



## FINAL EXAM

# Course # 171015 The Sarbanes-Oxley Act & Corporate Governance

based on the electronic .pdf file(s):

### **The Sarbanes-Oxley Act and Corporate Governance**

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pages



12 CPE Credit Hours  
Accounting & Auditing

*This exam sheet is made available for your convenience in answering questions while offline. Please note that you will still need to enter your answers on the online exam sheet for grading. Instructions are provided at the end of this document.*

## Chapter 0 - Course Material

1. Prior to the SOX ACT of 2002, the CFO was keen on
  - Improving his or her objectivity and independence
  - Using aggressive accounting and reporting practices
  - Fully disclosing all accounting irregularities
  - Limiting the use of special-purpose entities
  
2. The accounting technique made infamous by Enron (and the main reason for its downfall) was its use of \_\_\_\_\_ to move debt off the balance sheet.
  - Special-purpose entities
  - Revenue accounting
  - Expense accounting
  - Channel stuffing
  
3. The "big five" accounting firm that destroyed documents to cover up their irregular accounting practices was
  - Ernest & Young
  - Price-Waterhouse Coopers
  - Arthur Anderson
  - KPMG
  
4. Which of the following is NOT an inappropriate earnings management technique?
  - Deliberately overstating one-time restructuring charges
  - Improper write-offs
  - Restating financial statements
  - Over-accruing charges for items such as sales returns
  
5. \_\_\_\_\_ is NOT one of the leading causes for financial restatements.
  - Revenue recognition
  - A switch in inventory valuation
  - Equity accounting
  - Reserves, accruals, and contingencies
  
6. \_\_\_\_\_ is NOT one of the premises behind expensing options.
  - Keep the companies' profits and stock prices as high as possible.
  - Make the company's real costs and earnings more apparent
  - Clarify the company's accounting
  - Boost the investor's confidence

7. FASB No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements using the \_\_\_\_\_ as the measurement of cost.

- Grant-date fair value
- Exercise date book value
- Adoption date fair value
- Measurement date intrinsic value

8. FASB No. 123R (ASC 718-10-05) provides that fair value be measured based on a (an)

- Intrinsic value
- Book value
- Observable value
- Market value

9. FASB No. 123R eliminates FASB No. 123's use of the \_\_\_\_\_ for valuing equity awards that was permitted under FASB No. 123.

- Fair value method
- Intrinsic value method
- Current value method
- Discount cash flow method

10. FASB No. 123R

- Prefers use of any one of three particular methods as the valuation techniques of choice
- Does not specify a preference for a particular valuation technique or model in estimating the fair value of employee share options and similar instruments
- Requires an entity to use the expected cash flows method as defined by Concept Statement No. 7
- Is an option valuation principle

11. In anticipation of the FASB's statement (FASB 123R), many companies had already started using other forms of compensation, such as

- Restricted stock
- Dividend repurchase plan
- Futures
- Derivatives

12. Which of the following statements is FALSE with restricted stock?

- Employee cannot sell stock for a specified period of time
- Employee will receive compensation in cash, stock, or a combination of cash and stock at some future date
- Employee may forfeit the shares if they leave employer
- Awards may be linked to financial goals

13. The grant date is the date at which

- Share options are exercisable
- An employer and an employee reach a mutual understanding of the key terms and

conditions of a share-based payment award

- An employer receives a federal government grant for funding of a stock option program
- Share options are to expire

14. Which of the following is FALSE regarding restrictive stock?

- Employee cannot sell stock for a specified period of time
- It creates much of an impact on earnings have replaced stock options
- Employee may forfeit the shares if they leave employer
- Awards may be linked to financial goals. Some firms grant key employees stock appreciation rights instead of stock options

15. The new rules by NYSE for corporate governance would

- Give management stronger governance standards
- Not require investor approval on any equity-based pay plans
- Weaken the control management currently employs
- Allow brokers to vote on equity-based pay plans without client approval

16. The rule change that will prohibit research analysts from being supervised by the investment banking is:

- Promises of favorable research
- Limitations on relationships and communication
- Analyst compensation
- Firm compensation

17. The Securities Exchange Commission (SEC) rule requires company insiders to report the details of their stock trades more quickly for all the following EXCEPT:

- High ranking executives
- Outside staff attorneys
- Directors
- Major shareholders

18. Which of the following statements is false? Detailed quarterly and annual statements have to be filed more quickly with SEC because it

- Reduce the risk that companies will issue rosy news releases about their earnings
- Reduce creative accounting
- Report details of their stock trades
- Reveal problems important to investors

19. Which of the following is NOT a proposal made by the Association for Investment Management and Research (AIMR)?

- Corporations refrain from making accusations against research analysts in the media
- Fund managers be prohibited from threatening to reduce their business with a brokerage to secure a more favorable rating
- Corporations are allowed to make accusations against research analysts in the media.
- News media should establish policies for disclosure of conflict of interest.

