Appendix I

The Sarbanes-Oxley Act, Internal Controls, and Management Accounting

**Multiple Choice Questions**

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| 1. | The Sarbanes-Oxley Act:      |  |  | | --- | --- | | A. | arose because of several accounting scandals that rocked the public's confidence in published financial statements. |  |  |  | | --- | --- | | B. | was enacted, in part, to bring about reform in companies' financial reporting processes. |  |  |  | | --- | --- | | C. | has distinct guidelines for reporting on an organization's internal control practices. |  |  |  | | --- | --- | | D. | contains provisions whereby the chief executive officer (CEO) and chief financial officer (CFO) can be held criminally responsible if their firm's financial statements are found to be fraudulent in nature. |  |  |  | | --- | --- | | E. | all of the other answers are correct. | |

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| 2. | Internal controls focus on all of the following except:      |  |  | | --- | --- | | A. | effectiveness of operations. |  |  |  | | --- | --- | | B. | reliability of financial reporting. |  |  |  | | --- | --- | | C. | compliance with applicable laws and regulations. |  |  |  | | --- | --- | | D. | maximization of profit and cash flows. |  |  |  | | --- | --- | | E. | efficiency of operations. | |

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| 3. | Which of the following is a typical internal control?      |  |  | | --- | --- | | A. | The use of password-protected computers and software. |  |  |  | | --- | --- | | B. | The requirement that separate individuals authorize cash disbursements and sign checks. |  |  |  | | --- | --- | | C. | The use of physical controls over inventories to prevent loss from theft. |  |  |  | | --- | --- | | D. | A physical count of inventory at year-end to verify amounts shown on the company's accounting records. |  |  |  | | --- | --- | | E. | All of the other answers are correct. | |

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| 4. | The Sarbanes-Oxley Act established the:      |  |  | | --- | --- | | A. | Securities and Exchange Commission (SEC). |  |  |  | | --- | --- | | B. | Public Company Accounting Oversight Board (PCAOB). |  |  |  | | --- | --- | | C. | Financial Accounting Standards Board (FASB). |  |  |  | | --- | --- | | D. | Institute of Management Accountants (IMA). |  |  |  | | --- | --- | | E. | American Accounting Association (AAA). | |

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| 5. | Which of the following bodies oversees audits and auditors, and sanctions firms and individuals for violations of laws and regulations?      |  |  | | --- | --- | | A. | American Institute of Certified Public Accountants (AICPA). |  |  |  | | --- | --- | | B. | American Accounting Association (AAA). |  |  |  | | --- | --- | | C. | Public Company Accounting Oversight Board (PCAOB). |  |  |  | | --- | --- | | D. | Financial Accounting Standards Board (FASB). |  |  |  | | --- | --- | | E. | Accounting Principles Board (APB). | |

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| 6. | Which of the following is not a provision of (nor an outgrowth of) the Sarbanes-Oxley Act?      |  |  | | --- | --- | | A. | A public company's annual report must contain a separate disclosure that assesses the company's internal controls. |  |  |  | | --- | --- | | B. | Management is essentially responsible for establishing and maintaining internal controls. |  |  |  | | --- | --- | | C. | A company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) can be held criminally responsible if their firm's financial statements are fraudulent. |  |  |  | | --- | --- | | D. | A company must prepare a balance sheet, an income statement, a statement of stockholders' equity, and a statement of cash flows. |  |  |  | | --- | --- | | E. | A new body, the Public Company Accounting Oversight Board, oversees and investigates the audits and auditors of public companies. | |

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| 7. | Which of the following statements regarding the Sarbanes-Oxley Act is (are) true?      |  |  | | --- | --- | | A. | Management must establish and maintain a system of internal controls over financial reporting. |  |  |  | | --- | --- | | B. | Management must periodically assess a company's system of internal controls over financial reporting. |  |  |  | | --- | --- | | C. | Management must include in the company's annual report a separate report that assesses internal controls. |  |  |  | | --- | --- | | D. | A company's auditors are required to report on management's assessment of internal controls. |  |  |  | | --- | --- | | E. | All of the other answers are correct. | |

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| 8. | The provisions of sections 302 and 404 of the Sarbanes-Oxley Act (as originally enacted) have proved especially troublesome for:      |  |  | | --- | --- | | A. | Small businesses. |  |  |  | | --- | --- | | B. | Private universities. |  |  |  | | --- | --- | | C. | Cities and municipalities. |  |  |  | | --- | --- | | D. | Healthcare providers. |  |  |  | | --- | --- | | E. | Individual taxpayers. | |

