Business Law Text and Cases Commercial Law for Accountants 14th edition Miller Test Bank

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TRUE/FALSE

1 : In choosing a form of business organization for a new enterprise, one factor to be considered is the ability to raise capital.
A : true
B : false

Correct Answer : A

2 : Limited legal liability generally is necessary for small businesses that wish to raise outside capital.
A : true
B : false

Correct Answer : A

3 : Any businessexcept a sole proprietorshipmust comply with business registration and licensing requirements.
A : true
B : false

Correct Answer : B

4 : When lending capital to a small business, a bank may require a personal guaranty of its repayment from the owner.
A : true
B : false

Correct Answer : A

5 : In a sole proprietorship, the proprietor shares the burden of any losses or liabilities incurred by the business enterprise with the government.
A : true
B : false

Correct Answer : B

6 : A sole proprietor pays personal and business income taxes on the businesss profits.
A : true
B : false

Correct Answer : B

7 : A sole proprietor owns the entire business.
A : true
B : false

Correct Answer : A

8 : Anyone who does business must create a separate business organization.
A : true
B : false

Correct Answer : B

9 : A suit against a business or its employees may never lead to unlimited personal liability for the owner of a sole proprietorship.
A : true
B : false

Correct Answer : A

10 : The law considers all new businesses to be sole proprietorships regardless of the number of owners.
A : true
B : false

Correct Answer : B

11 : A sole proprietorship offers less flexibility than does a partnership or a corporation.
A : true
B : false

Correct Answer : B

12 : A sole proprietor does not own the entire business.
A : true
B : false

Correct Answer : B

13 : The federal government regulates franchising in part through the Franchise Rule.
A : true
B : false

Correct Answer : A

14 : State regulation of franchising is often aimed at protecting franchisees from unfair practices.
A : true
B : false

Correct Answer : A

15 : To protect franchisees against arbitrary or bad faith termination, a state law may require certain procedures be followed in terminating a franchise.
A : true
B : false

Correct Answer : A

16 : A franchisee is generally economically independent of the franchisors integrated business system.
A : true
B : false

Correct Answer : B

17 : In a manufacturing arrangement, a franchisor transmits to a franchisee the essential ingredients or formula to make a particular product.
A : true
B : false

Correct Answer : A

18 : State deceptive trade practices acts may apply to actions by franchisors.
A : true
B : false

Correct Answer : A

19 : A franchisee is not generally legally independent of the franchisor.
A : true
B : false

Correct Answer : B

20 : The franchise agreement may specify whether the premises for the business must be leased or purchased outright.
A : true
B : false

Correct Answer : A

21 : Typically, the franchisee determines the territory to be served by the franchise.
A : true
B : false

Correct Answer : B

22 : The day-to-day operation of the franchise business normally is under the control of the franchisor.
A : true
B : false

Correct Answer : B

23 : Franchise agreements typically limit the franchisees ability to sell the franchise to another party.
A : true
B : false

Correct Answer : A

24 : The validity of a provision permitting the franchisor to establish and enforce certain quality standards is questionable.
A : true
B : false

Correct Answer : B

25 : The laws governing franchising are primarily designed to protect franchisors from dishonest franchisees.
A : true
B : false

Correct Answer : B

26 : A number of states require franchisors to provide presale disclosures to prospective franchisees.
A : true
B : false

Correct Answer : A

27 : A franchisee ordinarily does not pay a fee for a franchise license (the privilege of being granted a franchise).
A : true
B : false

Correct Answer : B

28 : The franchise agreement is likely to set out standards for the franchise.
A : true
B : false

Correct Answer : A

29 : The duration of a franchise is determined by federal or state statutes.
A : true
B : false

Correct Answer : B

30 : A franchisor can mandate retail prices for the goods that a franchisee sells.
A : true
B : false

Correct Answer : B

31 : A franchisors decision to terminate a franchise is always considered wrongful.
A : true
B : false

Correct Answer : B

32 : Some states require the termination of a franchise when there is no good cause for it to continue.
A : true
B : false

Correct Answer : B

33 : Most franchise contracts provide that notice of termination must be given.
A : true
B : false

