

Chapter 1

Business and Its Legal Environment

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. The law establishes rights, duties, and privileges that are consistent with the values of society.

ANSWER: T PAGE: 2 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

2. How judges apply the law to specific disputes may depend in part on their personal philosophical views.

ANSWER: T PAGE: 2 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

3. Law includes enforceable rules governing relationships between individuals and their society.

ANSWER: T PAGE: 2 TYPE: +
NAT: AACSB Analytic AICPA Legal

2 UNIT ONE: THE FOUNDATIONS

4. The natural law philosopher believes that the law should reflect universal moral and ethical principles that are part of human nature.

ANSWER: T PAGE: 3 TYPE: =
NAT: AACSB Ethics AICPA Critical Thinking

5. A federal law that conflicts with the U.S. Constitution will be deemed unconstitutional.

ANSWER: T PAGE: 6 TYPE: =
NAT: AACSB Analytic AICPA Legal

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

ANSWER: T PAGE: 6 TYPE: =
NAT: AACSB Analytic AICPA Legal

7. Constitutional law includes only the U.S. Constitution.

ANSWER: F PAGE: 6 TYPE: =
NAT: AACSB Analytic AICPA Legal

8. The U.S. Constitution is the supreme law of the United States.

ANSWER: T PAGE: 6 TYPE: =
NAT: AACSB Analytic AICPA Legal

9. Whether a law is constitutional depends on its source.

ANSWER: F PAGE: 6 TYPE: N
NAT: AACSB Analytic AICPA Legal

10. A state constitution is supreme within the state's borders so long as it does not conflict with the U.S. Constitution or a federal law.

ANSWER: T PAGE: 6 TYPE: N
NAT: AACSB Analytic AICPA Legal

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

ANSWER: F
NAT: AACSB Analytic

PAGE: 7
AICPA Legal

TYPE: N

4 UNIT ONE: THE FOUNDATIONS

12. Federal statutes apply to all states.

ANSWER: T PAGE: 7 TYPE: N
NAT: AACSB Analytic AICPA Legal

13. Every state has adopted the Uniform Commercial Code in its entirety.

ANSWER: F PAGE: 7 TYPE: N
NAT: AACSB Reflective AICPA Legal

14. Federal administrative agencies specify the powers of Congress.

ANSWER: F PAGE: 8 TYPE: N
NAT: AACSB Analytic AICPA Legal

15. State agency regulations take precedence over conflicting federal agency regulations.

ANSWER: F PAGE: 8 TYPE: N
NAT: AACSB Analytic AICPA Legal

16. Common law is not a source of legal authority.

ANSWER: F PAGE: 8 TYPE: N
NAT: AACSB Analytic AICPA Legal

17. Common law is a term for the law that is known to most of us.

ANSWER: F PAGE: 8 TYPE: N
NAT: AACSB Analytic AICPA Critical Thinking

18. Judges use precedent when deciding a case in a common law legal system.

ANSWER: T PAGE: 9 TYPE: =
NAT: AACSB Analytic AICPA Legal

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

ANSWER: T PAGE: 9 TYPE: =
NAT: AACSB Analytic AICPA Legal

20. A decision on a given issue by a court is not binding on any other court.
ANSWER: F PAGE: 9 TYPE: +
NAT: AACSB Analytic AICPA Legal
21. Courts do not depart from precedents.
ANSWER: F PAGE: 10 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking
22. A court may depart from a precedent if the court decides that the precedent should no longer be followed.
ANSWER: T PAGE: 10 TYPE: N
NAT: AACSB Reflective AICPA Critical Thinking
23. A defendant is a person against whom a lawsuit is brought.
ANSWER: T PAGE: 10 TYPE: =
NAT: AACSB Analytic AICPA Legal
24. Equity is a branch of unwritten law that seeks to supply remedies other than damages.
ANSWER: T PAGE: 10 TYPE: N
NAT: AACSB Analytic AICPA Legal
25. A plaintiff is a person against whom a lawsuit is brought.
ANSWER: F PAGE: 10 TYPE: =
NAT: AACSB Analytic AICPA Legal
26. A court's direction to a party to do or to refrain from doing a particular act is a rescission.
ANSWER: F PAGE: 10 TYPE: N
NAT: AACSB Analytic AICPA Legal
27. Equitable remedies include injunctions and decrees of specific performance.
ANSWER: T PAGE: 10 TYPE: N
NAT: AACSB Analytic AICPA Legal

28. Damages is a remedy at law.

ANSWER: T PAGE: 10 TYPE: +
NAT: AACSB Analytic AICPA Legal

29. In most states, a court can grant legal remedies or equitable remedies, but not both in the same case.

ANSWER: F PAGE: 12 TYPE: =
NAT: AACSB Analytic AICPA Legal

30. A substantive law creates or defines legal rights and obligations.

ANSWER: T PAGE: 12 TYPE: =
NAT: AACSB Analytic AICPA Legal

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

ANSWER: F PAGE: 13 TYPE: =
NAT: AACSB Analytic AICPA Legal

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

ANSWER: F PAGE: 13 TYPE: =
NAT: AACSB Analytic AICPA Legal

33. A reference to “28 U.S.C. Section 1432” means that a federal court’s decision can be found on Page 28 of Section 1432 of the *United States Cases*.

