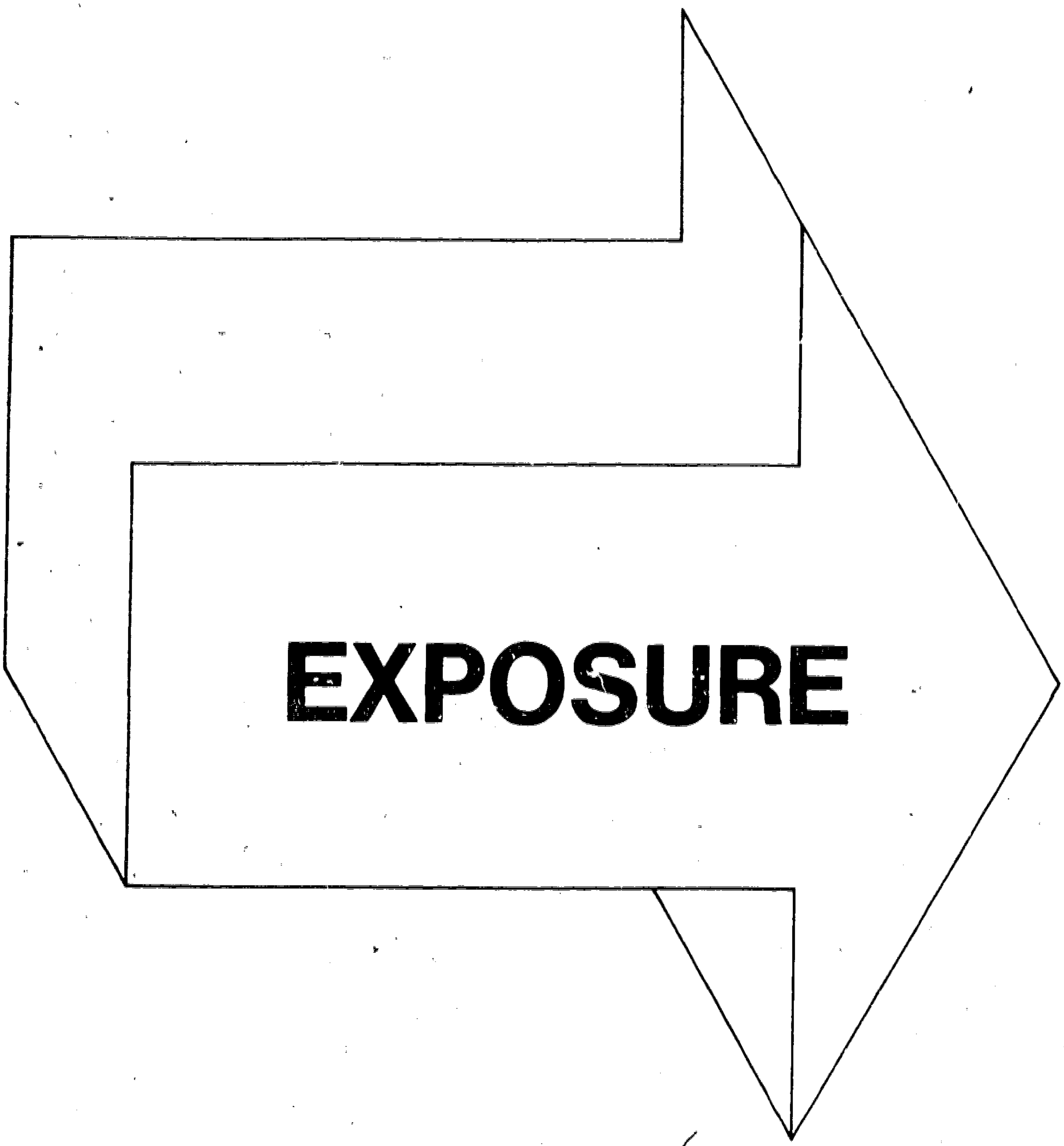
Unit I A
Unit I B
Unit I C

PART II -- BECOMING AN ENTREPRENEUR

Unit II A
Unit II B
Unit II C
Unit II D
YOU ARE HERE Unit II E -- Choosing the Type of Ownership
Unit II F
Unit II G

PART III -- BEING AN ENTREPRENEUR

Unit III A
Unit III B
Unit III C
Unit III D
Unit III E
Unit III F
Unit III G
Unit III H



EXPOSURE

EXPOSURE

PART II, UNIT E
CHOOSING THE TYPE OF OWNERSHIP

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit - check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exposure Activities" section and measure what you've learned.

1. What are the following types of ownership:
    - A. Sole proprietorship
    - B. Partnership
    - C. Corporation.
2. What are the advantages and disadvantages of each of of the above?
3. What is the purpose of drawing up articles of co-partnership?
4. What is franchising? What are the advantages and disadvantages of franchising?
5. What are cooperatives? In what field might they be most successful?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level, you should be able to:

1. Describe sole proprietorship, partnership, corporation, and franchise, and give examples from your own community.
2. Describe the advantages and disadvantages of proprietorship, partnership, corporation, and franchise.
3. Explain the reasons for having articles of co-partnership.
4. Describe cooperatives.

SUBSTANTIVE INFORMATION

TYPES OF OWNERSHIP

WHAT ARE THE VARIOUS TYPES OF OWNERSHIP?

The form of business organization that is right for General Motors is usually not one that is needed for operating a small drug store, a health food shop, a nursing home, or a nursery. In order to find the best organization or ownership for your business, you will need to understand the various types of ownership which exist in the United States today. These are the sole proprietorship, the partnership, and the corporation. Franchises and cooperatives are other legal arrangements which can be made. Franchises involve purchasing a "prepackaged" business.

SOLE PROPRIETORSHIPS

WHAT IS A SOLE PROPRIETORSHIP?

The most common form of business organization is the sole proprietorship. This business is owned and normally operated by one person with the help possibly of a few employees, often family members. Sole proprietorships can usually operate with very limited capital resources (money). Sole proprietorships exist in an almost endless variety of businesses, such as the neighborhood beauty parlor, bike repair shop, restaurant, newstand, and accounting office.

This is the least complicated form of organization, and the easiest to enter and terminate. It requires little more than a location, expertise in the area of business considered, a source of capital, the ability to make contracts, and the desire to start your own business. Termination generally requires paying your debts and closing your doors.

The sole proprietorship has definite advantages for those daring enough to "go it alone." However, it also has some dangerous and very serious disadvantages.

Advantages of a Sole Proprietorship

ARE THERE ADVANTAGES TO A SOLE PROPRIETORSHIP?

Certain advantages of the sole proprietorship are rather obvious. How often have you heard people say, "If I ran this operation..." or "I'd like to be my own boss"? That is exactly what the sole proprietor is--the boss! You have complete freedom of action and operation. As long as you don't break the law or violate the rights of others, you can run the business in any manner you choose. You are free to make your own mistakes and to enjoy your own successes. You seek the advice of others, but you make the decisions.

Other advantages of the sole proprietorship are (1) greater freedom from government regulations, (2) a tax advantage to the small owner, (3) accrual of all the profits to the owner, and (4) limited cost of actually starting the business (you pay only for site, fixtures, inventory, utilities, etc.).

Disadvantages of a Sole Proprietorship

WHAT ARE THE DISADVANTAGES OF A SOLE PROPRIETORSHIP?

The main disadvantage of being a sole proprietor is that you have unlimited liability. There are risks in all business ventures, but in the sole proprietorship there is no one with whom to share the risk. The creditors of a sole proprietor can force the business to close if debts remain unpaid. Even worse, the creditors also have a claim against your personal property (unlimited liability), if the sale of the business assets does not pay your debts. Thus, business failure can lead to your losing home, car, and other possessions as well as your business.

Other disadvantages of the sole proprietorship include (1) the difficulty of raising capital, (2) the lack of assistance in operating the business--you as an owner need expertise in many areas, and (3) the limited life of the business; if the owner gets sick or dies, the business must temporarily close down or possibly end for good.

PARTNERSHIPS

WHAT IS A PARTNERSHIP?

Next to the sole proprietorship, the partnership is the least complicated way to begin and operate a business. A partnership is a business that has two or more (usually not more than five) co-owners. Often, but not always, it is formed when a sole proprietor takes on additional owners to help in certain areas of expertise or skill, or in order to expand the business by raising additional capital--there is a limit to what one person can borrow. You can find partnerships in every type of business, including law and medical firms. Forming a partnership may be the answer to any business that requires a large investment of initial capital, usually more money than one person can raise alone.

Partnerships are often formed among friends but should always be based on a written contract. The partnership contract is called "Articles of Copartnership" and is usually drawn up by an attorney. It sets up the contributions expected of each partner (labor, skill. capital investment, etc.), and the amount of profit each will get. There may be limited partners who contribute only capital, as well as those who actually manage a part of the business in addition to contributing capital. A written contract is not imposed by law, but a partnership without a written contract may have serious problems when disagreements arise.

Advantages of a Partnership

ARE THERE ADVANTAGES TO A PARTNERSHIP?

One advantage of a partnership is the variety of skills, abilities, and ideas that are brought to the agreement by each partner. Each partner does not need to be an expert in all areas of the business but can concentrate on his or her area of expertise. Having partners also means that if one owner is ill or on vacation, the business can continue to operate. Other advantages of a partnership are (1) increased sources of capital. Two can borrow more often--even if not more cheaply--than one, (2) easy entry and termination of business, (3) low start-up costs which are similar to sole proprietorship but with the additional cost of contract preparation, (4) possible tax advantage, and (5) limited outside regulations.

Disadvantages of a Partnership

WHAT ARE THE DISADVANTAGES OF A RTNERSHIP?

The main disadvantage of a partnership is that, like a sole proprietorship, the partners have unlimited liability. Therefore the owners' personal property can be seized to settle business debts. An added disadvantage of a partnership is that one partner may not give as much time and effort as the other yet still gets an equal share of the profit. Two heads are better than one only if both heads are working.

Other disadvantages of a partnership are (1) having to share profits, (2) possible limited life of the organization, (3) difficulty in raising additional capital, and (4) the difficulty of finding suitable partners--those with the needed skills may be incompatible, untrustworthy, or unwilling to share the responsibilities.

CORPORATIONS

WHAT IS A CORPORATION?

Another type of organization ownership is the corporation. There are fewer corporations than sole proprietorships in the total number of U.S. businesses, but in the number of dollars earned and people employed, the corporation is by far the largest form of business organization in the United States today. By definition, the corporation is an association of three or more owners which is chartered by a state and is given the power to transact business, to enter into contracts, and to sue or be sued as a legal entity. Thus, a corporation is an "artificial person" created by the state for the purpose of doing business.

The owners of a corporation are the stockholders. Their purchase of stock certificates determines the extent of their ownership. After the corporation has been chartered, the stockholders must elect a board of directors who, in turn, appoints the officers or managers of the business.

Forming a corporation offers advantages to those who need lots of capital, but it requires a large amount of extra capital to start and to operate. Although it is not suitable for all businesses, the corporation is an important part of the American economic system.

Advantages of a Corporation

ARE THERE ADVANTAGES TO CORPORATIONS?

There are many advantages to the corporate form of business organization, especially if there is a large capital outlay needed for machines, fixtures, or inventory at the outset of operations. The corporation has limited liability, which means that only the assets of the corporation, not those of the individual owners, can be used to pay creditors. If a corporation in which a person owns stock is unable to pay its creditors, that stock may become valueless, but the owner will not lose more than the value of his or her own stock. Only business assets may be used to pay corporate debts.

It is also easier for the corporation to raise money and obtain credit. Because a corporation usually has many owners, and thus a solid block of capital, it is easier to get credit. The corporate board can agree to issue new stock and sell it to the public when additional capital is needed. The selling of new stock, however, can be done only if the owners want stock issued.

Some other advantages of the corporation are (1) a great variety of skills, abilities and ideas are available, (2) the responsibilities of ownership can be transferred simply by selling your stock, and (3) the corporation can continue to exist despite changes in the owners.

Disadvantages of a Corporation

WHAT ARE THE DISADVANTAGES OF CORPORATIONS?

There are also disadvantages to the corporation. It is very complicated and expensive to organize and run, and involves expense in obtaining a charter and having a Certificate of Incorporation drawn up by a lawyer. The corporation can only perform those activities that are stated in its charter. It may not engage in business activities in other states without paying a special fee. The corporation must file reports regularly with the government, thus requiring the services of specialized and expensive employees.

Other disadvantages of the corporation include (1) the sharing of profits, (2) double taxation--the profits of a corporation are taxed as well as the stockholder's income from shares of stock, which are taxed as private income, and (3) a higher rate of taxation than any other form of business organization. (However, if you form a Subchapter Corporation, which is ideal for new and low income businesses, your corporation may be taxed at individual rates.)

FRANCHISES

WHAT IS A FRANCHISE?

When you watch TV or drive through your community, you are constantly exposed to franchises, such as fast food operations, gasoline stations, rental companies, and hotel and motel facilities. A franchise is basically a contract to distribute and sell a parent company's goods or services in a specified geographic area. The franchise is sold by a parent company or franchisor to an individual or franchisee. The relationship presupposes a continuing association between the two. The franchisee is guaranteed the right to use the parent company's name and product, and, in turn, pays a certain percentage of the profits to the franchisor. Although specific procedures vary from company to company, the franchise is based on a contract listing the rights of and restrictions on both parties.

Advantages of Franchises

ARE THERE ADVANTAGES TO FRANCHISES?

Franchising offers distinct advantages to you if you want to own your own business but lack the expertise and facilities to do so. The franchisor normally provides many things that you, as a sole proprietor, would have to provide yourself. You would receive technical advice on design and layout of facilities, market research findings, and help in advertising, buying, and inventory.