Correct Answer : A

34 : In determining whether a franchisor acted in good faith when terminating a franchise agreement, a court will attempt to balance the rights of both parties.
A : true
B : false

Correct Answer : A

35 : A franchise agreement may allow the franchisee to cure a breach of the franchise agreement within a certain time so as to avoid termination.
A : true
B : false

Correct Answer : A

MULTIPLE CHOICE

36 : Carl starts up, and assumes the financial risk of, DataWorks, a new Web marketing enterprise. Carl and DataWorks must meet legal requirements relating to
A : business name and state tax registration.
B : occupational licensing.
C : intellectual property laws.
D : all of the choices.

Correct Answer : D

37 : Nina, the owner of Organic Farm, a sole proprietorship, wants to obtain additional capital to operate. This can be accomplished by
A : a bank loan.
B : a Small Business Administration Loan.
C : a state grant.
D : any of the choices.

Correct Answer : D

38 : Lee wants to go into the business of architectural design. Among the reasons that might convince Lee to set up his business as a sole proprietorship would be
A : its greater organizational flexibility.
B : its limited liability.
C : its perpetual existence.
D : the ease of transferring the business to other family members.

Correct Answer : A

39 : Without creating a separate business organization, Roy starts up Sole Savers, a new, pre-

owned auto sales enterprise. Roy is
A : none of the choices.
B : a franchisor.
C : a franchisee.
D : a sole proprietor.

Correct Answer : D

40 : Laura owns and operates Meditation Center without creating a separate business organization. She receives all the profits from the fees for the classes and the sales of the centers merchandise. This is most likely
A : a partnership.
B : a franchise.
C : a sole proprietorship.
D : none of the choices.

Correct Answer : C

41 : Diane organized, and owns and operates, Reliable Roofing, a construction outfit, in the simplest form of business organization. This is
A : a limited partnership.
B : a limited liability company.
C : a corporation.
D : a sole proprietorship.

Correct Answer : D

42 : Ford is the sole proprietor of Go, a game app subscription service. As a sole proprietor, on the businesss profits, Ford pays
A : no income taxes.
B : only personal income taxes.
C : only business income taxes.
D : both personal and business income taxes.

Correct Answer : B

43 : Del owns Everlast Painting, a sole proprietorship. Dels liability is
A : limited by state statute and varies from state to state.
B : limited to the extent of capital expenditures.
C : limited to the extent of his or her original investment.
D : unlimited.

Correct Answer : D

44 : Ken owns and operates Living Earth Garden Shop as a sole proprietorship. When Ken dies, Living Earth will automatically
A : dissolve.
B : pass to Kens heirs.
C : pass to the state.
D : be offered for sale to its creditors and competitors.

Correct Answer : A

45 : Bill sells Corner Deli, a sole proprietorship, to Debra. This is
A : a franchise.
B : not a transfer of ownership without the other owners approval.
C : not a transfer of ownershipa sole proprietorship cannot be transferred.
D : a transfer of the ownership of the business.

Correct Answer : D

46 : Haute Dogs, Inc., sells a franchise to Irenes Cuisine, a lunch truck. Irenes Cuisine is
A : a franchisee.
B : a franchisor.
C : a partner.
D : a principal.

Correct Answer : A

47 : Champions Corporation licenses the trademarks to its products to Direct Marketing, Inc., to reproduce on caps, sweatshirts, and similar goods for sale. This is
A : a franchise.
B : none of the choices.
C : a business loan.
D : a sole proprietorship.

Correct Answer : A

48 : Cathy buys an exclusive territory in which she is authorized to set up a plant to make Delite Dairy products. After receiving the recipes, Cathy begins making Evies-brand yogurt and other Delite products. This is
A : a chain-style franchise.
B : a distributorship franchise.
C : a manufacturing franchise.
D : not a franchise.

Correct Answer : C

49 : Paradise Footwear buys a franchise from Quad Shoes Inc. This relationship, like all other franchise relationships, is governed by
A : contract law.
B : no law.
C : the Franchise Disclosure Document, or FDD.
D : the Automobile Dealers Day in Court Act.

