**Exam 3 Possible Test Question**

**Multiple Choice Questions**

**Chapter 5 Corporate Ethical Governance & Accountability**

1. Corporations are now increasingly realizing that they are accountable:
   1. Legally to shareholders
   2. Legally to all stakeholders
   3. Strategically to additional stakeholders
   4. (a) and (b)
   5. (a) and (c)
2. The company’s internal auditors and the Ethics Officer should report:
   1. Day-to-day to the CEO
   2. Day-to-day to the Audit Committee of the Board of Directors
   3. Regularly to the Audit Committee of the Board of Directors without management being present
   4. (a) and (c)
   5. (a) and (b)
3. Which of the following is **not** true?
   1. Principles are more useful than rules because principles can be interpreted as new circumstances require
   2. Rules are more useful than principles because rules can be interpreted as new circumstances require
   3. A blend of principles and rules is often optimal
   4. All of the above
   5. (a) and (c) only
4. Experience has revealed that, to be effective, a code must be reinforced by:
   1. Tone at the top
   2. Ethics officer and internal auditors
   3. A comprehensive ethical culture
   4. Principles, rules and examples
   5. All of the above
5. Which of the following is **not** an ethics risk management principle?
   1. Normal definitions of risk are too narrow for stakeholder accountability
   2. Assign responsibility, develop follow-up processes and board review
   3. Discovery and remediation are essential
   4. The code of ethics must be reviewed by independent parties
   5. An ethics risk exists when expectations of stakeholders may not be met
6. A conflict of interest exists when a given decision maker (D) and another person (P) are in the following situation:
   1. D has to exercise judgement on P’s behalf
   2. P has to exercise judgement on D’s behalf
   3. D has a special interest that interferes with proper judgement
   4. (a) and (b)
   5. (a) and (c)
7. A potential conflict of interest exists when a given decision maker (D) and another person (P) are in the following situation:
   1. P has a special interest that interferes with proper judgement
   2. D may have to exercise judgement in P’s behalf
   3. D has a special interest that interferes with proper judgement
   4. (a) and (b)
   5. (b) and (c)
8. This is the preferred approach to deal with conflicts of interests
   1. Management
   2. Disclosure
   3. Remediation
   4. Avoidance
   5. Awareness
9. A fundamental problem examined by agency theory is how it is possible to align:
   1. Shareholders’ and stakeholders’ goals
   2. Manager’s and stakeholders’ goals
   3. Shareholders’ and managers’ goals
   4. Principal’s and shareholders’ goals
   5. Agent’s and stakeholders’ goals
10. The 20/60/20 rule states that the total percent of employees who could commit a fraudulent act is:
    1. 20%
    2. 60%
    3. 80%
    4. 100%
    5. None of the above
11. Which of the following is not a characteristic identified by forensic experts in prospective fraud situations?
    1. High intelligence
    2. Greed
    3. Need for whatever is taken
    4. Opportunity to take advantage
    5. Low probability of being caught
12. The primary focus of a compliance-based ethics program is:
    1. Preventing, detecting and punishing violations of the law
    2. Define organizational values and encourage employee commitment
    3. Improve image and relationship with stakeholders
    4. Protect management from blame
    5. All of the above
13. The primary focus of an integrity-based ethics program is:
    1. Preventing, detecting and punishing violations of the law
    2. Define organizational values and encourage employee commitment
    3. Improve image and relationship with stakeholders
    4. Protect management from blame
    5. All of the above
14. The most important factor in encouraging employee observance to an ethics program is that employees perceive that it is:
15. Compliance-based
16. Value-based
17. Achievement oriented
18. Stakeholder-based
19. Externally oriented
20. Building trust within an organization can have favorable impact on an employee’s willingness to share information and ideas in a process of:
    1. Ethical awareness
    2. Ethical awakening
    3. Ethical renewal
    4. Ethical wave
    5. None of the above
21. A Conference Board survey identified the following rationale for developing codes of ethics:
    1. Make employees aware that adherence is critical to bottom-line success
    2. Provide a statement of do’s and don’ts
    3. Discuss what is expected in stakeholder relationships
    4. Establish values and mission
    5. All of the above
22. This code deals with ethics principles plus additional examples:
    1. Credo
    2. Code of ethics
    3. Code of conduct
    4. Code of practice
    5. All of the above
23. Which of the following is NOT a mechanism for monitoring a code of ethics?
    1. Ethics audit or internal audit procedures
    2. Reviews by legal department
    3. Awards and bonuses
    4. Annual sign-off by employees
    5. Employee surveys
24. Which of the following is NOT an example of emerging public accountability standards or initiatives?
    1. SOX-404
    2. GRI
    3. AA-1000
    4. FTSE4Good
    5. All of the above are examples
25. SOX imposed the following new penalties for executives:
    1. Fines
    2. Suspension
    3. Criminal prosecution for executives
    4. Return of ill-gotten gains
    5. All of the above

