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Enron: Fraud, Deception, and the Aftermath

Course #5140H/QAS5140H

Exam Packet



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ENRON: FRAUD, DECEPTION, AND THE AFTERMATH
(COURSE #5140H/QAS5140H)

COURSE DESCRIPTION

This course covers the factors that led to the demise of Enron, as well as the changes that were made to accounting, auditing, and SEC rules as a result of those issues identified in the Enron situation. It reviews the GAAP rules that were in effect at the time of the Enron abuses, as well as examining the aftermath of Enron, including the Sarbanes-Oxley Act of 2002 and the new consolidation rules related to variable interest entities. Uses the materials entitled *Enron: Fraud, Deception, and the Aftermath*. No prerequisites. Course level: Basic. Course #5140H/QAS5140H – 8 CPE hours.

LEARNING ASSIGNMENTS and OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

ASSIGNMENT	SUBJECT
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1	General Accounting Issues
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Study the materials from pages 2 to 25
Complete the review questions on pages 26 to 34
Answer the exam questions 1 to 11

Objectives:

- To describe the background leading up to the Enron bankruptcy
- To explain the pre-Enron rules for investments, consolidations, and SPEs

ASSIGNMENT	SUBJECT
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2	Enron and GAAP Violations
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Study the materials from pages 35 to 84
Complete the review questions on pages 85 to 89
Answer the exam questions 12 to 18

Objectives:

- To explain Enron's use of SPEs – Where did they violate the GAAP Rules
- To evaluate Enron's disclosures – Did Enron violate the disclosure rules for related parties?

ASSIGNMENT	SUBJECT
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3	Enron's Board of Directors and Audit Committee
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Study the materials from pages 90 to 96
Complete the review questions on pages 97 to 98
Answer the exam questions 19 to 21

Objectives:

- To describe Enron's board and audit committee actions
- To discuss the new rules related to audit committees

ASSIGNMENT	SUBJECT
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4	Auditing, Independence, and Conflicts of Interest
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Study the materials from pages 99 to 104
Complete the review questions on pages 105 to 106
Answer the exam questions 22 to 23

Objectives:

- To identify some of the audit and independence issues that are at the forefront of the Enron-Andersen debate

ASSIGNMENT	SUBJECT
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5	Changes After Enron
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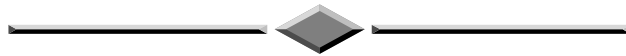
Study the materials from pages 107 to 158
Complete the review questions on pages 159 to 169
Answer the exam questions 24 to 40

Objectives:

- To discuss the specific changes that have occurred as a result of the Enron situation
- To identify the changes as a result of the Sarbanes-Oxley Act
- To explain Enron's impact in consideration of the FASB Interpretation No. 46R

ASSIGNMENT

- 6 **Complete the Answer Sheet and Course Evaluation and mail to PES for credit**



NOTICE

This course and test have been adapted from materials and information contained in the materials entitled *Enron: Fraud, Deception, and the Aftermath* and any supplemental material provided. This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

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ENRON: FRAUD, DECEPTION, AND THE AFTERMATH (COURSE #5140H/QAS5140H) – EXAM OUTLINE

COURSE EXPIRATION DATE: Per AICPA and NASBA standards, this course must be completed within one year from the date of purchase.

TEST FORMAT: The following final exam, consisting of 40 multiple choice questions, is based specifically on the material included in this course. The answer sheet must be completed and returned to PES for CPE certification. You will find the answer sheet at the back of this exam packet so that you may easily remove it and use it while taking your test.

LICENSE RENEWAL INFORMATION: The Enron: Fraud, Deception, and the Aftermath course (#5140H/QAS5140H) qualifies for **8** CPE hours.

PROCESSING: Your exam will be graded promptly. You must score 70% or better to pass. When you pass, your certificate of completion will be mailed. If you do not pass, we will give you a courtesy call to inform you of this and then another answer sheet will be sent to you free of charge.

GRADING OPTIONS: Please choose only one of the following. There is no additional charge for any of these grading options. Make sure to fill out your answer sheet completely prior to submitting it.

