Entrepreneurship Version 1 1st edition Portolese Test Bank

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Chapter 2
Understanding the Basics of Business

True/False Questions

1. All businesses follow an ownership model.
   True; Easy.

2. Some sole proprietorships have more than one owner, such as a spouse.
   False; Moderate.

3. A business's liabilities are calculated by deducting costs from assets.
   False; Easy.

4. Legal separation is necessary to establish a sole proprietorship's legal obligations.
   False; Easy.

5. A franchisor is the person who owns an individual franchise business.
   False; Moderate.

6. Brand recognition is a measure of how well people recognize a product/service.
   True; Easy.

7. A franchise is the entity that grants licenses to franchisees to operate a business.
   False; Moderate.

8. Situational awareness is the ability to understand how the surrounding environment impacts you in your current situation.
   True; Easy.

9. Entrepreneurs are careless risk takers.
   False; Easy.

10. Independent contractors are employees who work from home rather than working from and business's offices.
    False; Easy.

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Multiple Choice Questions (30+)

1. Which of the following is not one of the four models of business ownership?
   a. Cooperative
   b. Franchisor
   c. Corporation
   d. Partnership
   e. Sole Proprietorship
   b; Moderate

2. Which of these business models have liabilities?
   a. Sole proprietorships
   b. C-Corporations
   c. LLCs
   d. Cooperatives
   e. All of the above
   e; Easy

3. A business that is jointly owned and operated by those using its services is called a what?
   a. Sole proprietorship
   b. Corporation
   c. Cooperative
   d. C-Corporation
   e. Partnership
   c; Moderate

4. A/An _____ is a person or company which grants a license to operate a business.
   a. Franchisor
   b. Brand
   c. Entrepreneur
   d. Corporation
   e. Franchisee
   a; Easy

5. What taxes are you responsible for as a self-employed person?
   a. Federal Income Tax
   b. Social Security
   c. Medicare
   d. Earned Income Tax
   e. Self-Employment Tax
   d; Moderate

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6. Which of the following are potentially tax deductible as a self-employed person?
   a. Insurance
   b. Inventory Costs
   c. Office Expenses
   d. Residential Rent/Mortgage
   e. Car Usage
   d; Moderate

7. Which of the following characteristics does apply to entrepreneurs?
   a. Aim Towards Expansion, Growth, and Scalability
   b. Tend to Have Big Ideas
   c. Focused on Short-Term Goals
   d. Focused on Long-Term Goals
   e. Willingness to Take Big Risks
   c; Moderate

8. Small business owners generally do not have to deal with which of the following?
   a. Developing New and Innovative Products
   b. Advertising/Marketing
   c. Managing Personnel
   d. Accounting
   e. Payroll
   a; Moderate

9. Which of these is not a myth regarding entrepreneurs?
   a. Do Not Have an Established Business Plan
   b. Innovation Inventors
   c. Are Highly Experienced
   d. Deep Researchers
   e. Take Careless Risks
   a; Moderate

10. Purchasing an existing business does not usually carry which of the following risks?
    a. Assuming Potentially Unknown Debts
    b. Assuming Potentially Unknown Liabilities
    c. Not Knowing how Customers will React
    d. Potentially Difficult Business Transition Period
    e. Unknown Products/Services
    e; Moderate

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11. Which of these is the legal agreement governing the relationship between a franchisee and franchisor?
    a. S-Corporation
    b. C-Corporation
    c. Business Arrangement
    d. Franchise
    e. Articles of Incorporation
    d; Easy

12. Tangible goods are _____.
    a. Physical Products
    b. Dual-Operation Services
    c. Autonomous notifications
    d. Legal Regulations
    e. A Type of Business Location
    a; Easy

13. This kind of organization is also called a pass-through entity:
    a. C-Corporation
    b. Cooperative
    c. Sole Proprietorship
    d. Self-Employed Business
    e. S-Corporation
    e; Moderate

