

CLASS 1

AGENCY LAW. LEGAL FORMS. SOLE PROPRIETORSHIP.

1. Agency Law and its Relation to Business Organizations
 - 1.1. Dennis v. Pace Suburban Bus Service
2. Common Legal Forms in the United States
 - 2.1. Sole Proprietorship
 - 2.1.1. Definition. Governing Law. Management.
 - 2.1.2. Liability Exposure
 - 2.1.3. Taxation
 - 2.1.4. Legal Name

1. AGENCY LAW

Answer the prefatory questions below:

1. What is agency law at its core?
2. What legal relationships does it govern?
3. What are practical applications of the agency law?
4. How does agency law relate to business organizations?

Examples of Agency

Watch the video to fill in the gaps in the definition below:

https://www.youtube.com/watch?v=rXYjMzl_XtM

Agency law is a legal framework that governs relationships where one party, known as the _____, acts on behalf of another, the _____. It delineates the rights, duties, and responsibilities of both parties, ensuring that the agent operates within the defined scope of _____ granted by the principal. Essential elements include mutual _____, the principal's _____ over the agent's actions, and the agent's _____ to act in the principal's best interest. Agency law is pervasive in various spheres, from business transactions to legal representation, shaping how individuals and entities collaborate under established legal principles.

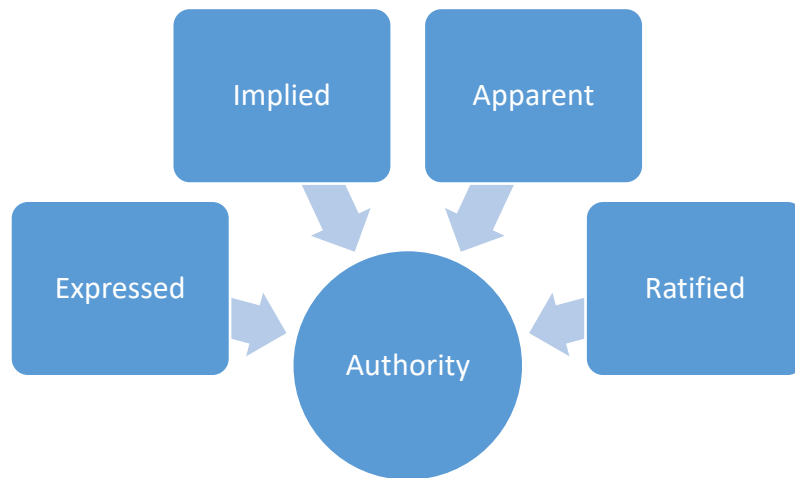
Glossary box

Agency law	Агентське право
Agent	Повірений
Principal	Довіритель
Authority	Повноваження
Fiduciary duty	Фідуціарний обов'язок
Good faith	Обов'язок добросовісного ставлення
Duty of Loyalty	Обов'язок лояльності
Duty of Care	Обов'язок дбайливого ставлення

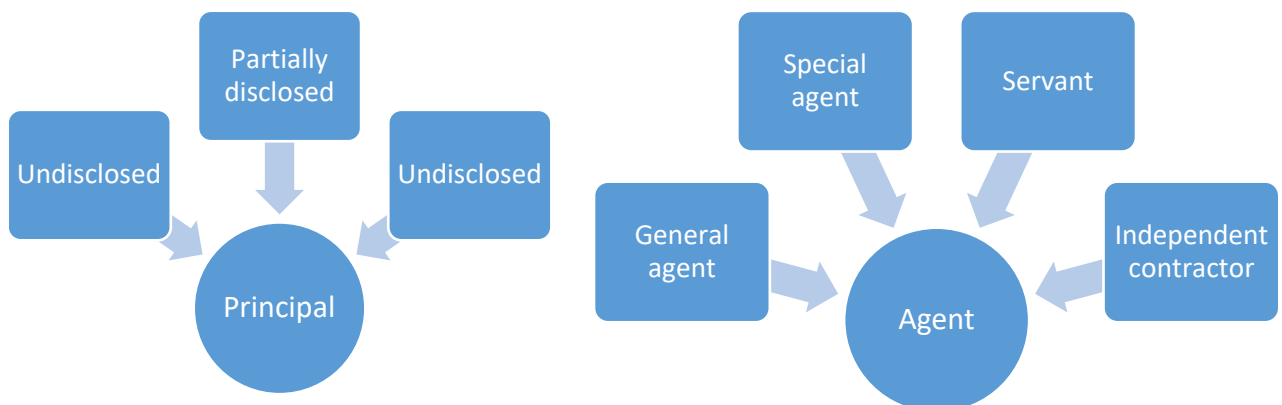
Agency law is intricately related to business organization because it governs the relationships where one person (the agent) acts on behalf of another (the principal) in business transactions. This relationship is fundamental to the functioning of most business organizations, such as partnerships, corporations, and sole proprietorships. Here's how they are related:

Formation of Business Entities	<ul style="list-style-type: none">• Agency law determines the rights and duties of partners, who act as agents of the partnership, and directors, officers, and employees, who act as agents of the corporation, representing its interests in various dealings.
Authority of Agents	<ul style="list-style-type: none">• Business organizations often rely on agents to enter contracts, manage operations, and make decisions.
Liability in Business Transactions	<ul style="list-style-type: none">• Agency law clarifies when a business organization is liable for the actions of its agents.
Fiduciary Duties	<ul style="list-style-type: none">• Agents, including partners and corporate officers, owe fiduciary duties (e.g., loyalty, care, and good faith) to the principal or business.
Employment and Management	<ul style="list-style-type: none">• In businesses, employees (agents) often act under the direction of owners or managers (principals).
Negotiations and Transactions	<ul style="list-style-type: none">• Agency law facilitates efficient operations by enabling business organizations to delegate tasks, negotiate deals, and enter contracts through representatives.
Dispute Resolution	<ul style="list-style-type: none">• Disputes often arise regarding the scope of an agent's authority or breaches of fiduciary duty.

Familiarize with types agency authority below:



Familiarize with types and principals and agents below:



1.1. DENNIS VS BUS SUBURBAN SERVICE

Read the case summary below:

CASE SUMMARY

The plaintiff alleged that a bus driver, an employee of Pace Suburban Bus Service, committed intentional torts, including **battery (sexual assault)**, while the plaintiff was on the bus.

The court addressed whether the employer (Pace Suburban Bus Service) could be held liable for the employee's actions under the principles of agency law, particularly the doctrine of **respondeat superior**.

The case also examined whether the plaintiff had a valid claim for **false imprisonment** and whether the employer was liable for **negligent supervision**.

NB

The doctrine of respondeat superior holds employers liable for the actions of their employees if those actions are within the scope of employment.

Key holdings:**Battery**

- The court found that the allegations of the employee's actions were sufficient to state a cause of action. The employer could be held liable for the employee's intentional torts if they were connected to the scope of employment or proximately caused the plaintiff's injuries.

False imprisonment

- The court ruled that the allegations supported a claim for false imprisonment under respondeat superior, as the plaintiff was unable to leave the bus due to the employee's actions.

Negligent supervision

- The court dismissed the negligent supervision claim, suggesting that the plaintiff did not provide sufficient evidence of the employer's failure to supervise the employee.

Outcome:

The judgment was affirmed in part and reversed in part. While some claims were allowed to proceed, others (like negligent supervision) were dismissed.

Answer the questions below:

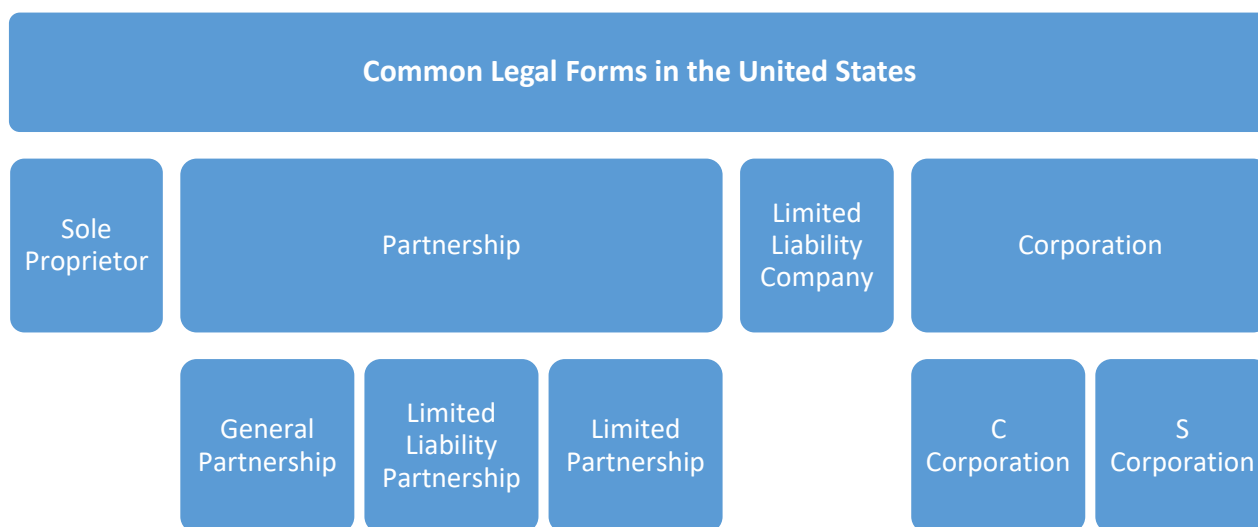
1. Under what conditions can an employer (like *Pace Suburban Bus Service*) be held vicariously liable for the actions of its employees?
2. Was the driver acting within the scope of employment at the time of the accident?
3. How does the court determine whether the driver was acting within the scope of their employment during the accident?
4. What role does agency law play in assigning liability to Pace Suburban Bus Service?
5. How does the doctrine of *respondeat superior* apply in this case?
6. If the driver had acted outside the scope of employment, would the company still be liable?

2. COMMON LEGAL FORMS IN THE UNITED STATES

Suggest synonyms below:



Familiarize with common legal forms in the United States:



1.1. SOLE PROPRIETORSHIP

Mind analogies below:



Translate the following words into English:

Відповідальність	
Власник (бізнесу)	
Делікт	
Закон	
Іпотека	
Майно	
Податок на прибуток	

Fundamental Characteristics of Legal Forms

Definition	Governing Law	Management	Liability Exposure	Taxation	Legal Name
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1.1.1. DEFINITION. GOVERNING LAW. MANAGEMENT

Fill in the blank spaces below and suggest synonyms to the words in bold:

distinction

authority

definition

assets

formalities

default

body

statute

A sole proprietorship (also called a “proprietorship”) is a business owned by a single person (a sole proprietor) who **has not filed** the paperwork **to operate** the business in some other legal form. In other words, a single-owner business is a sole proprietorship by _____, but the owner can **opt in to** some other form by filing paperwork, typically with a secretary of state office.

The defining feature of a sole proprietorship is that there is no legal _____ between the owner and the business. This means that all the _____ of the business are owned by the individual in the same way that the individual owns his or her **non-business** assets.

By _____, a sole proprietorship has a single owner with **complete** management authority. Thus, there is no need to provide rules governing the rights and duties of owners and managers. Hence, there is no separate _____ of sole proprietorship law.

As sole owner, a sole proprietor **is entitled** to make all business decisions. Thus, there are no _____ (meetings, votes, etc.) involved. Whatever the sole proprietor says goes. A sole proprietorship can have employees and can **delegate** decision-making _____ to them if the sole proprietor so chooses.

Answer the questions below:

1. What is the defining feature of a sole proprietorship?
2. Who owns all business assets?
3. Are business assets of the sole proprietor protected?
4. Are personal assets of the sole proprietor vulnerable?
5. Who is entitled to make all business decisions?
6. Can a sole proprietorship have employees?
7. Who is vested with management authority?
8. What formalities are involved to exercise decision-making authority?

1.1.2. LIABILITY EXPOSURE

Fill in prepositions below:

Because the business and the sole proprietor are one and the same, a sole proprietor is personally liable ___ the obligations ___ the business ___ the same way and ___ the same extent that the sole proprietor is liable ___ his or her personal obligations (home mortgage loan, car loan, boat loan, tort judgment). For example, if Smith's plumbing business defaults ___ its office rental lease, the landlord can seek recovery ___ Smith's business assets (plumbing equipment) and non-business assets (house, car, boat, etc.). Smith will also be personally ___ the hook ___ any torts arising ___ the business. For example, if a Smith employee negligently performs a plumbing job and as a result a client's home suffers water damage, the client can sue Smith personally.