ANSWER: F PAGE: 19 TYPE: N
NAT: AACSB Analytic AICPA Research

34. Rules and regulations adopted by federal administrative agencies are compiled in the *Code of Federal Regulations*.

ANSWER: T PAGE: 20 TYPE: =
NAT: AACSB Analytic AICPA Research

35. Most state trial court decisions are not published.

ANSWER: T PAGE: 20 TYPE: =

8 UNIT ONE: THE FOUNDATIONS

NAT: AACSB Analytic

AICPA Research

MULTIPLE-CHOICE QUESTIONS

1. To Opal, the law is a tool for promoting justice. This is a view of what is sometimes called
- a. promotional jurisprudence.
 - b. the just society.
 - c. the sociological school.
 - d. utilitarianism.

ANSWER: C PAGE: 4 TYPE: N
NAT: AACSB Analytic AICPA Critical Thinking

2. Voters in North Carolina approve a new state constitution, after which the Ocean City Council passes new ordinances, the North Carolina Department of Parks and Recreation issues new rules, and the Ocean City Chamber of Commerce sends out new instructions. Sources of law do *not* include
- a. instructions issued by the Ocean City Chamber of Commerce.
 - b. ordinances passed by the Ocean City Council.
 - c. rules issued by the North Carolina Department of Parks and Recreation.
 - d. state constitutions passed by popular vote.

ANSWER: A PAGE: 5 TYPE: N
NAT: AACSB Reflective AICPA Legal

3. Alaska passes 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 Alaska only.
 - d. the United States Supreme Court only.

ANSWER: A PAGE: 6 TYPE: +
NAT: AACSB Reflective AICPA Legal

10 UNIT ONE: THE FOUNDATIONS

4. In Michigan, the highest-ranking (superior) law is
- a. a case decided by the Michigan Supreme Court.
 - b. a provision in the Michigan constitution.
 - c. a rule created by a Michigan state administrative agency.
 - d. a statute enacted by the Michigan legislature.

ANSWER: B PAGE: 6 TYPE: =
NAT: AACSB Reflective AICPA Legal

5. If a provision in the Alabama state constitution conflicts with a provision in the U.S. Constitution
- a. neither provision applies.
 - b. the provisions are balanced to reach a compromise.
 - c. the state constitution takes precedence.
 - d. the U.S. Constitution takes precedence.

ANSWER: D PAGE: 6 TYPE: =
NAT: AACSB Reflective AICPA Legal

6. The U.S. Congress passes a new federal statute that sets different standards for the liability of businesses selling defective products. This statute applies
- a. only to matters not covered by state law.
 - b. only to those states that adopt the statute.
 - c. to all of the states.
 - d. to none of the states.

ANSWER: C PAGE: 7 TYPE: +
NAT: AACSB Reflective AICPA Legal

7. The River City Council, the Santa Clara County Board, the Texas state legislature, and the U.S. Congress pass laws. These laws constitute
- a. administrative law.
 - b. case law.
 - c. *stare decisis*.
 - d. statutory law.

ANSWER: D PAGE: 7 TYPE: N

NAT: AACSB Reflective

AICPA Critical Thinking

8. Mariah is a consultant to the National Conference of Commissioners on Uniform State Laws. This organization
- adopts uniform laws for the states.
 - applies uniform laws to the states.
 - drafts uniform laws for adoption by the states.
 - imposes uniform laws on the states.

ANSWER: C PAGE: 7 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

9. The Uniform Commercial Code has been adopted, at least in part, in
- all states.
 - forty-five states.
 - twenty-five states.
 - no state.

ANSWER: A PAGE: 7 TYPE: +
NAT: AACSB Reflective AICPA Legal

10. The Federal Trade Commission (FTC) is a government agency that issues rules, orders, and decisions. The Georgia state legislature enacts statutes. The Jackson County Board and the Peach City Council enacts ordinances. Administrative law includes
- all law that affects a business's operation.
 - decisions, orders, and rules of the FTC.
 - ordinances enacted by county board and the city council.
 - statutes enacted by the state legislature.

