Chapter 1

Review Questions

1. **What is the primary goal of corporate governance?**
   To create a balance of power-sharing among shareholders, directors, and management to enhance shareholder value and protect the interests of other stakeholders.
2. **What is the primary mission of a public company?**
   To create sustainable and enduring shareholder value.
3. **What is the role of a corporate governance gatekeeper?**
   To align management's interests with those of long-term shareholders and to protect investors from misleading financial information published in public filings.
4. **Corporate governance reforms and best practices require the establishment of what four key gatekeepers to deal with the perceived agency problems of asymmetric information between management and investors and to improve the quality of public financial information?**
   (1) Independent and competent board of directors; (2) independent and competent external auditor; (3) objective and competent legal counsel; and (4) objective and competent financial advisors and investment bankers.
5. **How does an effective corporate governance structure improve investor confidence?**
   It ensures corporate accountability, enhances the reliability and quality of public financial information, and enhances the integrity and efficiency of the capital market.
6. **What is the primary intent of corporate governance reforms?**
   To improve:
   - The reliability, integrity, transparency, and quality of financial reports.
   - The effectiveness of internal controls over financial reporting and related risk management assessment.
   - The credibility of the external audit function.
   - The independence and objectivity of other gatekeepers such as legal counsel and financial analysts.
   - Shareholder monitoring and democracy.
7. **What benefits are obtained by the proper implementation of SOX?**
   - Improved corporate governance.
   - Enhanced quality, reliability, and transparency of financial information.
   - Improved audit objectivity and effectiveness in lending credibility to published financial statements.
8. **How can the board of directors influence the corporate culture?**
   - Set an appropriate "tone at the top," promoting personal integrity and professional accountability.
   - Reward high-quality and ethical performance.
   - Discipline poor performance and unethical behavior.
   - Maintain the company's high reputation and stature in the industry and the business community.
9. **What is the intention of organizational codes of business ethics and conduct?**
   Codes of business ethics and conduct are intended to govern behavior, but they cannot substitute for moral principles, culture, and character.
10. **Corporate governance depends on what three practices to be effective?**

- Compliance with state and federal statutes.
- Compliance with listing standards.
- Implementation of best practices suggested by investor activists and professional organizations.

11. Why is there no universal definition of corporate governance?

The scope covers a vast array of distinct economic phenomena and it is often described from a shareholder's view.

12. How have SOX provisions, SEC-related rules, and listing standards influenced the corporate governance structure?

- Auditors, analysts, and legal counsel who were not traditionally considered components of corporate governance are now brought into the realm of internal governance as gatekeepers.
- The legal status and fiduciary duty of company directors and officers have been more clearly defined and significantly enhanced.
- Certain aspects of state corporate law were preempted and federalized.

13. What business entities are currently affected by SOX?

SOX applies equally to and is intended to benefit all publicly traded companies, although many provisions are also relevant to private and not-for-profit organizations.

14. What is the difference between a shareholder and a stakeholder?

Shareholders are individuals or groups who are traditionally the primary users of the company's financial reports, which reflect the company's financial condition and the results of operations. They also have greater rights of involvement with decisions and monitoring of a company. Stakeholders are individuals or groups, including shareholders, creditors, customers, employees, suppliers, competitors, governmental entities, environmental agencies, and social activists, who affect the company's strategic decisions, operations, and performance.

15. What are the primary differences between financial reporting and corporate accountability reporting?

Financial Reporting	Corporate Accountability Reporting
• Legal requirement.	• Not a legal requirement.
• Prepared based on a set of generally accepted accounting principles and standards.	• No single set of standards which are widely agreed upon.
• Audit is required.	• No mandatory assurance report.
• Guidelines specify the type and level of assurance.	• No guidelines specify the type and level of assurance.
• Prepared primarily for shareholders.	• Provided to a broad range of stakeholders with different and often competing interests.

16. What is the relationship between corporations and stakeholders, and what is the corporations' role in that relationship?

There is a contractual relationship between corporations and their stakeholders. The corporations' role is to create and protect the value of that contract.

17. What is the primary difference between the first and second tier of the stakeholder hierarchy?

The first tier is the shareholders and owners of the corporation. They are absent in the daily operations. The second tier consists of those involved in the operations of the corporations.

19. To whom are corporations accountable?

Corporations are accountable to all internal and external stakeholders in a corporation. This can lead however to agency problems.

