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| 1. The difference between what the public thinks it is getting in audited financial statements and what the public is actually getting is known as:

|  |  |  |
| --- | --- | --- |
|   | a.  | the credibility gap. |
|   | b.  | the expectations gap. |
|   | c.  | the audit gap. |
|   | d.  | the stewardship gap. |
|   | e.  | None of the above |

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| *ANSWER:* | b |

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| 2. Which of the following is **not** a trend described in Chapter 1 as having an impact on the ethics of business?

|  |  |  |
| --- | --- | --- |
|   | a.  | Directors’ legal liability |
|   | b.  | Management’s stated intention to protect reputation |
|   | c.  | Auditors’ legal liability |
|   | d.  | Management’s assertions to shareholders on the adequacy of internal controls |
|   | e.  | Management’s stated intention to manage risk |

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| *ANSWER:* | c |

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| 3. Which corporate report discusses subjects that include environmental, health and safety, philanthropic, and other social impacts?

|  |  |  |
| --- | --- | --- |
|   | a.  | A corporate annual report |
|   | b.  | A corporate social responsibility report |
|   | c.  | A corporate quarterly report |
|   | d.  | A corporate stakeholder report |
|   | e.  | A corporate ethics committee report |

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| *ANSWER:* | b |

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| 4. Professional accountants, in their fiduciary role, owe their primary loyalty to:

|  |  |  |
| --- | --- | --- |
|   | a.  | the accounting profession. |
|   | b.  | the client. |
|   | c.  | the general public. |
|   | d.  | government regulations. |
|   | e.  | All of the above |

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| *ANSWER:* | c |

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| 5. Ethical corporate behavior is expected to lead to:

|  |  |  |
| --- | --- | --- |
|   | a.  | higher profitability in the short term. |
|   | b.  | higher profitability in both the short term and the long term. |
|   | c.  | lower profitability in the long term. |
|   | d.  | higher profitability in the long term. |
|   | e.  | lower profitability in both the short term and the long term. |

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| *ANSWER:* | d |

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| 6. Examining the interests of stakeholders is probably required for:

|  |  |  |
| --- | --- | --- |
|   | a.  | high short-term profits. |
|   | b.  | optimal medium- and longer-term profits. |
|   | c.  | continuing support from stakeholder groups. |
|   | d.  | effective risk management. |
|   | e.  | All of the above |

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| *ANSWER:* | a |

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| 7. A value that is almost universally respected by stakeholder groups is:

|  |  |  |
| --- | --- | --- |
|   | a.  | a super norm. |
|   | b.  | an alfa norm. |
|   | c.  | a value norm. |
|   | d.  | a hypernorm. |
|   | e.  | a general norm. |

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| *ANSWER:* | d |

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| 8. Since the mid-1990s, both management and auditors have become increasingly:

|  |  |  |
| --- | --- | --- |
|   | a.  | profit management oriented. |
|   | b.  | ethics oriented. |
|   | c.  | value management oriented. |
|   | d.  | risk management oriented. |
|   | e.  | marketing oriented. |

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| *ANSWER:* | b, d |

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| 9. The following are determinants of reputation.

|  |  |  |
| --- | --- | --- |
|   | a.  | Trustworthiness and responsibility |
|   | b.  | Credibility, responsibility, and relevance |
|   | c.  | Responsibility and impartiality |
|   | d.  | Relevance and impartiality |
|   | e.  | Relevance, credibility, and responsibility |

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| *ANSWER:* | a |

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| 10. The following would be a key control function of a board of directors.

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| --- | --- | --- |
|   | a.  | Set guidance and boundaries |
|   | b.  | Appoint the CEO |
|   | c.  | Approve the sale of the company’s assets |
|   | d.  | Decide on the company’s auditor |
|   | e.  | All of the above |

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| *ANSWER:* | e |

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| 11. Companies attempt to manage the risk of something happening that will have a negative or positive impact on the company’s objectives, such as:

|  |  |  |
| --- | --- | --- |
|   | a.  | credit risks. |
|   | b.  | litigation risks. |
|   | c.  | reputation risks. |
|   | d.  | ethics risks. |
|   | e.  | All of the above |

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| *ANSWER:* | e |

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| 12. Most large corporations do not consider these risks in a broad and comprehensive way.

|  |  |  |
| --- | --- | --- |
|   | a.  | Operational risks |
|   | b.  | Reputational risks |
|   | c.  | Credit risks |
|   | d.  | Market risks |
|   | e.  | Ethics risks |

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| *ANSWER:* | e |

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| 13. The following are examples of ethics risks faced by employees.

|  |  |  |
| --- | --- | --- |
|   | a.  | Honesty and integrity |
|   | b.  | Fairness and compassion |
|   | c.  | Integrity and responsibility |
|   | d.  | Fairness and integrity |
|   | e.  | Responsibility and honesty |

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| *ANSWER:* | b |

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| 14. Not reporting environmental issues is an example of:

|  |  |  |
| --- | --- | --- |
|   | a.  | a lack of transparency. |
|   | b.  | a lack of integrity. |
|   | c.  | a lack of accuracy. |
|   | d.  | All of the above |
|   | e.  | None of the above |