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| 9. | The provisions of section 302 of the Sarbanes-Oxley Act (as originally enacted) require the signing officers of a company to do all of the following except:      |  |  | | --- | --- | | A. | Audit the internal controls over financial reporting. |  |  |  | | --- | --- | | B. | Establish the internal controls over financial reporting. |  |  |  | | --- | --- | | C. | Maintain the internal controls over financial reporting. |  |  |  | | --- | --- | | D. | Evaluate the internal controls over financial reporting. |  |  |  | | --- | --- | | E. | Disclose material weaknesses in the internal controls over financial reporting. | |

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| 10. | Section 404 of the Sarbanes-Oxley Act, *Management Assessment of Internal Controls*, includes all of the following except:      |  |  | | --- | --- | | A. | A statement of management's responsibility for establishing the internal control structure. |  |  |  | | --- | --- | | B. | A waiver of auditor responsibility for assessing management's report on internal controls. |  |  |  | | --- | --- | | C. | An assessment of the effectiveness of internal controls by management. |  |  |  | | --- | --- | | D. | An assessment of the effectiveness of procedures for financial reporting by management. |  |  |  | | --- | --- | | E. | A requirement that management include in its annual report an internal control report. | |

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| 11. | To achieve the objectives of sections 302 and 404 of the Sarbanes-Oxley Act, management and independent auditors should:      |  |  | | --- | --- | | A. | Disclose the minutia of the internal control structure. |  |  |  | | --- | --- | | B. | Conduct a cost-benefit analysis prior to deciding whether or not to adopt these sections. |  |  |  | | --- | --- | | C. | Emphasize those areas where the greatest risk of fraud or material misstatement is likely to occur. |  |  |  | | --- | --- | | D. | Analyze all financial transactions that are included in the reported financial statements. |  |  |  | | --- | --- | | E. | Work together to design the most effective internal control system. | |

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| 12. | Most of the Sarbanes-Oxley Act relates primarily to:      |  |  | | --- | --- | | A. | Corporate governance. |  |  |  | | --- | --- | | B. | Financial accounting. |  |  |  | | --- | --- | | C. | Auditing. |  |  |  | | --- | --- | | D. | Court-invoked penalties for violating the law. |  |  |  | | --- | --- | | E. | All of the other answers are correct. | |

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| 13. | Which of the following statements is false concerning computerized accounting systems?      |  |  | | --- | --- | | A. | Safeguards exist to make sure that controls are working properly. |  |  |  | | --- | --- | | B. | There is no need for controls over human operators of computerized systems. |  |  |  | | --- | --- | | C. | Computerized accounting systems are not 100% reliable. |  |  |  | | --- | --- | | D. | Limits should be placed on who can access a computerized system. |  |  |  | | --- | --- | | E. | Many internal control procedures are automated. | |

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| 14. | Under section 404 of the Sarbanes-Oxley Act, auditors are required to:      |  |  | | --- | --- | | A. | Attest to and report on management's assessment of internal controls. |  |  |  | | --- | --- | | B. | Establish and maintain internal controls for audited companies. |  |  |  | | --- | --- | | C. | Advise management on its preparation of the Report on Internal Controls. |  |  |  | | --- | --- | | D. | Evaluate the company's internal control system periodically throughout the year. |  |  |  | | --- | --- | | E. | All of the other answers are correct. | |

Appendix I The Sarbanes-Oxley Act, Internal Controls, and Management Accounting Answer Key

**Multiple Choice Questions**

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 1. | The Sarbanes-Oxley Act:      |  |  | | --- | --- | | A. | arose because of several accounting scandals that rocked the public's confidence in published financial statements. |  |  |  | | --- | --- | | B. | was enacted, in part, to bring about reform in companies' financial reporting processes. |  |  |  | | --- | --- | | C. | has distinct guidelines for reporting on an organization's internal control practices. |  |  |  | | --- | --- | | D. | contains provisions whereby the chief executive officer (CEO) and chief financial officer (CFO) can be held criminally responsible if their firm's financial statements are found to be fraudulent in nature. |  |  |  | | --- | --- | | **E.** | all of the other answers are correct. | |

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| *AACSB: Ethics AICPA BB: Legal AICPA FN: Risk Analysis Blooms: Understand Difficulty: 1 Easy Learning Objective: I-01 Understand and discuss the concept of internal controls over financial reporting.* |

