

BUSINESS LAW

& The Legal Environment



COMPREHENSIVE VOLUME

SEVENTEENTH EDITION

ANDERSON

FOX

TWOMEY

JENNINGS

WEST

B U S I N E S S L A W A N D
T H E L E G A L E N V I R O N M E N T
C O M P R E H E N S I V E V O L U M E • S E V E N T E E N T H E D I T I O N

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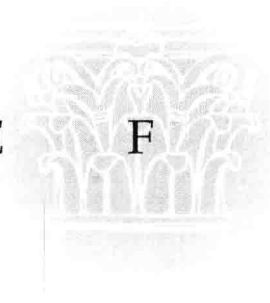
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LAW MEANS BUSINESS

One need only glance at the business page of the newspaper to recognize how tightly interwoven business and law have become. For better or worse, entrepreneurial start-ups, billion dollar mergers, marketing campaigns, technological breakthroughs, and almost all other business events are likely to be touched in some way by legal regulations or actions. No business or manager can hope to succeed without an understanding of the legal environment, what it is for, and how it can be utilized for both protection and advantage.

So now, more than ever, the business law instructor prepares students for the real world of business. This text, in turn, provides the business law instructor with all of the tools needed to make the teaching process successful. The seventeenth edition responds strongly to the ever increasing connections between the worlds of business and law. We have expanded coverage of those topics most relevant to today's business challenges, and added features that make it easier for future businesspeople to understand and analyze legal situations and to respond with appropriate decisions. *Business Law and The Legal Environment* continues to set the pace as the comprehensive leader in the discipline.

We also would like to welcome a new member to the author team, Professor Marianne Jennings of Arizona State University. An acclaimed expert in the field of ethics, public policy, real estate and business law, her ability to present complex issues through examples and language that students understand is evident in her many contributions to this edition. The authors would also like to thank the Honorable Peter S. Smith, Superior Court of California (Ret.), for his contributions to the coverage of alternative dispute resolution.

Note that this text is also available in the Standard Version, which includes the first seven parts of this Comprehensive Volume.

CASES AT THE CORE

In keeping with its unrivaled reputation in this area, *Business Law and The Legal Environment* continues to feature the strongest and most relevant selection of cases in the field. These cases represent not only classic landmark decisions, but also important new appellate decisions that will shape the business environment in coming years, and cases of special relevance to preparation for the CPA examination.

AUTHORITATIVE COVERAGE OF THE UCC

Selected provisions of the Code have been reprinted in the appendix. Each topic has been fully updated to reflect the majority adoptions of the Code sections. In addition, the first footnote of the UCC lists the states that have adopted the code sections.

PREPARATION FOR THE CPA EXAM

C P A As in the sixteenth edition, material pertinent to the CPA exam is identified by a margin icon. Below is a chapter outline of each topic covered by the business law section of the exam entitled “Business Law and Social Responsibility.” New to this edition are end-of-chapter questions that cover common CPA exam topics. These questions and answers (answers to odd-numbered questions are provided at the end of the text) are drawn from previous tests administered by the AICPA, and provide very realistic preparation for students planning to take the CPA exam.

Content Specification Outline

Text Chapter

- I. Professional Responsibilities (15 percent)
 - A. Code of Conduct and Other Responsibilities
 - 1. Code of Professional Conduct
 - 2. Proficiency, Independence, and Due Care
 - 3. Responsibilities in Consulting Services
 - 4. Responsibilities in Tax Practice

Chapter 21

- B. The CPA and the Law
 - 1. Common Law Liability to Clients and Third Parties
 - 2. Federal Statutory Liability
 - 3. Working Papers, Privileged Communication, and Confidentiality

II. Business Organizations (20 percent)

Chapters 39–40

- A. Agency
 - 1. Formation and Termination
 - 2. Principal’s Liabilities
 - 3. Disclosed and Undisclosed Principals
 - 4. Agent’s Authority and Liability

Chapters 43–45

- B. Partnerships and Joint Ventures
 - 1. Formation and Existence
 - 2. Liabilities and Authority of Partners and Joint Owners
 - 3. Allocation of Profit or Loss
 - 4. Transfer of Interest
 - 5. Termination and Dissolution

Chapters 46, 47, 49

- C. Corporations
 - 1. Formation, Purposes, and Powers
 - 2. Stockholders, Directors, and Officers

- 3. Financial Structure, Capital, and Distribution
- 4. Merger, Consolidation, and Dissolution

Chapter 53

- D. Estates and Trusts
 - 1. Formation and Purposes
 - 2. Allocation Between Principal and Income
 - 3. Fiduciary Responsibilities
 - 4. Distributions and Terminations

Chapters 11–20

- III. Contracts (10 percent)
 - A. Formation
 - B. Performance
 - C. Third-Party Assignments
 - D. Discharge, Breach, and Remedies