**Chapter 6 Professional Accounting in the Public Interest, Post Enron**

1. The following elements are essential features of a profession:
   1. Extensive training, license or certification, and provision of important services to society
   2. Extensive training, primarily intellectual skills, and representation by professional organizations
   3. Extensive training, provision of important services to society, and primarily intellectual skills
   4. License or certification, representation by professional organizations, and autonomy
   5. License or certification, autonomy, and provision of important services to society
2. The following value is NOT necessary for an accounting professional:
   1. Honesty
   2. Integrity
   3. Objectivity
   4. A primary commitment to self-interest
   5. All but one of the above
3. The following duties are essential to maintaining a fiduciary relationship in the accounting profession:
   1. Development and maintenance of required knowledge and skills
   2. Maintenance of trust
   3. Maintenance of an acceptable personal reputation
   4. All of the above
   5. (a) and (b) only
4. Professional Accountants, in their fiduciary role, owe primary loyalty to:
   1. The accounting profession
   2. The client
   3. The general public
   4. Government regulations
   5. All of the above
5. According to Kohlberg, at this stage of moral reasoning, fear of punishment and authorities are a motive for doing right:
   1. Pre-conventional
   2. Conventional
   3. Post-conventional
   4. Autonomous
   5. Principled
6. According to Kohlberg, at this stage of moral reasoning, adherence to moral codes or to codes of law and order are a motive for doing right:
   1. Pre-conventional
   2. Conventional
   3. Post-conventional
   4. Autonomous
   5. Principled
7. Which of the following is NOT a fundamental principle in codes of conduct for professional accountants?
   1. Act in the client’s best interest
   2. Objectivity and independence
   3. Maintain the good reputation of the profession
   4. Maintain confidentiality
   5. Not to be associated with misleading information
8. If a professional accountant is billing an audit client for more hours than those actually worked, he will be violating the following fundamental principle:
   1. Objectivity
   2. Professional due care
   3. Integrity
   4. Confidentiality
   5. All of the above
9. If a professional accountant is auditing a public company and she receives company shares as payment for her audit services, she will be violating the following fundamental principle:
   1. Integrity
   2. Objectivity
   3. Professional due care
   4. Confidentiality
   5. All of the above
10. A professional accountant is auditing client A and providing consulting services to client B. Both clients are in the same industry. If the professional accountant uses specific information from client A’s audit to prepare a business plan for client B, he will be violating the following fundamental principle:
    1. Integrity
    2. Objectivity
    3. Professional due care
    4. Confidentiality
    5. All of the above
11. The adoption of the following measures would reduce the expectation gap and lessen public misunderstanding of the auditor's role
    1. Publish a statement of management responsibility
    2. Auditor to report annually to audit committee
    3. Expand audit report to clarify auditor's role and the level of assurance
    4. (a) and (b)
    5. (a) and (c)
12. The recommendation of appointment and review of the external auditors by the audit committee is an example of:
    1. Safeguards reducing the risk of conflict of interest created by the profession, legislation, or regulation
    2. Safeguards reducing the risk of conflict of interest between an auditor and management
    3. Safeguards reducing the risk of conflict of interest within a professional accounting firm’s own systems and procedures
    4. All of the above
    5. (a) and (c) only
13. Using partners who do not report to audit partners for the provision of non-assurance services to an assurance client would be an example of:
    1. Safeguards reducing the risk of conflict of interest created by the profession, legislation, or regulation
    2. Safeguards reducing the risk of conflict of interest within a client
    3. Safeguards reducing the risk of conflict of interest within a professional accounting firm
    4. All of the above
    5. (a) and (c) only
14. The external review of an audit firm’s quality control system is an example of:
    1. Safeguards reducing the risk of conflict of interest within the audit profession
    2. Safeguards reducing the risk of conflict of interest within a client
    3. Safeguards reducing the risk of conflict of interest within a professional accounting firm
    4. All of the above
    5. (a) and (c) only
15. This organization is developing an international code of conduct for professional accountants:
    1. International Accounting Standards Board
    2. European Federation of Accountants
    3. Financial Accounting Standards Board
    4. Public Accounting Oversight Board
    5. International Federation of Accountants
16. This organization issues auditing standards, carries out inspections of public accounting firms auditing U.S. public clients, and imposes sanctions when applicable:
    1. CPAB
    2. PCAOB
    3. SEC
    4. FASB
    5. AICPA
17. This organization can issue auditing standards in the U.S.:
    1. AICPA
    2. FASB
    3. SEC
    4. PCAOB
    5. All of the above
18. A professional accounting firm has several audit and tax clients; however, a single client represents 40% of the firm’s revenue. This situation could result in the following threat to professional independence:
    1. Self-review
    2. Intimidation
    3. Advocacy
    4. Familiarity
    5. Over-dependence
19. A professional accountant has been the partner in charge of a particular audit client for the past eight years. This situation could result in the following threat to professional independence:
    1. Self-review
    2. Intimidation
    3. Advocacy
    4. Familiarity
    5. None of the above
20. A new audit client was taken on by a professional accountant’s firm. The fee for this client’s audit engagement is significantly lower than that charged by the prior accountants. This situation could result in the following threat to professional independence:
    1. Self-review
    2. Intimidation
    3. Advocacy
    4. Familiarity
    5. None of the above