

Chapter 16– Advanced Accounting, 1st edition by Hamlen, Huefner and Largay

Solutions to Practice Quiz

1. Topic: Principal legislation enforced by the SEC

LO 1

The Securities Act of 1933:

- a. Established the Securities and Exchange Commission
- b. Regulates the public offering of new securities
- c. Regulates trading of securities once they are issued and outstanding
- d. Limits the liability of public accountants

ANS: b

Rationale: Alternatives *a* and *c* describe the Securities Exchange Act of 1934.

Alternative *d* describes the Private Securities Litigation Reform Act of 1995.

2. Topic: SEC regulation of securities

LO 1

All of the following securities are subject to SEC registration and reporting rules *except*:

- a. Certificates of interest in a profit-sharing agreement
- b. Short-term notes issued for working capital purposes
- c. Preferred stock issued by a private company
- d. Restricted common stock issued by a public corporation

ANS: b

Rationale: The SEC established a broad definition of a security; commercial paper is one of the few securities exempt from SEC registration and reporting requirements.

3. Topic: Organization of the SEC

LO 2

Which SEC division processes registration statements and periodic financial reports such as the 10-K and 10-Q?

- a. Division of Corporation Finance
- b. Division of Enforcement
- c. Division of Trading and Markets
- d. Division of Investment Management

ANS: a

Rationale: The Division of Corporation Finance processes documents filed with the SEC, and examines first-time registration statements and recurring filings.

4. Topic: SEC authority over accounting practices
LO 2
For financial disclosures made by SEC registrants, which statement below best describes the relationship between FASB and SEC requirements?
- The SEC completely delegates authority to set accounting principles to the FASB, and enforces the FASB Codification.
 - If the SEC disagrees with FASB requirements, it changes the FASB Codification to satisfy SEC concerns.
 - The SEC may impose additional disclosure requirements on its registrants, not required by the FASB.
 - The FASB has oversight powers over the SEC, requiring SEC disclosure requirements to agree with the FASB Codification.

ANS: c

Rationale: The SEC has oversight powers over the FASB (through the Chief Accountant), and can require additional disclosures, not required by the FASB.

5. Topic: Registration requirements for new securities
LO 3
When a company registers new securities with the SEC, what document must be included with the registration statement?
- Prospectus
 - 10-K
 - 8-K
 - Letter of comment

ANS: a

Rationale: The registration statement consists of two parts: (1) a prospectus, that must be given to each investor, describing the company, its business operations and risks, and other information, and (2) other information and exhibits that must be publicly available.

6. Topic: Periodic reporting requirements
LO 4

A registrant's annual report to the SEC is known as:

- a. Form 8-K
- b. Form S-1
- c. Form S-K
- d. Form 10-K

ANS: d

Rationale: The annual report to the SEC is called Form 10-K, and discloses both financial and nonfinancial information about the registrant.

7. Topic: Periodic reporting requirements
LO 4

Which statement below is *false* concerning quarterly reports filed with the SEC?

- a. Firms required to file an annual report with the SEC must also file quarterly reports.
- b. Quarterly reports are not designed to forecast the next annual report, but are intended to provide investors with updates to the most recently filed annual report.
- c. The quarterly report's financial statements consist of two documents: (1) comparative balance sheets, and (2) comparative income statements.
- d. Quarterly financial statements may combine accounts that are reported separately in the annual report.

ANS: c

Rationale: Quarterly reports filed with the SEC include comparative balance sheets and income statements, and also comparative cumulative year-to-date statements of cash flow.

8. Topic: Corporate accountability and governance
LO 5

The PCAOB was established by the Sarbanes-Oxley Act, and is subject to SEC oversight. The PCAOB:

- a. Oversees SEC enforcement actions against registrants who file false or misleading financial data
- b. Files criminal proceedings against individuals who defraud investors
- c. Monitors financial information filed by companies whose securities are regulated by the SEC
- d. Sets auditing standards for audits of companies whose securities are regulated by the SEC

ANS: d

Rationale: The PCAOB's focus is the regulation of auditing firms. It was also given the authority to set auditing standards.

9. Topic: Corporate accountability and governance
LO 5

Section 301 of the Sarbanes-Oxley Act requires the audit committee to:

- a. Include the Chief Executive Officer of the company
- b. Consist of members with extensive financial training and experience
- c. Be directly responsible for oversight of the company's external audit firm
- d. File an annual report with the SEC, outlining its activities and problems it has identified concerning the company's financial disclosures and internal control system

ANS: c

Rationale: Section 301 of the Sarbanes-Oxley Act defines independence, and requires that the audit committee be directly responsible for arrangements with and oversight of the company's external audit firm.

10. Topic: The SEC and IFRS

LO 6

Which statement best describes the SEC's position regarding U.S. GAAP and IFRS, for its U.S. registrants?

- a. IFRS, and not U.S. GAAP, is required for all U.S. registrants, starting in 2012.
- b. The SEC requires U.S. GAAP for its U.S. registrants, but is still evaluating whether to require IFRS in the future.
- c. U.S. companies will be required to file parallel financial information, using both U.S. GAAP and IFRS, starting in 2013.
- d. U.S. companies can currently choose to use U.S. GAAP or IFRS in their SEC filings.

ANS: b

Rationale: While the SEC is considering whether or not to require IFRS, the decision depends on the quality of IFRS standards, whether the standards have a strong enforcement mechanism, and if accountants and auditors can obtain adequate training and education in IFRS. Currently U.S. registrants must use U.S. GAAP.