19. Explain the relationship between corporations and the capital markets in the United States.

The capital markets provide funds to corporations and thus monitor their corporate governance to align the interests of management with the interests of investors. On the other hand, corporations provide relevant financial information to the capital markets, which facilitates the efficiency and liquidity of the capital markets.

Discussion Questions

1. **In your own words, briefly explain the concepts of value creation and value protection.**

   The value creation goal of corporate governance focuses on shareholder value creation and enhancement through the development of long-term strategies to ensure sustainable and enduring operational performance. The value protection goal of corporate governance concentrates on the accountability of the way a company is managed and monitored to protect the interests of shareholders and other stakeholders. These two concepts should be considered within every company.

2. **Has Sarbanes-Oxley thus far had a positive, negative, or neutral effect on public companies? Defend your answer.**

   The Sarbanes-Oxley Act has had an overall positive effect on public companies. Within the areas of financial reporting and corporate accountability, SOX has encouraged management to effectively formulate and implement a strong system of internal control and financial reporting such that errors and fraud are materially prevented, detected, and corrected. SOX has increased the cost of compliance with federal regulations, particularly with Section 404, but these costs are outweighed by the benefits of robust financial reporting, increased scrutiny of management's dealings within the organization, and increased investor confidence. Additionally, measures are being taken to decrease the costs of SOX, such as proposed Auditing Standard No. 5 by the PCAOB.

3. **Discuss the following quote from Lori A. Richards, the SEC's Director of the Office of Compliance Inspections and Examinations:**

   > **"It's not enough to have policies. It's not enough to have procedures. It's not enough to have good intentions. All of these can help. But to be successful, compliance must be an embedded part of your firm's culture."**

   In addition to policies and procedures designed to promote effective corporate governance, organizations must create and reinforce a consistent, positive corporate culture which complements such measures. Members of the organization, starting with the executives, must lead by example in their efforts to encourage others to comply with applicable policies and procedures. The norms and values embraced by the organization as its corporate culture should be consistent with its policies and procedures; otherwise behavior inconsistent with those policies and procedures will result. Compliance just for the sake of compliance and the development of a "check box" mentality is not enough. Corporations should create an ethical culture that encourages all corporate governance participants including directors, officers, auditors, financial advisors, employees, and others to do the right thing and understand that this is vital to the company's sustainable financial performance.

4. What are the benefits of an MBL approach?

MBL reporting forces organizations to consider the effects of many aspects of their operations in addition to financial reporting, such as environmental, social, ethical, and governance performance. Since the effects of organizations in these areas can be significant, many stakeholders benefit from the fact that MBL reporting makes organizations accountable for the effects of their operations in many different areas.

5. Who are first-tier, second-tier, and third-tier stakeholders, and why are they significant to the organization?

The first tier of stakeholder hierarchy consists of investors or shareholders who own the company. Shareholders are the primary stakeholders—without them the company would not exist. Many argue that the primary purpose and responsibility of the company is to maximize shareholder wealth by creating sustainable and enduring shareholder value. Thus, the company's corporate governance structure should reduce the agency costs raised from the separation of ownership and control by aligning the interests of management with those of the shareholders. Lenders and creditors are considered as the second-tier stakeholders in the company. Debtholders may have significant power in situations in which the organization is funded largely by debt. The third tier of stakeholders consists of employees, suppliers, governments, customers, and society. This tier should be important to the organization, as the collective actions of such a large base of stakeholders could significantly affect the organization.

6. What is the significance of quality financial statements and other financial reporting information?

Financial statements are a vital source of information to the capital markets and their participants. The quality of investment and voting decisions by investors depends on the accuracy, completeness, and reliability of financial information disseminated to them by public companies. Thus, high-quality financial information improves investor decisions and in turn the efficiency, liquidity, and safety of the capital markets, which may result in prosperity and economic growth for the nation. Therefore, quality financial statements and other financial reporting information is important to the strength of capital markets.

7. What are the responsibilities of corporate governance gatekeepers?

The board of directors is charged with overseeing management's strategy and performance. The external auditor is responsible for providing a high level of assurance regarding the reliability, quality, and transparency of the financial reports of public companies. Legal counsel is charged with providing legal advice and ensuring more than mere technical compliance with applicable laws, regulations, rules, and standards. The financial advisors and investment bankers are responsible for advising company management and the board in conducting legitimate business affairs and transactions that have a valid economic purpose. All gatekeepers must be competent in order to be effective in promoting strong corporate governance.

