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| --- |
| *Indicate whether the statement is true or false.* |

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| --- | --- | --- | --- | --- | --- | --- |
| 1. Limited liability companies (LLCs) are governed by federal LLC statutes.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 2. To form a limited liability company, articles of organization must be filed with the federal Small Business Administration.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| --- | --- | --- | --- | --- | --- | --- |
| 3. Limited liability companies cannot enter into contracts or hold title to property.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 4. Typically, the articles of organization of a limited liability company (LLC) include information on how the LLC will be managed.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 5. Like the shareholders of a corporation, the owners of a limited liability company enjoy limited liability.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 6. ​In most states, a limited liability company must have at least two members.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 7. A limited liability company that has two or more members can be taxed as a corporation.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 8. A limited liability company is a citizen of every state, regardless of the citizenship of its members.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 9. If a dispute arises and the applicable limited liability company statute does not cover the issue, a court will most likely dismiss the case.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 10. The alter-ego theory can be applied to a corporation but not to a limited liability company.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 11. Limited liability companies are entities apart from their owners.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| --- | --- | --- | --- | --- | --- | --- |
| 12. A limited liability company is a citizen of every state of which its members are citizens.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 13. ​A limited liability company can be held liable for any loss or injury caused by the wrongful acts or omissions of its members.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 14. ​Unless a limited liability company indicates otherwise, the Internal Revenue Service automatically taxes it as a partnership.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 15. ​For federal income tax purposes, one-member limited liability companies are not taxed.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 16. Most states apply to a limited liability company (LLC) formed in another state the law of the state where the LLC was formed.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 17. Foreign investors cannot participate in a limited liability company.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 18. In most states, a limited liability company can have only a limited number of members.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 19. The members of a limited liability company have unlimited liability for any loss or injury caused by the wrongful acts or omissions of the firm.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 20. ​Members of a limited liability company (LLC) can stipulate in their operating agreement how managers will be chosen or removed.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 21. In a limited liability company, the management may consist of members or nonmembers, but not both.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 22. ​In many states, an operating agreement is required for a limited liability company to exist.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 23. Most limited liability company statutes provide that if the members have not specified how the profits will be divided, they will be divided in proportion to the members’ capital investment.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 24. Members of a limited liability company can stipulate in their operating agreement how voting rights will be apportioned.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 25. ​Limited liability company operating agreements can provide whether formal members’ meetings will be held.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 26. Generally, if a member dissociates form a limited liability company (LLC), the other members cannot continue to carry on the LLC’s business.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 27. When a limited liability company is dissolved, any member, including those who wrongfully dissociated, may participate in the winding up process.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 28. ​Generally, a dissociated member of a limited liability company (LLC) has the right to buy his or her interest in the LLC from the other members.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 29. Normally, a member who dissociates from a limited liability company (LLC) has the right to force the LLC to dissolve.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 30. Unless otherwise agreed, joint venturers share profits and losses equally.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 31. Joint venturers do *not* have the authority as agents to enter into contracts for the business that will bind the joint venture.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 32. ​The members of a joint venture have less implied and apparent authority than the partners in a partnership.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 33. ​Most courts apply the same principles to joint ventures as they apply to partnerships.   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 34. A joint stock company is usually treated like a partnership.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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| 35. A cooperative cannot be incorporated.​   |  |  |  | | --- | --- | --- | |  | a. | True | |  | b. | False | |

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

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| 36. Jeri and Knute are members of Lighthouse Tours LLC, a limited liability company. With respect to Lighthouse Tours’s liability, as members, Jeri and Knute are shielded from​   |  |  |  | | --- | --- | --- | |  | a. | ​all liability. | |  | b. | ​no liability. | |  | c. | ​personal liability. | |  | d. | ​”alter ego” liability. | |

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| 37. Bethany and Claiborne want to form a limited liability company to manage their business, DoReMi Music. Their state has adopted the Uniform Limited Liability Company Act, which has been adopted in​   |  |  |  | | --- | --- | --- | |  | a. | ​all states. | |  | b. | ​no state. | |  | c. | ​less than twenty states. | |  | d. | ​only Wyoming and Florida. | |

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| 38. On Site Health Aides, LLC’s members include Phyllis and Qiana. For purposes of entering into contracts, OnSite Health Aides is​   |  |  |  | | --- | --- | --- | |  | a. | ​an aggregate of its members. | |  | b. | ​a non-entity | |  | c. | ​a legal entity apart from its owners. | |  | d. | ​a foreign LLC. | |

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| 39. Bee Hive Honey, LLC’s members include Chad, Dolores, and others. For purposes of suing and being sued, Bee Hive Honey is   |  |  |  | | --- | --- | --- | |  | a. | ​an aggregate of Chad, Dolores, and the other members. | |  | b. | ​a natural person in the members’ “family.” | |  | c. | ​a legal entity apart from the owners. | |  | d. | ​a non-participating third party. | |