1.1.3. TAXATION

Translate and explain the following terms mean:

Gross income	
Net income	
Net loss	
Income tax	
Income tax return	

Fill in the above terms in the definitions below:

- _____ is the amount by which a company's total costs are more than its total sales during a particular period:
- _____ is a form filed with a tax authority on which a taxpayer states their income, expenses, and other tax information.
- _____ is what a business or individual makes after taxes, deductions, and other expenses are taken out.
- _____ is a tax imposed on individuals or entities (taxpayers) in respect of the income or profits earned by them (commonly called taxable income).
- _____ is the total earnings an individual or business before taxes and other deductions are subtracted.

Translate the words in brackets into English and insert them below:

A sole proprietor is entitled to any _____ (дохід) generated by the business and bears any losses. A sole proprietor reports _____ (чистий дохід) or _____ (чистий збиток) from the business on his or her personal federal _____ (податкова декларація). The business does not file a federal _____ (податкова декларація) nor does it pay federal _____ (податок на дохід).

1.1.4. LEGAL NAME

Read the paragraph below to answer the following questions:

1. Why is using individual's name as a sole proprietor's legal name is not preferable?
2. How is operating a business under a name that differs from its legal name is referred to?
3. Why is it common for a sole proprietorship to include a "DBA" designation in the signature line of a document?

Because the business and the sole proprietor are one and the same, the official legal name of a sole proprietorship is the sole proprietor's legal name. For example, the official legal name of Smith's plumbing business is "Robert B. Smith."

Using an individual's name usually is not preferable from a marketing perspective. Thus, most sole proprietorships will use a catchier name. For example, Smith may want to call his business AAA Plumbing so that it is listed first in the yellow pages. Operating a business under a name that differs from the business's legal name is referred to as using a "DBA" (stands for "doing business as"), assumed name, or fictitious name (depending on the state).

The legal name of AAA Plumbing remains Robert B. Smith, and that is the name Smith would use on legal documents relating to the business (e.g., contracts and checks). However, to avoid confusion, it is common for a sole proprietorship to include a "DBA" designation in the signature line of a document. For example, the signature line of the office lease for Smith's plumbing business would read "Robert B. Smith, DBA AAA Plumbing."

Fill in correct prepositions below:

- To opt ___ to something
- To default ___ something
- To file something ___ something/somebody
- To be liable ___ something ___ somebody
- To be entitled ___ something
- To be ___ the hook ___ something
- To arise out ___ something

Make up sentences of your own with the phrases above:

Ex. Sole proprietor files paperwork with a secretary of state.

- _____
- _____
- _____
- _____
- _____
- _____

Watch the first part of the video and describe advantages/disadvantages of the sole proprietorship: (<https://www.youtube.com/watch?v=IV2ihjRVzMg>):

Type of Business	Advantages	Disadvantages
Sole proprietor		

REVIEW POINTS

Answer the questions below:

1. What is a sole proprietorship?
2. What is the defining feature of a sole proprietorship?
3. Who owns all business assets in a sole proprietorship?
4. Are business assets of the sole proprietor protected?
5. Are personal assets of the sole proprietor vulnerable?
6. Is there a separate body of sole proprietorship law?
7. How is a sole proprietorship managed?
8. Who is entitled to make all business decisions?
9. What formalities are involved to exercise decision-making authority?
10. Can a sole proprietor have employees?
11. Who does a sole proprietor file paperwork with?
12. What is 'DBA'?
13. Why is using individual's name as a sole proprietor's legal name is not preferable?
14. How is operating a business under a name that differs from its legal name is referred to?