ANSWER: B PAGE: 8 TYPE: +
NAT: AACSB Reflective AICPA Legal

11. Areas of the law not governed by statutory or administrative law are
- governed by the common law.
 - open to each individual's own interpretation.
 - regulated by the states under the U.S. Constitution.
 - subject to local ordinances.

12 UNIT ONE: THE FOUNDATIONS

ANSWER: A PAGE: 8 TYPE: =
NAT: AACSB Analytic AICPA Legal

12. Connie is a federal judge. Connie's judicial decisions are part of case law. This law includes interpretations of
- a. administrative regulations only.
 - b. constitutional provisions only.
 - c. statutes only.
 - d. administrative regulations, constitutional provisions, and statutes.

ANSWER: D PAGE: 8 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

13. The "common law" is referred to as the common law because
- a. it is the law that is familiar to most of us.
 - b. it was originally applied only to commoners.
 - c. it was more or less uniform throughout England.
 - d. the law was issued by courts of common pleas.

ANSWER: C PAGE: 8 TYPE: N
NAT: AACSB Reflective AICPA Legal

14. The federal government and the state governments constitute the U.S. legal system. This system is based on the legal system of
- a. Ancient Greece.
 - b. Ancient Rome.
 - c. England.
 - d. France.

ANSWER: C PAGE: 8 TYPE: N
NAT: AACSB Reflective AICPA Legal

15. As a judge, Jason 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: 8

TYPE: =

NAT: AACSB Reflective

AICPA Legal

14 UNIT ONE: THE FOUNDATIONS

16. In *Ben 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 the *Daphne* case to cancel the contract.
- b. disregard the *Ben* case.
- c. order the minor in the *Daphne* case to cancel the contract.
- d. require the minor in the *Daphne* case to fulfill the contract.

ANSWER: A PAGE: 9 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

17. Lois is an appellate court judge. In this capacity, she establishes a rule of law. Under the doctrine of *stare decisis*, the principle must be adhered to by

- a. all courts.
- b. courts of lower rank only.
- c. that court and courts of lower rank.
- d. that court only.

ANSWER: C PAGE: 9 TYPE: =
NAT: AACSB Analytic AICPA Legal

18. Karen is a judge hearing the case of *Local Co. v. Macro Corp.* Applying the relevant rule of law to the facts of the case requires Kurt 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: 9 TYPE: =
NAT: AACSB Reflective AICPA Critical Thinking

19. In *Sales Distribution Corp. v. Consumer Products Co.*, the court decides that a precedent is incorrect or inapplicable. The court
- may rule contrary to the precedent.
 - must apply the precedent.
 - must refuse to decide the particular case.
 - must “stand on the decided case.”

ANSWER: A PAGE: 10 TYPE: =
 NAT: AACSB Reflective AICPA Legal

20. In *Export Co. v. Imports, Inc.*, there is no precedent on which the court can base a decision. The court can consider
- neither public policy nor social customs and values.
 - public policy only.
 - public policy or social customs and values.
 - social customs and values only.

ANSWER: C PAGE: 10 TYPE: =
 NAT: AACSB Reflective AICPA Critical Thinking

21. A state trial court has before it *Eagle Manufacturing Co. v. Fine Products Corp.*, a case with no binding authority. The court can
- not refuse to decide the *Eagle* case.
 - postpone deciding *Eagle* indefinitely.
 - postpone deciding *Eagle* until there is binding authority.
 - refuse to decide *Eagle*.

ANSWER: A PAGE: 10 TYPE: =
 NAT: AACSB Reflective AICPA Legal

22. In an action against Elin, Frank obtains a *remedy*. This is
- an administrative agency’s enforcement of its rule.
 - a principle of the law derived from earlier court cases.
 - a statute enacted by a state legislature or Congress.
 - the legal means to enforce a right or to redress a wrong.

ANSWER: D PAGE: 10 TYPE: N

NAT: AACSB Reflective

AICPA Legal

23. Network Corporation files a suit against Omega, Inc., alleging that Omega breached a contract to sell Nett a computer system. Network is
- a. the appellant.
 - b. the appellee.
 - c. the defendant.
 - d. the plaintiff.

ANSWER: D PAGE: 10 TYPE: =
NAT: AACSB Reflective AICPA Legal

24. In a suit against Chad, Dodie obtains the cancellation of a contract, which is
- a. a decree of specific performance.
 - b. an award of damages.
 - c. an injunction.
 - d. rescission.

ANSWER: D PAGE: 11 TYPE: =
NAT: AACSB Reflective AICPA Legal

25. In a suit against Kathy, Lon obtains specific performance. This is
- a. a direction to a party to do or refrain from doing a particular act.
 - b. an award of compensation.
 - c. an order to perform what was promised.
 - d. the cancellation of a contract.