8. What should the board of directors do to promote a positive corporate culture?

The engaged board of directors can significantly influence the corporate culture by: (1) setting an appropriate "tone at the top," promoting personal integrity and professional accountability; (2) rewarding high-quality and ethical performance; (3) disciplining poor performance and unethical behavior; and (4) maintaining the company's high reputation and stature in the industry and the business community. By taking these actions, the board of directors helps to promote a culture within the organization that is consistent with corporate governance objectives.

9. **Will compliance with applicable laws, rules, and regulations ensure effective corporate governance? Explain your answer.**

   Mere compliance with applicable laws, rules, and regulations will not guarantee effective corporate governance, since those measures cannot change the culture within an organization. Thus, companies should integrate the best practices suggested by investor activists and professional organizations into their corporate governance structure. Effective corporate governance can only be achieved when all participants: (1) add value to the company's sustainable long-term performance; (2) effectively carry out their fiduciary duty and professional responsibilities; (3) are held accountable and personally responsible for their performance; and (4) develop a practice of not only complying with applicable regulations, but also committing to doing the right thing, observing ethical principles of professional conduct in avoiding potential conflicts of interest, and acting in the best interests of the company and its shareholders.

10. **What are some reasons for integrating corporate governance and business ethics education into the business curriculum?**

    The following are reasons for integrating corporate governance and business education into the business curriculum: (1) reported financial scandals (e.g., Enron, WorldCom, Global Crossing, Adelphia, Qwest) underscore the importance of vigilant corporate governance and ethical conduct by corporations; (2) the Sarbanes-Oxley Act of 2002 (SOX) is intended to improve corporate governance by enforcing more accountability for public companies and requiring adoption of a code of ethics for their executives; (3) anecdotal evidence and academic studies suggest that corporate governance and business ethics are not properly integrated into business education, and coverage of these issues should be increased; (4) teaching and research in corporate governance and business ethics have been strongly recommended and encouraged; (5) there is an inventory of support materials for teaching business ethics and corporate governance in the post-Enron era. There are sufficient resources (textbooks such as this book, published articles, Internet Web sites, videos) to offer a stand-alone course or integrate business ethics and corporate governance modules throughout accounting courses; (6) it is easier to obtain administrative support to offer business ethics and corporate governance courses in the post-SOX era; (7) several business schools have developed innovative strategies for engaging students in the challenge of providing ethical leadership by focusing on both positive and negative examples of everyday conduct in business; (8) there is an increasing trend toward incorporation of business ethics and corporate governance education into the business curriculum worldwide; (9) accounting programs should integrate provisions of SOX on corporate governance, financial reporting, and audit functions into the curriculum; (10) corporate governance has evolved from compliance requirements to a business imperative; (11) the National Association of State Boards of Accounting (NASBA), in its Exposure Draft of Uniform Accounting Rules 5-1 and 5-2 regarding NASBA 150-hour education, emphasized the need for six semester credit hours in ethical and professional responsibilities; and (12) the Association to Advance Collegiate Schools of Business International (AACSB) has promoted the integration of business ethics and corporate governance into the business curriculum.

11. As noted in the text, corporate governance has no universally accepted definition. Define corporate governance and explain your definition.

Within a dispersed ownership structure, corporate governance is a process affected by legal, regulatory, contractual, and market-based mechanisms and best practices to create substantial shareholder value while protecting the interests of other shareholders. In a capital structure where there is a concentrated ownership and a small group of shareholders can exercise ownership control, corporate governance should ensure alignment of the interests of controlling shareholders with those of minority or individual shareholders.

12. The following is a list of eight entities and conventional systems that shape corporate governance. Provide examples of how or what they have done.

a. **Federal legislation**

   Rules and regulations set forth by Congress provide guidance as to the operation of corporate governance in publicly traded companies. An example would be the Sarbanes-Oxley Act of 2002, which dramatically affected corporate governance guidelines both in the United States and around the world.

b. **State statutes**

   State statutes affect the way public organizations execute corporate governance within a particular state. In conjunction with federal guidelines, state statutes can provide additional guidance on corporate governance through corporate charters.

c. **SEC regulation**

   The SEC rules and regulations provide guidance for publicly traded companies in corporate governance. The SEC, in conjunction with the Public Company Accounting Oversight Board (PCAOB), provides these guidelines to increase the effectiveness of corporate governance.

d. **The courts**

   The courts may at times set legal precedents through the interpretation of those rules and regulations set forth by Congress, the SEC, and the PCAOB. These courts, in effect, give publicly traded companies guidance on how to adhere to corporate governance rules and regulations.

