**Case Solutions**

***Fundamentals of Corporate Finance***

**Ross, Westerfield, and Jordan**

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***CHAPTER 1***

**THE McGEE CAKE COMPANY**

**1.** The advantages to an LLC are: (*a*) Reduction of personal liability. A sole proprietor has unlimited liability, which can include the potential loss of all personal assets. (*b*) Taxes. Forming an LLC may mean that more expenses can be considered business expenses and be deducted from the company’s income. (*c*) Improved credibility. The business may have increased credibility in the business world compared to a sole proprietorship. (*d*) Ability to attract investment. Corporations, even LLCs, can raise capital through the sale of equity. (*e*) Continuous life. Sole proprietorships have a limited life, while corporations have a potentially perpetual life. (*f*) Transfer of ownership. It is easier to transfer ownership in a corporation through the sale of stock.

The biggest disadvantage is the potential cost, although the cost of forming an LLC can be relatively small. There are also other potential costs, including more expansive record-keeping.

**2.** Forming a corporation has the same advantages as forming an LLC, but the costs are likely to be higher.

**3.** As a small company, changing to a LLC is probably the most advantageous decision at the current time. If the company grows, and Doc and Lyn are willing to sell more equity ownership, the company can reorganize as a corporation at a later date. Additionally, forming an LLC is likely to be less expensive than forming a corporation.