Correct Answer : A

50 : Instead of setting up a business to market her own products, Rita considers entering into a distributorship franchise with Sports Equipment Corporation. This involves the transfer of
A : a license.
B : a trade name.
C : the formula to make a certain product.
D : the ownership of the business.

Correct Answer : A

51 : Spicy Sauces, Inc., and Toms Bottling Plant have a manufacturing franchise arrangement. This involves the transfer of
A : a license.
B : a trade name.
C : the formula to make a certain product.
D : the ownership of the business.

Correct Answer : C

52 : Emma is interested in buying a franchise from Fine Jewelry, Inc. The franchisor must disclose material facts that Emma needs to make an informed decision concerning this purchase, according to
A : no law.
B : federal antitrust laws.
C : the Federal Trade Commissions Franchise Rule.
D : the Petroleum Marketing Practices Act.

Correct Answer : C

53 : Faye is interested in buying a franchise from Gas n Snax Stores Inc. This transaction, like other franchise deals, is regulated to protect
A : certain types of anticompetitive agreements.
B : franchisors from dishonest prospective franchisees.
C : prospective franchisees from dishonest franchisors.
D : the governments power to restrict freedom of contract.

Correct Answer : C

54 : Soup Factory, Inc., uses a Web site to provide downloadable information to prospective franchisees. This electronic information is the equivalent of an offer that must comply with
A : no law.
B : federal antitrust laws.
C : the Federal Trade Commissions Franchise Rule.
D : the Petroleum Marketing Practices Act.

Correct Answer : C

55 : Frank enters into an agreement with Grab n Eat Burgers, Inc., to operate a franchise in Homeville. Later, the franchisor grants franchises to others within the same territory, causing Frank to suffer a significant loss in profits. In Franks suit against the franchisor, his best argument is that Grab n Eat
A : violated the antitrust laws.
B : violated the implied covenant of good faith and fair dealing.
C : violated the Federal Trade Commissions Franchise Rule.
D : granted Frank the first Grab n Eat franchise in Homeville.

Correct Answer : B

56 : Mai-Lins Martial Arts, Inc., grants a franchise to Naomi to operate a Mai-Lins school. Mai-Lins may require Naomi to pay the franchisor a percentage of her
A : annual sales or volume of business.
B : weekly payroll expense.
C : monthly overhead savings.

D : income from unrelated business activities.

Correct Answer : A

57 : Fong contracts to buy a franchise from Genuine Asian Sushi House Company. Typically, the determination of the territory to be served is made by
A : other Genuine Asian franchisees within the same state.
B : Fong.
C : Genuine Asian Sushi House.
D : the Federal Trade Commission.

Correct Answer : C

58 : Gary buys from Hook, Line & Sinker Corporation the exclusive right to sell its trademarked fishing gear in a certain area. Their franchise agreement requires Gary to pay certain administrative expenses. Their agreement may also require the franchisee to pay a percentage of the franchisors
A : advertising costs.
B : personal expenses.
C : retirement income.
D : all of the choices.

Correct Answer : A

59 : Digital Wizards, Inc., a franchisor of computer technicians, wishes to standardize the pricing practices of its franchisees because they have engaged in price-cutting to increase their respective shares of the market. The most prudent action might be for Digital Wizards to
A : mandate the prices at which its franchisees sell their services.
B : suggest the prices at which its franchisees sell their services.
C : require its franchisees to pay a premium based on their market share.
D : threaten its franchisees with a suit for material breach of contract.

Correct Answer : B

60 : Fact Pattern 2-1Jumbo Juice Inc. offers entrepreneurs the opportunity to operate a franchise under the Jumbo Juice trade name as a member of a select group of dealers that engage in retail juice sales.Refer to Fact Pattern 2-1. To potential investors, Jumbo Juice must disclose
A : the range of goods and services included.
B : the value of the franchise.
C : the estimated profitability of the franchise.
D : all of the choices.

