

Chapter 11—Corporate Governance & Business Organizations

The major disadvantage of the sole proprietorship is that , as sole owner, the proprietor alone bears the burden of any losses or liabilities incurred by the business enterprise. The sole proprietor has unlimited liability.

Partnerships

General Partnerships

A partnership is a legal entity only for limited purposes, such as the partnership name and title of ownership and property. A key advantage of the partnership is that the firm itself does not pay federal income taxes. The main disadvantage of the partnership is that the partners are subject to personal liability for partnership obligations.

Limited Partnerships

A general partner assumes responsibility for the management of the partnership and liability for all partnership debts. A limited partner has no right to participate in the general management or operation of the partnership and assumes no liability for partnership debts beyond the amount of capital he or she has contributed.

S Corporations

- 1. the corporation must be a domestic corporation**
- 2. the corporation must not be a member of an affiliated group of corporations**
- 3. the shareholders of the corporation must be individuals, estates, or certain trusts. Partnerships and nonqualifying trusts cannot be shareholders.**
- 4. The corporation must have 75 or fewer shareholders**
- 5. The corporation must have only one class of stock**
- 6. No shareholder of the corporation may be a nonresident alien**

Franchisee—one receiving a license to use another's trademark, trade name, or copyright in the sale of goods and services

Franchisor—one licensing another to use his or her trademark, trade name, or copyright in the sale of goods or services

The Nature of the Corporation

The primary document needed to incorporate is the articles of incorporation, which include such information about the corporation as its functions and the structure of its organization.

Dividend—a distribution to corporate shareholders of corporate profits or income, disbursed in proportion to the number of shares held

Retained earnings—the portion of a corporation's profits that has not been paid out as dividends to shareholders

Torts and Criminal Acts

A corporation is liable for the torts committed by its agents or officers within the course and scope of their employment.

Domestic corporation—in a given state, a corporation that does business in, and is organized under the law of, that state.

Foreign corporation—in a given state, a corporation that does business in the state without being incorporated therein.

Alien corporation—a designation in the U.S. for a corporation formed in another country but doing business in the U.S.

The general areas of responsibility of the B of D include:

- 1. Declaration and payment of corporate dividends to shareholders**
- 2. Authorization for major corporate policy decisions—for example, the initiation of proceedings for the sale or lease of corporate assets outside the regular course of business**
- 3. Appointment, supervision, and removal of corporate officers and other managerial**

employees and the determination of their compensation

- 4. Financial decisions, such as the reissuance of authorized shares and bonds**

Business judgment rule—a rule that immunizes corporate management from liability for actions that result in corporate losses or damages if the actions are undertaken in good faith, and are within both the power of the corporation and the authority of management to make

Rights of shareholders

Stock certificates—a certificate issued by a corporation evidencing the ownership of a specified number of shares in the corporation

Par value shares—corporate shares that have a specific face value or formal cash-in-value written on them

No par shares—corporate shares that have no face value—that is, no specific dollar amount printed on the face

Watered stock—shares of stock issued by a corporation for which the corporation receives, as payment, less than the stated value of the shares