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| 2. | Internal controls focus on all of the following except:      |  |  | | --- | --- | | A. | effectiveness of operations. |  |  |  | | --- | --- | | B. | reliability of financial reporting. |  |  |  | | --- | --- | | C. | compliance with applicable laws and regulations. |  |  |  | | --- | --- | | **D.** | maximization of profit and cash flows. |  |  |  | | --- | --- | | E. | efficiency of operations. | |

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| *AACSB: Ethics AICPA BB: Industry AICPA FN: Risk Analysis Blooms: Understand Difficulty: 2 Medium Learning Objective: I-01 Understand and discuss the concept of internal controls over financial reporting.* |

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| 3. | Which of the following is a typical internal control?      |  |  | | --- | --- | | A. | The use of password-protected computers and software. |  |  |  | | --- | --- | | B. | The requirement that separate individuals authorize cash disbursements and sign checks. |  |  |  | | --- | --- | | C. | The use of physical controls over inventories to prevent loss from theft. |  |  |  | | --- | --- | | D. | A physical count of inventory at year-end to verify amounts shown on the company's accounting records. |  |  |  | | --- | --- | | **E.** | All of the other answers are correct. | |

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| *AACSB: Ethics AICPA BB: Industry AICPA FN: Risk Analysis Blooms: Understand Difficulty: 2 Medium Learning Objective: I-01 Understand and discuss the concept of internal controls over financial reporting.* |

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| 4. | The Sarbanes-Oxley Act established the:      |  |  | | --- | --- | | A. | Securities and Exchange Commission (SEC). |  |  |  | | --- | --- | | **B.** | Public Company Accounting Oversight Board (PCAOB). |  |  |  | | --- | --- | | C. | Financial Accounting Standards Board (FASB). |  |  |  | | --- | --- | | D. | Institute of Management Accountants (IMA). |  |  |  | | --- | --- | | E. | American Accounting Association (AAA). | |

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| *AACSB: Ethics AICPA BB: Legal AICPA FN: Research Blooms: Understand Difficulty: 2 Medium Learning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

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| 5. | Which of the following bodies oversees audits and auditors, and sanctions firms and individuals for violations of laws and regulations?      |  |  | | --- | --- | | A. | American Institute of Certified Public Accountants (AICPA). |  |  |  | | --- | --- | | B. | American Accounting Association (AAA). |  |  |  | | --- | --- | | **C.** | Public Company Accounting Oversight Board (PCAOB). |  |  |  | | --- | --- | | D. | Financial Accounting Standards Board (FASB). |  |  |  | | --- | --- | | E. | Accounting Principles Board (APB). | |

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| 6. | Which of the following is not a provision of (nor an outgrowth of) the Sarbanes-Oxley Act?      |  |  | | --- | --- | | A. | A public company's annual report must contain a separate disclosure that assesses the company's internal controls. |  |  |  | | --- | --- | | B. | Management is essentially responsible for establishing and maintaining internal controls. |  |  |  | | --- | --- | | C. | A company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) can be held criminally responsible if their firm's financial statements are fraudulent. |  |  |  | | --- | --- | | **D.** | A company must prepare a balance sheet, an income statement, a statement of stockholders' equity, and a statement of cash flows. |  |  |  | | --- | --- | | E. | A new body, the Public Company Accounting Oversight Board, oversees and investigates the audits and auditors of public companies. | |

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| *AACSB: Ethics AICPA BB: Industry AICPA FN: Research Blooms: Understand Difficulty: 2 Medium Learning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

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| 7. | Which of the following statements regarding the Sarbanes-Oxley Act is (are) true?      |  |  | | --- | --- | | A. | Management must establish and maintain a system of internal controls over financial reporting. |  |  |  | | --- | --- | | B. | Management must periodically assess a company's system of internal controls over financial reporting. |  |  |  | | --- | --- | | C. | Management must include in the company's annual report a separate report that assesses internal controls. |  |  |  | | --- | --- | | D. | A company's auditors are required to report on management's assessment of internal controls. |  |  |  | | --- | --- | | **E.** | All of the other answers are correct. | |

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| *AACSB: Ethics AICPA BB: Industry AICPA FN: Research Blooms: Understand Difficulty: 2 Medium Learning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