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| 40. ​Jeremy is considering forms of business organization, including the limited liability company (LLC), for his concessions business—Kettle Popt-Korn. Most states require that an LLC have   |  |  |  | | --- | --- | --- | |  | a. | ​an alter ego, but no minimum number of participants. | |  | b. | ​at least one member. | |  | c. | ​at least two members | |  | d. | ​at least one non-member manager. | |

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| 41. Western Rodeo LLC is a limited liability company (LLC). Like other LLCs, for federal jurisdictional purposes, Western Rodeo is most likely a citizen of every state​   |  |  |  | | --- | --- | --- | |  | a. | ​in the United States. | |  | b. | ​in which its members are citizens. | |  | c. | ​in which it does business. | |  | d. | ​in which it is sued. | |

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| 42. ​Dana is a member of Earthground Coffee, LLC, a limited liability company. Dana is liable for Earthground’s debts   |  |  |  | | --- | --- | --- | |  | a. | ​in proportion to the total number of members. | |  | b. | ​to the extent of her investment in the firm. | |  | c. | ​in proportion to her profit derived from the firm. | |  | d. | ​to the full extent. | |

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| 43. ​Custom Auto Body & Detailing, LLC, is a limited liability company. Its members include Dennis and Estelle. Like other LLCs with more than one member, unless indicated otherwise, the firm will automatically be taxed as   |  |  |  | | --- | --- | --- | |  | a. | ​a person. | |  | b. | ​a corporation. | |  | c. | ​a proprietorship. | |  | d. | ​a partnership. | |

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| 44. Qatar Global Investments is a foreign entity—a firm owned and operated by investors in a foreign country. With respect to a limited liability company in the United States, Qatar Global can​   |  |  |  | | --- | --- | --- | |  | a. | ​act as a creditor, but cannot otherwise invest or participate. | |  | b. | ​become a member. | |  | c. | ​not become a member, but can participate in its operations. | |  | d. | ​not become a member or otherwise participate in its operations. | |

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| 45. ​Outreach Security & Rescue, LLC, is a limited liability company. Unless the members have agreed otherwise, participants in the firm’s management will be considered to include   |  |  |  | | --- | --- | --- | |  | a. | ​all members. | |  | b. | ​no member. | |  | c. | ​one member. | |  | d. | ​one non-member manager. | |

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| 46. Tax Accounting, LLC, is a member-managed limited liability company. If the law in Tax Accounting’s state is like the law in most states, unless the members have agreed otherwise, voting rights are apportioned according to​   |  |  |  | | --- | --- | --- | |  | a. | ​capital contributions. | |  | b. | ​participation in management. | |  | c. | ​the number of members. | |  | d. | ​members’ seniority. | |

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| 47. IT Apps, LLC, is a limited liability company. Among its members, a dispute arises that the operating agreement does not cover. The dispute is governed by​   |  |  |  | | --- | --- | --- | |  | a. | ​the applicable state LLC statute. | |  | b. | ​the Uniform Limited Liability Company Act. | |  | c. | ​the principles of partnership law. | |  | d. | ​the federal LLC statutes. | |

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| 48. Arnie is a member of Bowling & Billiards, LLC. Arnie can participate in the firm’s management​   |  |  |  | | --- | --- | --- | |  | a. | ​only to the extent that he assumes liability for the firm’s debts. | |  | b. | ​only to the extent of his investment in the firm. | |  | c. | ​to any extent. | |  | d. | ​to no extent. | |

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| 49. StartUp Investors, LLC, is a limited liability company without a written operating agreement. Among the members, a dispute arises concerning the division of profits. Under most LLC statutes, the profits will be   |  |  |  | | --- | --- | --- | |  | a. | distributed according to members’ proportionate ownership in the firm. | |  | b. | divided equally among the members. | |  | c. | forfeited to the state. | |  | d. | reinvested in the business until the dispute is resolved. | |

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| 50. Romero is a member of Smooth Operators LLC, a limousine service. Romero’s relationship to Smooth Operators ends, but the firm continues to do business. This is   |  |  |  | | --- | --- | --- | |  | a. | dissociation. | |  | b. | dissolution. | |  | c. | a violation of the law. | |  | d. | wrongful but not a violation of the law. | |

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| 51. ​Greenway Corporation and Happy Trails, Inc., combine their efforts to build a network of biking and hiking trails along an unused railroad spur. Their form of business organization is   |  |  |  | | --- | --- | --- | |  | a. | ​a business trust. | |  | b. | ​a joint stock company. | |  | c. | ​a joint venture. | |  | d. | ​a syndicate. | |

