

Identify the Advantages and Disadvantages of Corporations

Unit. Entrepreneur Skills and Business Concepts

Problem Area. Identify Various Types of Business Ownerships

Lesson. Identify the Advantages and Disadvantages of Corporations

■ **Student Learning Objectives.** Instruction in this lesson should result in students achieving the following objectives:

- 1 Define a corporation.**
- 2 Identify the advantages and disadvantages of a corporation.**
- 3 Examine the similarities and differences between a sole proprietorship, a partnership, and a corporation.**
- 4 Recognize different types of corporations.**

■ **List of Resources.** The following resources may be useful in teaching this lesson:

Allen, Kathleen R., and Earl C. Meyer. *Entrepreneurship & Small Business Management*. McGraw-Hill, 2006.

Brown, Betty J., and John E. Clow. *Introduction to Business*. McGraw-Hill, 2006.

Greene, Cynthia L. *Entrepreneurship: Ideas in Action 3E*. South-Western, 2006.



■ List of Equipment, Tools, Supplies, and Facilities

- ✓ Overhead or PowerPoint projector
- ✓ Visual(s) from accompanying master(s)
- ✓ Copies of sample test, lab sheet(s), and/or other items designed for duplication
- ✓ Materials listed on duplicated items
- ✓ Computers with Internet access
- ✓ Classroom resource and reference materials

■ Terms. The following terms are presented in this lesson (shown in bold italics):

- ▶ corporate charter
- ▶ corporation
- ▶ limited liability
- ▶ shares of stock
- ▶ stockholders

■ Interest Approach. Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. Two possible approaches are included here.

Approach One: Ask students to pretend that a friend has asked for advice about the most appropriate form of business ownership for a sporting goods store. What advice would you give this friend? After students have had a few minutes to answer, ask what they know about a corporation as a form of business ownership. After students have had time to respond, ask them what they think the advantages and disadvantages are of a corporation. After students have had a few minutes to answer, tell them that by the end of today's lesson, they will learn what a corporation is in addition to the advantages and disadvantages of a corporation. Tell students that the advice they gave their friend may change by the end of today's lesson.

Approach Two: Suppose your sporting goods store has grown and you want to add more brands of tennis shoes and buy new equipment. You need more capital but you don't want to borrow more money. What can you do? After students have had time to answer, tell them that one consideration is to form a corporation.

SUMMARY OF CONTENT AND TEACHING STRATEGIES

Objective 1: Define a corporation.

Anticipated Problem: What is a corporation?

- I. Corporation—A **corporation** is a business that is registered by a state and that operates apart from its owners.
 - A. Corporate charter—To form a corporation, a corporate charter is needed from the state in which the headquarters is located. A **corporate charter** is a license to run a corporation.
 - B. Stock—Ownership or equity in a corporation is represented by **shares of stock** (units of ownership). Therefore, to raise money, stocks or shares of ownership in the corporation can be sold. The new **stockholders** (owners of stock) pay a set price for each share. For each share of common stock, the stockholder receives a share of the profits and a vote on how the business is run.
 - C. Board of directors—A board of directors controls the corporation. It does not run the day-to-day business operations of the company, but it does hire officers to do it.
 - D. Business—A corporation can purchase goods, sue and be sued, and conduct any type of business transaction.

Many techniques can be used to help students master this objective. As an example, assign Chapter 6 in Introduction to Business. Use VM–A to illustrate corporations.

Objective 2: Identify the advantages and disadvantages of a corporation.

Anticipated Problem: What are the advantages and disadvantages of a corporation?

- II. Corporations
 - A. Advantages
 1. Status is an advantage. An officially incorporated business has a more professional appearance, holds regular meetings, and appoints officers to help the business run smoothly. This can help a business obtain a loan.
 2. Corporate shareholders have **limited liability**—a situation in which the shareholders cannot lose more than their invested assets. If the corporation goes out of business, their personal property or savings cannot be taken away.
 3. A corporation can raise investment money by selling stocks.

4. A corporation has a continuous life (perpetual existence) regardless of changes in ownership.
 5. A corporation is structured to accommodate employee benefits. It can offer pension plans, retirement options, and profit-sharing plans.
- B. Disadvantages
1. A corporation is expensive to set up, usually between \$500 and \$2,500.
 2. Corporate income is heavily taxed because it is subject to double taxation on its earnings. The corporation pays taxes on its earnings, and the stockholders pay taxes on dividends they receive.
 3. The government closely regulates corporations.

Many techniques can be used to help students master this objective. Use VM–B to illustrate corporations.

Objective 3: Examine the similarities and differences between a sole proprietorship, a partnership, and a corporation.

Anticipated Problem: What are the similarities and differences between a sole proprietorship, a partnership, and a corporation?

- III. Similarities and differences between a sole proprietorship, a partnership, and a corporation
- A. Starting up—A sole proprietorship and a partnership are easy to start; a corporation is not easy to start.
 - B. Decisions—Decisions are made by one person in a sole proprietorship; decisions are made by more than one person in a partnership and in a corporation.
 - C. Initial cost—There is a low initial cost with the sole proprietorship and the partnership but not with the corporation.
 - D. Liability—There is limited liability with corporations but not with the sole proprietorship and the partnership.
 - E. Regulation—There is limited government regulation with the sole proprietorship and the partnership but not with the corporation.
 - F. Capital—There is the ability to raise capital with the corporation by selling stocks, which is not a possibility with the sole proprietorship or the partnership.
 - G. Taxation—There is double taxation of profits with the corporation but not with the sole proprietorship or the partnership.