Other advantages of franchising include (1) smaller-than-usual capital investment, (2) less working capital necessary, (3) a product or service that usually has prior public acceptance, and (4) better-than-average profit margins.

Disadvantages of Franchises

WHAT ARE THE DISADVANTAGES OF FRANCHISES?

Franchises do have disadvantages for the franchisee. You must do things according to the rules of the parent company and, depending on the company, this may restrict your freedom of action. You must maintain certain standards of service and can only sell the parent company's product or service. Commonly, the franchise agreement requires the franchisee to pay a percentage of the profits to the parent company. There may also be problems in cancelling the contract.

COOPERATIVES

WHAT ARE COOPERATIVES?

A cooperative is an organization of individuals with similar interests and problems who have joined together to perform certain activities. Although cooperatives are not a legal form of ownership, they do represent a structure which is owned and directed by its own customers (members). The formal ownership structure for most cooperatives is similar to a corporation's. A cooperative is financed by selling shares to its members, with annual distribution of profits (dividends) to same. The rate of distribution of profits and even the system for sharing profits among all members vary greatly from one co-op to another.

Most cooperatives form to better serve the needs of a group. Since a group acting collectively can sometimes serve its members' needs more economically than individuals acting alone, cooperatives are more important in some fields than others. For example, farming cooperatives are important organizations.

There are many different forms of cooperatives. Some of the more common cooperatives are:

- Food co-ops
- Gasoline co-ops
- Housing co-ops
- Credit unions
- Mutual insurance associations
- Mutual savings and loan societies
- Group health co-ops
- Nursery (day-care center) co-ops
- Electric power co-ops
- Travel co-ops
- Bakery co-ops.

These cooperatives are either selling, buying, or service organizations or a combination. Many companies that most people would quickly recognize by name are never thought of as being cooperatives. FTD (Florists' Transworld Delivery), IGA (Independent Grocery Association), Consumers' Union, United Parcel Service, Nationwide Insurance, and Ohio Wool Growers' Cooperative Associations are all cooperatives.

ADVANTAGES AND DISADVANTAGES

Chart I summarizes the advantages and disadvantages of having a sole proprietorship, partnership, corporation, and franchise. Which do you think will be the best for your firm?

CHART I

ADVANTAGES/DISADVANTAGES OF TYPES OF OWNERSHIP

FORMS OF OWNERSHIP	ADVANTAGES	DISADVANTAGES
Single Proprietorship	1. Low start-up costs 2. Greatest freedom from regulation 3. Owner in direct control 4. Minimal working capital requirements 5. Tax advantage to small owner 6. All profits to owner	1. Unlimited liability 2. Lack of continuity 3. Difficulty in raising capital
Partnership	1. Ease of formation 2. Low start-up costs 3. Additional sources of venture capital 4. Broader management base 5. Possible tax advantage 6. Limited outside regulation	1. Unlimited liability 2. Lack of continuity 3. Divided authority 4. Difficulty in raising additional capital 5. Difficulty in finding suitable partners
Corporation	1. Limited liability 2. Specialized management 3. Transferrable ownership 4. Continuous existence 5. Legal entity 6. Possible tax advantages 7. Ease of raising capital	1. Close regulation 2. Most expensive form to organize 3. Charter restrictions 4. Extensive recordkeeping 5. Double taxation
Franchising	1. Smaller than usual capital investment 2. Less working capital than normally required 3. Prior public acceptance of product or service, usually 5. Management assistance 6. Better than average profit margins	1. Possible high franchisor fees, supplies, and charges 2. Some loss of independence 3. Possible difficulties in cancelling contracts

(Adapted from Kuebbler)

EXPOSURE ACTIVITY

You have examined the three common types of business ownership and have looked at the advantages and disadvantages of each type. In addition, you have become familiar with franchises and cooperatives.

POSTASSESSMENT

1. Describe the following types of ownership:
    - A. Sole proprietorship
    - B. Partnership
    - C. Corporation
2. For each type of ownership, list the advantages and disadvantages.
3. Explain the reasons for drawing up articles of copartnership.
4. Describe franchising. What are its advantages and disadvantages?
5. Define cooperatives. Identify the field in which cooperatives have been most successful.

Compare your answers with your responses in the preassessment. You might want to check your postassessment answers with your instructor.

SELF-EVALUATION

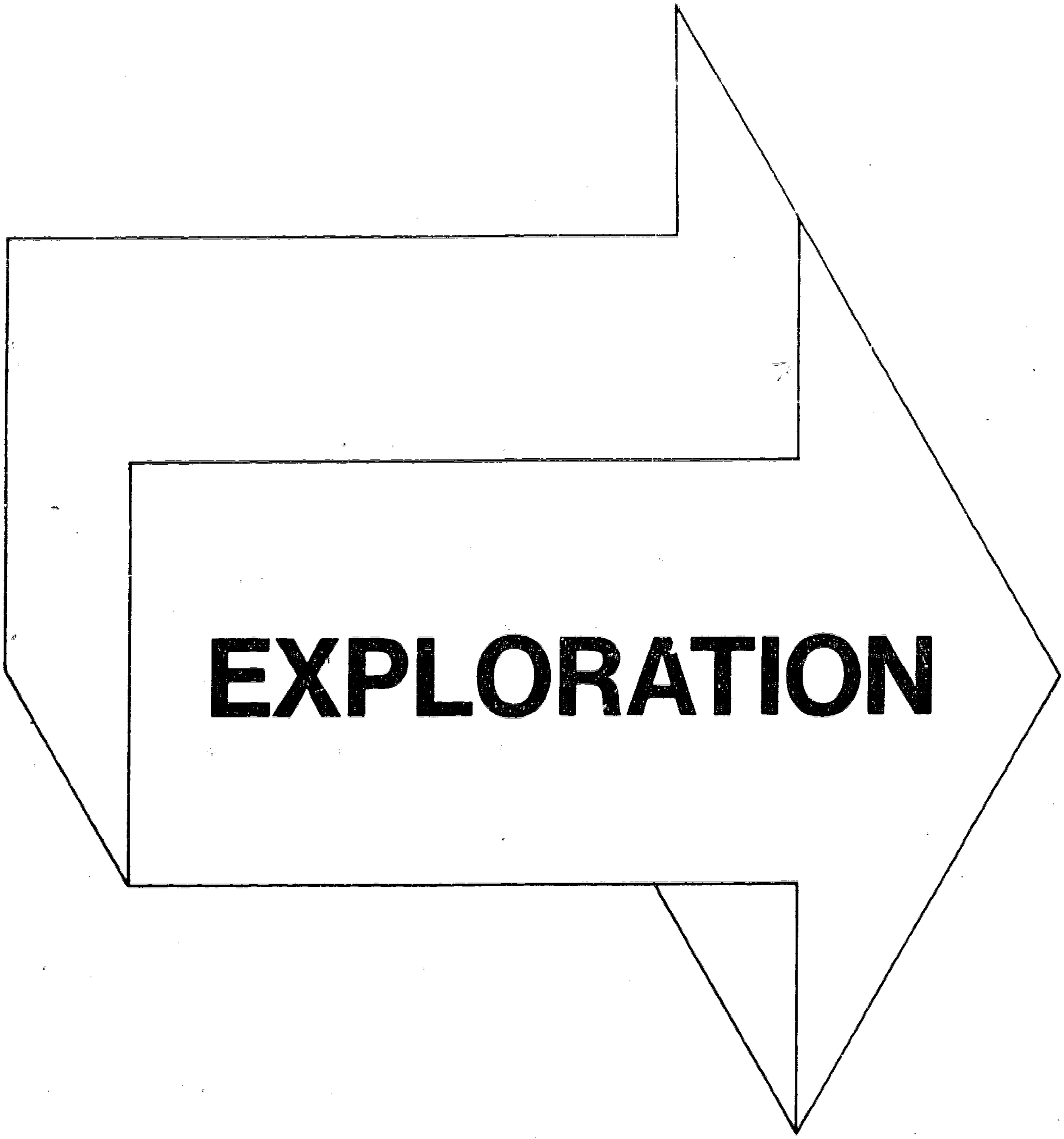
How well did you know the information needed to do the activity?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.



EXPLORATION

PART II, UNIT E
CHOOSING THE TYPE OF OWNERSHIP

PREASSESSMENT

Here are some questions that test for knowledge of the contents of this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit - check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Exploration Activities" section and measure what you've learned.

1. Under what conditions might you want a:
   A. General partner
   B. Silent partner
   C. Dormant partner
   D. Nominal partner
   E. Secret partner.
2. What is a public corporation? A closed corporation?
3. How would you go about applying for a corporate charter? Where would you go?
4. When and why would you want to offer common stock?
5. What is a franchise? What are the benefits to the person purchasing the franchise and what is this person entitled to?

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. Distinguish between general partners and limited partners (dormant partners, secret partners, and silent partners).
2. Describe the difference between a closed corporation and a public corporation.
3. Apply for a corporate charter.
4. Describe the difference between common and preferred stock.
5. Describe a franchise including what a franchisee is entitled to and the benefits of a franchise.
6. Discuss three basic principles of cooperatives.

SUBSTANTIVE INFORMATION

It would be simple if the decision on the form of organization for your business were as easy as choosing between sole proprietorship, partnership, corporation, franchise, or cooperative. But there are different types of partnerships and corporations, and, of course, there are often decisions that need to be made once you decide on the main form of organization for your business.

SOLE PROPRIETORSHIP

WHAT ABOUT SOLE PROPRIETORSHIPS?

Because of the ease of establishing a sole proprietorship, it is by far the most common type of business organization. The U.S. Bureau of Census reported in 1976 that 80% of all small businesses are sole proprietorships.

Failure Factors

WHAT ARE SOME OF THE MISTAKES SOLE PROPRIETORS MAKE?

The sole proprietorship is so uncomplicated to begin that, unfortunately, it often ends in failure. Most businesses that fail do so because of several reasons, but a main factor behind these conditions is often that the business hinges on the planning and work of only one person--the sole proprietor. Often, the proprietor does not possess the expertise needed to manage all the areas of business alone. The sole proprietor stakes everything on the ability to succeed. If the business fails, she or he alone is liable, and the liability extends beyond the business; home, car, and other possessions may be lost in the event of failure. Not all sole proprietorships fail, however. Careful planning and management expertise are two factors that are essential if this type of business is to succeed and expand. This might possibly be the form of ownership best suited to your needs.

Advantages of Sole Proprietorship

ARE THERE ANY ADVANTAGES TO BEING A SOLE PROPRIETOR?

The sole proprietorship offers many advantages to the creative, skilled entrepreneur. The business is taxed lightly because profits are taxed only as personal income. Therefore, in the beginning, the sole proprietor may not have to pay additional income tax because the business profit may not be large enough to put the owner in a higher tax bracket. The sole proprietor has great freedom from government regulations and in operating the business. A license is all that is required for certain types of businesses.

PARTNERSHIPS

WHY DO ENTREPRENEURS CHOOSE PARTNERS?

Next to the sole proprietorship, partnerships are the second most popular form of business organization for small businesses. Partnerships are formed for many reasons. Some partnerships are formed by two or more new entrepreneurs. Partnerships are sometimes formed when you, as a sole proprietor, need expertise in an area that you feel you are lacking. Or you may want more sources of capital to expand your operation. In the latter two cases you, as the owner, are looking for a particular type of person to share your business venture.

Partnerships face the same chances of failure as do new sole proprietorships. Most businesses that fail do so because of several reasons. However, with input from more than one person, planning is apt to be more thorough, and the skills of each partner may mean the difference between success and failure.

Finding a partner--someone who possesses the skills you lack and who is willing to take the financial risk and the management responsibility--is not an easy task. Business partners must get along well and trust each other. Being friends is one thing; being partners quite another.

Types of Partners

ARE THERE DIFFERENT TYPES OF PARTNERS?

There are several options the potential partner can pursue to allow for the different needs of the partners and the special needs of each business. Not all partners want to be equal or general partners. Not all businesses need a new general working partner. Therefore, several different types of partners may be included in a partnership.

WHAT IS A GENERAL PARTNER?

General Partners

The general partner contributes financially to the partnership and works actively in the business. All partnerships must have at least one general partner for liability purposes; they have the unlimited liability for the firm. General partners get an equal share of any profits.

WHAT ARE THE TYPES OF LIMITED PARTNERS?

Limited Partners

There are several kinds of limited partners. The most common type of limited partner is the silent partner who serves as a source of capital by investing money into the business in the hope of a financial return. The silent partner does not take an active part in the management of the business but is publicly known to be a partner.

Another type of limited partner is the secret partner who contributes financially, but not always a full share. The secret partner offers expertise to the company and wishes to be actively involved in the day-to-day management but, for some reason, does not wish to be known as a partner by the general public. For example, the doctor who owns part of a drug store may fear public criticism and want to avoid possible "conflict of interest" charges.

There is also the dormant partner, who does not take an active part in the management, but, like a silent partner, invests a full share in the business. Like the secret partner, this person also is not known by the general public as a partner but is an investor and part owner.

Another type of limited partner is the nominal partner. This individual is not a real owner as the others are. The nominal partner is generally someone well-known in the community who allows his or her name to be associated with the firm for promotional purposes. Instead of a percentage of the profits, the nominal partner is paid a fee. The nominal partner takes no part in running or in owning the business and receives no part of the profits.

Articles of Copartnership

WHAT ARE ARTICLES OF COPARTNERSHIP?

To insure that the profits are paid and to define the type of partners the business shall have, the partnership needs a written contract called the Articles of Copartnership. This contract also defines duties and division of profits. With all the possible partner arrangements that are available, it is easy to see why a written contract is necessary.

CORPORATIONS

WHAT ARE CORPORATIONS?