Correct Answer : D

61 : Fact Pattern 2-1Jumbo Juice Inc. offers entrepreneurs the opportunity to operate a franchise under the Jumbo Juice trade name as a member of a select group of dealers that engage in retail juice sales.Refer to Fact Pattern 2-1. To potential investors, Jumbo Juice must provide
A : actual earnings figures.
B : hypothetical earnings figures.
C : projected earnings figures.
D : none of the choices.

Correct Answer : C

62 : Fact Pattern 2-1Jumbo Juice Inc. offers entrepreneurs the opportunity to operate a franchise under the Jumbo Juice trade name as a member of a select group of dealers that engage in retail juice sales.Refer to Fact Pattern 2-1. Jumbo Juice makes earnings claims to potential investors. For those claims, the franchisor

A : can have a hypothetical basis.
B : must have a reasonable basis.
C : must have an actual basis.
D : can have any or no basis.

Correct Answer : B

63 : Fact Pattern 2-1Jumbo Juice Inc. offers entrepreneurs the opportunity to operate a franchise under the Jumbo Juice trade name as a member of a select group of dealers that engage in retail juice sales.Refer to Fact Pattern 2-1. Before a franchise contract is signed, Jumbo Juice must explain

A : the contracts termination provisions.
B : the nature and operation of a franchise.
C : the laws governing franchising.
D : all of the choices.

Correct Answer : A

64 : Savory Sandwiches LLC wants to present information in disclosure documents via the Internet to prospective franchisees. Among other legal requirements with which the franchisor must comply, prospective franchisees must

A : agree to settle any lawsuits that may arise over the documents.
B : be able to download or save all electronic documents.
C : provide e-mail addresses for Level Fencing to verify users authenticity.
D : register with the Federal Trade Commission via Level Fencings Web site.

Correct Answer : B

65 : Pay-Mor Convenience Stores, Inc., is a franchisor. Randy operates a Pay-Mor franchise. Sam is one of Randys employees. As a franchisor, if Pay-Mor controls the day-to-day operations of the business to a significant degree, it may be liable for tortious acts by

A : no one.
B : any person on the franchise premises.
C : only persons with legitimate reasons to be on the franchise premises.
D : Pay-Mor, Randy, or Sam.

Correct Answer : D

66 : Flynn buys a Greasy Burger, Inc., franchise. Greasy requires that its franchisees buy its products exclusively for every phase of their operations. Because Flynn wishes to buy less expensive products, he challenges the requirement. His best argument is probably that the requirement violates

A : the implied covenant of good faith and fair dealing.
B : the Federal Trade Commissions Franchise Rule.
C : federal antitrust laws.
D : the franchisors marketing image.

Correct Answer : C

67 : Restful Inn Motel Corporation wants to terminate its franchise arrangement with Steves Cabins. Their contract does not specify a set time for termination. Because no set time is specified, the following is implied
A : has a reasonable time, with notice.
B : has whatever time Restful Inn determines, with or without notice.
C : notice, but nothing more.
D : Steves must close immediately.

Correct Answer : A

68 : Teresa buys a franchise from Urgent Medical Clinics, LLC. If their agreement is like most franchise agreements, it will specify that Urgent Medical can terminate the franchise
A : at will.
B : for any reason.
C : for cause only.
D : for no reason.

Correct Answer : C

69 : In determining whether a franchisor has acted in good faith when terminating a franchise agreement, a court will generally
A : balance the rights of both parties.
B : emphasize the right of Pro Club to its business operation.
C : focus on the right of Oberon to be dealt with fairly.
D : underscore the interest of consumers in affordability.

Correct Answer : A

70 : Made in the USA Clothing Inc. gives notice to Neely that it is terminating their franchise arrangement. Winding up the business requires
A : a new franchise agreement.
B : nothing more than closing immediately.
C : Neelys death, disability, or insolvency.
D : the return of the franchisors property.

Correct Answer : D

ESSAY

71 : Rico, the owner of Simply Sushi, is a sole proprietor. What are the chief characteristics, advantages, and disadvantages of this form of business organization? Rico wants to obtain additional capital to expand Simply Sushi, but she does not want to lose control of the firm. As a sole proprietor, what is her best option to attain these goals?