e. **Listing standards**

   Listing standards of national stock exchanges also provide guidance on corporate governance for organizations attempting to list on those exchanges. Often, an organization must adhere to certain corporate governance guidelines set forth by the stock exchange before the organization would be eligible to list on that exchange.

f. **Investor activists**

   Investor activists fight for investor rights and serve as watchdogs to ensure that organizations are protecting those rights. Investor activists may push certain corporate governance practices in order to increase the quality of corporate governance within an organization.

g. **Investors**

   Investors, like investor activists, may aid in monitoring the operations of a company. And similar to investor activists, investors may push certain corporate governance practices in order to increase the quality of corporate governance within an organization.

h. **Other corporate governance participants**

   Other corporate governance participants, such as corporate governance gatekeepers, may aid in monitoring the corporate governance practices within an organization. These participants may aid the others in influencing many aspects of corporate governance within different organizational settings.

13. **The book mentions many examples of the give-take relationship between corporations and society. What are some other examples of the corporation/society relationship? Provide a minimum of three examples.**

    One example of this relationship could be found in a manufacturing plant environment in which the manufacturing process is such that hazardous emissions are released into the atmosphere. The corporation is able to supply jobs for those in the area, but they may have to live close to the plant and be subject to harmful emissions. Another example can be found in the pricing policy of many corporations. Corporations may need to price a certain product high enough to cover costs, but this price may make the product unavailable to those who need it most. Should the corporation decrease its price, it could become insolvent. Should it maintain its price, those who need the product most may have to do without it. Yet another example of the give-take relationship between corporations and society is the compensation policy of management within an organization. Such compensation should be high enough to attract highly qualified individuals, but should not be so exorbitant that it becomes a detriment to the shareholders of the organization.

14. **Discuss the significance and importance of investors (shareholders) as the first tier of the stakeholder hierarchy.**

    Shareholders are the primary stakeholders; without them the company would not exist. Many argue that the primary purpose of the company is to maximize shareholder wealth. Thus, the company's corporate governance structure should reduce the agency costs raised from the separation of ownership and control by aligning the interests of management with those of shareholders. Shareholders provide capital to the company in return for sustainable return on their investment in terms of periodic dividends and stock price appreciations. Payment of dividends reduces the amount of discretionary funds available to management and, thus, can be used as a deterrent to opportunistic managerial behavior and as a vehicle for controlling management actions. Shareholders participate and shape the company's corporate governance structure by exercising their voting rights to elect the members of the board of directors who are directly responsible to protect their interests and are ultimately accountable to them for the company's business affairs.

True/False

1. Investors are taking a more active role in their financial future through private investments in the securities markets.
2. The involvement of the board of directors, audit committee, management, and auditors is considered a value-adding function.
3. Investors should not and do not rely on financial reports for decision making purposes.
4. The board of directors is elected by shareholders and is responsible for hiring the appropriate management to operate the daily company operations.
5. Recent accounting scandals helped to boost the public's confidence and trust in financial disclosures presented in financial reports.
6. A corporate gatekeeper is assigned to ensure that only authorized individuals are allowed in the corporate offices.

7. Companies with a well-defined corporate governance structure are more likely to restate their earnings than companies with no corporate governance structure.
8. Corporate governance has one worldwide accepted definition, “To promote corporate fairness, transparency, and accountability.”
9. Market correction mechanisms are preventive measures initiated prior to abuse and loss.
10. Corporate governance regulations will continue to be a leading discussion among policy makers, stakeholders, and corporate activists even as changes are made.
11. Sarbanes-Oxley applies to both public and private companies with annual revenues $10 million or greater.
12. Integrity in the equity market and restored investor confidence are both primary purposes of the Sarbanes-Oxley Act.
13. Compliance is compliance and a company does not need to establish a compliant culture from the top down.
14. Financial markets play an important role in creating safe, efficient, and the most competitive capital markets to ensure economic growth, low costs of capital, entrepreneurship, innovation, and job creation.
15. The preservation of the integrity, reputation, and efficiency of the capital markets is not the responsibility of all capital market participants.
16. The free enterprise system in the United States is characterized by a dispersed capital ownership structure.
17. Recent reported financial scandals prove that market mechanisms by themselves may not be adequate to monitor, control, and discipline business affairs, and corporate governance reforms are needed to correct the perceived failures of market mechanisms.
18. The improvement in public trust and investor confidence in corporate America, its financial reports, and capital markets is of no concern or priority to public companies.
19. Shareholders who invest capital in U.S. companies are often close by distance or knowledge to those managing corporations.
20. Corporations in the United States are viewed as creators of value for all concerned stakeholders.
21. All stakeholders are provided with incentives and opportunities to reward corporations for good performance and discipline them for poor performance.
22. The first tier of stakeholder hierarchy is investors or shareholders who own the company.
23. The extent to which an organization derives its funding from equity or debt does not significantly affect the business decisions of the company.
24. The sustainability and financial health of public companies, public trust, and investor confidence in financial reports play a crucial role in the integrity and efficiency of the capital markets and the economic growth and prosperity of the nation.
25. Reliability, accuracy, and transparency of financial information do not play a vital role in the efficiency, integrity, and safety of the capital markets.
26. The primary role of all corporate governance participants, as defined in this book, should center around the fundamental theme of protecting shareholders, restoring investor confidence, and supporting strong and efficient capital markets.
27. A compliance culture requires the establishment and implementation of proper programs, policies, and procedures to effectively comply with applicable regulations, laws, rules, standards, and best practices.
28. Companies that are well governed will usually outperform poorly governed companies and

