*Chapter 1*

**The Legal Environment**

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| N.B.: **TYPE** indicates that a question is new, modified, or unchanged, as follows.**N** A question *new* to this edition of the Test Bank.**+** A question *modified* from the previous edition of the Test Bank,**=** A question *included* in the previous edition of the Test Bank. |

**TRUE/FALSE QUESTIONS**

1. There is really no reason to be acquainted with business laws and gov­ernment regu­lations, except to pass this test.

 ANSWER: F PAGE: 3 type: N

 BUSPROG: Reflective AICPA: BB-Critical Thinking

2. Law consists of enforceable rules governing relationships among indi­viduals and between individuals and their society.

 ANSWER: t PAGE: 3 type: =

 BUSPROG: Analytic AICPA: BB-Legal

3. Laws and government regulations affect almost all business activities.

 ANSWER: T PAGE: 4 TYPE: N

 BUSPROG: Analytic AICPA: BB-Critical Thinking

4. Many different laws may apply to a single business transaction.

 ANSWER: T PAGE: 4 TYPE: N

 BUSPROG: Analytic AICPA: BB-Critical Thinking

5. Businesspersons are expected to make decisions that are ethically sound.

 ANSWER: T PAGE: 4 type: N

 BUSPROG: Analytic AICPA: BB-Legal

6. Being a small-business owner means that you will never have to take on the role of finance manager, marketing manager or accountant.

 ANSWER: F PAGE: 6 TYPE: N

 BUSPROG: Reflective AICPA: BB-Critical Thinking

7. State laws are the supreme law of the United States.

 ANSWER: F PAGE: 6 type: +

 BUSPROG: Analytic AICPA: BB-Legal

8. The federal government and the states have the same constitution.

 ANSWER: F PAGE: 6 type: N

 BUSPROG: Analytic AICPA: BB-Legal

9. A state law that conflicts with the U.S. Constitution will be deemed unconstitutional.

 ANSWER: T PAGE: 6 type: =

 BUSPROG: Analytic AICPA: BB-Legal

10. State constitutions are supreme within their respective borders.

 ANSWER: T PAGE: 6 type: +

 BUSPROG: Analytic AICPA: BB-Legal

11. Statutory law includes state statutes and ordinances passed by cities and counties.

 ANSWER: T PAGE: 7 TYPE: N

 BUSPROG: Analytic AICPA: BB-Critical Thinking

12. Whether financial statements created by an accountant need to be verified for accuracy is *not* a legal question.

 ANSWER: F PAGE: 7 type: N

 BUSPROG: Reflective AICPA: BB-Critical Thinking

13. There are legal questions involved when considering ways to raise capital so a business can grow.

 ANSWER: T PAGE: 7 type: N

 BUSPROG: Reflective AICPA: BB-Critical Thinking

14. There are legal questions involved when choosing an appropriate business organizational form.

 ANSWER: T PAGE: 7 type: N

 BUSPROG: Reflective AICPA: BB-Critical Thinking

15. A small business owner is likely to face legal questions when determining ways to reduce his small business’s taxes.

 ANSWER: T PAGE: 7 type: N

 BUSPROG: Reflective AICPA: BB-Critical Thinking

16. Statutes are laws enacted by Congress and the state legislatures and comprise one of the sources of American law.

 ANSWER: T PAGE: 7 TYPE: N

 BUSPROG: Analytic AICPA: BB-Legal

17. Administrative law is a source of American law that is comprised of statutes.

 ANSWER: F PAGE: 8 TYPE: N

 BUSPROG: Analytic AICPA: BB-Legal

18. Uniform laws apply in all states, including those in which the laws have not been adopted.

 ANSWER: F PAGE: 8 type: =

 BUSPROG: Analytic AICPA: BB-Legal

19. The American Law Institute was the only organization involved in developing the Uniform Commercial Code.

 ANSWER: f PAGE: 8 type: N

 BUSPROG: Reflective AICPA: BB-Legal

20. No state has adopted the Uniform Commercial Code.

 ANSWER: F PAGE: 8 type: +

 BUSPROG: Reflective AICPA: BB-Legal

21. Administrative law consists of the rules, orders, and decisions of administrative agencies. .

 ANSWER: T PAGE: 8 type: N

 BUSPROG: Analytic AICPA: BB-Critical Thinking

22. Administrative law includes only state regulations.

 ANSWER: F PAGE: 9 type: N

 BUSPROG: Analytic AICPA: BB-Critical Thinking

23. Common law is the same as statutory law.

 ANSWER: F PAGE: 9 type: N

 BUSPROG: Analytic AICPA: BB-Legal

24. *Stare decisis* is a doctrine obligating judges to help persons who have failed to protect their own rights.