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| 8. | The provisions of sections 302 and 404 of the Sarbanes-Oxley Act (as originally enacted) have proved especially troublesome for:      |  |  | | --- | --- | | **A.** | Small businesses. |  |  |  | | --- | --- | | B. | Private universities. |  |  |  | | --- | --- | | C. | Cities and municipalities. |  |  |  | | --- | --- | | D. | Healthcare providers. |  |  |  | | --- | --- | | E. | Individual taxpayers. | |

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| *AACSB: Ethics AICPA BB: Industry AICPA FN: Research Blooms: Understand Difficulty: 2 Medium Learning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

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| 9. | The provisions of section 302 of the Sarbanes-Oxley Act (as originally enacted) require the signing officers of a company to do all of the following except:      |  |  | | --- | --- | | **A.** | Audit the internal controls over financial reporting. |  |  |  | | --- | --- | | B. | Establish the internal controls over financial reporting. |  |  |  | | --- | --- | | C. | Maintain the internal controls over financial reporting. |  |  |  | | --- | --- | | D. | Evaluate the internal controls over financial reporting. |  |  |  | | --- | --- | | E. | Disclose material weaknesses in the internal controls over financial reporting. | |

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| *AACSB: Ethics AICPA BB: Industry AICPA FN: Research Blooms: Understand Difficulty: 2 Medium Learning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

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| 10. | Section 404 of the Sarbanes-Oxley Act, *Management Assessment of Internal Controls*, includes all of the following except:      |  |  | | --- | --- | | A. | A statement of management's responsibility for establishing the internal control structure. |  |  |  | | --- | --- | | **B.** | A waiver of auditor responsibility for assessing management's report on internal controls. |  |  |  | | --- | --- | | C. | An assessment of the effectiveness of internal controls by management. |  |  |  | | --- | --- | | D. | An assessment of the effectiveness of procedures for financial reporting by management. |  |  |  | | --- | --- | | E. | A requirement that management include in its annual report an internal control report. | |

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| 11. | To achieve the objectives of sections 302 and 404 of the Sarbanes-Oxley Act, management and independent auditors should:      |  |  | | --- | --- | | A. | Disclose the minutia of the internal control structure. |  |  |  | | --- | --- | | B. | Conduct a cost-benefit analysis prior to deciding whether or not to adopt these sections. |  |  |  | | --- | --- | | **C.** | Emphasize those areas where the greatest risk of fraud or material misstatement is likely to occur. |  |  |  | | --- | --- | | D. | Analyze all financial transactions that are included in the reported financial statements. |  |  |  | | --- | --- | | E. | Work together to design the most effective internal control system. | |

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| *AACSB: Ethics AICPA BB: Industry AICPA FN: Research Blooms: Understand Difficulty: 2 Medium Learning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

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| 12. | Most of the Sarbanes-Oxley Act relates primarily to:      |  |  | | --- | --- | | A. | Corporate governance. |  |  |  | | --- | --- | | B. | Financial accounting. |  |  |  | | --- | --- | | C. | Auditing. |  |  |  | | --- | --- | | D. | Court-invoked penalties for violating the law. |  |  |  | | --- | --- | | **E.** | All of the other answers are correct. | |

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| 13. | Which of the following statements is false concerning computerized accounting systems?      |  |  | | --- | --- | | A. | Safeguards exist to make sure that controls are working properly. |  |  |  | | --- | --- | | **B.** | There is no need for controls over human operators of computerized systems. |  |  |  | | --- | --- | | C. | Computerized accounting systems are not 100% reliable. |  |  |  | | --- | --- | | D. | Limits should be placed on who can access a computerized system. |  |  |  | | --- | --- | | E. | Many internal control procedures are automated. | |

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| *AACSB: Ethics AICPA BB: Industry AICPA FN: Research Blooms: Understand Difficulty: 2 Medium Learning Objective: I-01 Understand and discuss the concept of internal controls over financial reporting.* |

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| 14. | Under section 404 of the Sarbanes-Oxley Act, auditors are required to:      |  |  | | --- | --- | | **A.** | Attest to and report on management's assessment of internal controls. |  |  |  | | --- | --- | | B. | Establish and maintain internal controls for audited companies. |  |  |  | | --- | --- | | C. | Advise management on its preparation of the Report on Internal Controls. |  |  |  | | --- | --- | | D. | Evaluate the company's internal control system periodically throughout the year. |  |  |  | | --- | --- | | E. | All of the other answers are correct. | |

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