20. Strong governance in compliance with the SOX Act will

- Give better tools to empower ethical behavior
- Increase the control that management enjoyed at many companies prior to 2002
- Strengthen the dependent affiliations of the board members with management and outsiders
- Require that all equity-based pay plans be approved by the CEO and CFO.

21. Which of the following is NOT one of the provisions of the Sarbanes-Oxley Act of 2002?

- The penalties (i.e., prison time and fines) for corporate fraud were increased.
- At least one audit committee member should be a financial expert.
- The company's auditors assume responsibility for the financial statements.
- The CEO and CFO must certify that the financial statements fairly present the company's operations and financial condition.

22. Under the Sarbanes-Oxley Act any public appearances by analysts on television or radio interviews must be

- Limited to topics of their firms stock position
- Disclosed to better inform investors
- Compensated by the TV or radio station
- Approved by the Federal Communication Agency

23. \_\_\_\_\_ is NOT an objective of the Sarbanes-Oxley Act.

- Closing brokerages engaging in unethical practices
- Quality and transparency of financial reporting
- Independent audit
- Accounting services for public companies

24. The provisions of the Sarbanes-Oxley Act apply to which of the following?

- All companies in the United States
- Public companies only
- Private companies only
- Private and public partnerships only

25. The Sarbanes-Oxley Act of 2002 requires

- All public companies to issue an internal control report
- All public companies to define adequate internal controls
- The auditor of public companies to design effective internal controls over financial reporting
- Provides for all three of the above.

26. Technologies that can assist with corporate governance and compliance include

- Business intelligence
- Location based services
- Financial and accounting software

Enterprise resource planning

27. The most obvious solution to the corporate governance and compliance problem can be facilitated by

Establishing financial constraints

Increase the number of trained analysts

Implementing proper technology, planning and monitoring

Establishing global corporations

28. The main problem for companies to implement SOX is the documentation and

Securing safe storage areas

Internal control and retention of documents

Managerial assessment

Real time disclosure

29. Sarbanes-Oxley requires auditors of a public company to attest to management's report on the effectiveness of internal control over financial reporting. Which of the following reports options is available to the auditor?

The auditor must issue two separate reports

The auditor must issue a combined report

The auditor may issue either two separate reports or may issue a combined report

There is no guidance on what type of report to issue in this instance

30. The Auditing Standard No. 5 highlights the concept of a \_\_\_\_\_ deficiency in internal control over financial reporting

Statistical

Material

Significant

Conservative

31. Which of the following statements is TRUE of a public company's financial statements?

Sarbanes-Oxley requires the CEO only to certify the financial statements

Sarbanes-Oxley requires the CFO only to certify the financial statements

Sarbanes-Oxley requires the CEO and CFO to certify the financial statements

Sarbanes-Oxley neither requires the CEO nor the CFO to certify the financial statements

32. Which of the following is NOT true regarding good governance?

To avoid conflicts of interest, a company's board of directors should include a substantial majority of independent directors--"independent" meaning that directors do not have financial or close personal ties to the company or its executives.

Companies should base executive compensation plans on pay for performance and do not have to provide full disclosure of these plans.

A company's audit, nominating, and compensation committees should consist entirely of independent directors.

A board should obtain shareholder approval for any actions that could significantly affect the relationship between the board and shareholders, including the adoption of anti-takeover measures such as "poison pills."

33. Basic indicators used to measure corporate social responsibility according to Business in the Community do NOT include
- Workforce profiles by gender, race, disability, and age
  - Energy consumption, water usage, solid waste produced, co/greenhouse gas
  - Business intelligence, document and e-mail management, business process management
  - Customer complaints, advertising complaints, upheld cases of anti-competitive behavior.
34. Corporate social responsibility that is positive includes
- Associating with suppliers and contractors that don't share your ethical values
  - Incurring immediate costs to the entity.
  - Working in isolation
  - Avoiding public interest groups
35. Financial managers/management accountants are obligated to maintain the highest standards of ethical conduct. Accordingly, the IMA Code of Ethics explicitly requires that they
- Obtain sufficient competent evidence when expressing an opinion
  - Do not condone violations by others
  - Comply with generally accepted auditing standards
  - Adhere to generally accepted accounting principles
36. In accordance with Statements on Management Accounting Number 1C, Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management, a management accountant who fails to perform professional duties in accordance with relevant standards is acting contrary to which one of the following standards?
- Competency
  - Confidentiality
  - Integrity
  - Objectivity
37. The IMA Code of Ethics includes a competence standard, which requires the financial manager/management accountant to
- Report information, whether favorable or unfavorable
  - Develop his/her professional proficiency on a continual basis
  - Discuss ethical conflicts and possible courses of action with an unbiased counselor
  - Discuss, with subordinates, their responsibilities regarding the disclosure of information about the firm
38. The IMA Code of Ethics requires a financial manager/management accountant to follow the established policies of the organization when faced with an ethical conflict. If these policies do not resolve the conflict, the financial manager/management accountant should
- Consult the board of directors immediately
  - Discuss the problem with the immediate superior if (s)he is involved in the conflict
  - Communicate the problem to authorities outside the organization
  - Contact the next higher managerial level if initial presentation to the immediate superior does not resolve the conflict
39. Sarbanes-Oxley requires auditors of public companies to maintain audit working papers for what period of time?