Correct Answer : A sole proprietorship is the simplest form of business organization. In a sole proprietorship, the owner and the business are the same. Anyone who creates a business without designating a specific form for its organization is doing business as a sole proprietorship. An advantage of the sole proprietorship is its greater flexibility over other forms of business organization. The owner makes all of the decisions and can operate the enterprise without any formalities.A significant disadvantage of this form of organization, however, is that unlike most other forms of business organization, there are no limits on the liability of the owner for the debts and obligations of the firm. Another disadvantage of the sole proprietorship form of doing business is indicated by Rico's dilemma in this question. The ability of a sole proprietor to raise capital while maintaining control, and retaining the same form, is limited chiefly to borrowing funds. Bringing in partners would convert the business to a partnership. Issuing stock would require incorporating or establishing another form of business. Selling the business would sacrifice all control. The only way to obtain additional business capital without accumulating it through business profit is by borrowing funds.

72 : Mucho Tacos, Inc., sells franchises. Mucho Tacos imposes on its franchisees standards of operation and personnel training methods. What is the potential pitfall to Mucho Tacos if it exercises too much control over its franchisees?

Correct Answer : ?A provision in a franchise agreement permitting the franchisor to establish and enforce certain quality standards is valid and unquestionable. A franchisor has a legitimate interest in maintaining the quality of its products or services to protect its name and reputation.But too much control over the operations of its franchisees risks potential liability. For example, under the doctrine of respondeat superior, the exercise of too much control may result in the franchisor's liability for the torts of a franchisee's employees. That is, if the franchisor has a right to control the franchisee's operations and exercises this right to a significant degree, and an employee under this control acts in a tortious or criminal manner that results in an injury to another, the franchisor may be held vicariously liable.

MULTIPLE CHOICE

1 : CHAPTER 8DIGITAL UPDATE:REVENGE PORN AND INVASION OF PRIVACYJody and Kyle take photos of themselves in intimate moments. When their relationship ends, Kyle posts the photos online without Jodys consent in an attempt to humiliate her. Included with the photos are Jodys name, Facebook page, address, workplace, and phone number. This could be a ground for a civil suit on the basis of
A : defamation.
B : false imprisonment.
C : invasion of privacy.
D : no traditional tort theory.

Correct Answer : C

2 : CHAPTER 8DIGITAL UPDATE:REVENGE PORN AND INVASION OF PRIVACYHank and Ida take photos of themselves in intimate moments. When their relationships ends, Hank posts the photos online without Idas consent in an attempt to humiliate her. This is a crime in
A : a handful of states.
B : all states.
C : most states.
D : no state.

Correct Answer : A

3 : CHAPTER 9ETHICS TODAY:IS IT FAIR TO CLASSIFY UBER AND LYFT DRIVERS AS INDEPENDENT CONTRACTORS?Kay, a driver for Lyft, files a suit against the firm to change her job classification and obtain better benefits. Lyft considers Kay and its other drivers to be
A : employees.
B : dependent contractors.
C : independent contractors.
D : none of the choices.

Correct Answer : C

4 : CHAPTER 9ETHICS TODAY:IS IT FAIR TO CLASSIFY UBER AND LYFT DRIVERS AS INDEPENDENT CONTRACTORS?Rob, a taxi driver for Swift Cab Company, and other cabdrivers file a suit in a Texas state court against Uber, alleging unfair competition. If the result in this suit is like the result in similar suits, the court will most likely rule in favor of
A : Rob.
B : Swift Cab.
C : the state of Texas.
D : Uber.

Correct Answer : D

5 : CHAPTER 10GLOBAL INSIGHT:ISLAMIC LAW AND RESPONDE AT SUPERIORNadia, an employee of Omar in Saudi Arabia, engages in a wrongful act without Omars knowledge or consent. Under the principles of sharia law, responsibility for Nadias act lies with
A : only Nadia.
B : only Omar.
C : Nadia and vicariouslyby extensionto Omar.
D : neither Nadia nor Omar.