 ANSWER: F PAGE: 9 type: =

 BUSPROG: Analytic AICPA: BB-Legal

25. *Stare decisis* is a doctrine obligating judges to follow the precedents established within their jurisdictions.

 ANSWER: T PAGE: 9 type: N

 BUSPROG: Analytic AICPA: BB-Legal

26. *Common law* is a term for the laws that are familiar to most of us.

 ANSWER: F PAGE: 9 type: N

 BUSPROG: Analytic AICPA: BB-Legal

27. A court may depart from a precedent if the precedent is no longer valid.

 ANSWER: T PAGE: 10 TYPE: +

 BUSPROG: Analytic AICPA: BB-Critical Thinking

28. In order to truly understand our legal system, it is important to understand the origins of the common law tradition.

 ANSWER: T PAGE: 11 type: N

 BUSPROG: Reflective AICPA: BB-Critical Thinking

29. Money or property, including land, remedies at law.

 ANSWER: T PAGE: 12 type: N

 BUSPROG: Analytic AICPA: BB-Legal

30. Equity is a branch of law, founded in justice and fair dealing, that seeks to supply a remedy when no adequate remedy at law is available.

 ANSWER: T PAGE: 12 type: N

 BUSPROG: Analytic AICPA: BB-Legal

31. The basis for the U.S. legal system is the natural law school.

 ANSWER: T PAGE: 13 TYPE: =

 BUSPROG: Ethics AICPA: BB-Critical Thinking

32. Criminal law focuses on duties that exist between persons.

 ANSWER: F PAGE: 15 TYPE: N

 BUSPROG: Analytic AICPA: BB-Critical Thinking

33. Criminal acts are prohibited only by federal government statutes.

 ANSWER: F PAGE: 15 type: N

 BUSPROG: Analytic AICPA: BB-Legal

34. Government authorities cannot enforce *na­tional* law.

 ANSWER: F PAGE: 16 type: N

 BUSPROG: Analytic AICPA: BB-Legal

35. International law is the law of a foreign nation and varies from country to country.

 ANSWER: F PAGE: 16 type: =

 BUSPROG: Diversity AICPA: BB-Legal

**multiple choice questions**

1. Data Analytics, Inc., is a corporation engaged in the business of compiling, analyzing, and marketing data. To accomplish its purposes, Data Analytics obtains financing, and hires and fires employees. Laws and government regulations affect such business activities as

a. hiring and firing decisions.

b. the manufacturing and marketing of products.

c. business financing.

d. all of the choices.

 ANSWER: D PAGE: 4 TYPE: N

 BUSPROG: Reflective AICPA: BB-Critical Thinking

2. Congress enacts a statute, the Federal Deposit Insurance Corporation (an administrative agency) issues rules, the Southeast Financial Institutions Association (a private organizations) issues instructions, South Valley Bank posts a memo with orders for its employees, and Tina tells her co-worker about a recent news story. Sources of law include

a. the instructions issued by private associations.

b. the orders posted by employers.

c. the rules issued by federal administrative agencies.

d. the stories released by news agencies.

 ANSWER: C PAGE: 6 type: N

 BUSPROG: Reflective AICPA: BB-Legal

3. Under Ohio’s state constitution, the Ohio Environmental Protection Agency issues a new rule, the Polk County Commission approves a new property tax measure, and the professors and students at Ohio Law School publish the results of their most recent legal research. Sources of law do *not* include

a. the measures approved by local governing bodies.

b. the results of legal scholars’ research.

c. the rules issued by state administrative agencies.

d. the states’ constitutions.

 ANSWER: B PAGE: 6 type: =

 BUSPROG: Reflective AICPA: BB-Legal

4. A provision in the California state constitution conflicts with a provision in the U.S. Constitution. If challenged

a. neither provision will be enforced.

b. the provisions will be balanced to reach a compromise.

c. the state provision, not the U.S. Constitution, will be enforced.

d. the U.S. Constitution, not the state provision, will be enforced.

 ANSWER: D PAGE: 6 TYPE: N

 BUSPROG: Reflective AICPA: BB-Legal

5. The Tenth Amendment to the U.S. Constitution

a. reserves to the states all powers not granted to the federal government.

b. reserves to the federal government all powers not granted to the states.

c. requires each state in the union to have its own constitution.

 d. does not exist.