The corporation is the largest form of business organization in terms of the number of people employed and dollar volume of business. According to the U.S. Bureau of Census, 1976, U.S. corporations in 1973 had receipts of $2558 billion while sole proprietorships had $311 billion, and the partnerships had $124 billion.

Most corporations are large and have extended markets. Many are former sole proprietorships or partnerships that became so successful that expansion was both profitable and necessary. The corporate structure is often a necessity for a growing industry.

It is quite easy to transfer ownership in a corporation. The actual owners of a corporation are those who own shares of stock--the stockholders. Each share represents one vote in management decisions. One person may own one share or millions of shares. Share owners may receive a financial return for their investment called a dividend. Many large corporations pay dividends four times a year. Thus, the owners of a corporation are basically investors who are looking for a return on money invested, rather than desiring to be active managers of the business.

It is the job of the stockholders to elect the board of directors. Usually the board is made up of some of the more active or important stockholders. It is the board's job to make all the major decisions and to establish the policies of the company. These stockholders also appoint and assign job responsibilities to the officers of the company--president, secretary, treasurer, and various vice-presidents. These officers will be managing the day-to-day business operations. In addition, the board of directors will need to look closely at the rates and the degree to which current owners want to spread control and ownership influence before deciding to issue bonds, preferred stock, or common stock to raise more capital.

Different Types of Stock

ARE THERE DIFFERENT TYPES OF STOCK?

There are two main kinds of stock sold by most major corporations--common stock and preferred stock. Owners of common stock usually have full voting rights in any decisions of the company. They do not receive a stated dividend but get a share of any profits that are made. In other words, the dividend may vary or may not be paid at all in bad times, depending on the earnings of the corporation that quarter. Common stock can bring higher dividends during the corporation's good years, but may bring little or no income when times are bad. If the corporation dissolves, the common stockholders are the last to be paid back their investment, after all debts and preferred stockholders have been paid.

The preferred stockholder gives up voting rights in order to get certain preferential treatment in other areas. Anytime a dividend is declared, preferred stockholders are "paid in full," before the common stockholder receives any dividend. The preferred stockholder is usually paid a set amount. For example, he or she may receive 6% of par when par is $100, which means a 6% profit for each share held. Par value is an arbitrary value assigned to stock (both common and preferred) when it is issued. It does not represent what the stock would bring in the stock market. It is just a stated amount for bookkeeping and dividend purposes.

Thus, the stockholder of preferred stock is guaranteed a steady dividend. However, instead of being a percentage of par, the percentage is usually a set dollar amount per share. It is only paid when dividends are declared.

Other Sources of Capital for Corporations

ARE THERE OTHER MEANS FOR CORPORATIONS TO RAISE CAPITAL?

The corporate form of business provides the owners with other ways of raising capital. Corporations may issue bonds which are long-term debts or debentures. These are sold to investors who may receive a steady 6% or more interest on their investment for a specific period of time. The issuing of bonds is just a way of borrowing money for the business.

Corporations may also issue new stock to raise more capital. When more stock is issued, the percentage of earnings for each share is reduced.

Types of Corporations

IS THERE MORE THAN ONE TYPE OF CORPORATION?

There are two kinds of corporations--<u>closed</u> and <u>public</u>. For the owner of a small business, the closed corporation is usually preferable. In the closed corporation, the group of owners is few in number--usually relatives, friends, or partners. If stock is sold, it is sold to someone who already owns part of the stock and, therefore, does not expand control beyond existing stockholders. The option of issuing bonds and new stock is still present, but is not usually used. A closed corporation can choose to "go public" if it wants. A public corporation sells its stock to anyone who wants to buy it. The value of its stock is determined by the price (market value) that the public will pay, rather than by the determination of value by the small group as in the closed corporation.

Incorporating

WHAT IS MEANT BY BEING INCORPORATED?

By law, to begin either a closed or open corporation, there must be at least two business associates. These associates must apply to the state in which they want to incorporate for a charter. These original owners are called the Incorporators, and their names appear on the charter. The charter is called a Certificate of Incorporation, and it is filed with the Secretary of State of the state in which the owners wish to be incorporated. After the fee is paid and the charter accepted, the corporation can operate only in that state for the specific types of business listed on the charter.

It is easy to see that this form of business is more complicated than the others. Corporations face increased federal and state regulations. More reports and records are necessary, and the amount of paper work increases as the corporation grows in size.

FRANCHISING

WHAT ABOUT FRANCHISING?

The franchise is the fastest growing form of business in the U.S. today. The franchising boom started after World War II. Franchising began with automobile and gasoline companies who wanted control over "dealers" who sold their products. It now accounts for about 30% of all retail sales. Many types of businesses lend themselves to the franchise type of operation. Today, many motels, dance studios, tax services, vending machines, rental companies, and restaurants are franchised.

Althought becoming a franchisee seems to be an easy was of becoming an entrepreneur, owning a franchise is no guarantee of success.

> *Many people dream of being their own bosses. The quickest way, they think, is to own a franchise. But, says the Better Business Bureau, franchising is not easy. Despite some glowing promises of fast wealth, this is not a business for everyone.*
>
> *Fraudulent promoters may move into the franchise field to take advantage of the innocent dreamers who are eager to make money on their own business venture.*
>
> *More than 1,000 firms have chosen franchising as their principal means of product and service distribution. In fact, says the BBB, franchised operations comprise over one-quarter of all retail sales.* (Columbus Dispatch, July 10, 1977, C-8.)

A franchise represents a continuing relationship between the franchisor and the franchisee in which the franchisor's knowledge, image, success, manufacturing, and marketing techniques are supplied to the franchisee for a price. The entrepreneur who buys a franchise buys a "prepackaged" business that is operated under a contract with the franchisor. As far as the public is concerned, the business is indistinguishable from a company-owned outlet.

Services to Franchisee

WHAT SERVICES ARE AVAILABLE TO FRANCHISE OWNERS?

Most franchisors provide many services to the franchisee. One of the most important services a franchisor provides is credit to the franchisee. Credit can be in the form of inventory or in the form of cash loans. This means that franchisees need less operating capital at the outset.

Franchisees normally receive special training before opening the business and continued managerial assistance such as audits, record-keeping systems, and tax advice. Franchisees also receive merchandising assistance and the benefit of national advertising and promotion done by the parent company. All of these services are helpful to the entrepreneur who wants to be her or his own boss but who may lack expertise in some areas of management, marketing, finance, or personnel.

Types of Franchises

ARE THERE DIFFERENT TYPES OF FRANCHISING?

There are two main types of franchise operations. The first is the territorial franchise. The area of "territory" may be so large, a whole city or state, that the franchisee can subfranchise parts of the territory. Therefore, besides running his or her own business, the franchisee gains extra income by supervising other franchise operators. The operating franchise is granted to a business owner who wishes to operate one business in a specific area.

Forms of Franchises

WHAT FORMS DO FRANCHISES TAKE?

There are four basic forms of franchises. The conventional franchise is made between a manufacturer and a retailer. The retailer/franchisee is relatively free to maintain a sales force and individual advertising and management techniques. Conventional franchises are often found in car dealerships and gasoline stations.

In a distributorship form of franchise, the franchisee is a wholesaler who supplies the manufacturer's products to various retailers in a geographic area. The distributor is free to manage the operations and to select and serve customers in any manner she or he chooses. Beer is generally a distributorship franchise.

A third type of franchise is the licensed franchise. This is the most common type of franchise consisting of, for example, fast food restaurants, print shops, and food markets. Licensed franchises are more closely tied to the parent company and are required to maintain certain standards. They receive more advertising, merchandising, and technical advice from the franchisor than do conventional or distributorship franchises.

In the <u>manufacturing franchise</u>, the franchisee is a manufacturer as well as a distributor. The franchisee makes the product locally according to company standards, and usually distributes it to retailers. National soft drink manufacturers often use this form of franchising.

Disadvantages of Franchising

ARE THERE DISADVANTAGES TO FRANCHISING?

There are drawbacks to the franchise operation. The franchiseeloses a certain amount of business control that a sole proprietor has. An initial fee, as well as monthly fees, must normally be paid to the parent company. Fees are generally a percent of gross sales, or a fixed fee per month or year, or a combination of the two.

During recent years, many companies have been brought to trial in different states because of the misuse of franchises. Until recently, the federal government was powerless to enter the picture unless the mail was used to defraud. However, in recent months the Security and Exchange Commission has declared that it will act in many instances by interpreting the sale of franchises as the sale of securities.

The Federal Trade Commission, at 6th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20580, publishes a Consumer Bulletin (No. 4) entitled "Advice for Persons Who Are Considering an Investment in a Franchise Business." If you are considering a franchise, you should obtain a copy.

COOPERATIVES

WHAT ARE THE BASIC PRINCIPLES OF COOPERATIVES?

Cooperatives, in general, operate under a set of basic principles. These principles are:

1. Cooperatives provide goods and services to members at cost.
2. Control of the cooperative is in the hands of its members.
3. Federal and state laws specify maximum interest rates that a cooperative may pay on stock.

The desire to save money seems to always be the primary reason for the developments of cooperatives. With the exception of those formed by farmers, cooperatives have never taken hold in the U.S. as they have in Europe. Finland, for example, has cooperatives in almost every type of retail, wholesaling, and farming business. In recent years, cooperatives in the U.S. have become more important in child day-care centers, food stores, group health cooperatives, and credit unions.

Credit unions have become a major lending institution for many citizens. In addition to making loans, credit unions perform other services. They provide group travel plans, traveler's checks, and notary public services. A line of credit can be established for a member allowing for withdrawal of money as needed up to the limit set by the credit line. Interest is paid only on the money drawn, not on the line of credit.

EXPLORATION ACTIVITIES

Do you feel that you understand enough about choosing the type of ownership? The following activities will help you apply some of these concepts to "real" situations. These activities will give you an opportunity to put into practice what you have learned. After completing the activities, do a self-evaluation to check your understanding of the material.

ASSESSMENT ONE

1. Make a chart that shows differences and similarities among general partners, secret partners, and nominal partners.
2. List the four forms of franchises and find as many examples of each as possible in your community.
3. Explain how the stockholders, board of directors, and officers of a corporation are interrelated.
4. What are the three basic principles of cooperatives? Discuss these fully.

ASSESSMENT TWO

Complete the Business Ownership Crossword Puzzle that follows. Here are some clues for the puzzle:

ACROSS:

1. Granted to a corporation by a state official
2. Represents ownership in a corporation

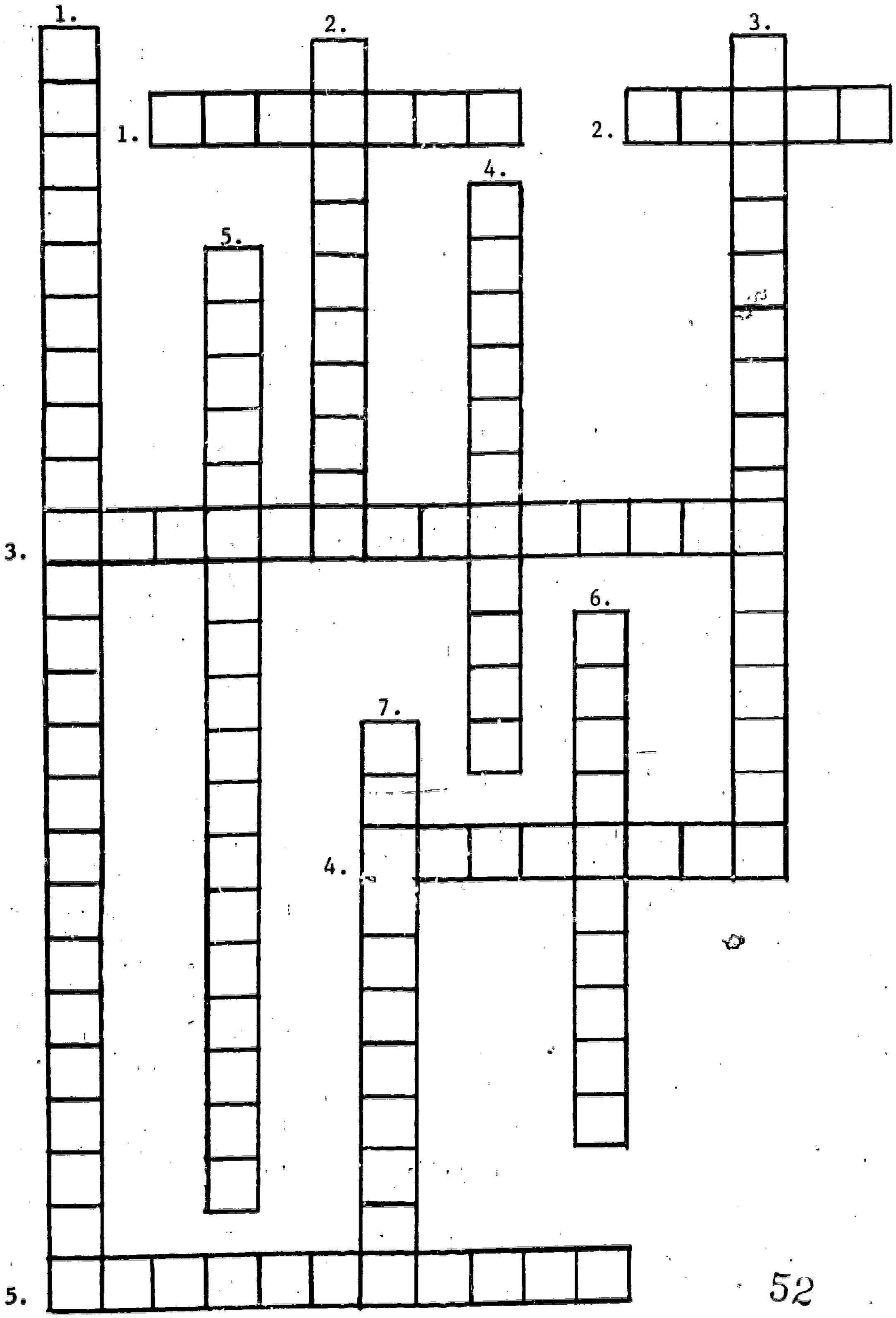
3. Person who invests in business but has no voice in management
4. People who actually run the corporation
5. When two or more people own a business.