will be able to attract investors to help finance further growth.
29. Shareholders are a type of stakeholder.
30. The board of directors is held personally liable for all damages caused by decisions that resulted in unsuccessful conclusions.
31. Corporations in the United States are viewed as destroyers of value for all concerned stakeholders.
32. The relationship between corporations and society is contractual and is demonstrated by a give/take scenario.

True/False

1. True
2. True
3. False
4. True
5. False
6. False
7. False
8. False
9. False
10. True
11. False
12. True
13. False
14. True
15. False
16. True
17. True
18. False
19. False
20. True
21. True
22. True
23. False
24. True
25. False
26. True
27. True
28. True
29. True
30. False
31. False
32. True

Multiple Choice

1. **Which of the following is not crucial to the integrity and efficiency of capital markets**

and economic growth?

a. Sustainability and financial health of public companies.
b. Public trust.
c. High stock prices.
d. Investor confidence.

2. **Investors should rely on which of the following to make rational, informed investment decisions?**
   a. Accurate financial statements and reports.
   b. Former employees.
   c. Internet "blogs" and message boards.
   d. Insider information.
3. **PCAOB stands for:**
   a. Popular Company Accounting Oversight Board.
   b. Public Company Accounting Oversight Board.
   c. Public Company Accounting Oversight Bulletin.
   d. Popular Company Accounting Oversight Bulletin.
4. **Conflicts of interest among corporate governance participants are referred to as an:**
   a. "Anything you can do, I can do better" problem.
   b. Alignment problem.
   c. Agency problem.
   d. There are no conflicts of interest among corporate governance participants.
5. **The primary mission of a public company is to:**
   a. Make money now without planning for the future.
   b. Keep management happy.
   c. Create sustainable and enduring corporate value.
   d. Remain idle and complacent with current performance.
6. **Public companies are required to comply with all of the following *except*:**
   a. Federal and state laws and regulations.
   b. Listing standards of their respective exchange.
   c. Best practices of leading competitors.
   d. All of the above require compliance.
7. **Which of the following would be an example of a corporate gatekeeper?**
   a. Independent and competent board of directors.
   b. Independent and competent external auditor.
   c. Objective and competent legal counsel or financial advisor.
   d. All of the above would be an example of a corporate gatekeeper.
8. **The improvement of corporate governance and financial reporting by SOX should add the following benefits *except*:**
   a. Improved investor confidence.
   b. Increased firm value.
   c. Decreased cost of capital.
   d. Increased audit fees.
9. **The Federal Sentencing Guidelines require:**
   a. Swift and harsh penalties.
   b. Compliance and ethics training.
   c. Companies to eliminate incentives for ethical performance.

d. Martha Stewart treatment for all financial statement frauds.

