

## Chapter 16– Advanced Accounting, 3<sup>rd</sup> 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.