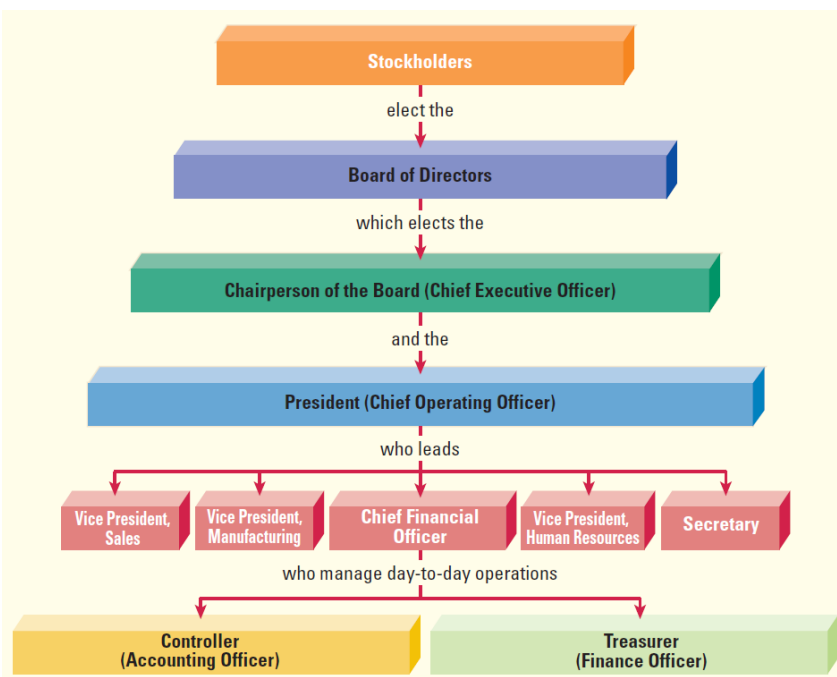


CONCEPT: CHARACTERISTICS OF A CORPORATION

- A **Corporation** is a _____ entity from the owners of the business
 - Main advantages of organizing as a corporation:
 - Unlimited life
 - Easy transferability of ownership
 - Owners have _____ liability for the business' debt
 - Main disadvantages of organizing as a corporation:
 - Double taxation
 - > First, the corporation pays taxes
 - > Second, the stockholders pay taxes on _____ received
 - Government regulation
 - Separation of ownership and management
- To create a corporation, the incorporators:
 - Pay fees
 - Sign the corporate charter
 - File paperwork with the state of incorporation
 - Agree on a set of _____, the “constitution” used to govern the company
- The basic hierarchy of authority within a corporation:



- The stockholders of a corporation retain certain rights as the corporation's owners:
 - **Voting Rights** – Elect the _____ and on important matters, such as mergers
 - **Dividends** – Receive their proportionate share of dividends paid by the company
 - **Liquidation** – Receive their proportionate share of assets left after paying liabilities upon company dissolution
 - **Preemptive** – Option to maintain their proportionate ownership in the company if new shares are issued

EXAMPLE: Johnny Clutch owns 1,000 shares of the outstanding 100,000 shares of ABC Company. ABC Company issues 50,000 new shares to raise additional capital. Johnny must be given the option to purchase:

PRACTICE: All of the following are true regarding corporations, except:

- a) The board of directors is in charge of creating policies in the corporation
- b) A stockholder in a corporation is generally not involved in the day-to-day operations of a corporation
- c) Stockholders must pay taxes on any dividends received from the corporation
- d) A corporation is a separate legal entity from its owners
- e) All of the above are true regarding corporations

PRACTICE: All of the following are advantages of corporations, except:

- a) The ease of transferring ownership
- b) Owners of the company have unlimited liability for the corporation's debts
- c) Corporations have unlimited lives
- d) Corporations can raise more capital than a proprietorship or partnership
- e) All of the above are advantages of the corporate form