 ANSWER: A PAGE: 6 TYPE: N

 BUSPROG: Analytic AICPA: BB-Legal

6. The Pennsylvania legislature enacts a state law that violates the U.S. Constitution. This law can be enforced by

 a. no one.

 b. the federal government only.

 c. the state of Pennsylvania only.

 d. the United States Supreme Court only.

 ANSWER: A PAGE: 6 type: =

 BUSPROG: Reflective AICPA: BB-Legal

7. Smithy Saddlery is a saddle shop subject to the laws of New York. In New York, the highest-ranking (superior) law is

a. a case decided by the New York Court of Appeals.

b. a rule created by a New York state administrative agency.

c. a provision in the New York constitution.

d. a statute enacted by the New York legislature.

 ANSWER: C PAGE: 6 TYPE: +

 BUSPROG: Reflective AICPA: BB-Legal

8. The Uniform Commercial Code has been adopted, at least in part, in

a. all states.

b. forty-five states.

c. thirty-five states.

d. no state.

 ANSWER: A PAGE: 8 type: N

 BUSPROG: Reflective AICPA: BB-Legal

9. The Bay City Planning Department, the Coastal County Zoning Commission, the Delaware Environmental Quality Agency, and the U.S. Bureau of Land Management issue regulations. These rules constitute

 a. administrative law.

 b. case law.

 c. *stare decisis*.

 d. statutory law.

 ANSWER: A PAGE: 8 type: N

 BUSPROG: Analytic AICPA: BB-Legal

10. Much of American law is based on

a. the English legal system.

b. the Spanish legal system.

c. the civil law of the Greeks.

d. Ancient Chinese law.

 ANSWER: A PAGE: 9 type: +

 BUSPROG: Analytic AICPA: BB-Legal

11. The best definition of a *precedent* is

a. a law developed from custom.

b. a judicial proceeding for the determination of a dispute between parties in which rights are enforced or protected.

c. a proceeding by one person against another in court.

d. a court decision that furnishes an example or authority for deciding subsequent cases involving identical or similar facts.

 ANSWER: D PAGE: 9 type: N

 BUSPROG: Analytic AICPA: BB-Legal

12. As a judge, Bonnie applies common law rules. These rules develop from

a. administrative regulations.

b. court decisions.

c. federal and state statutes.

d. proposed uniform laws.

 ANSWER: B PAGE: 9 type: =

 BUSPROG: Analytic AICPA: BB-Legal

13. Owen is a federal judge whose judicial decisions are part of case law, which does *not* include interpretations of

a. other case law.

b. constitutional provisions.

c. statutes.

d. sound bites in the media.

 ANSWER: D PAGE: 9 TYPE: N

 BUSPROG: Reflective AICPA: BB-Legal

14. Karen is a judge hearing the case of *Local Dispatch Co. v. National Transport Corp.* Applying the relevant rule of law to the facts of the case requires Karen to find previ­ously decided cases that, in relation to the case under con­sidera­tion, are

a. as different as possible.

b. as similar as possible.

c. at odds.

d. exactly identical.

 ANSWER: B PAGE: 10 type: =

 BUSPROG: Reflective AICPA: BB-Critical Thinking

15. In the case of *Retail Sales Corp. v. Trucking Delivery Co.*, the court may rule contrary to a precedent if the court decides that the precedent

a. is incorrect or inapplicable.

b. is not in line with the judge’s personal values.

c. would lead to unintended consequences.

d. would not bring about the result the judge prefers.

 ANSWER: A PAGE: 10 TYPE: N

 BUSPROG: Reflective AICPA: BB-Legal

16. There are no precedents on which the court deciding the case *Financial Investment Co. v. Goodhands Insurance, Inc.,* can base its decision. The court may consider

 a. issuing an order according to the judge’s personal values.

 b. refusing to decide the case.

 c. postponing a decision until a precedent is available.

 d. basing a decision on public policy or social customs and values.

 ANSWER: D PAGE: 10 TYPE: +

 BUSPROG: Reflective AICPA: BB-Critical Thinking

17. In *Benny v. City Car Dealership*, a state supreme court held that a minor could cancel a con­tract for the sale of a car. Now a trial court in the same state is decid­ing *Daphne v. Even Steven Auto Deals, Inc.,*, a case with similar facts. Under the doctrine of *stare decisis*, the trial court is likely to

 a. allow the minor to cancel the contract.

 b. disregard the *Benny* case.

c. order the minor to cancel the contract.

 d. require the minor to fulfill the contract.