- **ONLINE GRADING** –Visit our website at <http://www.mypescpe.com>. Login to your account (if you are a first-time user you must set up a new user account). Go to the “**MY CPE**” tab and click the “**My CPE Exams in Progress**” folder. If your exam is not already located in this folder, click “**Add Exam Previously Purchased**” and follow the instructions.
- **MAIL** – Your exam will be graded and your certificate of completion mailed to you the same day we receive it. Your certificate will be dated according to the **postmark date**; therefore, you do not need to overnight your exam. Please mail your answer sheet to:

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- **FAX** – Your exam will be graded and you will be contacted either via phone or fax with your results within 4 business hours of receipt. A copy of your graded exam and certificate of completion will be mailed to you the same day we receive it. Your certificate will be dated according to the fax date. If you choose to fax your exam, please do not mail it. Your fax will serve as the original. Please refer to the attached answer sheet for further instructions on fax grading. Fax number (916) 791-4099.



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ENRON: FRAUD, DECEPTION, AND THE AFTERMATH (COURSE #5140H/QAS5140H) – FINAL EXAM

The following questions are multiple choice. Please indicate your choice on the enclosed Answer Sheet.

1. With respect to investments with less than 20% ownership, if the investments are non-securities, such as closely held stock, convertible debt or redeemable preferred stock, the investments are recorded at:
 - a) amortized cost per ARB No. 43
 - b) fair value per FASB No. 115
 - c) replacement cost per ARB No. 45
 - d) none of the above
2. Trading securities consist of _____ that are bought and held for the purpose of selling them in the near term (generally within one year).
 - a) debt securities only
 - b) equity securities only
 - c) both debt and equity securities
 - d) none of the above
3. If an investor has the ability to exercise significant influence over the operating and financial policies of the investee, the investment must be accounted for:
 - a) at cost
 - b) using the equity method
 - c) using the consolidation rules
 - d) none of the above
4. Using the equity method, the investor recognizes its share of the earnings or losses of the investee through the investment account. Dividends received reduce the:
 - a) net liabilities
 - b) unrealized gain
 - c) carrying amount of the investment
 - d) none of the above
5. In general, ARB No. 51 and FASB No. 94 require the _____ of (for) all majority owned (more than 50%) subsidiaries.
 - a) consolidation
 - b) use of equity method
 - c) cost method to be used
 - d) none of the above
6. In some instances, the issuance of _____ financial statements is an alternative to consolidated financial statements.
 - a) equity statements
 - b) combined
 - c) cost basis
 - d) none of the above
7. Although the 50% ownership requirement is the minimum standard for consolidations, there are _____ situations in which consolidation may occur even though the 50% majority rule of ARB No. 51 is not satisfied.
 - a) three
 - b) four
 - c) five
 - d) six
8. SOP 78-9 states that with respect to investments in limited partnerships, a general partner should _____ a limited partnership if it controls the limited partnership.
 - a) combine with
 - b) use the equity method with
 - c) consolidate with
 - d) none of the above
9. There are several advantages to using SPEs, which include all of the following except:
 - a) lower-cost financing
 - b) tax-advantages
 - c) removal of assets and liabilities
 - d) provide appreciation in assets
10. EITF Issue 85-1 states that a note receivable in connection with the issuance of equity and paid-in-capital should be presented as:
 - a) an asset
 - b) a reduction in stockholders' equity
 - c) a revenue item
 - d) a reduction to a liability

