

Chapter 10
(Pages 350-353, and 362)
Sole/Soul Proprietorships
True or False

1. A sole proprietorship has only one individual as owner.
2. A sole pro has no identity separate from that of its owner.
3. The owner has limited liability for the business operations of the sole pro.
4. The number of sole pro's in which an individual may be involved is not limited.
5. A C Corporation may own a sole pro.
6. If a sole proprietor transfers assets that she used personally to a sole pro, their basis is the lesser of their adjusted basis as personal use assets or FMV at the date of conversion.
7. Once the sole pro is established as a business, all ordinary, reasonable and necessary expenses will be deductions from AGI.
8. A sole proprietor may receive wages from the business.
9. A sole proprietor may employ her husband in the business, pay him a wage, and deduct the cost of fringe benefits paid to him.
10. A sole pro can use the accrual method if the business keeps separate accounting records, that is records separate from that of the individual owner.
11. A sole pro must keep an inventory account if inventory is a material income-producing factor.
12. A sole pro may not use the \$102,000 expense election.
13. A sole pro may not use bonus depreciation.
14. If a sole pro reports losses over several years, the IRS may assets that the business is actually a hobby.
15. If the sole pro sells property, the result of this transaction is included in operating income of the sole pro.
16. A sole proprietor pays self-employment taxes along with income taxes and may be required to adjust their estimated tax payments or withholding on other salary to cover this tax.

17. If a sole pro pays for their own medical insurance, they may take a deduction FOR on the 1040.
18. If a sole pro pays self-employment taxes, they may take a deduction FOR on the 1040.
19. If a sole pro makes a contribution to a retirement plan for themselves, they may take a deduction FOR on the 1040.
20. A sole pro may not employ their own child in their business.