10. **The elements of a multiple bottom line (MBL) approach are economic, social, ethical, and:**
    a. Equity.
    b. Environmental.
    c. Eccentricity.
    d. None of the above.
11. **A compliance culture can be promoted through the establishment of a centralized:**
    a. Chief executive officer.
    b. Chief governance officer.
    c. Chief compliance officer.
    d. Board of directors.
12. **Multiple-bottom-lines focus on:**
    a. Improving internal control over financial reporting.
    b. Enhancing organizational disclosures concerned with social, environmental, and ethical issues.
    c. Creating and sustaining effective corporate structure.
    d. Reporting on the many ventures in which the organization is involved.
13. **Congress passed the Sarbanes-Oxley Act of 2002 to:**
    a. Enhance the burden of financial reporting.
    b. Establish a new regime of investor protection.
    c. Increase the workload of auditors of public companies.
    d. Provide more protection to the managers of public companies.
14. **Which of the following does not effectively characterize the post-SOX era:**
    a. A change in the regulatory framework for the auditing profession through the establishment of the PCAOB.
    b. The move toward more transparent and timely financial reports.
    c. A redefining of roles and responsibilities of those who are directly or indirectly involved in the financial reporting process.
    d. The reduction of the importance and role of ethics within publicly traded companies.
15. **Suppliers and customers reward good corporate performance by:**
    a. Actively and favorably doing business with the company.
    b. Investing in the company at the lower desired rate of return of investment.
    c. Disinvesting or demanding a higher rate of return on their investment.
    d. Giving extra benefits to the management of the company.
16. **The primary mission of public companies is regarded as:**
    a. Reporting increasing revenues.
    b. Decreasing unemployment rates.
    c. Creating sustainable and enduring value.
    d. Decreasing costs.
17. **The primary stakeholders are:**
    a. Customers.
    b. Suppliers.
    c. Shareholders.
    d. Creditors.

18. **Shareholders own corporations and the ______________ is elected to make business decisions on behalf of shareholders.**
    a. Chief executive officer.
    b. Board of directors.
    c. Chief compliance officer.
    d. Legal counsel.
19. **Which of the following are considered to be the second-tier stakeholders in the company?**
    a. Lenders and creditors.
    b. Customers and suppliers.
    c. Shareholders.
    d. Governmental oversight bodies (e.g., PCAOB, SEC).
20. **Which of the following are not considered third-tier stakeholders?**
    a. Employees.
    b. Customers.
    c. Suppliers.
    d. Creditors.
21. **Which of the following is not a key corporate gatekeeper?**
    a. Board of directors.
    b. External auditor.
    c. Governmental oversight bodies (e.g., PCAOB, SEC).
    d. Legal counsel.
22. **Gatekeepers should:**
    a. Be employees of the company and use their internal insight to effectively monitor corporate governance practices.
    b. Accept the representations of management on full faith.
    c. Be fully independent from the company.
    d. Fulfill their professional responsibility to the management of the company.
23. **Effective corporate governance does all of the following except:**
    a. Ensure corporate accountability.
    b. Enhance the integrity and efficiency of the capital market.
    c. Eliminate the prospect of fraud within an organization.
    d. Enhance the reliability and quality of public financial information.
24. **With the ___________ the primary goal is to achieve economic performance, while proper consideration is given to other measures including social, ethical, and environmental (SEE) issues.**
    a. Multiple bottom lines (MBL) objectives.
    b. PCAOB Auditing Standards.
    c. SEC Final Statements.
    d. Generally Accepted Accounting Principles (GAAP).
25. **The goal of corporate governance and business ethics education is to:**
    a. Teach students their professional accountability and to uphold their personal integrity to society.
    b. Change the way in which ethics is taught to students.
    c. Create more ethics standards by which corporate professionals must operate.
    d. Increase the workload for accounting students.

26. The relationship between public companies and shareholders, creditors, auditors, etc. is:
   a. Marital.
   b. Contractual.
   c. Legally nonbinding.
   d. There is no relationship.

27. An advantage of a corporation is:
   a. Limited liability for the owners.
   b. Unlimited life of the corporation.
   c. Ease of transferability of ownership interests.
   d. All are advantages of a corporation.

28. The second tier of the stakeholder hierarchy consists of all of the following except:
   a. Creditors.
   b. Employees.
   c. Shareholders.
   d. Suppliers.

29. GAAP stands for:
   a. Generally Accepted Accounting Procedures.
   b. Generally Abnormal Accounting Procedures.
   c. Generally Accepted Accounting Principles.
   d. Generally Abnormal Accounting Principles.

30. The ultimate responsibility for maintaining an appropriate balance between management and the owners rests with:
   a. Board of directors.
   b. Managers.
   c. Shareholders.
   d. Regulating entities.

Multiple Choice

1. c.
2. a.
3. b.
4. c.
5. c.
6. c.
7. d.
8. d.
9. b.
10. b.
11. c.
12. b.
13. b.
14. d.
15. a.
16. c.
17. c.

18. b.
19. a.
20. d.
21. c.
22. c.
23. c.
24. a.
25. a.
26. b.
27. d.
28. c.
29. c.
30. a.