11. GAAP generally precludes a company from recording income and gains on:
- securities
 - its own stock
 - fixed assets
 - none of the above
12. In the JEDI-Chewco partnerships, Dodson and Kopper are alleged to have received:
- \$5 million
 - \$1 million
 - \$12.1 million
 - \$8.2 million
13. In the JEDI-Chewco partnerships, Chewco still violated the 3% minimum equity rule with a percentage of:
- 2%
 - 1.45%
 - 2.97%
 - 2.41%
14. In the restatement of the financial statements from the Chewco-JEDI transactions, year 1997 net income was restated by a decrease of:
- \$28 million
 - \$5 million
 - zero
 - none of the above
15. It is alleged that from the LJM1 partnership, Andrew Fastow received:
- \$5 million
 - zero
 - \$30 million
 - \$50 million
16. GAAP violations that occurred with LJM1 and Swap Sub include all of the following except:
- Enron presented a \$64 million note as an asset
 - there is an issue as to whether the put option was valid
 - the 3% minimum equity investment was not satisfied for Swap Sub
 - the partnership agreement was not valid as it lacked more than one partner
17. In the Southampton partnership, Glisan is alleged to have received:
- \$1 million
 - \$2 million
 - \$3 million
 - \$4 million
18. In the final restatement of Enron's financial statements, the total net income impact from 1997 to 2001 was a reduction of:
- \$398 million
 - \$164 million
 - \$586 million
 - \$445 million
19. The results of the COSO fraud report state that in _____ of the cases, either the CEO, CFO or both were involved.
- 83%
 - 36%
 - 71%
 - 58%
20. Which of the following is not true with respect to Enron's Board of Directors:
- Wendy Gramm received a \$50,000 fee from Enron
 - Stanford received a donation from Enron
 - Harvard University received a new athletic scholarship in the name of Enron
 - Robert Belfer's oil and gas business received \$30 million of business from Enron
21. Which of the following is true with respect to Andersen's communication with Enron's Audit Committee:
- Andersen reported GAAP and internal control violations to management and the Board of Directors
 - Andersen reported GAAP and internal control violations to the Audit Committee, which did not follow up on the violations
 - Andersen did not report GAAP and internal control violations to the Audit Committee
 - Andersen reported the GAAP and internal control violations to management, the Board of Directors and the Audit Committee, none of whom took any actions to resolve the violations

22. According to the Powers Report, Andersen received significant fees for advice given on the structuring and ultimate termination of the Chewco-JEDI, LJM and Raptor partnership transactions. The amount of the fees was:
- a) \$7 million
 - b) \$4 million
 - c) \$21 million
 - d) \$12 million
23. With respect to the Stanford University research study report entitled, *The Relation Between Auditors' Fees for Non-Audit Services and Earnings Quality*, one of the conclusions of the study was that there was _____ between fees paid for non-audit services and management's ability to manage earnings.
- a) a high correlation
 - b) a low correlation
 - c) no correlation
 - d) none of the above
24. Sarbanes places the authority for establishing GAAP and GAAS with the:
- a) AICPA
 - b) AAA
 - c) PCAOB
 - d) FASB
25. The Oversight Board has _____ full-time members.
- a) five
 - b) four
 - c) three
 - d) six
26. The (Sarbanes) Act provides for a _____ workpaper retention policy.
- a) four-year
 - b) three-year
 - c) seven-year
 - d) six-year
27. Sarbanes provides penalties for securities fraud in violation of the SEC Act of 1934 and other SEC violations that consist of:
- a) 25 years imprisonment and up to \$25 million fine
 - b) 50 years imprisonment and up to \$50 million fine
 - c) 5 years imprisonment and up to \$5 million fine
 - d) 10 years imprisonment and up to \$10 million fine
28. Sarbanes extends the statute of limitations for discovering fraud from two to _____ years.
- a) four
 - b) five
 - c) six
 - d) ten
29. With respect to the GAO's *Mandated Study on Consolidation and Competition in the Accounting Profession*, the Report's analyses and conclusions include all of the following except:
- a) the Big Four current audit more than 78 percent of all U. S. public companies and 99 percent of public company annual sales
 - b) internationally, the Big 4 dominate the market for audit services
 - c) most public companies believe they have numerous choices if they were to switch auditors
 - d) Sarbanes-Oxley has further limited the competition among audit firms

30. With respect to the GAO's *Mandated Study on Consolidation and Competition in the Accounting Profession*, the GAO published information on who absorbed the Andersen clients after that firm's demise. The Report concluded all of the following except:

- a) of the former Andersen clients, only 13 percent switched to non-Big 4 firms
- b) the switch of Andersen clients to the Big 4 firms was more pronounced within specialized industries that had little choice of firms that had expertise within their specific industry
- c) in the post Andersen environment, many of the Big 4 firms have more than a 25 percent market share in selected industries
- d) in general, Andersen clients have been able to secure replacement auditors at fees that are equal to or less than those previous paid to Andersen