 ANSWER: a PAGE: 10 TYPE: =

 BUSPROG: Reflective AICPA: BB-Legal

18. Judge Julia decides that the precedent for the case she is hearing is no longer correct due to technological changes. She overturns the precedent when she decides the case. It is most likely that her case will

 a. go unnoticed by the public.

 b. be thrown out of court.

c. receive a great deal of publicity.

 d. be ignored by the media.

 ANSWER: C PAGE: 10 TYPE: N

 BUSPROG: Reflective AICPA: BB-Critical Thinking

19. In an action against the sate of Idaho, Jaime obtains a *remedy.* This is

a. the relief given to an innocent party to enforce a right or to prevent or compensate for the violation of a right.

b. medication paid for by the government.

c. a right guaranteed by the Bill of Rights.

d. a situation or state of facts that gives a person a right to initiate a judicial proceeding.

 ANSWER: a PAGE: 11 TYPE: N

 BUSPROG: Analytic AICPA: BB-Legal

20. Starlight Café brings a suit, seeking a remedy at law. A *remedy at law* is

a. the payment of money or property as compensation for damages.

b. a decree of specific performance.

c. a judicial proceeding for the resolution of a dispute.

d. an injunction.

 ANSWER: A PAGE: 11 type: N

 BUSPROG: Analytic AICPA: BB-Legal

21. In a suit against Knut, Leon obtains an injunction*.* This is

a. an order to do or to refrain from doing a particular act.

b. an order to perform what was promised.

c. a payment of money or property as compensation.

d. the cancellation of a contract.

 ANSWER: A PAGE: 12 type: N

 BUSPROG: Analytic AICPA: BB-Legal

22. Eliza is a state court judge. Flora appears in a case in Eliza’s court, claim­ing that Glover breached a contract. Which of the following actions may Eliza take?

a. Award damages or issue a decree of specific performance

b. Imprison Glover, but not Flora

c. Imprison Flora, but not Glover

d. Order the parties to pay Eliza to render a favorable ruling

 ANSWER: A PAGE: 12 type: N

 BUSPROG: Reflective AICPA: BB-Legal

23. Leona enters into a contract with Munchie Bakery to cater a sales conference. When the conference is postponed indefinitely, Leona asks a court to cancel the contract and return the parties to the positions that they held before its formation. This request involves

a. specific performance.

b. an injunction.

c. rescission.

d. an action that the court cannot order.

 ANSWER: C PAGE: 12 type: N

 BUSPROG: Analytic AICPA: BB-Legal

24. Maggie and Nate enter into a contract for the sale of a car, but Nate later refuses to deliver the car. Maggie asks a court to order Nate to perform as promised. Ordering a party to perform what was promised is

a. specific performance.

b. damages.

c. rescission.

d. beyond the court’s authority.

 ANSWER: A PAGE: 12 type: N

 BUSPROG: Analytic AICPA: BB-Legal

25. Chelsea is a state court judge. Like judges in most state courts, in a particular case, she may grant

a. a remedy at law only.

b. a remedy in equity or a remedy at law, but not both.

c. a remedy in equity *and* a remedy at law.

d. a remedy in equity only.

 ANSWER: C PAGE: 12 type: N

 BUSPROG: Reflective AICPA: BB-Legal

26. Jane enters into a contract with Jill to provide 100 roses for a dinner party. Jane fails to deliver the roses. Jill initiates a suit against Jane, asking the court to order Jane to deliver the roses. Jill is

a. the plaintiff.

 b. the defendant.

c. the binding authority.

 d. the persuasive authority.

 ANSWER: A PAGE: 12 TYPE: N

 BUSPROG: Analytic AICPA: BB-Legal

27. To Cody, the written law of a particular society at a particular time is most significant. Cody is a

a. legal positivist.

b. legal rationalist.

c. legal realist.

d. person who adheres to the natural law school.

 ANSWER: A PAGE: 14 type: =

 BUSPROG: Analytic AICPA: BB-Critical Thinking

28. Beth is a victim of Carl’s violation of a criminal law. Criminal law is con­cerned with

a. the prosecution of private individuals by other private individuals.

b. the prosecution of public officials by private individuals.

c. the relief available when a person’s rights are violated.

d. wrongs committed against the public as a whole.

 ANSWER: D PAGE: 15 type: =

 BUSPROG: Reflective AICPA: BB-Legal

29. *Civil law*

a. defines, describes, regulates, and creates legal etiquette.

b. spells out the rights and duties that exist between persons and between persons and their governments.

c. establishes the methods of enforcing the rights established by criminal law.

d. has to do with the wrongs committed against society for which society demands redress.