ANSWER: C PAGE: 11 TYPE: N
NAT: AACSB Reflective AICPA Legal

26. Guru Internet, Inc. (GII), is an Internet service provider. GII's tech support employees are on strike. Six of the workers are blocking GII's door. To get them away from the door, GII should obtain
- a. a decree of specific performance.
 - b. an award of damages.
 - c. an injunction.
 - d. a rescission.

ANSWER: C PAGE: 11 TYPE: =
 NAT: AACSB Reflective AICPA Decision Modeling

27. Holly is a state court judge. Ilsa appears in a case in Holly's court, claiming that Jim breached a contract. As in most state courts, Holly may
- a. award damages, cancel the contract, or direct a party to do or not to do an act.
 - b. award damages only.
 - c. cancel the contract only.
 - d. direct a party to do or not to do a particular act only.

ANSWER: A PAGE: 12 TYPE: +
 NAT: AACSB Reflective AICPA Legal

28. Lev is a judge. In his court, Lev may bar a suit if it is not filed within a proper time according to
- a. a statute of limitations.
 - b. the doctrine of *stare decisis*.
 - c. the chancellor's discretion.
 - d. the king's conscience.

ANSWER: A PAGE: 12 TYPE: N
 NAT: AACSB Analytic AICPA Legal

29. Beth is a victim of Carlyle'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: 13 TYPE: N
 NAT: AACSB Reflective AICPA Legal

18 UNIT ONE: THE FOUNDATIONS

30. When Overseas Sales, Inc., based in New York, does business internationally, the firm may be subject to international law. The sources of this law include
- a. the laws of individual nations only.
 - b. treaties and international organizations only.
 - c. the laws of individual nations, and treaties and international organizations.
 - d. none of the choices.

ANSWER: C PAGE: 14 TYPE: =
NAT: AACSB Reflective AICPA 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, six believe the judgment should be in Livewire's favor. Justice Bellamy, one of the six, 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: 20 TYPE: N
NAT: AACSB Analytic AICPA Research

32. 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: 26 TYPE: N
NAT: AACSB Analytic AICPA Research

33. 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: 26 TYPE: N
NAT: AACSB Analytic AICPA 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: 26 TYPE: N
NAT: AACSB Reflective AICPA Legal

35. Florida public policy is to protect consumers from unfair and deceptive business practices. A state statute declares unenforceable any waiver of its provisions, which include a provision for consumer class actions. WISP Inc. requires its customers to sign an agreement that designates South Dakota courts and law to govern all disputes. In a suit by a group of Florida consumers against WISP, the court is most likely to rule that the agreement is, under the principles discussed in "A Sample Court Case," *Doe 1 v. AOL LLC*

- a. enforceable because there is no reason not to enforce it..
- b. enforceable because the parties had equal "bargaining power."
- c. unenforceable as a violation of Florida policy and law.
- d. unenforceable as a violation of South Dakota policy and law.

ANSWER: C PAGE: 28 TYPE: N
NAT: AACSB Reflective AICPA Legal

ESSAY QUESTIONS

1. In a lawsuit between Super Sales Corporation and Topper 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: =

NAT: AACSB Reflective

AICPA Legal

2. The Olympic Torch Relay passed through Juneau, Alaska, on its way to the winter games in Salt Lake City, Utah, in 2002. Students at Juneau-Douglas High School (JDHS) were permitted to leave class to observe the relay. As it passed in front of the school, Joseph Frederick, a senior, and his friends unfurled a banner bearing the phrase: “BONG HiTS 4 JESUS.” Deborah Morse, JDHS’s principal, confiscated the banner and suspended Frederick for ten days. Frederick’s suit against Morse was eventually appealed to the United States Supreme Court. The Court’s opinion in the case is at *Morse v. Frederick*, __ U.S. __, 147 S.Ct. 2618, 168 L.Ed.2d 290 (2007). Specifically where can this opinion be found?

ANSWER: This case—*Morse v. Frederick*, __ U.S. __, 147 S.Ct. 2618, 168 L.Ed.2d 290 (2007)—can be found in its entirety in volume 147 of the *Supreme Court Reporter*, on page 2618, and in volume 168 of *Lawyers’ Edition of the Supreme Court Reports*, on page 290. Both publications are unofficial editions of the decisions of the United States Supreme Court. The opinion may also be found in *United States Reports*, the official edition of the Court’s decisions, but the blank lines indicate that the volume has not yet been published and no page numbers have yet been assigned. The Court decided this case in 2007.

PAGES: 22 & 23

TYPE: N

NAT: AACSB Reflective

AICPA Research