31. Advantages of a principles-based system include all of the following except:

- a) it is less onerous, detailed and complex than the present "rules-based" "check-the box" system
- b) it is easier for accountants and auditors to stay current with a principles-based system
- c) it fosters substance over form mentality for accounting
- d) it can be applied with reasonable level of ethics and professional judgment and requires less skills of judgment from staff

32. In Interpretation 46R, the term special-purpose entity (SPE) is superseded by the term:

- a) special terminating interest (STI)
- b) variable internal interest (VII)
- c) variable interest entity (VIE)
- d) extended term entity (ETE)

33. In order for one entity to consolidate an off-balance sheet entity under Interpretation 46R, there are three requirements that must be met. Those three requirements include all of the following except:

- a) there must be a variable interest entity (VIE)
- b) entities and/or individuals must have variable interests in the variable interest entity (VIE)
- c) an entity or individual must be the primary beneficiary of the variable interest entity (VIE)
- d) an entity must have more than 50 percent voting interest in the variable interest entity (VIE)

34. An entity is considered a VIE if its total equity (at fair value) is _____ to permit it to finance its activities without obtaining additional subordinated financial support provided by any parties, including equity holders.

- a) not sufficient
- b) sufficient
- c) more than 50 percent of total assets
- d) none of the above

35. A variable interest entity (VIE) exists if, as a group, the holders of equity outstanding lack any one of three characteristics that are typical of a controlling financial interest. Those three characteristics include all of the following except:

- a) lack the power through voting rights or similar rights to direct the entity's activities that most significantly impact the entity's economic performance
- b) lack the obligation to absorb the expected losses of the entity
- c) have an equity investment that is de minimis in relation to other similar entities' equity holders
- d) lack the right to receive expected residual returns of the entity

36. A variable interest _____ a market-value lease that has a residual value guarantee, but does not have an option to purchase the leased property.

- a) excludes
- b) includes
- c) has nothing to do with
- d) none of the above

37. An entity is considered the primary beneficiary of the VIE if it has a variable interest (or a combination of variable interests) and satisfies two criteria. One of the criteria is that it has the power to direct the activities of a VIE that:

- a) most commonly exist within the VIE's typical activities
- b) most significantly impact the VIE's economic performance
- c) are most highly concentrated within the VIE
- d) equal or exceed 75 percent of the VIE's total revenue

38. The revised FASB No. 132 expands the disclosures to include information about all of the following except:

- a) the plan's assets, including major investment categories, and the percentage held in each category
- b) description of the investment strategies and policies
- c) basis used to determine the expected long-term rate of return assumption, and other information
- d) the plan's course of action in the event of a significant decline in the fair value of the majority of assets held by the plan

39. With respect to litigation against directors, possible claims against directors and officers include all of the following except:

- a) one director sues another director
- b) an employee sues due to the personal actions by an officer
- c) a competitor sues for unfair trade practices
- d) shareholder sues a director in a class action claim

40. Which of the following is not a reason why smaller companies are going private:

- a) access to market capital is no longer important
- b) smaller public companies do not benefit from the public markets like larger companies do
- c) the direct and indirect costs of staying public exceed the benefits
- d) there is a continued taint to being considered a public company

***Congratulations –
you've completed the exam!***

**ENRON: FRAUD, DECEPTION, AND THE AFTERMATH #5140H/QAS5140H (8 CPE hours) –
ANSWER SHEET (10/12)**

Important Note: For certification, this answer sheet must be completed and submitted to PES for grading within one year from the date of purchase. Please use black ink and print for quicker processing – thank you.

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Please: ☐ mail my results only or ☐ fax ☐ phone my results to: (____) _____

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	A	B	C	D		A	B	C	D
1.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	21.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	22.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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15.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	35.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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Please complete the attached course evaluation – your opinion is extremely valuable.

Enron: Fraud, Deception, and the Aftermath #5140H/QAS5140H - Course Evaluation

Rate on a scale of 1-10 with 1 being poor and 10 being excellent.

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