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| 52. ​Lightspeed Corporation and Mindful, Inc., two game creators, wish to combine their capabilities to make and market Nanoworld, a special limited-edition online game. The appropriate legal entity for this project is most likely   |  |  |  | | --- | --- | --- | |  | a. | ​a business trust. | |  | b. | ​a joint stock company. | |  | c. | ​a joint venture. | |  | d. | ​a syndicate. | |

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| 53. Oil Reserves, Inc., and Petro Refining Corporation form a joint venture to design and test petroleum storage facilities and equipment. When a dispute arises, Oil files a suit against Petro. The court is most likely to apply the same principles to this joint venture as it applies to​   |  |  |  | | --- | --- | --- | |  | a. | ​sole proprietorships. | |  | b. | ​limited liability companies. | |  | c. | ​corporations. | |  | d. | ​partnerships. | |

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| 54. ​Dairy Products, Inc., and Eden Farms Corporation form a joint venture to make and test-market Frosty Ice Cream. A joint venture is usually formed for   |  |  |  | | --- | --- | --- | |  | a. | ​an implied duration of not more than six months. | |  | b. | ​a single transaction or project. | |  | c. | ​a stated duration of not more than one year. | |  | d. | ​a perpetual existence. | |

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| 55. ​Rafaela Art Gallery and Sequoia Exhibitions form a joint venture. When a dispute arises, Rafaela files a suit against Sequoia. The court is most likely to apply the same principles to this joint venture as it applies to   |  |  |  | | --- | --- | --- | |  | a. | ​business trusts. | |  | b. | ​cooperatives. | |  | c. | ​corporations. | |  | d. | ​partnerships. | |

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| 56. Oni’s Adventure Travel and Paquito’s Wild River Tours form a joint venture. Oni can participate in the venture’s management   |  |  |  | | --- | --- | --- | |  | a. | only to the extent that she assumes liability for the venture’s debts. | |  | b. | ​only to the extent of her investment in the venture. | |  | c. | to any extent. | |  | d. | to no extent. | |

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| 57. Rural Residential Development Company and Suburban Real Estate Corporation form a joint stock company. A joint stock company can be formed for, at the most,​   |  |  |  | | --- | --- | --- | |  | a. | ​an implied duration of not more than six months. | |  | b. | ​a perpetual existence. | |  | c. | ​a single activity or transaction. | |  | d. | ​a stated duration of not more than one year. | |

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| 58. Lebron, Michael, Nolan, and O’Neill combine to buy a professional basketball franchise. Their selected form of business organization is an investment group, which is also known as​   |  |  |  | | --- | --- | --- | |  | a. | ​a business trust. | |  | b. | ​a joint stock company. | |  | c. | ​a joint venture. | |  | d. | ​a syndicate. | |

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| 59. GMO Grain Corporation and Hybrid Yields, Inc., form a joint stock company. The ownership of a joint stock company is represented by​   |  |  |  | | --- | --- | --- | |  | a. | ​partnership certificates. | |  | b. | ​shares of stock. | |  | c. | ​title documents. | |  | d. | ​trust certificates. | |

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| 60. Global Shipping Corporation and Harbor Warehouse Company transfer their property to Investment Managers, Inc., which manages the property and distributes the profits to Global Shipping and Harbor Warehouse. This form of a business organization is​   |  |  |  | | --- | --- | --- | |  | a. | ​a business trust. | |  | b. | ​a joint stock company. | |  | c. | ​a joint venture. | |  | d. | ​a syndicate. | |

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| 61. Licensed fishing outfits in Bayou City form a business organization to provide, without profit, an economic service to its members. This is​   |  |  |  | | --- | --- | --- | |  | a. | ​a business trust. | |  | b. | ​a cooperative. | |  | c. | ​a corporation. | |  | d. | ​a joint stock company. | |

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| 62. ​Valu Food Markets is an incorporated cooperative. Like other incorporated cooperatives, Valu Food distributes profits to its owners on the basis of   |  |  |  | | --- | --- | --- | |  | a. | ​the amount of capital they contribute. | |  | b. | ​the degree to which they participate in management. | |  | c. | ​their transactions with the cooperative. | |  | d. | ​the requirements of the state in which it was incorporated. | |

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| 63. ​Transworld Import Company and USA Export, Inc., form a business organization to engage in importing and exporting. Its property is held in the names of the members and its shareholders have personal liability. This organization is   |  |  |  | | --- | --- | --- | |  | a. | a business trust. | |  | b. | ​a joint stock company. | |  | c. | ​a joint venture. | |  | d. | a syndicate. | |

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| 64. ​Lauren, Marcella, and Norell form a syndicate to buy a professional soccer franchise. This syndicate could be set up as   |  |  |  | | --- | --- | --- | |  | a. | a joint venture. | |  | b. | ​a corporation. | |  | c. | a sole proprietorship. | |  | d. | a limited liability company. | |