DOWN:

1. When one person is owner of a business
2. In a franchise business, the distributor or individual owner
3. They elect the officers of the corporation
4. The most informal of all business structures
5. When each member of a partnership responsible for all debts owed by the partnership
6. In franchise business, the parent company that provides product/service
7. Person who owns a share of the corporation.

Answers to the Business Ownership Crossword Puzzle can be found on page 40.

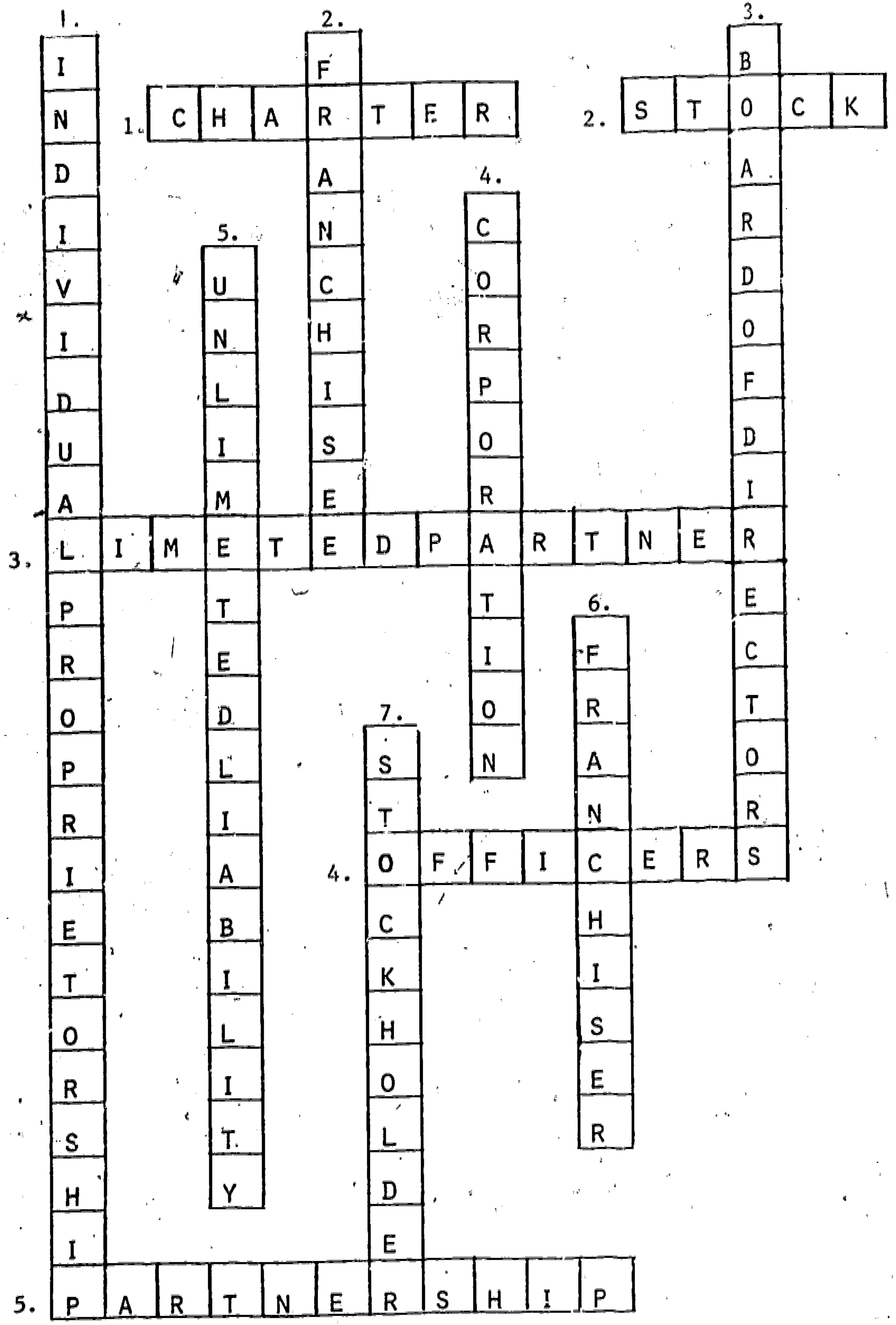
BUSINESS OWNERSHIP CROSSWORD PUZZLE



POSTASSESSMENT

1. Describe the conditions under which you would want to choose a:
    - A. General partner
    - B. Silent partner
    - C. Dormant partner
    - D. Nominal partner
    - E. Secret partner.
2. List the main characteristics of a public corporation and a closed corporation.
3. If you want to apply for a corporate charter, explain what you should do and where you could apply.
4. Describe conditions under which you would want to offer common stock.
5. Define franchise. What does a franchise agreement provide the franchisee? What are the benefits of franchising to the franchisee?

Compare your answers to your response to the preassessment. You may want to check your postassessment answers with your instructor.


1. INDIVIDUAL PROPRIETORSHIP
2. FRANCHISEE
3. BOARD OF DIRECTORS
4. CORPORATION
5. UNLIMITED LIABILITY
6. FRANCHISER
7. STOCKHOLDER
1. CHARTER
2. STOCK
3. LIMITED PARTNER
4. OFFICERS
5. PARTNERSHIP

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

PREPARATION/ ADAPTATION

PART II, UNIT E
CHOOSING THE TYPE OF OWNERSHIP

PREASSESSMENT

Here are some questions that test for knowledge of the contents at this level. If you are very familiar with the information needed to answer them, perhaps you should go to another level or unit - check with your instructor. Otherwise, jot down your answers. After you've read through this level, take the postassessment at the end of the "Preparation/ Adaptation Activities" section and measure what you've learned.

1. What are the legal implications of a partnership and a franchise agreement?
2. What is a certificate of incorparation?
3. What are members of a cooperative responsible for?
4. What are the tax advantages of a sole proprietorship?
5. Name the items that should be in a partnership agreement.

TEACHING/LEARNING OBJECTIVES

Upon completion of this level of instruction, you should be able to:

1. Discuss the legal implications and requirements of the various forms of business organizations.
2. Identify information required in a Certificate of Incorporation.
3. Explain the sources of information and opportunities available to a potential franchisee in your locality.
4. Explain the responsibilities of membership in a cooperative

SUBSTANTIVE INFORMATION

Starting a new venture may have been relatively simple twenty years ago, but today it is not simple at all. Deciding on the organization's form of ownership is important. What may be a pressing concern under one circumstance may not be as pressing in a different situation. Your decision concerning the best form of organization will probably be a compromise reached after weighing the importance of certain needs against the limitations of each form.

SOLE PROPRIETORSHIPS

WHAT REWARDS DOES A SOLE PROPRIETORSHIP PROVIDE?

Most of today's corporate giants were once sole proprietorships. A sole proprietorship is worthwhile for the person who is willing and able to meet the challenges. A successful sole proprietor can point to her or his accomplishments with pride and say, "I did that." However, it involves many responsibilities.

Responsibilities

WHAT DOES BEING A SOLE PROPRIETOR MEAN LEGALLY?

As a sole proprietor, your liability is limited to your own errors and obligations. But in case the business fails, your personal assets, including home, automobile, and other properties, are subject to claim by creditors.

As a sole proprietor, you must be all things to your company. It is your responsibility to select the site. You must decide whether to lease a previously owned store or factory, or warehouse, or to have one built to your own specifications. You, as owner, must know enough about all the functions required to operate a business. If you own a restaurant, you must decide on the menu and include the right number of selections. You must be willing to work long hours, establish a record keeping system, prepare tax reports, and hire and train personnel. As sole proprietor, you must arrange any financing that your business needs and pay your creditors. All of these abilities are seldom possessed by one person.

Sole Proprietorship and Taxes

*HAT ABOUT THE
OLE PROPRIETOR
ND TAXES?*

One main advantage of a sole proprietorship is its tax advantage. The sole proprietorship is not a separate tax paying or tax reporting unit. The proprietor's operations are treated as part of the owner's financial activities. You keep separate records of business income, deductions, inventories, and capital acquisitions. You report your business profit or loss to the Internal Revenue Service (IRS) on a form 1040, Schedule C (see Exhibit A). This profit or loss is combined with other personal income for tax purposes. The personal income

EXHIBIT A

SCHEDULE C
(Form 1040)
Department of the Treasury
Internal Revenue Service

Profit or (Loss) From Business or Profession

(Sole Proprietorship)

Partnerships, Joint Ventures, etc., Must File Form [illegible]5.

▶ Attach to Form 1040 or Form 1041. ▶ See Instructions for Schedule C (Form 1040).

1979
09

Name of proprietor | Social security number of proprietor

A Main business activity (see Instructions) ▶ ; product ▶

B Business name ▶ | C Employer identification number

D Business address (number and street) ▶

City, State and Zip Code ▶

E Accounting method: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

C

F Method(s) used to value closing inventory:

(1) ☐ Cost (2) ☐ Lower of cost or market (3) ☐ Other (if other, attach explanation)

	Yes	No
G Was there any major change in determining quantities, costs, or valuations between opening and closing inventory? . .		
If "Yes," attach explanation.	▨	▨
H Did you deduct expenses for an office in your home?		
I Did you elect to claim amortization (under section 191) or depreciation (under section 167(o)) for a rehabilitated certified historic structure (see Instructions)?		
(Amortizable basis (see Instructions) ▶)	▨	▨

Part I Income

1 a Gross receipts or sales	1a			
b Returns and allowances	1b			
c Balance (subtract line 1b from line 1a)			1c	
2 Cost of goods sold and/or operations (Schedule C–1, line 8)			2	
3 Gross profit (subtract line 2 from line 1c)			3	
4 Other income (attach schedule)			4	
5 Total income (add lines 3 and 4) ▶			5	

Part II Deductions

6 Advertising		31 a Wages		
7 Amortization		b Jobs credit		
8 Bad debts from sales or services		c WIN credit		
9 Bank charges		d Total credits		
10 Car and truck expenses		e Subtract line 31d from 31a		
11 Commissions		32 Other expenses (specify):		
12 Depletion		a		
13 Depreciation (explain in Schedule C–2)		b		
14 Dues and publications		c		
15 Employee benefit programs		d		
16 Freight (not included on Schedule C–1)		e		
17 Insurance		f		
18 Interest on business indebtedness		g		
19 Laundry and cleaning		h		
20 Legal and professional services		i		
21 Office supplies		j		
22 Pension and profit-sharing plans		k		
23 Postage		l		
24 Rent on business property		m		
25 Repairs		n		
26 Supplies (not included on Schedule C–1)		o		
27 Taxes		p		
28 Telephone		q		
29 Travel and entertainment		r		
30 Utilities		s		

33 Total deductions (add amounts in columns for lines 6 through 32s) ▶	33	
34 Net profit or (loss) (subtract line 33 from line 5). If a profit, enter on Form 1040, line 13, and on Schedule SE, Part II, line 5a (or Form 1041, line 6). If a loss, go on to line 35	34	

35 If you have a loss, do you have amounts for which you are not "at risk" in this business (see Instructions)? . . ☐ Yes ☐ No

SCHEDULE C–1.—Cost of Goods Sold and/or Operations (See Schedule C Instructions for Part I, line 2)

1 Inventory at beginning of year (if different from last year's closing inventory, attach explanation)		1	
2 a Purchases	2a		
b Cost of items withdrawn for personal use	2b		
c Balance (subtract line 2b from line 2a)		2c	
3 Cost of labor (do not include salary paid to yourself)		3	
4 Materials and supplies		4	
5 Other costs (attach schedule)		5	
6 Add lines 1, 2c, and 3 through 5		6	
7 Inventory at end of year		7	
8 Cost of goods sold and/or operations (subtract line 7 from line 6). Enter here and on Part I, line 2 ▶		8	

SCHEDULE C–2.—Depreciation (See Schedule C Instructions for line 13)

If you need more space, please use Form 4562.

Description of property (a)	Date acquired (b)	Cost or other basis (c)	Depreciation allowed or allowable in prior years (d)	Method of computing depreciation (e)	Life or rate (f)	Depreciation for this year (g)
1 Total additional first-year depreciation (do not include in items below) →						
2 Other depreciation:						
Buildings						
Furniture and fixtures						
Transportation equipment						
Machinery and other equipment						
Other (specify)						
3 Totals					3	
4 Depreciation claimed in Schedule C–1					4	
5 Balance (subtract line 4 from line 3). Enter here and on Part II, line 13 ▶					5	

SCHEDULE C–3.—Expense Account Information (See Schedule C Instructions for Schedule C–3)

Enter information for yourself and your five highest paid employees. In determining the five highest paid employees, add expense account allowances to the salaries and wages. However, you don't have to provide the information for any employee for whom the combined amount is less than $25,000, or for yourself if your expense account allowance plus line 34, page 1, is less than $25,000.

Name (a)	Expense account (b)	Salaries and wages (c)
Owner		
1		
2		
3		
4		
5		

Did you claim a deduction for expenses connected with:	Yes	No
A Entertainment facility (boat, resort, ranch, etc.)?		
B Living accommodations (except employees on business)?		
C Conventions or meetings you or your employees attended outside the U.S. or its possessions? (See Instructions)		
D Employees' families at conventions or meetings?		
If "Yes," were any of these conventions or meetings outside the U.S. or its possessions?		
E Vacations for employees or their families not reported on Form W–2?		