- Not less than 7 years
- Not less than 3 years
- Not less than 5 years
- No more than 5 years

40. Quality control standard shall NOT include

- Monitoring professional ethics
- Six sigma principles
- Consultation on accounting and auditing questions
- Supervision of audit work

41. Foreign public accounting firms that furnish audit reports are

- Not subject to the SOX Act requirements
- Subject to the jurisdiction of Federal and State courts without an additional provisions
- Subject to the SOX Act the same as U.S. Public Accounting Firms with additional provisions
- Subject to AICPA

42. Which of the following statements is correct?

- Non-audit services that are not prohibited by Sarbanes-Oxley or the SEC rules must be approved by management of the client
- Non-audit services that are not prohibited by Sarbanes-Oxley or the SEC rules must be approved by the company's audit committee
- Non-audit services that are not prohibited by Sarbanes-Oxley or the SEC rules must be approved by staff of the PCAOB
- Non-audit services that are not prohibited by Sarbanes-Oxley or the SEC rules must be approved by staff of the PCAOB and the SEC

43. The CEO, controller, CFO, chief accounting officer or person in an equivalent position cannot have been employed by the company's audit firm during

- The 4th month period preceding the audit
- The 6th month period preceding the audit
- The 9th month period preceding the audit
- The 12th month period preceding the audit

44. Public company audit committees are NOT responsible for

- Prohibiting the listing of any security of an issuer not in compliance with SOX
- Certifying financial statements.
- Providing for an opportunity to cure any defects
- The appointment, compensation, and oversight of the work of any registered public accounting firm

45. \_\_\_\_\_ addresses "Corporate Responsibility for Financial Reports."

- Section 906
- Section 404
- Section 302



Section 101

46. Inside traders during pension fund blackouts prohibit all the following EXCEPT

The executive officers from purchasing any security of the issuer

The director from purchasing or selling any security that is exempt

The executive officers to sell or trade any security of the issuer

Any profits resulting from sales in violation of Section 306 "shall inure to and be recoverable by the issuer"

47. Disclosures of transactions are limited to and required by

Financial analysts of the company

Minority stockholders

Officers, principal stockholders, and directors

Corporate attorneys

48. The SOX Act requires each annual report of an issuer to contain a(n)

Market value report

Internal control report

Cost report

Conference call report

49. Tampering with a record or otherwise impeding an official proceeding by altering, destroying, mutilating, or concealing records is subject to

Up to 20 years in prison and a fine

Imprisonment of 15 years

Fine and imprisonment of 18 years

Up to 10 years in prison and a fine

50. Brokers and dealers are NOT barred from association with an entity that engages in

Insurance activities

Enrolled agents

Banking and savings association activities

Credit union activities

51. The Comptroller General of the United States is NOT empowered to conduct studies to

Determine solutions to increase competition and the number of firms capable of providing audit services

Determine the problems that have resulted in limiting competition among public accounting firms

Submit a report to the SEC

Determine to what extent federal or state regulations encourages competition among public accounting firms

52. Criminal penalties have been added by amendment for all the following EXCEPT

Destruction of corporate audit records

- Diminish or relieve any person of their duty or obligation imposed by federal or state law
- Alteration or mutilation of documents or records
- Falsifying or concealing any document or record with intent to impede and obstruct an investigation

53. Offenses relating to the obstruction of justice do NOT apply to

- Destroying or altering physical evidence
- Number of victims adversely involved is less than 10
- Abuse of a position of trust
- Abuse of special skills

54. An employee discharged for whistle blowing is entitled to compensation damages. This does NOT include

- Reinstatement with the same seniority status
- Punitive and defamation damages
- Backup pay with interest
- Compensation for litigation, attorney fees, and expert witness fees

55. Criminal penalties for mail and wire fraud have been increased by amendment from five (5) years to

- 20 years
- 10 years
- 15 years
- 25 years

*Instructions for Submitting Answers Online:*

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- *Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.*
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