

Chapter 16– Advanced Accounting, 3rd Edition by Hamlen, Huefner and Largay

Solutions to Practice Quiz

1. Topic: Principal legislation enforced by the SEC

LO 1

Answer: 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

Answer: 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

Answer: 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

Answer: 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

Answer: a

Rationale: The registration statement consists of two parts: (1) a prospectus, which 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

Answer: 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

Answer: 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

Answer: 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

Answer: 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 global standard-setting

LO 6

Answer: 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.