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tax rate is often lower than the corporate one, and therefore taxes are generally a good deal lower for the sole proprietor.

PARTNERSHIPS

WHAT DOES BEING A PARTNERSHIP MEAN LEGALLY?

Forming a partnership can be a challenge. Finding compatible partners can be extremely difficult. No matter how well the partners know each other or how long they have been friends, the partnership cannot survive without a written agreement or contract. Some have spent their entire lives repaying debts run up by a partner who took off with all the profits and half the inventory. That "rotten" partner could even be a relative!

Articles of Copartnership

WHAT ITEMS SHOULD BE IN ARTICLES OF COPARTNERSHIP?

The articles of copartnership ensure that each partner does his or her share of work and gets a fair share of the profits. There are certain items that need to be included in the agreement. You might want to use the following as a checklist when reviewing your partnership agreement:

1. The date of the agreement
2. The names and addresses of all the partners
3. The nature of business
4. The duration of the partnership
5. The managerial duties of each general partner

6. The specification of each type of limited partner (whether silent, dormant, secret, or nominal partner) and the liability, if any, of each
7. The fee to be paid any nominal partner
8. The amount of investment by each partner
9. How profits and losses will be shared
10. Accounting procedures to be used
11. Salary or drawing account arrangements for each partner
12. Restraints on each partner, if any
13. How the partnership will be terminated.

The last item is extremely important. Provisions must be made to dissolve the partnership in case one partner wants to leave the business for other employment, or because of illness or death. Arrangements must be made to dissolve the partnership fairly.

The articles of copartnership should be written by a lawyer, notarized or witnessed by an uninvolved party, and kept in a safe place. It is a contract and therefore legally binding. The Uniform Partnership Act, drafted by the National Conference of Commissioners on Uniform State Laws and approved by the American Bar Association, should be consulted as a guide.

Taxes and Partnerships

WHAT ABOUT THE PARTNERSHIP AND TAXES?

Taxes on a partnership are reported and paid like those on a sole proprietorship. The partnership files form 1065 with the IRS (see Exhibit B). This is merely an information return which reports business income and its allocation among the partners. On each partner's personal income tax return, income from the business is reported and tax is paid on it along with tax on any other income. The partner reports his or her share of the profit earned during the tax period that ends within the year being reported (by December 31 or June 30), whether profits are actually distributed then or not.

CORPORATIONS

WHAT DOES BEING A CORPORATION MEAN LEGALLY?

The corporation is by far the most structured and complicated form of business organization. Very rarely does the new or first-time owner form a corporation. It is most often used by a successful sole proprietor or a partnership that wishes to expand or to remove the personal unlimited liability. Since the corporation is a creation of law, it is impersonal and exists without reference to the individuals who share its ownership.

A corporation must be chartered. When a state issues a charter, the firm's activities are specified. A firm incorporated as a drug store could not legally engage in manufacturing. The geographic area in which the firm can operate is limited to the state granting the charter.

EXHIBIT B

Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Partnership Return of Income

For calendar year 1979, or fiscal year beginning ...., 1979, and ending ...., 19....

1979

A Principal business activity (see page 12 of Instructions)
B Principal product or service (see page 12 of Instructions)
C Business code number (see page 12 of Instructions)

Use IRS label. Otherwise please print or type.
Name
Number and street
City or town, State, and ZIP code

D Employer identification no.
E Date business started
F Enter total assets from Schedule L, line 13, column (D). $

G Check method of accounting: (1) ☐ Cash (2) ☐ Accrual (3) ☐ Other (attach explanation)

H Is this a final return? ☐ Yes ☐ No

IMPORTANT—You must fill in all lines and schedules. If more space is needed, see page 2 of Instructions. Enter any items specially allocated to the partners on Schedule K, line 16, and not on the numbered lines on this page or in Schedules A through J.

Income

1a Gross receipts or sales $ .... 1b Less returns and allowances $ .... Balance ▶ 1c
2 Cost of goods sold and/or operations (Schedule A, line 34) 2
3 Gross profit (subtract line 2 from line 1c) 3
4 Ordinary income (loss) from other partnerships and fiduciaries (attach statement) 4
5 Nonqualifying dividends 5
6 Interest 6
7 Net income (loss) from rents (Schedule H, line 2) 7
8 Net income (loss) from royalties (attach schedule) 8
9 Net farm profit (loss) (attach Schedule F (Form 1040)) 9
10 Net gain (loss) (Form 4797, line 11) 10
11 Other income (attach schedule) 11
12 TOTAL income (loss) (combine lines 3 through 11) 12

Deductions

13a Salaries and wages (other than to partners) $ .... 13b Less jobs credit $ .... Balance ▶ 13c
14 Guaranteed payments to partners (see page 4 of Instructions) 14
15 Rent 15
16 Interest 16
17 Taxes 17
18 Bad debts (see page 5 of Instructions) 18
19 Repairs 19
20 Depreciation (Schedule J, line 5) 20
21 Amortization (attach schedule) 21
22 Depletion (other than oil and gas, attach schedule—see page 5 of Instructions) 22
23a Retirement plans, etc. (see page 5 of Instructions). (Enter number of plans ▶............) . . . 23a
23b Employee benefit programs (see page 5 of Instructions) 23b
24 Other deductions (attach schedule) 24
25 TOTAL deductions (add lines 13c through 24) 25
26 Ordinary income (loss) (subtract line 25 from line 12) 26

Schedule A—COST OF GOODS SOLD AND/OR OPERATIONS (See Page 3 of Instructions)

27 Inventory at beginning of year (if different from last year's closing inventory, attach explanation) . . 27
28a Purchases $ .... 28b Less cost of items withdrawn for personal use $ .... Balance ▶ 28c
29 Cost of labor 29
30 Materials and supplies 30
31 Other costs (attach schedule) 31
32 Total of lines 27 through 31 32
33 Inventory at end of year 33
34 Cost of goods sold (subtract line 33 from line 32). Enter here and on line 2, above 34

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Please Sign

▶ general partner ▶ Date

Paid Preparer's Information

Preparer's signature and date ▶
Check if self-employed ▶ ☐
Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶
E.I. No. ▶
ZIP code ▶

35 a Check all methods used for valuing closing inventory: (i) ☐ Cost (ii) ☐ Lower of cost or market as described in regulations section 1.471–4 (see page 6 of Instructions) (iii) ☐ Writedown of "subnormal" goods as described in regulations section 1.471–2(c) (see page 6 of Instructions)

	Yes	No
b Did you use any other method of inventory valuation not described in line 35a?		
If "Yes," specify methods used and attach explanation.		
c Is Form 970 or other statement attached for adoption of LIFO inventory methods?		
d Are you engaged in manufacturing?		
If "Yes," did you value your inventory using the full absorption method (regulations section 1.471–11)?		
e Was there any substantial change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation.		

Schedule D—CAPITAL GAINS AND LOSSES (See Page 6 of Instructions)

Part I Short-term Capital Gains and Losses—Assets Held One Year or Less

a. Kind of property and description (Example, 100 shares of "Z" Co.)	b. Date acquired (mo., day, yr.)	c. Date sold (mo., day, yr.)	d. Gross sales price less expense of sale	e. Cost or other basis	f. Gain (loss) for the year (d less e)
1					

2 Partnership's share of net short-term gain (loss), including specially allocated items, from other partnerships and from fiduciaries

3 Net short-term gain (loss) from lines 1 and 2. Enter here and on Schedule K (Form 1065), line 5

Part II Long-term Capital Gains and Losses—Assets Held More Than One Year

a. Kind of property and description	b. Date acquired	c. Date sold	d. Gross sales price less expense of sale	e. Cost or other basis	f. Gain (loss) for the year (d less e)
4					

5 Partnership's share of net long-term gain (loss), including specially allocated items, from other partnerships and from fiduciaries

6 Capital gain distributions

7 Net long-term gain (loss) from lines 4, 5, and 6. Enter here and on Schedule K (Form 1065), line 6

Schedule H—INCOME FROM RENTS (See Page 4 of Instructions) If more space is needed, attach schedule.

a. Kind and location of property	b. Amount of rent	c. Depreciation (explain in Schedule J)	d. Repairs (attach schedule)	e. Other expenses (attach schedule)
1 Totals				

2 Net income (loss) (subtract total of columns c, d, and e from column b). Enter here and on page 1, line 7

Schedule I—BAD DEBTS (See Page 5 of Instructions)

a. Year	b. Trade notes and accounts receivable outstanding at end of year	c. Sales on account	Amount added to reserve		f. Amount charged against reserve	g. Reserve for bad debts at end of year
			d. Current year's provision	e. Recoveries		
1974						
1975						
1976						
1977						
1978						
1979						

Schedule J—DEPRECIATION (See Page 6 of Instructions) If more space is needed, use Form 4562.

a. Description of property	b. Date acquired	c. Cost or other basis	d. Depreciation allowed or allowable in prior years	e. Method of computing depreciation	f. Life or rate	g. Depreciation for this year
1 Total additional first-year depreciation (NOT to exceed $2,000). (Do not include in items below. Enter here and on Schedule K, line 2.)						
2 Other depreciation:						
Buildings						
Furniture and fixtures						
Transportation equipment						
Machinery and other equipment						
Other (specify):						
3 Totals						

4 Amount of depreciation claimed in Schedules A and H

5 Balance (subtract line 4 from line 3). Enter here and on page 1, line 20

Schedule K—PARTNERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC. (See Pages 7–10 of Instructions)

Enter the total distributive amount for each applicable item listed below.
Note: *Enter each partner's distributive share on Schedule K–1.*
Prepare a separate Schedule K–1 for each partner.

Enter the number of partners in the partnership ▶

Are any partners in this partnership also partnerships? ☐ Yes ☐ No

a. Distributive share items	b. Total amount
1 a Guaranteed payments to partners: **(1)** Deductible by the partnership (page 1, line 14)	
(2) Capitalized by the partnership (see page 4 of Instructions)	
b Ordinary income (loss) (page 1, line 26)	
2 Additional first-year depreciation (Schedule J, line 1)	
3 Gross farming or fishing income	
4 Dividends qualifying for exclusion (attach list)	
5 Net short-term capital gain (loss) from transactions entered into: **a** After 10/31/78	
b Before 11/1/78	
6 Net long-term capital gain (loss) from transactions entered into: **a** After 10/31/78	
b Before 11/1/78	
7 Net gain (loss) from involuntary conversions due to casualty or theft: **a** After 10/31/78	
b Before 11/1/78	
8 Other net gain (loss) under section 1231 from transactions entered into: **a** After 10/31/78	
b Before 11/1/78	
9 Net earnings (loss) from self-employment (Schedule N, line 12)	
10 a Charitable contributions (attach list): 50%........., 30%........., 20%.........	
b Other itemized deductions (attach list)	
11 Expense account allowance	
12 Jobs credit	
13 Taxes paid by regulated investment companies on undistributed capital gains (attach schedule)	
14 a Payments for partners to a Keogh Plan. (Type of plan ▶.........)	
b Payments for partners to an IRA or Simplified Employee Pension (SEP)	
15 a Foreign taxes paid (see page 9 of Instructions)	
b Other income, deductions, etc. (attach schedule)	
c Oil and gas depletion. (Enter amount (not for partner's use) ▶.........)	▨
16 Specially allocated items (attach schedule): **a** Short-term capital gain (loss)	
b Long-term capital gain (loss)	
c Ordinary gain (loss)	
d Other	
17 Tax preference items (see page 10 of Instructions): **a** Accelerated depreciation on real property:	
(1) Certified historic structure rehabilitation (167(o) or amortization under 191)	
(2) Low-income rental housing (167(k))	
(3) Other government assisted low-income housing	
(4) Other real property	
b Accelerated depreciation on personal property subject to a lease	
Amortization: **c**........., **d**........., **e**........., **f**.........	
g Reserves for losses on bad debts of financial institutions	
h Depletion (other than oil and gas)	
i (1) Excess intangible drilling costs from oil, gas or geothermal wells	
(2) Net income from oil, gas or geothermal wells	
18 Interest on investment indebtedness: **a** Investment interest expense: **(1)** Indebtedness incurred before 12/17/69	
(2) Indebtedness incurred before 9/11/75, but after 12/16/69	
(3) Indebtedness incurred after 9/10/75	
b Net investment income (loss)	
c Excess expenses from "net lease property"	
d Excess of net long-term capital gain over net short-term capital loss from investment property	

19 Investment in property that qualifies for investment credit:	Basis of new investment property	**a** 3 or more but less than 5 years	
		b 5 or more but less than 7 years	
		c 7 or more years	
	New commuter highway vehicle	**d** 3 or more years	
	Qualified progress expenditures	**e** 7 or more years — 1974 through 1978	
		f 7 or more years — 1979	
	Cost of used investment property	**g** 3 or more but less than 5 years	
		h 5 or more but less than 7 years	
		i 7 or more years	
	Used commuter highway vehicle	**j** 3 or more years	

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Schedule L—BALANCE SHEETS (See Page 10 of Instructions)

	Beginning of taxable year		End of taxable year	
ASSETS	(A) Amount	(B) Total	(C) Amount	(D) Total
1 Cash				
2 Trade notes and accounts receivable				
a Less allowance for bad debts				
3 Inventories				
4 Government obligations: a U.S. and instrumentalities				
b State, subdivisions thereof, etc.				
5 Other current assets (attach schedule)				
6 Mortgage and real estate loans				
7 Other investments (attach schedule)				
8 Buildings and other fixed depreciable assets				
a Less accumulated depreciation				
9 Depletable assets				
a Less accumulated depletion				
10 Land (net of any amortization)				
11 Intangible assets (amortizable only)				
a Less accumulated amortization				
12 Other assets (attach schedule)				
13 Total assets				
LIABILITIES AND CAPITAL				
14 Accounts payable				
15 Mortgages, notes, and bonds payable in less than 1 year				
16 Other current liabilities (attach schedule)				
17 All nonrecourse loans (attach schedule)				
18 Mortgages, notes, and bonds payable in 1 year or more				
19 Other liabilities (attach schedule)				
20 Partners' capital accounts				
21 Total liabilities and capital				

