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. |

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| --- | --- |
| 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. |

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| --- | --- |
| 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. |

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| --- | --- |
| 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. |

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| --- | --- |
| D.  | A physical count of inventory at year-end to verify amounts shown on the company's accounting records. |

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| --- | --- |
| 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). |

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| --- | --- |
| D.  | Institute of Management Accountants (IMA). |

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| --- | --- |
| 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. |

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| --- | --- |
| 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. |

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| --- | --- |
| B.  | Management must periodically assess a company's system of internal controls over financial reporting. |

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| --- | --- |
| C.  | Management must include in the company's annual report a separate report that assesses internal controls. |

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| --- | --- |
| D.  | A company's auditors are required to report on management's assessment of internal controls. |

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| --- | --- |
| 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. |

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| --- | --- |
| D.  | Evaluate the internal controls over financial reporting. |

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| 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. |

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| --- | --- |
| 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. |

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| --- | --- |
| E.  | All of the other answers are correct. |

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

**Multiple Choice Questions**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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: EthicsAICPA BB: LegalAICPA FN: Risk AnalysisBlooms: UnderstandDifficulty: 1 EasyLearning 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: EthicsAICPA BB: IndustryAICPA FN: Risk AnalysisBlooms: UnderstandDifficulty: 2 MediumLearning 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: EthicsAICPA BB: IndustryAICPA FN: Risk AnalysisBlooms: UnderstandDifficulty: 2 MediumLearning 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: EthicsAICPA BB: LegalAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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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| *AACSB: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning 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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| *AACSB: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning 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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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning 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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| *AACSB: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 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: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning 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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| --- |
| *AACSB: EthicsAICPA BB: IndustryAICPA FN: ResearchBlooms: UnderstandDifficulty: 2 MediumLearning Objective: I-02 Understand and discuss the role of the PCAOB and the implications of Sarbanes-Oxley Sections 302 and 404.* |