Many techniques can be used to help students master this objective. As an example, students could use Chapter 6 in Introduction to Business or the Entrepreneurship & Small Business Management textbooks. Use VM–C to illustrate corporations.

Objective 4: Recognize different types of corporations.

Anticipated Problem: What are the different types of corporations?

IV. Different types of corporations

- A. A C-corporation is the most common corporate form. It can protect the entrepreneur from being sued for the actions and debts of the corporation.
- B. A subchapter-S corporation is a corporation taxed like a partnership. The profits are taxed only once at the shareholder's personal tax rate. A subchapter-S corporation can have no more than 75 stockholders, and they must be U.S. citizens.
- C. A nonprofit corporation makes money for reasons other than the owners' profit. nonprofit business can make a profit; however, the profits must remain within the company and must not be distributed to shareholders.

Assign your students to three groups. Have them research C-corporations, subchapter-S corporations, and nonprofit corporations.

- **Review/Summary.** Use the student learning objectives to summarize the lesson. Have students explain the content associated with each objective. Student responses can be used in determining which objectives need to be reviewed or taught from a different angle. Questions at the ends of chapters in the textbook may also be used in the review/summary.
- **Application.** Application can involve one or more of the following student activities.
 - ◆ Have students design a database to include the name, address, phone number, and type of corporation for 10 different corporations. Students can use local corporations or corporations located on the Internet.
- **Evaluation.** Evaluation should focus on student achievement of the objectives for the lesson. Various techniques can be used, such as student performance on the application activities.

■ **Answers to Sample Test:**

Part One: True/False

- 1. F
- 2. T
- 3. F
- 4. F
- 5. F

- 6. T
- 7. T

Part Two: Matching

	Sole Proprietorship	Partnership	Corporation
Simple to start	X	X	
Decisions made by one person	X		
Low initial cost	X	X	
Limited liability			X
Limited government regulation	X	X	
Raise capital by selling stocks			X
Double taxation of profits			X
Profits go to owner(s)	X	X	

Part Three: Short Answer

- ◆ Status. An officially incorporated business has a more professional appearance, holds regular meetings, and appoints officers to help the business run smoothly. This can help a business obtain a loan.
- ◆ Corporate shareholders have limited liability, which is limited to the amount of their individual investments. If the corporation goes out of business, you cannot have your personal property or savings taken away from you.
- ◆ Corporations have the ability to raise money by selling stocks.
- ◆ Corporations have a continuous life (perpetual existence) regardless of changes in ownership.
- ◆ Corporations are structured to accommodate employee benefits. They can offer pension plans, retirement options, and profit-sharing plans.

Identify the Advantages and Disadvantages of Corporations

► **Part One: True/False**

Instructions: Write *T* for true or *F* for false.

- _____ 1. A stockholder is a license to run a business.
- _____ 2. A share of stock is a unit of ownership.
- _____ 3. The board of directors run the day-to-day operations of the corporation.
- _____ 4. Corporations cannot be sued.
- _____ 5. If the corporation goes bankrupt, the owner must also declare bankruptcy.
- _____ 6. Nonprofit corporations can make a profit.
- _____ 7. C-corporation is the most common corporation.

► **Part Two: Matching**

Instructions: Place an X in the box next to the item(s) pertaining to a corporation.

	Corporation
Simple to start	<input type="checkbox"/>
Decisions made by one person	<input type="checkbox"/>
Low initial cost	<input type="checkbox"/>
Limited liability	<input type="checkbox"/>
Limited government regulation	<input type="checkbox"/>
Raise capital by selling stocks	<input type="checkbox"/>
Double taxation of profits	<input type="checkbox"/>
Profits go to owner	<input type="checkbox"/>



► **Part Three: Short Answer**

Instructions: Answer the following.

List three advantages of a corporation.

(Adapted from Washington Community High School, District 308, Speaking and Listening In-House Assessment.)

WHAT IS A CORPORATION?

- ◆ A corporation is a business that is registered by a state and operates apart from its owners.



CHARACTERISTICS OF A CORPORATION

- ◆ To form a corporation, you need to have a corporate charter from the state in which your headquarters is located.
- ◆ Ownership or equity in a corporation is represented by shares of stock (unit of ownership).
- ◆ A corporation has a board of directors that controls the corporation.
- ◆ Corporations can purchase goods, sue and be sued, and conduct any type of business transaction.



ADVANTAGES OF A CORPORATION

- ◆ Status
- ◆ Limited liability
- ◆ Ability to raise investment money
- ◆ Perpetual existence
- ◆ Employee benefits



DISADVANTAGES OF A CORPORATION

- ◆ Expensive to set up
- ◆ Income is heavily taxed
- ◆ Closely regulated by government



TYPES OF CORPORATIONS

- ◆ C-corporation
- ◆ Subchapter-S
- ◆ Nonprofit



Profile Worksheet

Purpose

The purpose of this lab sheet is to generate questions students can ask during an interview with a local business owner operating a business as a corporation. Students can work individually or in groups of two, three, or four.

Objective

1. Identify the characteristics and skills important to the success of a corporation.

Materials

- ◆ lab sheet
- ◆ writing utensil or computer

Procedure

In groups, have students brainstorm interview questions for a business owner operating a business as a corporation. Groups will then share their 10 questions with the class. Students will then type 10 questions to ask at the interview.

Profile Worksheet

Name of Business Owner: _____

Name of Business: _____

Type of Business: _____

Question 1	
Question 2	
Question 3	
Question 4	
Question 5	
Question 6	
Question 7	
Question 8	
Question 9	
Question 10	