Chapters 35–37

- IV. Debtor-Creditor Relationships (10 percent)
 - A. Rights and Duties—Debtors and Creditors
 - 1. Liabilities and Defenses
 - 2. Release of Parties
 - 3. Remedies of Parties
- B. Rights and Duties—Guarantors
 - 1. Liabilities and Defenses
 - 2. Release of Parties
 - 3. Remedies of Parties
- C. Bankruptcy
 - 1. Voluntary and Involuntary Bankruptcy
 - 2. Effects of Bankruptcy on Debtors and Creditors
 - 3. Reorganizations
- V. Government Regulation of Business (15 percent)

Chapters 41–42

- A. Regulation of Employment
 - 1. Payroll Taxes
 - 2. Employee Safety

3. Employment Discrimination
4. Wage and Hour
5. Pension and Other Fringe Benefits

Chapter 48

- B. Federal Securities Acts
 1. Securities Registration
 2. Reporting Requirements
 3. Exempt Securities and Transactions
- VI. Uniform Commercial Code (20 percent)

Chapters 31–34

- A. Negotiable Instruments
 1. Types of Negotiable Instruments
 2. Requisites of Negotiability
 3. Transfer and Negotiation
 4. Holders and Holders in Due Course
 5. Liabilities, Defenses, and Rights
 6. Discharge

Chapters 25–29

- B. Sales
 1. Contracts Covering Goods
 2. Warranties

3. Product Liability
4. Risk of Loss
5. Performance and Obligations
6. Remedies and Defenses

Chapters 35–36

- C. Secured Transactions
 1. Attachment of Security Interests
 2. Perfection of Security Interests
 3. Priorities
 4. Rights of Debtors, Creditors, and Third Parties

Chapters 50–52

- VII. Property (10 percent)
 - A. Real Property
 1. Types of Ownership
 2. Lessor-Lessee
 3. Deeds, Recording, Title Defects, and Title Insurance

Chapters 22–24

- B. Personal Property
 1. Bailments
 2. Carriers

ETHICAL FOCUS

Chapter 3, *Business Ethics, Social Forces and the Law*, brings new relevance and currency to the discussion of ethics in this text. The straightforward approach of this new chapter will help students understand their own responsibility for ethical behavior and decision making. Ethics are also reinforced with a new feature called “Ethics and the Law” which appears in all chapters. These vignettes and accompanying questions describe ethical issues drawn from current events and culture that will be familiar and meaningful to students.

THE WORLD WE LIVE IN: UPDATES TO THIS EDITION

All of the changes incorporated in this edition not only continue the straightforward, black letter law approach of this text but also mirror the latest changes in the business-legal environment. For instance, our new chapter 10, *Intellectual Property Rights*, addresses current issues such as trade secrets, privacy, and software protection. We have expanded to two chapters, chapters 1 and 2, coverage of litigation and alternative dispute resolution as it becomes a more prevalent and often more desirable tool than litigation. Chapter 7: *The Legal Environment of International Trade* has been thoroughly updated to reflect changes in the global economy and the rules that shape it. Chapter 45 features expanded and timely coverage of limited liability companies. All of these topics and the many others that have been enhanced in this edition provide students with solid background where they are likely to need it most.

While we have always been careful to define and present legal concepts in ordinary language rather than stilted jargon, we have also taken several important steps in the new edition to explicitly tie legal principles to real world-based events, trends and challenges. Each chapter now features examples drawn from or based

WHAT'S BEHIND THE LAW?

upon current events and business to illustrate chapter concepts; students will find these examples extremely relevant and readable.

New “What’s Behind the Law?” vignettes trace the evolution of legal principles in the context of social and historical forces and help students understand not only laws, but why they exist in their current forms.

The Internet and the Law

While we cannot yet begin to understand the full impact that the Internet will have on business in the new millennium, we must help students to use it to their greatest advantage. The new *Business Law and the Legal Environment* Home Page, provides the optimal starting point for finding and using powerful on-line resources related to law and business. Go to <http://anderson.westbuslaw.com> to access these learning resources. In addition, at the end of each “What’s Behind the Law?” feature, Internet sites are referenced to encourage the student to use the Internet as a resource for learning and ultimately for use in their business careers. Alternatively, the instructor may assign these sites for independent research projects for students, if desired.

West Educational’s Business Law Discipline Page services the everchanging needs of the business law professor. Click to <http://www.westbuslaw.com> to find the most recent case updates of selected state and federal courts, updated bi-monthly, in order to give your students the most current business law developments.

AACSB Curriculum Requirements

This edition continues to fulfill the requirements mandated by the AACSB by its case selection, inclusion of social and historical policy in the “What’s Behind the Law?” feature and business ethics considerations in chapter 3. The intersection of ethics and the business world is creatively addressed in each chapter. “Ethics and the Law” features current, student-friendly business situations drawn from the media such as Pearl Jam, *Friends*, *Melrose Place*, plus many others. The global context of business is thoroughly covered in the newly updated chapter 7, *The Legal Environment of International Trade*. Critical thinking requirements are addressed with case problems at the end of each chapter, questions which follow each “Ethics and the Law” scenario, Comprehensive Case Analyses and examples which reinforce the legal concepts discussed in each chapter. Instructors who desire to test students’ critical thinking skills during class discussion are provided with in-class discussion questions tied to the “What’s Behind the Law?” and “Ethics and the Law” in the Instructor’s Resource Manual.

