



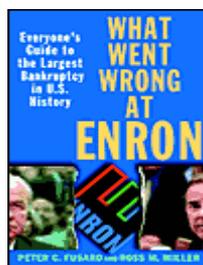
FINAL EXAM

Course # 111001 Enron Case Study

based on the book:

What Went Wrong at Enron: Everyone's Guide to the Largest Bankruptcy in History

by: Peter C. Fusaro and Ross M. Miller
(2002)



10 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 1 - Ken Lay's Junk Bond Ride Up On the Natural Gas Express

1. The main problem with junk-bond financing is that investment bankers, lacking regulatory oversight of their less well compensated counterparts at commercial banks, in the heat of competition could make one bad deal after another.

TRUE

FALSE

2. As the money that could be made from junk bonds increased, so did the tendency to violate securities laws.

TRUE

FALSE

3. Deregulation of energy markets created:

New markets

New opportunities

New temptations

All of the above

4. Ken Lay mastered political hobnobbing.

TRUE

FALSE

5. Ken Lay's mastery of politics is what saved Enron.

TRUE

FALSE

Chapter 2 - A Pattern of Less than Full Disclosure

6. For accounting purposes, a hard asset like an oil well is kept on a company's books:
- At fair market value at the beginning of the year
 - At the price it paid to acquire it
 - At the fair market value at the end of the year
 - At the amount of profit expected to be generated by the asset
7. In mark-to-market accounting, the value of each asset is reassessed on a regular basis and changes in value are reflected:
- In both the company's balance sheet and its income statement
 - In the company's balance sheet only
 - In the company's income statement only
 - In the company's footnotes to the income statement only
8. Large asset sales hindered Enron's earnings growth.
- TRUE
 - FALSE
9. "Closing prices" of stocks on the New York Stock Exchange depend on:
- The average stock price for the day
 - The last trade of the day
 - The first trade of the day
 - The clearing price set by the Exchange's specialists

10. Companies that hold assets that are easily valued are encouraged to use mark-to-market accounting.

TRUE

FALSE

11. Mark-to-market accounting can be easily abused.

TRUE

FALSE

Chapter 3 - The Skilling Case Study

12. The immediate advantage that Enron gained from mark-to-market accounting was:

That it is easy to compute

That it requires less documentation than other methods of revenue recognition

That it put a very positive spin on its earnings

That it created more jobs

13. Special Purpose Entities (SPEs) were a critical step in Enron's evolution.

TRUE

FALSE

14. The "gas bank" arranged long-term contracts for natural gas.

TRUE

FALSE

15. Mark-to-model accounting differs from mark-to-market accounting?

TRUE

FALSE

Chapter 4 - The Downside of Rank and Yank

16. From his position of power, Enron CFO, Andrew Fastow, was able to:

Funnel vast sums of money into his own pockets and into the pockets of those who assisted him

Be promoted to CEO

Work from home

Make improvements to Enron's corporate culture

17. Fastow was able to create an empire of SPEs of dubious legal status without anyone at Enron standing in his way.

TRUE

FALSE

18. Enron was a place where executives could remake themselves for their next job after Enron.

TRUE

FALSE

19. According to the authors, Enron has been described by many employees as:

A great place to work

Having a culture based on team building and mutual respect

Having an absolute cutthroat culture that pitted one employee against another

A very fair company

20. According to Enron management kindness is a show of weakness.

TRUE

FALSE

Chapter 5 - A Market a Day Keeps the Deby Away (But Only Temporarily)

21. One thing that Enron knew even before it started the natural gas market was that its creation would make natural gas contracts more valuable by:

Making them easier to read

Making them more valuable

Making them substantially more liquid

Making them more expensive

22. The most important option that a market can provide is liquidity.

TRUE

FALSE

23. It was the proposed expansion of the JEDI program under Jeffrey Skilling in 1997 that led to the creation of the controversial SPE known as Chewco which would start Enron down the slippery slope of increasingly questionable SPEs.

TRUE

FALSE

24. Enron used its power in the marketplace to buy natural gas from financially distressed producers at bargain prices.

TRUE

FALSE

25. Enron's market creation stopped with electricity.

TRUE

FALSE

Chapter 6 - Enron Goes Online

26. What set Netscape's IPO apart from the vast majority of IPOs that preceded it was that not only was Netscape unprofitable at the time of the IPO, but it also had no immediate prospect of profitability.