Schedule M—RECONCILIATION OF PARTNERS' CAPITAL ACCOUNTS (See Page 11 of Instructions)

(Show reconciliation of each partner's capital account on Schedule K–1, block M)

a. Capital account at beginning of year	b. Capital contributed during year	c. Ordinary income (loss) from page 1, line 26	d. Income not included in column c, plus non-taxable income	e. Losses not included in column c, plus unallowable deductions	f. Withdrawals and distributions	g. Capital account at end of year

Schedule N—COMPUTATION OF NET EARNINGS FROM SELF-EMPLOYMENT (See Page 11 of Instructions)

1 Ordinary income (loss) (Form 1065, page 1, line 26)			1	
2 Guaranteed payments to partners included on Schedule K, lines 1a(1) and 1a(2)	2			
3 Net loss from rental of real estate	3			
4 Net loss from Form 4797 (Form 1065, page 1, line 10)	4			
5 Total (add lines 2, 3, and 4)			5	
6 Add lines 1 and 5. (If line 1 is a loss, reduce line 1 by the amount on line 5)			6	
7 Nonqualifying dividends (Form 1065, page 1, line 5)	7			
8 Interest	8			
9 Net income from rental of real estate	9			
10 Net gain from Form 4797 (Form 1065, page 1, line 10)	10			
11 Total (add lines 7, 8, 9, and 10)			11	
12 Net earnings (loss) from self-employment (subtract line 11 from line 6). Enter on Schedule K, line 9			12	

Additional Information Required

	Yes	No
I Is the partnership a limited partnership (see page 2 of Instructions)?		
J Is this partnership a partner in another partnership?		
K (1) Did you elect to claim amortization (under section 191) or depreciation (under section 167(o)) for a rehabilitated certified historic structure (see page 11 of Instructions)?		
(2) Amortizable basis (see page 11 of Instructions) ▶..........		
L Will the character of any liabilities in Schedule L (Balance Sheets), other than line 17, change to nonrecourse or become covered by a guarantee or similar arrangement in the future?		
If "Yes," enter the year(s) and amount(s) of the anticipated changes ▶		

	Yes	No
M Has any material regarding the offering of a partnership interest or other security ever been registered or filed with a Federal or State agency or authority? If "Yes," attach a statement giving the name and address of the agency(s)		
N At any time during the tax year, did the partnership have an interest in or a signature or other authority over a bank account, securities account, or other financial account in a foreign country (see page 11 of Instructions)?		
O Was the partnership the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not the partnership or any partner has any beneficial interest in it? If "Yes," you may have to file Forms 3520, 3520–A, or 926 (See page 11 of Instructions.)		

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The sole proprietor or business partners of a business which becomes incorporated can exchange the assets owned for shares of stock. This may be done tax-free if the former proprietor or the former partners own 80% of the stock, their control of the corporation is immediate, and the assets are transferred solely in exchange for stock and securities in the new corporation.

Types of Stock

ARE THERE DIFFERENT TYPES OF STOCK?

There are many kinds of stock that a corporation can issue. The kinds of stock and the dividends they pay are as follows:

1. Par and nonpar value stock - stock that may or may not have a stated "par" value, but which can be sold at fair market prices. This is referred to as common stock.
2. Preferred stock - stock that provides the right to receive a dividend before profits are distributed among common stockholders in exchange for giving up the right to vote on company decisions.
3. Participating preferred stock - this stock allows the preferred stockholder to share in profits with common stockholders after the stated dividend is paid to preferred stockholders.

4. Cumulative preferred stock - the preferred value of this stock accumulates each time dividends are not declared, and the full value must be paid each preferred stockholder before profits are divided among common stockholders,
5. Redeemable stock - the corporation has the right to buy back redeemable stock at a fixed price which includes all dividends in arrears.
6. Convertible stock - rights included in owning this form include the right to convert into some other kind of stocks or bonds. This right is usually held by the stockholders.
7. Guaranteed stock - dividends from this stock are guaranteed by a corporation other than the one that issues the stock--for example, by a parent company to the stockholders of a subsidiary company.

Types of Dividends

ARE THERE DIFFERENT TYPES OF DIVIDENDS?

There are also many kinds of dividends that a corporation can pay. The power to declare dividends rests with the corporation's board of directors. The kinds of dividends are:

1. Cash dividend - paid in cash.
2. Stock dividend - additional stock given to each current shareholder on a pro rata basis.

3. Scrip dividends - paid in notes that are redeemable at a later date.
4. Elective dividend - where stockholders may take cash or stock dividends at their option.
5. Dividends in property - other shares of stock or bonds, in a company other than the one in which the owner has the shares, owned by the issuing company.

Generally, past deficits must be paid before any profit is declared and before that profit can be shared.

Taxes and Corporations

WHAT ABOUT THE CORPORATION AND TAXES?

Corporations are taxed more than sole proprietorships and partnerships. Not only must taxes be paid by the corporation itself, but they must be paid again by persons taking profit from the corporation. In order to forestall this "double taxation," consult an attorney about forming a subchapter corporation, which is ideal for new and low income businesses. With this type of corporation, your corporation may be taxed at lower rates. Regardless, corporate taxes are at a higher percentage or bracket than personal taxes.

All corporations must file form 1120 (Exhibit C) with the IRS. Corporate tax reporting may be done in two ways:

1. The corporation is created as a separate taxpayer and pays a corporate tax on its income. The shareholder (owner) pays personal tax on her or his receipts of salary, dividends, and interest from the corporation.
2. Under the Subchapter Section of the Internal Revenue Code, the corporation reports its income or loss. Shareholders report income on their tax returns even if they have not withdrawn money or property from the corporation. If the corporation incurs losses, the shareholders can deduct losses on their tax returns.

Under the first method, anything you, as the owner, do not withdraw is taxed at a corporate level and then taxed again when you withdraw it. The second method avoids this.

Certificate of Incorporation

WHAT IS A CERTIFICATE OF INCORPORATION?

To begin operations as a corporation, you must receive a charter from the state in which you want to operate. The application for a charter is called a certificate of incorporation. The exact requirements vary from state to state, so check with your state before having a lawyer draw up your charter application. Since some requirements are basic, you might use the following list to review your charter application.

1. The specific name of the corporation (which, in the U.S., includes the abbreviation "Inc."). The name cannot be the same as one already in use when the charter is issued.
2. The specific purpose of the corporation.
3. The names and addresses of the directors and incorporators. Depending on the state, one to five incorporators must reside in the state in which the application is made.
4. The location of the company's main office.
5. The duration of the corporation.
6. The amount and kinds of capital stock issued at the outset of the operations.
7. A full description of the voting rights of the stockholders.

The original owners must also draw up a set of by-laws. The by-laws should state the regulations and limits of the corporation. This protects all the owners, present and future, from unwise or selfish decisions by the board of directors. From the time the charter fee is paid (varies from state to state and can be quite expensive) and the certificate is issued, all agreements are made in the name of the company and not in the owners' names. The owners are merely stockholders who may or may not be involved in the actual operations of the business.

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EXHIBIT C

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 1979 or other taxable year beginning
, 1979, ending , 19

1979

Check if a—
A Consolidated return ☐
B Personal Holding Co. ☐
C Business Code No. (See Page 8 of Instructions)

Use IRS label. Other-wise please print or type.
Name
Number and street
City or town, State, and ZIP code

D Employer identification number (see instruction W)
E Date incorporated
F Enter total assets (see instruction X)
$

Gross Income

1 (a) Gross receipts or sales $........ (b) Less returns and allowances $........ Balance ▶	1(c)	
2 **Less:** Cost of goods sold (Schedule A) and/or operations (attach schedule)	2	
3 Gross profit	3	
4 Dividends (Schedule C)	4	
5 Interest on obligations of the United States and U.S. instrumentalities	5	
6 Other interest	6	
7 Gross rents	7	
8 Gross royalties	8	
9 (a) Capital gain net income (attach separate Schedule D)	9(a)	
(b) Net gain or (loss) from Form 4797, line 11, Part II (attach Form 4797)	9(b)	
10 Other income (see instructions—attach schedule)	10	
11 TOTAL income—Add lines 3 through 10	11	

Deductions

12 Compensation of officers (Schedule E)	12	
13 (a) Salaries and wages .... 13(b) Less WIN and jobs credit(s) .... Balance ▶	13(c)	
14 Repairs (see instructions)	14	
15 Bad debts (Schedule F if reserve method is used)	15	
16 Rents	16	
17 Taxes	17	
18 Interest	18	
19 Contributions (not over 5% of line 30 adjusted per instructions—attach schedule)	19	
20 Amortization (attach schedule)	20	
21 Depreciation from Form 4562 (attach Form 4562) ...., less depreciation claimed in Schedule A and elsewhere on return ...., Balance ▶	21	
22 Depletion	22	
23 Advertising	23	
24 Pension, profit-sharing, etc. plans (see instructions) (enter number of plans ▶ ....)	24	
25 Employee benefit programs (see instructions)	25	
26 Other deductions (attach schedule)	26	
27 TOTAL deductions—Add lines 12 through 26	27	
28 Taxable income before net operating loss deduction and special deductions (subtract line 27 from line 11)	28	
29 **Less:** (a) Net operating loss deduction (see instructions—attach schedule) 29(a)		
(b) Special deductions (Schedule I) 29(b)	29	
30 Taxable income (subtract line 29 from line 28)	30	

Tax

31 TOTAL TAX (Schedule J)	31	
32 Credits: (a) Overpayment from 1978 allowed as a credit		
(b) 1979 estimated tax payments		
(c) Less refund of 1979 estimated tax applied for on Form 4466 ( )		
(d) Tax deposited: Form 7004 .... Form 7005 (attach) .... Total ▶		
(e) Credit from regulated investment companies (attach Form 2439)		
(f) Federal tax on special fuels and oils (attach Form 4136 or 4136–T)	32	
33 TAX DUE (subtract line 32 from line 31). See instruction G for depositary method of payment	33	
(Check ▶ ☐ if Form 2220 is attached. See page 3 of instructions.) ▶ $........		
34 OVERPAYMENT (subtract line 31 from line 32)	34	
35 Enter amount of line 34 you want: Credited to 1980 estimated tax ▶ Refunded ▶	35	

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer Date ▶ Title

Paid Preparer's Information

Preparer's signature and date ▶
Check if self-employed ▶ ☐
Preparer's social security no.
Firm's name (or yours, if self-employed) and address ▶
E.I. No. ▶
ZIP code ▶

Schedule A Cost of Goods Sold (See Instructions for Schedule A)

1 Inventory at beginning of year . . . . .

2 Merchandise bought for manufacture or sale . . . . .

3 Salaries and wages . . . . .

4 Other costs (attach schedule) . . . . .

5 Total . . . . .

6 Less: Inventory at end of year . . . . .

7 Cost of goods sold—Enter here and on line 2, page 1 . . . . .

8 (a) Check all methods used for valuing closing inventory: (i) ☐ Cost (ii) ☐ Lower of cost or market as described in Regulations section 1.471–4 (see instructions) (iii) ☐ Writedown of "subnormal" goods as described in Regulations section 1.471–2(c) (see instructions)

(b) Did you use any other method of inventory valuation not described above? . . . . . ☐ Yes ☐ No

If "Yes," specify method used and attach explanation ▶

(c) Check if this is the first year LIFO inventory method was adopted and used. (If checked, attach Form 970.) . . . . . ☐

(d) If the LIFO inventory method was used for this taxable year, enter percentage (or amounts) of closing inventory computed under LIFO . . . . .

(e) Is the corporation engaged in manufacturing activities? . . . . . ☐ Yes ☐ No

If "Yes," are inventories valued under Regulations section 1.471–11 (full absorption accounting method)? . ☐ Yes ☐ No

(f) Was there any substantial change in determining quantities, cost, or valuations between opening and closing inventory? . . . ☐ Yes ☐ No

If "Yes," attach explanation.

Schedule C Dividends (See instruction 4)

1 Domestic corporations subject to 85% deduction . . . . .

2 Certain preferred stock of public utilities . . . . .

3 Foreign corporations subject to 85% deduction . . . . .

4 Dividends from wholly-owned foreign subsidiaries subject to 100% deduction (section 245(b)) . . . . .

5 Other dividends from foreign corporations . . . . .

6 Includible income from controlled foreign corporations under subpart F (attach Forms 3646) . . . . .

7 Foreign dividend gross-up (section 78) . . . . .

8 Qualifying dividends received from affiliated groups and subject to the 100% deduction (section 243(a)(3)) .

9 Taxable dividends from a DISC or former DISC not included in line 1 (section 246(d)) . . . . .

10 Other dividends . . . . .

11 Total—Enter here and on line 4, page 1 . . . . .

Schedule E Compensation of Officers (See instruction 12)

1. Name of officer	2. Social security number	3. Time devoted to business	Percent of corporation stock owned		6. Amount of compensation	7. Expense account allowances
			4. Common	5. Preferred		
Total compensation of officers—Enter here and on line 12, page 1						▨

Schedule F Bad Debts—Reserve Method (See instruction 15)

1. Year	2. Trade notes and accounts receivable outstanding at end of year	3. Sales on account	Amount added to reserve		6. Amount charged against reserve	7. Reserve for bad debts at end of year
			4. Current year's provision	5. Recoveries		
1974						
1975						
1976						
1977						
1978						
1979						

Schedule I Special Deductions (See instructions for Schedule I)

1 (a) 85% of Schedule C, line 1 . . . . .