Suggested Legal and Regulatory Environment Outline

An introductory course that emphasizes societal or public law may include the chapters below and other appropriate chapters selected for the course. An introductory course emphasizing private law may cover selected chapters from Part I, *The Legal and Social Environment of Business*, and chapters on contracts, personal property, or agency. The instructor may choose to cover additional topics in this introductory course, depending on the ability level of the students and the time allotted to the course at the institution. The remainder of the book may be covered in advance courses. Suggested outline:

Chapter 1	The Nature and Sources of Law
Chapter 2	The Court System and Dispute Resolution
Chapter 3	Business Ethics, Social Forces, and the Law
Chapter 4	The Constitution as the Foundation of the Legal Environment
Chapter 5	Government Regulation of Competition and Prices
Chapter 6	Administrative Agencies
Chapter 7	The Legal Environment of International Trade
Chapter 8	Crimes
Chapter 9	Torts
Chapter 10	Intellectual Property Rights
Chapter 22	Personal Property
Chapter 30	Consumer Protection
Chapter 37	Bankruptcy
Chapter 41	Regulation of Employment
Chapter 42	Equal Employment Opportunity Law
Chapter 48	Securities Regulation
Chapter 51	Environmental Law and Land Use Controls

TOTAL LEARNING SOLUTIONS

West Educational Publishing is committed to providing you, our educational partners, with the finest educational resources available including the full suite of West resources. Because we prepare our instructor resources with a variety of teaching environments in mind, it is likely that you will need only a portion of these for your course. Before you request an item, we ask that you please read thoroughly the description of each resource. If you still need more information about resources, we urge you to contact your local West sales representative or visit our web site at www.westbuslaw.com. Many teaching and learning resources can be downloaded directly from this site. The resources that are available may vary significantly between products and adoptions.

New! Instructor's Resource Guide includes instructor insights, lecture outlines, and teaching strategies for each chapter. Chapter overviews and transparency integration notes ease lecture preparation. In-class discussion notes are provided for "What's Behind the Law?" and "Ethics and The Law" vignettes. Also included are a chapter transition guide for competitive texts, restructured case briefs, and numerous references for CPA exam preparation. Prepared by Marianne Jennings, Arizona State University (ISBN 0-538-88557-2)

New! Study Guide features include AICPA questions drawn from past exams in order to prepare students for the CPA exams, Internet Research problems, and chapter checklists. The Quicken *Business Law Partner*™3.0 CD-ROM accompanies each manual with exercises for each chapter which familiarize students with common legal documents. The study guide is prepared by Ronald L. Taylor, Metropolitan State College of Denver. (ISBN 0-538-88246-8)

“The Legal Tutor in Contracts” and “The Legal Tutor on Sales,” are interactive software programs that reinforce and practice the concepts in contracts and sales. Developed by Ronald L. Taylor, Metropolitan State College of Denver. (Contracts: ISBN 0-538-81476-4; Sales: ISBN 0-538-81478-0).

Study Guide Key offers solutions to exercises and problems that appear in the study guide. (ISBN 0-538-88247-6)

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CNN Legal Issues update video brings the latest legal issues into the classroom, generating lively class discussion. This video is produced by Turner Learning, Inc. using the resources of CNN, the world’s first 24-hour, all-news network.

Complimentary Web Page is available, for a limited time, to instructors who adopt this text. This page will be professionally designed and maintained within the West Legal Studies Resource Center. Contact your West representative for eligibility requirements.

South-Western’s Business Law Video Series, a set of situational videos, covers a range of topics for the full business law course including the UCC, employment law, and the business law portion of the CPA exam

Business Law and Legal Environment Video Library includes seven different types of professionally produced legal videos: *Drama of the Law I & Drama of the Law II*, *The Making of a Case*, *Law and Literature*, *Ethics in America*, *American Bar Association* and other mock trial videos, *Equal Justice Series*, and *West’s Business Profiles*.

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You Be the Judge Software. This easy-to-use program presents students with new cases and directs them to resolve the relevant issues. (ISBN 0-314-08713-3)

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Any teacher may write to any of the authors regarding any questions as to teaching methodology or specific rules of law. We represent in the aggregate over a century of teaching and will be happy to respond to your questions:

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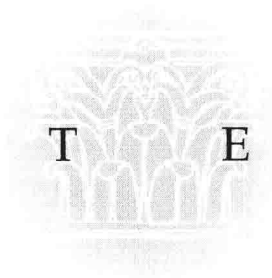
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