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| *ANSWER:* | b |

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| 15. Incomplete disclosure of a company’s revenue recognition policy is an example of:

|  |  |  |
| --- | --- | --- |
|   | a.  | a lack of transparency. |
|   | b.  | a lack of integrity. |
|   | c.  | a lack of accuracy. |
|   | d.  | All of the above |
|   | e.  | None of the above |

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| *ANSWER:* | a |

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| 16. This philosophical approach requires that an ethical decision depend upon the duty, rights, and justice involved.

|  |  |  |
| --- | --- | --- |
|   | a.  | Consequentialism |
|   | b.  | Virtue ethics |
|   | c.  | Duty ethics |
|   | d.  | Righteousness |
|   | e.  | Deontology |

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| *ANSWER:* | a |

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| 17. The Modified Moral Standards Approach focuses on the following dimensions of the impact of a proposed action.

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| --- | --- | --- |
|   | a.  | Whether it provides a net benefit to society, is fair to all stakeholders, is right, and demonstrates the virtues expected |
|   | b.  | Whether it provides a net benefit to society and whether it is legal |
|   | c.  | Whether it provides a net benefit to society, is fair to all stakeholders, and is legal |
|   | d.  | Whether it is fair to most stakeholders and is right |
|   | e.  | Whether it provides a net benefit to society, is fair to most stakeholders, and is right |

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| *ANSWER:* | a |

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| 18. This organization is developing an international code of conduct for professional accountants.

|  |  |  |
| --- | --- | --- |
|   | a.  | The International Accounting Standards Board |
|   | b.  | The European Federation of Accountants |
|   | c.  | The Financial Accounting Standards Board |
|   | d.  | The Public Accounting Oversight Board  |
|   | e.  | The International Federation of Accountants |

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| *ANSWER:* | e |

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| 19. The following is a fundamental factor for having an effective ethical corporate culture.

|  |  |  |
| --- | --- | --- |
|   | a.  | Tone at the top (Ethical leadership) |
|   | b.  | Efficient oversight by the company’s board of directors  |
|   | c.  | Workplace ethics |
|   | d.  | Code of conduct |
|   | e.  | An ethics risk management program |

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| --- | --- |
| *ANSWER:* | a, c |

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| 20. How do we know that the #MeToo movement has been successful?

|  |  |  |
| --- | --- | --- |
|   | a.  | Sexual violence against women has stopped.  |
|   | b.  | Police forces are taking women’s complaints of bullying seriously. |
|   | c.  | Court cases against high-ranking executives and celebrities are becoming successful. |
|   | d.  | Major companies are investigating and firing executives accused of sexual misbehavior with employees. |
|   | e.  | None of the above |

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| *ANSWER:* | c, d |

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| 21. The August 2019 Business Roundtable *Statement on the Purpose of a Corporation* is important because:

|  |  |  |
| --- | --- | --- |
|   | a.  | It confirms that profit maximization is the appropriate sole goal of corporations. |
|   | b.  | It confirms that corporations are accountable only to shareholders. |
|   | c.  | It confirms that corporations are to benefit all stakeholders. |
|   | d.  | It changes what most executives have thought. |
|   | e.  | None of the above |

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| *ANSWER:* | c, d |

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| 22. NOCLAR rules or standards are important because they:

|  |  |  |
| --- | --- | --- |
|   | a.  | will cause business to observe No Carbon Required practices. |
|   | b.  | will cause executives to be less aggressive. |
|   | c.  | will cause professional accountants to violate employer confidences. |
|   | d.  | will cause professional accountants to report nonsustainable practices of clients. |
|   | e.  | None of the above |

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| --- | --- |
| *ANSWER:* | c |

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| 23. Nonfinancial measures of performance have become increasingly popular because they:

|  |  |  |
| --- | --- | --- |
|   | a.  | are better measures of performance than traditional financial measures. |
|   | b.  | are easier to understand than traditional financial measures. |
|   | c.  | are easier to compute than traditional financial measures. |
|   | d.  | are less susceptible to manipulation than traditional financial measures. |
|   | e.  | All of the above |

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| *ANSWER:* | e |

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| 24. The International Federation of Accountants (IFAC):

|  |  |  |
| --- | --- | --- |
|   | a.  | is not relevant to professional accountants in most industrialized countries. |
|   | b.  | is not relevant to professional accountants working in industry. |
|   | c.  | was created to develop global accounting, auditing, and ethics standards for professional accountants. |
|   | d.  | has the authority to discipline professional accountants. |
|   | e.  | has an impact on professional accounting practices in less than 20 countries around the world. |

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| *ANSWER:* | c |

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| 25. Effective crisis management could represent:

|  |  |  |
| --- | --- | --- |
|   | a.  | an opportunity to avoid costs. |
|   | b.  | an opportunity to change employees’ perspectives on risk. |
|   | c.  | an opportunity to enhance a company’s reputation. |
|   | d.  | All of the above |
|   | e.  | None of the above |

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| *ANSWER:* | c |

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