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| 65. As the beneficiary of a business trust, Kevin’s liability for trust debts and obligations is   |  |  |  | | --- | --- | --- | |  | a. | ​limited to his capital investment in the trust. | |  | b. | ​limited to his personal assets. | |  | c. | ​nothing. | |  | d. | ​unlimited. | |

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| 66. Dreem Land Corporation and Earthbound Investments Company transfer their property to Financial Managers, Inc., which manages the property and distributes the profits to Dreem and Earthbound. This form of a business organization is   |  |  |  | | --- | --- | --- | |  | a. | ​a business trust. | |  | b. | a joint stock company. | |  | c. | ​a joint venture. | |  | d. | a syndicate. | |

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| 67. Gabriella is a beneficiary of a business trust. As a beneficiary, she is required to   |  |  |  | | --- | --- | --- | |  | a. | ​adistribute the trust’s profits. | |  | b. | assume responsibility for the trust’s debts. | |  | c. | ​draft a written trust agreement. | |  | d. | none of the choices. | |

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| 68. As the trustee of a business trust, Bertoldi is required to   |  |  |  | | --- | --- | --- | |  | a. | distribute the trust’s profits. | |  | b. | assume responsibility for the trust’s debts. | |  | c. | ​draft a written trust agreement. | |  | d. | none of the choices. | |

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| 69. Kalin, Liza, and other consumers form MuniMart Cooperative. This form of business organization makes it possible for these individuals to​   |  |  |  | | --- | --- | --- | |  | a. | avoid personal liability for the acts of the cooperative. | |  | b. | obtain an exemption from state laws governing corporations. | |  | c. | pay no taxes on their business income. | |  | d. | pool their resources to gain an advantage in the marketplace. | |

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| 70. Medical Professionals Supply Source is an unincorporated cooperative. Unincorporated cooperatives are often treated like   |  |  |  | | --- | --- | --- | |  | a. | business trusts. | |  | b. | corporations. | |  | c. | joint stock companies. | |  | d. | partnerships. | |

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| 71. Commerce & Trade Corporation and Distance Shipping & Transport, Inc., form a business trust. eCharge Auto Company and Fleet Electric Corporation form a joint stock company. Green AgriCorp and Harvest Farms, Inc., form an in-corporated cooperative. What features do these combinations of business organization have in common?​ |

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| 72. Business Media, a partnership, publishes periodicals, including *Cycle Review*. DangerZoners, also a partnership, pub-lishes *Extreem Sportz*. Business Media and DangerZoners agree to pool their resources in a one-time deal to print and market a book, *Future Runs*. In contracting with Geo Cache, Inc., for supplies to print the book, Business Media commits fraud. In contracting with Host Articles Agency for materials to use in *Extreem Sportz*, DangerZoners commits fraud. Geo Cache and Host Articles file suits against Business Media and DangerZoners. What type of business organization has Business Media and DangerZoners formed? To whom, if anyone, is Business Media liable? To whom, if anyone, is DangerZoners liable? |

**Answer Key**

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| 1. False |

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| 2. False |

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| 3. False |

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| 4. True |

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| 35. False |

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| 38. c |

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| 39. c |

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| 40. b |

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| 41. b |

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| 42. b |

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| 44. b |

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| 45. a |

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| 46. a |

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| 47. a |

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| 48. c |

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| 49. b |

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| 50. a |

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| 51. c |

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| 52. c |

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| 53. d |

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| 56. c |

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| 60. a |

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| 70. d |

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| 71. There are differences among these forms of business organiza-tions, but all of them resemble corporations. For example, the joint stock company features ownership by shares of stock, management by directors and officers, and perpetual existence. Similar to a corporation, a business trust distributes profits to persons who are not personally responsible for the debts of the firm, and the management of the business is accomplished by trustees (a corporation is managed by its directors and officers). An incorporated cooperative, which is subject to state laws covering non-profit corporations, distributes profits to its owners.  ​ |

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| 72. Business Media, a partnership, publishes periodicals, including *Cycle Review*. DangerZoners, also a partnership, publishes *Extreem Sportz*. Business Media and DangerZoners agree to pool their resources in a one-time deal to print and market a book, *Future Runs*. In contracting with Geo Cache, Inc., for supplies to print the book, Business Media commits fraud. In contracting with Host Articles Agency for materials to use in *Extreem Sportz*, DangerZoners commits fraud. Geo Cache and Host Articles file suits against Business Media and DangerZoners. What type of business organization has Business Media and DangerZoners formed? To whom, if anyone, is Business Media liable? To whom, if anyone, is DangerZoners liable?  ​ |