(b) 59.13% of Schedule C, line 2 . . . . .

(c) 85% of Schedule C, line 3 . . . . .

(d) 100% of Schedule C, line 4 . . . . .

2 Total—See instructions for limitation . . . . .

3 100% of Schedule C, line 8 . . . . .

4 Deduction for dividends paid on certain preferred stock of public utilities (see instructions) . . . . .

5 Deduction for Western Hemisphere trade corporations (see instructions) . . . . .

6 Total special deductions—Add lines 2 through 5. Enter here and on line 29(b), page 1 . . . . .

Schedule J Tax Computation

1 Taxable income (line 30, page 1) . . . .

2 (a) Are you a member of a controlled group? . . . . ☐ Yes ☐ No

(b) If "Yes," see instructions and enter your portion of the $25,000 amount in each taxable income bracket:

(i) $.............................. (ii) $.............................. (iii) $.............................. (iv) $..............................

3 Income tax (see instructions to figure the tax; enter this tax or alternative tax from Schedule D, whichever is less). Check if from Schedule D ▶ ☐ . . . .

4 (a) Foreign tax credit (attach Form 1118) . . . .

(b) Investment credit (attach Form 3468) . . . .

(c) Work incentive (WIN) credit (attach Form 4874) . . . .

(d) Jobs credit (attach Form 5884) . . . .

5 Total of lines 4(a), (b), (c), and (d) . . . .

6 Subtract line 5 from line 3 . . . .

7 Personal holding company tax (attach Schedule PH (Form 1120)) . . . .

8 Tax from recomputing prior-year investment credit (attach Form 4255) . . . .

9 Tax from recomputing prior-year WIN credit (attach computation) . . . .

10 Minimum tax on tax preference items (see instructions—attach Form 4626) . . . .

11 Total tax—Add lines 6 through 10. Enter here and on line 31, page 1 . . . .

Schedule K Record of Federal Tax Deposit Forms 503

(List deposits in order of date made—See instruction G)

Date of deposit	Amount	Date of deposit	Amount	Date of deposit	Amount

[illegible] (1) Did you claim a deduction for expenses connected with: Yes No

(a) Entertainment facility (boat, resort, ranch, etc.)? . . .

(b) Living accommodations (except employees on business)? .

(c) Employees attending conventions or meetings outside the U.S. or its possessions? . . . .

(d) Employee's families at conventions or meetings? . . .

If "Yes," were any of these conventions or meetings outside the United States or its possessions? . . . .

(e) Employee or family vacations not reported on Form W-2? .

(2) Enter total amount claimed on Form 1120 for entertainment, entertainment facilities, gifts, travel, and conventions of the type for which substantiation is required under section 274(d). (See instruction Y.) ▶..............................

H (1) Did you at the end of the taxable year own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) . . .

If "Yes," attach a schedule showing: (a) name, address, and identifying number; (b) percentage owned; (c) taxable income or (loss) (e.g., if a Form 1120: from Form 1120, line 28, page 1) of such corporation for the taxable year ending with or within your taxable year; (d) highest amount owed by you to such corporation during the year; and (e) highest amount owed to you by such corporation during the year.

(2) Did any individual, partnership, corporation, estate or trust at the end of the taxable year own, directly or indirectly, 50% or more of your voting stock? (For rules of attribution, see section 267(c).) If "Yes," complete (a) through (e) . . .

(a) Attach a schedule showing name, address, and identifying number; (b) Enter percentage owned ▶..............................

(c) Was the owner of such voting stock a person other than a U.S. person? (See instruction S.) . . . .

If "Yes," enter owner's country ▶..............................

....

(d) Enter highest amount owed by you to such owner during the year ▶..............................

(e) Enter highest amount owed to you by such owner during the year ▶..............................

(Note: For purposes of H(1) and H(2), "highest amount owed" includes loans and accounts receivable/payable.)

Yes No

I Did you ever declare a stock dividend? . . . .

J Taxable income or (loss) from Form 1120, line 28, page 1, for your taxable year beginning in:

1976 ...., 1977 ...., 1978 ....

K If you were a member of a controlled group subject to the provisions of section 1561, check the type of relationship:

(1) ☐ parent-subsidiary (2) ☐ brother-sister

(3) ☐ combination of (1) and (2) (See section 1563.)

L Refer to page 8 of instructions and state the principal:

Business activity ....

Product or service ....

M Did you file all required Forms 1087, 1096 and 1099? . . .

N Were you a U.S. shareholder of any controlled foreign corporation? (See sections 951 and 957.) If "Yes," attach Form 3646 for each such corporation . . . .

O At any time during the tax year, did you have an interest in or a signature or other authority over a bank account, securities account, or other financial account in a foreign country (see instruction V)? . . . .

P Were you the grantor of, or transferor to, a foreign trust which existed during the current tax year, whether or not you have any beneficial interest in it? . . . .

If "Yes" you may have to file Forms 3520, 3520-A or 926.

Q During this taxable year, did you pay dividends (other than stock dividends and distributions in exchange for stock) in excess of your current and accumulated earnings and profits? (See sections 301 and 316.) . . . .

If "Yes," file Form 5452. If this is a consolidated return, answer here for parent corporation and on Form 851, Affiliations Schedule, for each subsidiary.

R During this tax year was any part of your tax accounting records maintained on a computerized system? . . . .

S (1) Did you elect to claim amortization (under section 191) or depreciation (under section 167(o)) for a rehabilitated certified historic structure (see instructions for line 20)? . . .

(2) Amortizable basis (see instructions for line 20):

Schedule L Balance Sheets

	Beginning of taxable year		End of taxable year	
	(A) Amount	(B) Total	(C) Amount	(D) Total
ASSETS				
1 Cash				
2 Trade notes and accounts receivable				
(a) Less allowance for bad debts				
3 Inventories				
4 Gov't obligations: (a) U.S. and instrumentalities				
(b) State, subdivisions thereof, etc.				
5 Other current assets (attach schedule)				
6 Loans to stockholders				
7 Mortgage and real estate loans				
8 Other investments (attach schedule)				
9 Buildings and other fixed depreciable assets				
(a) Less accumulated depreciation				
10 Depletable assets				
(a) Less accumulated depletion				
11 Land (net of any amortization)				
12 Intangible assets (amortizable only)				
(a) Less accumulated amortization				
13 Other assets (attach schedule)				
14 Total assets				
LIABILITIES AND STOCKHOLDERS' EQUITY				
15 Accounts payable				
16 Mtges., notes, bonds payable in less than 1 yr.				
17 Other current liabilities (attach schedule)				
18 Loans from stockholders				
19 Mtges., notes, bonds payable in 1 yr. or more				
20 Other liabilities (attach schedule)				
21 Capital stock: (a) Preferred stock				
(b) Common stock				
22 Paid-in or capital surplus				
23 Retained earnings—Appropriated (attach sch.)				
24 Retained earnings—Unappropriated				
25 Less cost of treasury stock		( )		( )
26 Total liabilities and stockholders' equity				

Schedule M-1 Reconciliation of Income Per Books With Income Per Return

1 Net income per books
2 Federal income tax
3 Excess of capital losses over capital gains
4 Income subject to tax not recorded on books this year (itemize)
5 Expenses recorded on books this year not deducted in this return (itemize)
(a) Depreciation . . . . $
(b) Depletion . . . . . $
6 Total of lines 1 through 5
7 Income recorded on books this year not included in this return (itemize)
(a) Tax-exempt interest $
8 Deductions in this tax return not charged against book income this year (itemize)
(a) Depreciation . . $
(b) Depletion . . . $
9 Total of lines 7 and 8
10 Income (line 28, page 1)—line 6 less 9

Schedule M-2 Analysis of Unappropriated Retained Earnings Per Books (line 24 above)

1 Balance at beginning of year
2 Net income per books
3 Other increases (itemize)
4 Total of lines 1, 2, and 3
5 Distributions: (a) Cash
(b) Stock
(c) Property
6 Other decreases (itemize)
7 Total of lines 5 and 6
8 Balance at end of year (line 4 less 7)

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FRANCHISES

WHAT DOES BEING A FRANCHISE MEAN LEGALLY?

A franchise provides many advantages to the new owner. In a franchise agreement, you get help in doing many of the business functions in return for maintaining a certain level of service and for paying a fee to the franchisor. You also have the advantage of a name already known to the public, which often attracts customers by itself. Becoming a franchisee allows you to benefit from the experiences of the parent company or other franchises who have tried and rejected many approaches before settling on the "right" one.

Franchise business accounted for an estimated $230 million dollars in sales in 1977. Chart II gives some idea of the types of businesses that are being franchised today.

If you are interested in opening a business in one of these industries, it would be wise to contact one or more of the franchisors in that industry. By doing this, you can find out what it costs and what assistance they have available before "going it alone" as a sole proprietor. The franchise company should also be checked out with your local Better Business Bureau, the Bureau closest to the franchisor's headquarters, and the National Better Business Bureau for possible complaints.

CHART II

FRANCHISING IN THE ECONOMY: 1977

Kinds of Franchised Business*	Establishments (Number)			Sales ($000)			Percent Changes 1976-1977		Percent Changes 1975-1977	
	Total	Company-Owned	Franchisee-Owned	Total	Company-Owned	Franchisee-Owned	Estab.	Sales	Estab.	Sales
TOTAL - ALL FRANCHISING	463,482	87,127	376,355	238,803,159	36,088,872	202,714,287	4.0	12.5	6.7	31.0
Automobile and Truck Dealers 1/	31,880	300	31,580	127,446,000	8,029,000	119,417,000	0.1	14.0	0.1	40.8
Automotive Products and Services 2/	48,762	5,326	43,436	5,871,204	2,115,029	3,756,175	2.3	9.4	2.8	17.3
Business Aids and Services	29,744	5,078	24,666	2,052,090	407,396	1,644,694	15.7	25.3	34.2	46.9
Accounting, Credit, Collection Agencies and General Business Services	4,504	62	4,442	206,228	6,491	199,737	12.6	17.7	26.9	24.7
Employment Services	2,590	667	2,923	734,823	251,149	483,674	16.3	14.8	31.9	32.8
Printing and Copying Services	1,863	132	1,731	129,299	12,075	117,224	24.4	22.5	63.3	53.3
Tax Preparation Services	8,440	4,048	4,392	197,043	104,139	92,904	5.9	10.4	11.8	22.8
Miscellaneous Business Services	11,347	169	11,178	784,697	33,542	751,155	24.0	45.6	57.6	81.1
Construction, Home Improvements, Maintenance and Cleaning Services	13,750	295	13,455	830,069	52,433	777,636	13.9	16.8	27.1	29.9
Convenience Stores	15,816	9,775	6,041	4,839,411	2,761,211	2,078,200	8.7	12.6	17.0	23.9
Educational Products and Services	1,746	444	1,302	188,512	34,668	153,844	27.7	13.1	33.9	9.2
Fast Food Restaurants (All Types)	53,018	14,547	38,471	16,056,207	5,276,429	10,779,778	12.4	15.4	23.3	30.9
Gasoline Service Stations 1/	184,000	36,800	147,200	52,727,000	10,545,000	42,182,000	- 1.5	9.8	- 2.9	20.1
Hotels and Motels	5,931	1,146	4,785	5,267,100	1,692,854	3,574,246	5.3	8.5	9.6	16.0
Campgrounds	1,088	18	1,070	71,442	6,405	65,037	4.9	10.5	7.3	17.2
Laundry and Drycleaning Services	3,254	136	3,118	227,135	15,140	211,995	6.1	8.5	2.6	6.0
Recreation, Entertainment and Travel	4,143	73	4,070	225,484	25,425	200,059	9.9	26.5	21.5	39.0
Rental Services (Auto-Truck)	7,091	1,971	5,120	1,715,810	1,058,660	657,150	4.8	7.7	9.3	16.4
Rental Services (Equipment)	1,727	115	1,612	203,163	47,404	155,759	12.4	15.2	20.3	29.7
Retailing (Non-Food)	43,380	10,168	33,212	10,811,169	3,225,487	7,585,682	9.7	11.0	16.7	19.7
Retailing (Food Other Than Convenience Stores)	13,514	668	12,846	1,813,888	449,186	1,364,702	8.0	13.4	14.9	25.5
Soft Drink Bottlers 1/ 3/	2,176	76	2,100	8,004,600	272,000	7,732,000	- 3.1	6.5	- 9.3	14.4
Miscellaneous	2,462	191	2,271	453,475	75,145	378,330	7.3	7.8	- 9.1	9.4

* 1977 data estimated by respondents.

(Taken from Franchising in the Economy 1975 - 77. Washington, D. C.: Government Printing Office, 1976.)

Information About Franchises

WHERE CAN YOU FIND MORE INFORMATION ABOUT FRANCHISING?

There are many ways for you to find out about franchises all over the United States. There are two magazines that deal exclusively with the franchise industry (1) National Franchise Reports, 33 North Michigan Avenue, Chicago, Illinois, (2) Modern Franchising, 549 West Washington Street, Chicago, Illinois.

There are also articles in many consumer magazines such as Business Week and Time, in many industry trade journals, and in newspapers. The Wall Street Journal and The New York Times frequently carry franchise advertisements in their "business opportunity" sections. Check The Wall Street Journal closely each Wednesday. Your local newspaper can be one of the best sources of information regarding available franchises. It will give the prospective franchisee (or even the prospective sole proprietor or partner) a good idea of the kind of business that might succeed in the geographical area. Also, check your local library.

Franchise Agreements

WHAT SHOULD THE FRANCHISE AGREEMENT INCLUDE?

The franchise agreement includes many things, one of the most important being the fee payment to the franchisor. Most often the franchisor receives a percent of gross sales. Shakey's Pizza, for example, receives 5.5% of monthly food sales from its franchisers. A standard fee is sometimes used, and it can be hard to pay in lean times, especially when the business is just beginning. An example of this would be if a fee of $400 per month is set, and, in a bad month, profits are only $340. Many parent companies are now going to a combination of small flat fee plus 2% of gross sales.

