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Chapter 1 - Ethics Expectations

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 these.

ANSWER: b

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.

ANSWER: c

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.

ANSWER: b

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 these.

ANSWER: c

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.

ANSWER: d

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

- a. High short-term profits.

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- b. Optimal medium- and longer-term profits.
- c. Continuing support from stakeholder groups.
- d. Effective risk management.
- e. All of these.

ANSWER: a

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.

ANSWER: d

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.

ANSWER: b, d

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.

ANSWER: a

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

- 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 these.

ANSWER: e

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.

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e. All of these.

ANSWER: e

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

ANSWER: e

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.

ANSWER: b

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 these.
- e. None of these.

ANSWER: b

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 these.
- e. None of these.

ANSWER: a

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.

ANSWER: a

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.

ANSWER: a

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.

ANSWER: e

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.

ANSWER: a, c

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 these.

ANSWER: c, d

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 these.

ANSWER: c, d

22. NOCLAR rules or standards are important because they will:
- a. Cause businesses to observe No Carbon Required practices.
 - b. Cause executives to be less aggressive.
 - c. Cause professional accountants to violate employer confidences.

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- d. Cause professional accountants to report nonsustainable practices of clients.
- e. None of these.

ANSWER: c

23. Nonfinancial measures of performance have become increasingly popular because they are:
- a. Better measures of performance than traditional financial measures.
 - b. Easier to understand than traditional financial measures.
 - c. Easier to compute than traditional financial measures.
 - d. Less susceptible to manipulation than traditional financial measures.
 - e. All of these.

ANSWER: e

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.

ANSWER: c

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 these.
 - e. None of these.

ANSWER: c