Correct Answer : A

6 : CHAPTER 10GLOBAL INSIGHT:ISLAMIC LAW AND RESPONDE AT SUPERIORIn Pakistan, Mohammad, an employee of Noor, enters into a contract with Hassan. Under the principles of sharia law, liability for any breach of the contract may lie with Noor
A : in all circumstances.
B : if Hassan was aware of Mohammads employee status.
C : if Mohammad entered into the contract on Noors direct order.
D : under no circumstances.

Correct Answer : C

7 : CHAPTER 11ETHICS TODAY:IS IT FAIR TO DOCK EMPLOYEES PAY FOR BATHROOM BREAKS?Clear Coding Inc. provides its employees personal breaks of up to twenty minutes per break. Under the Fair Labor Standards Act, Clear must
A : compensate its employees during their breaks.
B : not compensate its employees during their breaks.
C : record the breaks for review by the U.S. Department of Labor.
D : record and report the breaks to the U.S. Department of Labor.

Correct Answer : A

8 : CHAPTER 11ETHICS TODAY:IS IT FAIR TO DOCK EMPLOYEES PAY FOR BATHROOM BREAKS?Machine Making Corporation requires its employees to punch out when they leave their workstations for personal breaks and punch in when they return. Under the Fair Labor Standards Act, Machine
A : must compensate its employees during their breaks.
B : need not compensate its employees during their breaks.
C : must record the breaks for review by the U.S. Department of Labor.
D : must record and report the breaks to the U.S. Department of Labor.

Correct Answer : B

9 : CHAPTER 12DIGITAL UPDATE:HIRING DISCRIMINATION BASED ON SOCIAL MEDIA POSTSBusiness Sales Company and other employers routinely check job applicants social media posts when deciding whom to hire. According to the results of at least one study, online disclosures of personal traits
A : results in widespread hiring discrimination.
B : may lead to job offers for which the applicants are not qualified.
C : has no meaningful effect on hiring decisions by any employer.
D : can significantly influence the hiring decisions of some employers.

Correct Answer : D

10 : CHAPTER 12DIGITAL UPDATE:HIRING DISCRIMINATION BASED ON SOCIAL MEDIA POSTSPrice & Profit Inc. and other employers routinely check job applicants social media posts when deciding whom to hire. These sites can provide information on an applicants race, religion, and other protected characteristics. Price can legally base its hiring decisions on the basis of
A : none of the choices.
B : race.
C : any protected characteristic.

D : religion.

Correct Answer : A

11 : UNIT TWOAPPLICATION AND ETHICS:HEALTH INSURANCE AND SMALL BUSINESSThe Patient Protection and Affordable Care Act sets forth responsibilities and benefits for businesses and their employees with respect to health care and insurance. Small businessesthose with fewer than fifty full-time employeesare

A : required to offer their employees health insurance.
B : subject to minimum standards on health plans offered to employees.
C : required to contribute to the premium for an employees private plan.
D : eligible for Marketplace Coverage Options.

Correct Answer : B

12 : UNIT TWOAPPLICATION AND ETHICS:HEALTH INSURANCE AND SMALL BUSINESSUnder the Patient Protection and Affordable Care Act, small businesses that meet certain requirementsincluding those with fewer than twenty-five full-time employeescan

A : any of the choices.
B : buy health insurance for employees through the Small Business Health Options Program.
C : claim a health-care tax credit.
D : claim a business-expense tax deduction.

Correct Answer : A

13 : UNIT TWOAPPLICATION AND ETHICS:HEALTH INSURANCE AND SMALL BUSINESSUnder the Patient Protection and Affordable Care Act, a health insurance company can increase an employers premium

A : if an employee files a claim.
B : as an employee gets older.
C : when the employer hires a woman.
D : none of the choices.

Correct Answer : D

14 : UNIT TWOAPPLICATION AND ETHICS:HEALTH INSURANCE AND SMALL BUSINESSEmployer responsibilities and benefits under the Patient Protection and Affordable Care Act are linked to the number of full-time equivalent employees. To avoid the requirements of the act, there is evidence that some employers

A : reduce the hours of their employees.
B : employ part-time workers instead of full-time employees.
C : are urging unemployed Americans to remain out of the work force.
D : all of the choices.

Correct Answer : A