The good franchise agreement includes, in addition to the fee requirement, details covering many factors. In the publication, <u>Franchise Index/Profile</u>, the Small Business Administration suggests several items that should be stated in the franchise agreement. You might want to use the following list to review your franchise agreement:

1. Franchise Fee
2. Total franchise cost
3. Termination
4. Selling and renewal
5. Advertising and promotion
6. Patent and liability protection
7. Home office services
8. Commissions and royalties
9. Training

10. Financing
11. Territory
12. Exclusive vs. nonexclusive

(Adapted from Franchise Index/Profile, 1973, p. 37.)

COOPERATIVES

WHAT'S INVOLVED IN A COOPERATIVE?

One of the real attractions of a cooperative to beginning entrepreneurs is the opportunity to increase each member's purchasing power by pooling funds with others. Collectively, the volume being purchased is increased so the group might be eligible for quantity discounts and cash term discounts.

In addition to purchasing goods collectively, cooperatives have some additional benefits:

1. Cooperative activities, such as buying and selling and providing services, are means to meet specific needs and problems of the membership.
2. Costs and benefits of the cooperative are shared by its membership: the membership can influence decisions on how the cooperative is run by exercising voting rights, expressing concerns, and participating in action groups.
3. Cooperatives usually succeed when members are enthusiastic about the organization; conversely,

a cooperative will eventually fail whenever the membership ceases to support it or loses interest.

Responsibilities of Membership

WHAT ARE THE MEMBERSHIP RESPONSIBILITIES IN A CO-OP?

Members of a cooperative must assume certain responsibilities if the cooperative is to be successful. Members have to:

1. Make use of the cooperative.
2. Work to keep other members satisfied with the cooperative.
3. Attend meetings and prepare corrective action needing membership consideration.
4. Abide by membership agreement contract.

As a member [illegible] cooperative, you must "cooperate" with the other members to make the organization work for everyone. Like a partnership or corporation, you own a share of the business.

PREPARATION/ADAPTATION ACTIVITIES

Are you able to apply these business principles to your business aspirations? Are you now knowledgeable about the various organizational patterns available? The following activities should help you check your knowledge of the various types of ownership.

ASSESSMENT ONE

1. Find "franchise opportunity" ads in your local newspaper and write to two companies listed. Your letter should include the questions aimed at getting the specific answers you need (for example, ask about assistance provided by franchisor, all costs, building planning, and advertising arrangements).

   Should your local paper not include any franchise opportunities, check in your library for the latest edition of the Franchise Opportunities Handbook, U.S. Department of Commerce. Locate a franchise that appeals to you in this directory and write the franchisor requesting the same information.

2. Contact a cooperative such as Rexall Drugs, Independent Grocers Association, and American Merchandising Corporation. Get as much information as possible regarding the cost, services, and relationships required to become a member.

3. Compare the legal implications and requirements between sole proprietorship, partnership, and corporation. You might want to use a chart similar to the following:

Legal Requirements	Proprietorship	Partnership	Corporation
1. Taxes			
2. "Charter for Operation"			
3.			
4.			

4. Look for advertisements of a sole proprietorship, a corporation, and a franchise in your local newspaper and in *Time* or a similar magazine. How do the ads differ? Why are they different? Single out an advertisement for a business in which you have at least some interest and find out more about it. Contact the seller and get such information as: selling price, status of inventory, profit margin, etc.

ASSESSMENT TWO

A REAL DEAL

Ms. Hinske has been the sole proprietor of an electronics supply firm at one of the best locations in town for almost two years. The business has been very profitable and has allowed her to save almost $75,000 over the two years. She has also paid off the mortgage on their home.

has been very profitable and has allowed her to save almost $75,000 over the two years. She has also paid off the mortgage on their home.

Ms. Himske has been looking for a way to expand the business in order to make more profit, but no available land is adjacent to her business. She is somewhat apprehensive about operating two electronic supply firms in two separate locations. She enjoys making independent decisions and feels that her presence has been the key to her business success.

Mr. Johnson, a business acquaintance, approached Ms. Himske about the possibility of forming a partnership. Mr. Johnson owns and operates two fairly successful electronic supply firms on the other side of town. He has managed them for one year, ever since his father retired and left the business. During the past year profits have been dwindling. Mr. Johnson believes this is a result of his poor management, since the two electronic supply firms had been profitable for years under his father's management. Together, Mr. Johnson's two electronic supply firms are worth almost three times the value of Ms. Himske's business. Mr. Johnson is aware of this but is willing to make the new partnership a fifty-fifty arrangement. They would share all profits and each would own one-half of the business.

Ms. Himske has told Mr. Johnson that she would go home and think it over. Although, on the surface, it sounded like a good business opportunity, Ms. Himske wants to be sure that she would not be making a mistake by accepting the offer. She knows Mr. Johnson is not a very good businessman, but she would like to take advantage of the opportunity to expand.

SUGGESTIONS:

1. What factors should Ms. Himske consider in making the decision?
2. Should Ms. Himske accept Mr. Johnson's offer? Make two separate lists of reasons for acceptance and for rejection.
3. If she accepts the offer, what should Ms. Himske include in the articles of copartnership?

POSTASSESSMENT

1. Explain the legal implications of a partnership and a franchise agreement.
2. Explain the essentials of a certificate of incorporation.
3. List the responsibilities of the members of a cooperative.
4. Explain the tax advantages of a sole proprietorship.
5. List the items that should appear in a partnership agreement.

Compare your answers to your responses to the preassessment. You may want to check your postassessment answers with your instructor.

SELF-EVALUATION

How well did you know the information needed to do the activities?

( ) Very well

( ) Fairly well

( ) A little

Be honest with yourself. If you feel you don't know the material well enough, it might be helpful to review this section before going on.

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RESEARCH AND DEVELOPMENT SERIES NO. 194 B-5

PACE

A Program for Acquiring Competence in Entrepreneurship

Instructor's Guide

Part II

Becoming An Entrepreneur

Unit E

Choosing The
Type Of Ownership

THE NATIONAL CENTER
FOR RESEARCH IN VOCATIONAL EDUCATION
THE OHIO STATE UNIVERSITY
1960 KENNY ROAD • COLUMBUS, OHIO 43210

USING THE INSTRUCTOR'S GUIDE

The Instructor's Guide contains the following:

- Teaching/Learning Objectives (identical to the Teaching/Learning Objectives found in the PACE unit)
- Teaching/Learning Delivery Suggestions
- Pre/postassessment Suggested Responses

This information is geared towards the three levels of learning, and is designed for use as a supplemental teaching aid. Additional instructions for using PACE, sources of information, and an annotated glossary can be found in the PACE Resource Guide.

PRE/POSTASSESSMENT
SUGGESTED RESPONSES

EXPOSURE

1. The *sole proprietorship* is owned and normally operated by one person. The *partnership* is a business that has two or more owners. A *corporation* is an association of several owners which is chartered by the state and is given the power to transact business, enter into contracts, and sue or be sued.

2. Advantages of sole proprietorship include freedom to make decisions, no need for sharing profits, tax advantages for small owner, limited start-up costs. Disadvantages include unlimited liability, lack of assistance in operating the business, difficulty in raising capital, limited life of the business.

   Advantages of partnership include variety of skills, abilities, ideas that are brought to the business by each partner; increased sources of capital; easy entry and termination of business; low start-up costs; possible tax advantage; limited outside regulations. Disadvantages include unlimited liability, sharing of profits, difficulty in raising additional capital, difficulty of finding suitable partners.

   Advantages of a corporation include limited liability; easier to raise money; great variety of skills, abilities, ideas available; continuous existence; ownership is easily transferred. Disadvantages include sharing profits, double taxation, higher rate of taxation than other business forms, expenses involved in organizing and operating.

3. Articles of copartnership define the partnership and protect each member by setting up the contributions expected of each partner and the profit each will get.

4. A franchise is a contract to distribute and sell goods or services in a specified geographic area, and is a form of business ownership. The franchise is sold by a parent company or franchisor to an individual or franchisee. Advantages are as follows: franchisee receives technical advice on design and layout of facilities, and market research findings; franchisee gets help in advertising, buying, and inventory; smaller capital investment; less working capital necessary; access to a product or service that has public acceptance; better average profit margins. Disadvantages include parent company restrictions and fees that must be paid to parent company.

5. Cooperatives are an organization of individuals with similar interests and problems who have joined together to perform certain activities. Farmers' cooperatives have been most successful.

EXPLORATION

1. A partner who contributes financially and shares unlimited liability is a *general partner.* The *silent partner* invests money, is a known partner, and is inactive in the business. A *secret partner* contributes financially, offers expertise, and is involved in the day-to-day operations of the firm but does not want to be known as a partner by the general public. The *dormant partner* contributes financially but is not active. The *nominal partner* is a partner in name only—this partner contributes his or her name for a fee. Your needs will determine the types of partners you choose.
2. The *closed* corporation is usually owned by a small number of owners such as family members, friends, and partners. If stock is sold, it is sold to someone who already owns stock; therefore, ownership remains the same. A *public* corporation sells stock to anyone who wants to buy it.
3. If you plan to incorporate your business venture, you and at least two associates must apply for a charter in the state in which you plan to operate.
4. Common stock is offered when corporations want to raise more capital.
5. A franchise is a continuing relationship between a franchisor and franchisee in which the franchisor's knowledge, image, success, and marketing techniques are supplied to the franchisee for a price. The franchising agreement provides management, marketing, financial, and personnel assistance to the franchisee from the parent company.

PREPARATION/ADAPTATION

1. Legal implications of *partnership* include limited liability. Because each partner is legally responsible for the debts of the firm, debts run up by one partner are the responsibility of all partners. Articles of copartnership ensure that each partner does his or her share of work and gets a fair share of profits. Partnerships must also meet tax obligations. Legal implications of *franchises* include provisions of the franchise agreements such as the franchise fee and services to be provided by franchisor.
2. Essentials of a certificate of incorporation include the exact name of the corporation, purpose of the corporation, names and addresses of the directors and incorporators, location of corporation's main office, duration of the corporation, amount and kinds of capital initially issued, and a full description of the voting rights of stockholders.
3. Responsibilities of members of cooperatives include using the cooperative regularly, attending meetings, participating in policy decision-making, and abiding by the membership contract.
4. The sole proprietorship is not a separate taxpayer or tax reporting unit. If the business becomes highly profitable, the sole proprietor may be pushed into a higher tax bracket. Otherwise, the sole proprietor has a tax advantage because the profits are calculated as income and are taxed as personal rather than corporate rates, which are usually higher.
5. The list should include all items that will define partnership and protect individual partners, e.g., duties of each partner, salary or drawing account arrangements for each partner, duration of partnership, etc.

		TEACHING/LEARNING OBJECTIVES	TEACHING/LEARNING DELIVERY SUGGESTIONS
		Upon completion of this level of instruction you should be able to:	**A variety of different teaching/learning methodologies have been used. To help you organize your work and plan the use of this level these suggestions are made:**
LEVELS OF LEARNING	Exposure	1. Describe sole proprietorship, partnership, corporation, and franchise and give examples from your own community. 2. Describe the advantages and disadvantages of proprietorship, partnership, corporation, and franchise. 3. Explain the reasons for having articles of copartnership. 4. Describe cooperatives.	1. Obtain a copy of *Franchise Opportunities Handbook* published by United States Department of Commerce. 2. Get a sample copy of articles of copartnership from a local attorney.
	Exploration	1. Distinguish between general partners and limited partners (dormant partners, nominal partners, silent partners, and secret partners). 2. Describe the difference between a closed corporation and a public corporation. 3. Apply for a corporate charter. 4. Describe the differences between common and preferred stock. 5. Describe a franchise including what a franchisee is entitled to and the benefits of a franchise. 6. Discuss three basic principles of cooperatives.	1. Preview Business Ownership Crossword Puzzle activity in this unit. 2. Have a franchise owner discuss types of franchises, costs, advantages, and disadvantages with the group. 3. Locate a small business in your community which is incorporated, and have the entrepreneur discuss the pluses and minuses of incorporation.
	Preparation/Adaptation	1. Discuss the legal implications and requirements of the various forms of business organizations. 2. Identify information required in a certificate of incorporation. 3. Explain the sources of information and opportunities available to a potential franchisee in your locality. 4. Explain the responsibilities of membership in a cooperative.	1. Have a representative from the IRS discuss tax differences between forms of ownership. 2. Collect articles from your local newspaper on robberies, fires, and other accidents which have occurred in small businesses during the past week. 3. Collect franchise opportunity and sale of business ads from your local paper for a week. 4. Review Assessment Two, "A Real Deal," in the "Preparation/Adaptation Activities" section.

The PACE series consists of these parts and units.

PART I: GETTING READY TO BECOME AN ENTREPRENEUR

- Unit A: Nature of Small Business
- Unit B: Are You an Entrepreneur?
- Unit C: How to Succeed and How to Fail

PART II: BECOMING AN ENTREPRENEUR

- Unit A: Developing the Business Plan
- Unit B: Where to Locate the Business
- Unit C: Legal Issues and Small Business
- Unit D: Government Regulations and Small Business
- Unit E: Choosing the Type of Ownership
- Unit F: How to Finance the Business
- Unit G: Resources for Managerial Assistance

PART III: BEING AN ENTREPRENEUR

- Unit A: Managing the Business
- Unit B: Financial Management
- Unit C: Keeping the Business Records
- Unit D: Marketing Management
- Unit E: Successful Selling
- Unit F: Managing Human Resources
- Unit G: Community Relations
- Unit H: Business Protection

RESOURCE GUIDE