14. _____ is a jointly owned business.
    a. S-Corporation
    b. LLC
    c. Cooperative
    d. LLP
    e. C-Corporation
    c; Easy

15. A/An _____is a type of business in which a group of people act as a single legal entity.
    a. Board of Directors
    b. Income Entity
    c. Partnership
    d. Cooperative
    e. Corporation
    e; Moderate

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16. A/An _____is a set of elected officials who act on behalf of the stockholders of a corporation.
    a. House of Representatives
    b. Board of Directors
    c. Cooperative
    d. Board of Entrepreneurs
    e. Regulator
    b; Moderate

17. These are the forms which are used to determine tax liability for individuals, businesses, and corporations:
    a. Liability Ledger
    b. Income Measures
    c. Analysis of Risk
    d. Tax Returns
    e. Leverageable Options
    d; Easy

18. This is a type of business in which two or more individuals own the business:
    a. Partnership
    b. Entrepreneurship
    c. Small Business
    d. S-Corporation
    e. C-Corporation
    a; Easy

19. This is a business model in which a single individual is the business owner:
    a. Cooperative
    b. Sole Proprietorship
    c. Corporation
    d. Partnership
    e. Pass-Through Entity
    b; Easy

20. The is the money earned by a business after all liabilities have been paid:
    a. Business Losses
    b. Business Income
    c. Business Taxes
    d. Business Options
    e. Business Gains
    b; Moderate

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21. These are the legal claims against a business and/or its assets:
    a. Negative Income
    b. Losses
    c. Expenses
    d. Taxes
    e. Liabilities
    e; Moderate

22. LegalZoom can be used to help set up what?
    a. Corporations
    b. Stockholders
    c. Conjunctions
    d. Business Takeaways
    e. Service Businesses
    a; Moderate

23. Combination businesses do what?
    a. Sell Unique Business Solutions
    b. Provide Both Products and Services
    c. Focus on Difficult Problems
    d. Act as a Franchise Agreement
    e. Work to Decrease Risk
    b; Moderate

24. Which of the following is not a typical risk for owning a franchise?
    a. Location Risks
    b. Franchisor Involvement
    c. Franchisor goes out of business
    d. Damage to the Brand
    e. Family Involvement
    e; Moderate

25. This entity provides services to businesses without being directly employed by them:
    a. Sole Proprietor
    b. Independent Contractor
    c. Independent Proprietor
    d. Cooperative Contractor
    e. Corporation
    b; Easy

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26. This business model is frequently referred to as a hybrid corporation:
    a. Sole Proprietorship
    b. Cooperative
    c. S-Corporation
    d. C-Corporation
    e. LLC
    e; Moderate

27. This model allows the business to deduct employees' fringe benefits:
    a. S-Corporation
    b. C-Corporation
    c. LLC
    d. Cooperative
    e. Partnership
    b; Hard

28. Which of the following states does not have a corporate tax on businesses formed there that do business outside of the State?
    a. Delaware
    b. Iowa
    c. Pennsylvania
    d. Alaska
    e. Connecticut
    a; Hard

29. Dairy Farmers of America is an example of what model of business organization?
    a. LLC
    b. Cooperative
    c. S-Corporation
    d. Partnership
    e. C-Corporation
    b; Easy

30. Which of the following is not a typical challenge when starting a Partnership?
    a. Everyone is Entirely Liable for the Other Partners
    b. Deciding how Profits are Shared
    c. Multiple Sources of Startup Capital
    d. Limited Tax Deduction Opportunities
    e. Difficulty in Coming to a Consensus
    c; Hard

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Fill in the Blank

1. A/An _____ is the person or people who purchase a franchise.
   Franchisee/s; Easy.

2. Bad national press can negatively affect a/an _____ due to association with the brand.
   Franchise; Moderate.

3. The _____ is responsible for collecting taxes from individuals, businesses, and corporations on behalf of the federal government.
   IRS (Internal Revenue Service); Easy.

4. Service-producing businesses do not produce _____.
   Tangible Goods; Moderate.

5. _____ rely on the sale of goods.
   Product-Based Businesses; Moderate.

