**Chapter 17**

1. Inventory can be stolen, spoiled, or become obsolete. Production machinery can break down. Furniture, office equipment, vehicles, and buildings can be damaged or destroyed by vandalism, accidents, fire, flood, or wind. All of these represent risks related to the   
   A. personnel of the business.  
   B. customers of the business.  
   C. property of the business.  
   D. goods of the business.
2. Misappropriation of business property by employees of that business refers to   
   A. OSHA violations.  
   B. employee theft.  
   C. loss of key employees.  
   D. noncompliance with ADA regulations.
3. Which one of these government agencies is created to enforce safety in the workplace?   
   A. EEOC  
   B. OSHA  
   C. SBA  
   D. IRS
4. In 1964, EEOC established five protected classes. Which of these is NOT one of them?   
   A. Race  
   B. Color  
   C. Age  
   D. Religion
5. The magnitude of losses resulting from \_\_\_\_\_ claims has increased greatly in recent years with an increase in class action lawsuits.   
   A. product liability  
   B. professional liability  
   C. premises liability  
   D. personal liability
6. Restaurants, clothing retailers, barbers, and beauticians face relatively low risks of loss from nonpayment because   
   A. most customers prefer making upfront payments for such products and services.  
   B. few people have credit cards that have charge limits big enough to buy such things.  
   C. giving credit to customers increases sales.  
   D. the amount that any one customer charges is unlikely to be big enough to threaten the business if it is not paid.
7. Different risks in the business can be managed by doing all of these EXCEPT   
   A. making specific plans for and arrangements to deal with foreseeable events.  
   B. creating and enforcing an appropriate code of conduct for yourself and all employees.  
   C. actively working to create physical hazards in your workplace as a test.  
   D. ensuring that valuable assets are physically secure.
8. Which of the following practices should be adopted to ensure that a computer is kept secure?   
   A. Using simple passwords  
   B. Changing passwords infrequently  
   C. Having a PC set to lock itself up after a few minutes of inactivity  
   D. Opening downloads from unexpected sources
9. Which of these represents the problem with legal protection methods for intellectual property?   
   A. There is no governmental agency that will assist small business owners in maintaining their legal rights.  
   B. The cost of legal protection for intellectual property is so high that it is practically useless for a small business owner.  
   C. Legal protection methods for intellectual property are primarily "reserved" for large business with huge legal staff.  
   D. Legal protection methods can only be offered for tangible property and not intellectual property.
10. Which is the number one method for fraud detection?   
    A. Internal audit  
    B. Internal control  
    C. Tip  
    D. External audit
11. The greatest threat of loss from employee dishonesty occurs when   
    A. two or more employees collude.  
    B. employees lose their jobs.  
    C. employees are paid above market wages.  
    D. the owner establishes the culture of trust.
12. Employee contracts should include all of the following provisions EXCEPT   
    A. limit the employee's freedom to go into competition.  
    B. contain the employee's specific promise not to disclose sensitive or secret information.  
    C. offer punishments for providing inadequate termination notice.  
    D. cross training among employees.
13. Which of the following should be undertaken in order to reduce a business's exposure to the risk of violating tax regulations?   
    A. Understate revenues and overstate deductible expenses  
    B. Reconcile the cash register tape to the cash register contents every day  
    C. Take cash from the businesses before it is recorded as revenue  
    D. Borrow from tax money in order to make payments to creditors
14. All of the following should be undertaken in order to ensure that an internal audit is effective EXCEPT   
    A. meet with whomever is going to conduct the internal audit in the presence of other members of the management.  
    B. write an engagement agreement with the auditor that clearly establishes the scope of work to be done.  
    C. provide sufficient authority to the auditor to ensure that he or she can accomplish the goals of the audit.  
    D. establish with the auditor that you and your board of directors have the final authority to review and approve the audit plan.
15. The \_\_\_\_\_ likely an event is to occur, and the \_\_\_\_\_ the potential amount that the insurance company must pay, the \_\_\_\_\_ the price that you must pay for coverage.   
    A. more; lesser; lower  
    B. less; greater; higher  
    C. more; greater; higher  
    D. less; lesser; higher
16. Which of the following is an example of a special type of liability insurance that covers losses from harm caused during the performance of your profession?   
    A. Unemployment insurance  
    B. Errors and omissions insurance  
    C. Liability insurance  
    D. Worker's compensation insurance
17. \_\_\_\_\_ exist to pay losses that are not covered by other liability insurance.   
    A. Malpractice insurance  
    B. Errors and omissions insurance  
    C. General liability insurance  
    D. Product liability insurance
18. As a general rule, the \_\_\_\_\_ the deductible, the \_\_\_\_\_ the policy premium payments will be.   
    A. higher; lower  
    B. higher; higher  
    C. lower; higher  
    D. lower; lower
19. Identify the insurance that provides funds to pay the ordinary operating expenses of your business should it be forced to close temporarily because of an insured event.   
    A. Crime insurance  
    B. Theft insurance  
    C. Business interruption insurance  
    D. Bond insurance
20. Which of these are also called dishonesty bonds?   
    A. Credit bonds  
    B. Rescue bonds  
    C. Surety bonds  
    D. Fidelity bonds

**Scenario: Klassic Karate**  
Being a black belt in two different martial arts, Kirk Karwan has opened his martial arts school, "Klassic Karate" to teach karate to young children and adults. Kirk has hired six other black belts to help him teach the 300 plus children and adults who have signed up at the school. When asked by some parents about the type of insurance the school carries and how he manages the different risks, Kirk was stunned. Not only had he not bought the insurance but he had not even thought about it or any other types of risks.

1. When it comes to the other black belts hired by Kirk, which of these represent a business risk that Kirk needs to manage?   
   A. Klassic Karate's location  
   B. Klassic Karate's marketing  
   C. Violation of government regulations  
   D. Karate being inappropriate for children

1. The first task that Kirk needs to complete before a comprehensive insurance program can be developed for Klassic Karate is   
   A. to provide a business succession plan for Klassic Karate.  
   B. to raise the number of participants for Klassic Karate.  
   C. to develop a financial plan for Klassic Karate.  
   D. to identify risks faced by Klassic Karate.
2. Desired coverage beyond mandatory insurance that Kirk may want to consider includes all of these EXCEPT   
   A. unemployment insurance.  
   B. catastrophe.  
   C. product liability.  
   D. general liability.