VOCABULARY

Агентське право	Agency law
Валовий дохід	Gross income
Відповідальність	Liability
Власник (бізнесу)	Business owner
Делікт	Tort
Довіритель	Principal
Іпотека	Mortgage
Майно	Assets
Обов'язок добросовісного ставлення	Good faith
Обов'язок лояльності	Duty of loyalty
Обов'язок дбайливого ставлення	Duty of care
Організаційно-правова форма	Legal form / business structure / company type
Повірений	Agent
Повноваження	Authority
Податок на прибуток	Income tax
Податкова декларація	Income tax return
Самозайнята особа	Sole proprietor(ship)
Фідуціарний обов'язок	Fiduciary duty
Чистий дохід	Net income
Чистий збиток	Net loss

<https://quizlet.com/ua/990282330/business-organization-1-flash-cards/?i=49a4dl&x=1qqt>

QUIZ

AGENCY LAW. LEGAL FORMS. SOLE PROPRIETOR.

1. **What is an agency relationship?**
 - a) A legal relationship between two corporations
 - b) A fiduciary relationship where one party acts on behalf of another
 - c) A contractual relationship between a buyer and seller
 - d) A partnership agreement between two businesses
2. **Who is the "principal" in an agency relationship?**
 - a) The person or entity who acts on behalf of another
 - b) The person or entity who authorizes another to act on their behalf
 - c) A third party involved in the transaction
 - d) An independent contractor hired by the agent
3. **Which of the following is NOT a duty of an agent to the principal?**
 - a) Duty of loyalty
 - b) Duty of obedience
 - c) Duty of reasonable care
 - d) Duty to provide financial assistance
4. **What type of authority arises when a principal's actions lead a third party to believe the agent has authority to act?**
 - a) Express authority
 - b) Implied authority
 - c) Apparent authority
 - d) Unauthorized authority
5. **What is the consequence if an agent acts outside the scope of their authority?**
 - a) The principal is always bound by the agent's actions
 - b) The agent may be personally liable for their actions
 - c) The third party must enforce the contract with the principal
 - d) The relationship between the agent and principal is automatically terminated
6. **What is a sole proprietorship?**
 - a) A business owned by multiple partners
 - b) A business owned and operated by one individual
 - c) A government-owned business
 - d) A nonprofit organization

7. **Which of the following is true about a sole proprietorship?**
- a) It requires filing articles of incorporation
 - b) It is taxed separately from the owner
 - c) The owner is personally liable for business debts
 - d) It must have a board of directors
8. **What is the main tax form used by sole proprietors?**
- a) Form 1120
 - b) Form 1040 Schedule C
 - c) Form 1065
 - d) Form 940
9. **What is one advantage of a sole proprietorship?**
- a) Limited liability
 - b) Ease of formation
 - c) Unlimited life of the business
 - d) Complex regulations
10. **How is income from a sole proprietorship taxed?**
- a) As corporate income
 - b) As partnership income
 - c) As personal income of the owner
 - d) It is not taxed
11. **Which of the following is a potential disadvantage of a sole proprietorship?**
- a) High cost of formation
 - b) Double taxation
 - c) Unlimited personal liability
 - d) Requirement for annual shareholder meetings
12. **Does a sole proprietor need to register with the federal government to start their business?**
- a) Yes, always
 - b) No, unless specific permits or licenses are required
 - c) Only if they have employees
 - d) Yes, if their business earns over \$50,000 annually

13. What happens to a sole proprietorship if the owner dies?

- a) It continues under the management of a board of directors
- b) It dissolves unless transferred to another person
- c) It automatically becomes a corporation
- d) It is inherited by the owner's family and continues as it is

14. Which of the following is a common reason to choose a sole proprietorship?

- a) Access to public funding
- b) Simplicity and control
- c) Limited personal liability
- d) Ability to issue stocks

15. What is a "DBA" in the context of a sole proprietorship?

- a) A tax form
- b) A business insurance policy
- c) A "Doing Business As" name
- d) A type of business loan

RESOURCES

1. <https://www.law.cornell.edu/wex/agency>
2. <https://www.findlaw.com/smallbusiness/business-contracts-forms/what-is-law-of-agency-.html>
3. <https://www.sba.gov/business-guide/launch-your-business/choose-business-structure>
4. <https://www.youtube.com/watch?v=TEmonrDwBHK>
5. <https://www.youtube.com/watch?v=IV2ihjRVzMg>