 ANSWER: B PAGE: 15 type: N

 BUSPROG: Analytic AICPA: BB-Legal

30. Japan violates an international law. Other countries may take coercive actions, which include

a. violating the same law in the same way with impunity.

b. confiscating Japanese businesses.

c. boycotting Japanese goods.

d. taxing Japanese citizens.

 ANSWER: C PAGE: 16 type: N

 BUSPROG: Analytic AICPA: BB-Legal

**Fact Pattern 1-1 (Questions 31–33 apply)**

The Texas Supreme Court decides the case of *Livewire Co. v. Power Corp.* Of nine justices, five believe the judgment should be in Livewire’s fa­vor. Justice Bellamy, one of the five, writes a separate opinion. The four justices who believe the judgment should be in Power’s favor join in a third separate opinion.

31. Refer to Fact Pattern 1-1. These opinions are collected and published in volumes called

 a. citations.

 b. codes.

 c. regulations.

 d. reporters.

 ANSWER: D PAGE: 22 type: =

 BUSPROG: Analytic AICPA: BB-Research

32. Refer to Fact Pattern 1-1. Bellamy’s opin­ion is

 a. a concurring opinion.

 b. a dissenting opinion.

 c. a majority opinion.

 d. a *per curiam* opinion.

 ANSWER: A PAGE: 28 type: =

 BUSPROG: Analytic AICPA: BB-Research

33. Refer to Fact Pattern 1-1. The opin­ion joined by the four justices who favor Power is known as

 a. a concurring opinion.

 b. a dissenting opinion.

 c. a majority opinion.

 d. a *per curiam* opinion.

 ANSWER: B PAGE: 28 type: =

 BUSPROG: Analytic AICPA: BB-Research

34. Standard Business Company appeals a decision against it, in favor of Top Flight Corporation, from a lower court to a higher court. Standard is

a. the appellant.

b. the appellee.

c. the defendant.

d. the plaintiff.

 ANSWER: A PAGE: 28 TYPE: =

 BUSPROG: Reflective AICPA: BB-Legal

35. In 2005, Facebook launched a social media site that allows its users to designate certain other users as “friends.” Facetrak, a gaming site that allows its users to play with designated “friends,” claims that Facebook’s use of the word constitutes false advertising and trademark infringement. Under the principles discussed in “A Sample Court Case,” *Apple, Inc. v. Amazon.com, Inc.,* Facebook’s use most likely

a. creates an impression of seamless integration with Facetrak’s “friends.”

b. implies something false about the quality of Facebook’s “friends.”

c. makes no statement about the quality of Facetrak’s “friends.”

d. misleads gamers about the quality of Facebook’s “friends.”

 ANSWER: C PAGE: 30 type: N

 BUSPROG: Reflective AICPA: BB-Legal

**Essay QuestionS**

1. Americans with a Better Cause (ABC), a nonprofit organization, files a suit against the U.S. Department of Justice (DOJ), claiming that a cer­tain federal statute the DOJ is empowered to enforce conflicts with the U.S. Constitution and with a state constitution. In each situation, which source of law has priority?

 ANSWER: The U.S. Constitution is the supreme law of the land. A law in violation of the Constitution, no matter what its source, will be de­clared unconstitutional and will not be enforced. Thus, the federal statute does not have priority over the Constitution. The federal statute would have priority over the state constitution, however, because under the U.S. Constitution, when there is a conflict between a federal law and a state law, the state law is rendered invalid.

PAGES: 6–7 type: =

 BUSPROG: Reflective AICPA: BB-Decision Modeling

2. In a dispute between Cosmic Games Corporation and Mythic Engineering Associates, Inc., the court applies the doctrine of *stare decisis*.What is this doctrine? What does this doctrine have to do with the American le­gal system?

ANSWER: In a common law legal system, past judicial decisions are binding in current disputes with similar facts. This feature of the com­mon law, which is the basis of the American legal system, is unique be­cause, unlike the law in other legal systems, it is judge-made law. Within the common law system, when possible, judges attempt to be con­sistent and to base their decisions on the principles suggested by earlier cases. The body of principles and doctrines that form the common law emerged over time as judges applied the principles announced in earlier cases to subsequent legal controversies. The practice of deciding cases with reference to former decisions, or precedents—the cornerstone of the American legal system—is called the doctrine of *stare decisis*. Under this doctrine, judges are obligated to follow the precedents established within their jurisdictions. This helps courts to be more efficient, and makes the law more stable and predictable.

PAGES: 9–10 type: =

 BUSPROG: Reflective AICPA: BB-Decision Modeling