

Chapter 4

Business in the Free Enterprise

Answer Key

Part 1: Content Review

Matching

1. C
2. J
3. E
4. I
5. D
6. G
7. A
8. F
9. B
10. H

Multiple Choice

1. C
2. B
3. C
4. C
5. B
6. C
7. A
8. A
9. D
10. B

Completion

1. owners
2. public
3. client
4. consumer
5. distributors
6. proprietorship
7. limited
8. corporation
9. board of directors
10. limited liability company (LLC)

Part 2: Concept Review

Open Response

1. Intermediaries purchase goods from producers and sell them to customers. Wholesalers and retailers are the most common intermediaries. They make sure goods and services are in the right place at the right time to meet consumer needs and wants.
2. Student answers may vary, but should include date of agreement, names of partners, name and location of business, nature of the business activity, duties and investments of each partner, division of profit and losses, and the plan for dissolving the partnership.
3. An S corporation provides limited liability to its owners, but is taxed as a partnership. The business does not pay corporate income tax on profits. Owners report their share of business profits on their personal income tax returns. This provides small business owners with the protection of limited liability without the double taxation of a corporation. However, S corporations are restricted to no more than 100 shareholders. And all shareholders must be US citizens or residents. Being a corporation also requires that governmental regulations and standard practices be followed, which can be costly for small businesses.
4. Unlimited liability means the business owner is held personally responsible for all debts and losses of the business. If a business fails, a sole proprietor could lose personal property, savings, investments, and other personal items of value.
5. Student responses may vary. Consider the following: A proprietorship is not a good choice because she would be personally liable for business debts and would risk her personal wealth. A partnership is not a good choice because she likes to make important decisions herself. She would also be personally liable for business debts. A corporation is not a good choice because the cost of formation is high and she does not need to raise large sums of capital. An LLC is a good choice because she would have limited liability and can protect her personal wealth. She can make important decisions by herself and the cost of formation is low.

Part 3: Math Skills

Word Problems

1. Sales – Total Expenses = Profit or Loss
 $\$838,515 - \$719,311 = \$119,204$
2. Sales – Total Expenses = Profit or Loss
 $\$1,325,875 - \$1,269,288 = \$56,587$
 Central Products earned more.
3. Total Purchase Price = Price + Delivery Charge + Installation Charge + Removal Charge
 Ark Plumbing Total Price = $\$449 + \$50 + \$100 + \$25 = \$624$
 Jensen Warehouse Total Price = $\$599 + 0 + 0 + 0 = \599
 Total purchase price at Jensen Warehouse is lower.
4. Total Purchase Price = Price + Delivery Charge
 Total Price Ark Plumbing = $\$449 + 50 = \499
 Total Cost Jensen Warehouse = $\$599 + 0 = \599
 Total purchase price at Ark is lower.

5. (a.) Total Sales – Sales to Retailers = Sales to Public
 $\$800,000 - \$600,000 = \$200,000$
(b.) Sales to Public \div Total Sales = Percent Sales to Public
 $\$200,000 \div \$800,000 = .25 \rightarrow 25\%$

Part 4: Communication Skills

Reading Questions

1. Student answers may vary, but should address the fact that companies benefit from having a diverse workforce.
2. A diverse workforce benefits employees because people are the happiest and most productive when they can be themselves. In a workplace that appreciates differences, people are valued as individuals and are not defined by stereotypes about their groups; employees are encouraged to discuss issues and resolve conflicts; employees acquire new skills through coaching, education, and shared knowledge among coworkers; and employees' needs and input are valued in developing job structures, work processes, conditions, and benefits.
3. The third paragraph.
4. The success of the Company is dependent upon the contributions of all its workers.