6. A business that provides services, maintains inventory, and sells products is known as a _____.
   Combination Business; Moderate.

7. A _____ is a legal agreement that allows a franchisee to operate a business which represents the franchisor.
   Franchise; Easy.

8. A/An _____ is a person, business, or corporation that provides services while not being directly employed by those receiving said services.
   Independent Contractor; Moderate.

9. _____ means that you understand how all of the moving parts work together and how to benefit from this knowledge.
   Situational Awareness; Moderate.

10. A/An _____ is a jointly owned business that produces goods or provides services.
    Cooperative; Moderate.

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Essay Questions

1. Discuss the pros and cons for two of the models of business ownership.
   Student answers will vary.
   Sole proprietorships offer the built-in advantage of having a single person as a decision-maker, and thus it is easier to reach decisions and there is no diffusion of responsibility because everything comes down to that one person. This is in contrast to cooperatives, where the abundance of owners can make it difficult to reach important decisions; likewise, there is diffusion of responsibility, and it can be difficult to tell who is responsible for each particular operation of the business. However, cooperatives benefit from the breadth of experience that multiple owners would bring to the table. Sole proprietorships can struggle because of their size and may have difficulty achieving economies of scale when it comes to purchases. Sole proprietorships may find themselves in bad bargaining positions with vendors. Cooperatives, on the other hand, due to their potentially larger profile and size, can access markets that smaller businesses would struggle to enter and are then in a better position to negotiate with vendors.
   Hard

2. Discuss one of the myths about entrepreneurs and dispel it.
   Student answers will vary.
   There is a common myth that entrepreneurs are wild and reckless risk takers, willing to leave something stable and secure, in order to dive into the unknown. While there may be some entrepreneurs who do take great risks, this behavior is generally not conducive to success, whether in the short or long-term. Careful consideration is necessary for attaining success, and many do not fully abandon their previous workplaces, instead they have a backup plan in case their new endeavor does not work out. Most entrepreneurs, also, do not have in mind some revolutionary new product or service, but instead want to improve on an existing product or way of doing things. Finally, the myth that they are reckless risk takers runs counter to other myths – that they are intensive researchers, have a solid business plan backed by deep pockets, and are highly experienced in their chosen work.
   Hard

3. Discuss the advantages and disadvantages to owning a franchise.
   Franchises are a relatively easy way to own a business with the primary barrier being the upfront cost. Franchises are basically a business-in-a-box as they come with built-in brand recognition, established suppliers, and plenty of support/training in order to set up the business and how to grow it. However, each of these benefits has a potential downside. Having broad brand recognition means that everyone knows who you are and may attach problems with the brand in general to your business specifically. Having established suppliers takes care of several decisions, but you may be stuck with higher recurring costs, especially if you live in a different part of the country than the franchisor. Business support/training are beneficial, but the franchisor may demand certain decisions over others, and be directive regarding advertising and product/service offerings.
   Moderate

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4. Discuss the differences between a small business owner and an entrepreneur.
Small business owners tend to seek stability over growth; expertise over innovation; and support over independence. In contrast, entrepreneurs want to strike out and create novel value with something new and exciting. Entrepreneurs want to make a new product, while small business owners want to sell an established product that people are familiar with. This is an example of differences in risk tolerance. Both are willing to take risks, but small business owners tend to limit their exposure to risk by sticking to the known.
Moderate

5. Discuss the different ways to start or acquire a new business.
Most small business owners start with building the business from scratch. This means they are responsible for everything from picking out a location to determining what kind of products/services will be offered. This type of business start-up carries the most risk, with a new venture where there may not be much support or existing customer demand. It is also possible to purchase an existing business. In doing so that business would presumably have an existing customer base, an established location, vendors, and local brand recognition. The problems with this tend to arise with the business transition, problems may be discovered regarding the business's liabilities and debts, and customers may not respond well to a new owner – they may have person loyalty and not business loyalty.
Moderate

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