TRUE

FALSE

27. Enron Online represented a fundamental shift in how Enron did business.

TRUE

FALSE

28. The new economy approach to stock valuation is based on a company's earnings.

TRUE

FALSE

29. EnronOnline represented a fundamental shift in how Enron did business?

TRUE

FALSE

Chapter 7 - Broadband is a Costly Mistake

30. Broadband communications became the darling of Wall Street because the technology was:

Extremely cost effective

The key to developing high-speed internet access.

Cutting-edge

Already in place

31. The broadband market that Enron developed allowed companies to:

Share information

Surf the Internet

Buy and sell stocks online

Trade bandwidth, which is the use of some of the capacity of a fiber-optic cable for a specific period of time.

32. California's retail electricity market was a fertile ground for the type of energy trading executed by Enron.

TRUE

FALSE

33. The high prices and electricity shortage in California came back to haunt Enron.

TRUE

FALSE

Chapter 8 - Enron Takes on Water

34. California did not provide a natural habitat for Enron because its half-hearted efforts at deregulation were not the kind of free-market environment in which Enron's market-making prowess could be fully exploited.

TRUE

FALSE

35. Azurix and its investments in water assets around the world became a textbook case of:

How Enron would do deals just for the sake of doing them, but without doing the homework necessary to ensure their success

How to run a water utility company

How to expand into international markets

How Enron really cared about the supply of clean drinking water to under-developed nations

36. Enron planned to buy up the world's water.

TRUE

FALSE

37. The Azurix failure would prove too visible to hide.

TRUE

FALSE

Chapter 9 - From Arrogance to Bankruptcy

38. At the heart of Enron's problems was Kenneth Lay's misguided trust in the power of markets.

TRUE

FALSE

39. In San Francisco, as Jeffrey Skilling was entering the Commonwealth Club of California to speak on the state's energy crisis, a protestor threw a pie at him.

TRUE

FALSE

40. Ken Lay had no trust in the power of markets.

TRUE

FALSE

41. Much of Enron's financing depended on its continuing ability to maintain an investment-grade credit rating.

TRUE

FALSE

42. Jeffrey Skilling did not get along well with others.

TRUE

FALSE

Chapter 10 - Of Talking Heads and Quiet Deals

43. Andersen's defense to an investigative subcommittee in 2001 was:

That they plead the fifth amendment

That Andersen had not shredded any documents

That Enron had not told Andersen the truth about its finances and that what it knew had made it suspicious enough to notify Enron's audit committee

That Enron was not to blame

44. The Powers report was of questionable objectivity.

TRUE

FALSE

45. The Powers Committee report released in February 2002 generally let board members, like Kenneth Lay, off lightly and reserved its wrath for

Andy Fastow, Jeff Skilling, and Andersen's audit work.

TRUE

FALSE

46. Jeffrey Skilling is not an accountant.

TRUE

FALSE

47. The Raptors were used to hide \$1.1 billion in Enron losses.

TRUE

FALSE

Chapter 11 - The Only Place to End the Enron Story

48. Social capital can be viewed as the web of connections that link people together.

TRUE

FALSE

49. The true lesson of Enron is that one who lives by the market can also die by the market.

TRUE

FALSE

50. The Enron scandal has shown how powerful markets can be.

TRUE

FALSE

Instructions for Submitting Answers Online:

- Sign In at www.ApexCPE.com
- Click the "My CPE" tab at the top of the page.
- Click "My CPE Courses".
- Find the current CPE year and click "Go to My Courses".
- Find this course and click the "Go to Course" link.
- Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.
- Enter your answers on the online exam sheet.
- Click the "Grade Exam" button at the bottom of the page. Your exam will be graded automatically. If your score exceeds 70%, a "Create Certificate" button will display. Otherwise, you may continue to retake the exam until you pass.
- A short evaluation page will display. Please provide your feedback for the course.
- Once the evaluation is complete, click the "Submit Evaluation & Create Certificate" button at the top of the page.
- You may print your Certificate of Completion by selecting File Print from your browser. Certificates remain online for at least five years from the certificate date.

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