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ANNOUNCEMENT: The *Strategic Finance* Self-Study Quiz is a program in which financial professionals can earn CPE credits for passing a test based on what they have learned about various topics from reading certain magazine articles. Three cutting-edge topics are presented each month that will provide the basis for a useful educational experience for finance and management accounting professionals and help them enhance their skills. Topics focus on Management, Accounting, Auditing, Consulting Services, Ethics, Taxation, and much more. Most of the authors of these topics are certified financial professionals.

The Quiz program is designed around learning objectives, review questions and feedback, and a final test. Review questions and feedback are included to ensure cohesive learning. One hour of CPE credit is awarded for every 50 minutes spent on each topic, so you have the chance to earn three hours of CPE per month. Your State Board of Accountancy is the final authority on whether this course satisfies its rules regarding CPE, so please check with it regarding the Quiz program. Some states assign formal sponsorship numbers, and IMA's state numbers are:

Illinois: 158-000574, New York: 000349, Texas: 00028

The quizzes qualify for continuing education credit for CMAs and CFMs in all states.



How to Participate

1. Complete the quiz form located on page 68.
2. To obtain maximum benefit from the quiz, we recommend that you work on the review questions first and study the feedback to your response. You will not earn CPE from passing the review questions.
3. Circle your answer for each quiz question on the final test.
4. Cut out the completed final test and order form, or copy both pages and mail or fax them to IMA with complete payment information.
5. You must be an active IMA member to participate in this program.
6. If you successfully answer 70% or more of final test questions, you will be awarded 3 CPEs. Partial CPE credit will not be given. A letter confirming the CPE credits will be mailed to you.

Learning Objectives and Review Questions

10 Truths You Need to Know About Fraud (p. 28)

Field of Study: FRAUD — Level: Intermediate

LEARNING OBJECTIVES

1. Gain awareness about fraud prevalence.
2. Learn about controls to deter fraud.
3. Understand what makes individuals commit fraud.

REVIEW QUESTIONS

1. The following statement is true regarding the prevalence of fraud:
 - a. Based on a 2003 national survey, 75% of organizations experienced fraud during the past 12 months.
 - b. Based on a 2003 international crime survey, 37% of organizations discovered fraud in the past two years.
 - c. Based on a 2000 survey, one in 10 companies reporting fraud had more than 50 fraud events.
 - d. All of the above are true.
2. The reason people commit fraud has three elements:
 - a. Pressure/motive, rationalization, opportunity.
 - b. Pressure/motive, opportunity, peer pressure.
 - c. Pressure/motive, rationalization, perceived opportunity.
 - d. Pressure/motive, drug/alcohol abuse, perceived opportunity.
3. A measure of preventing fraud, although it's no guarantee, is:
 - a. No presence of internal auditors.
 - b. Fraud assessment questioning of employees.
 - c. Not publicizing fraud events.
 - d. No internal controls because they are proven to be inefficient overall.
4. One survey found that cash was the stolen asset 90% of the time. The two basic methods for obtaining the employer's cash are:
 - a. Steal the cash before it is recorded on the books, or trick the employer into paying cash out.
 - b. Bank withdrawals, or not making deposits.
 - c. Steal the cash after it is recorded on the books and plug the bank reconciliation, or trick the employer into paying cash out.
 - d. Take the cash from petty cash, or add hours to your time card so paycheck is higher.
5. Auditors have a primary responsibility to detect fraud. True or False

Reverse Merger or IPO? (p. 46)

Field of Study: MANAGEMENT — Level: Basic

LEARNING OBJECTIVES

1. Identify the advantages a privately held company might gain from becoming a public company.
2. Explain the different ways in which a company may become a public company.
3. List the major steps in taking a company public through a reverse merger.

REVIEW QUESTIONS

1. From the family business perspective, advantages to being a public company do not include which of the following:
 - a. Enhanced exit strategies.
 - b. Greater access to capital.
 - c. Less interference in company operations by external agencies.
 - d. Enhanced executive recruitment and retention.
2. The primary method of converting to a public company is by IPO. This method is:
 - a. Used most because it is the most economical and the least time-consuming approach.
 - b. No longer used because the Sarbanes-Oxley Act has eliminated its advantages.
 - c. Favored because initial investors always make large profits immediately.
 - d. Less timely and more costly, with fewer potential tax benefits than a reverse merger.
3. What is a reverse merger?
 - a. The disassembly of an organization into smaller organizations.
 - b. A merger in which two entities are blended into one entity.
 - c. A nonsense term. There is no term "reverse merger."
 - d. Acquisition of a controlling interest in a dormant or nearly dormant public company by a privately held company.
4. Which of the following is true in comparing an IPO to a reverse merger?
 - a. Reverse mergers can be done in 45 days instead of a year or more for IPOs.
 - b. The lesser time required for an IPO increases the risk of market condition deterioration.
 - c. Both methods require SEC registration and Blue Sky fees.
 - d. An IPO requires less in underwriting fees than a reverse merger.
5. In cases where a company's product or service is a new concept:
 - a. Investors will buy IPOs in hopes of getting in on the "ground floor," thus assuring the success of the IPO.
 - b. Brokers are able to sell the IPO more easily because there is no performance history.
 - c. Mergers always fail.
 - d. A successful IPO may be difficult at best.

Reducing Your Workforce (p. 40)

Field of Study: MANAGEMENT-COST PLANNING — Level: Basic

LEARNING OBJECTIVES

1. Opportunities to reduce risk when using voluntary layoffs.
2. Understanding employees' rights in workforce reduction situations.
3. Becoming aware of potential penalties when employee rights are violated in workforce reduction situations.

REVIEW QUESTIONS

1. Which of the following statements related to voluntary separation packages is incorrect?
 - a. An employer may not make misleading statements about a possible severance package.
 - b. ERISA applies to a voluntary separation package.
 - c. A firm may not terminate an employee to deny them the opportunity to participate in a voluntary severance plan by failing to disclose that such a plan will be offered shortly.
2. When terminated employees bring disparate treatment legal actions, they are using the theory that their rights have been violated. True or False
3. In a disparate impact situation, which of the following statements is correct?
 - a. The claim would usually be first pursued in court by the aggrieved employee.
 - b. The employee has no remedies when the firm introduces evidence that shows a legitimate business reason for the action.
 - c. The aggrieved employee files a charge with the EEOC or the responsible state agency.
 - d. All of the above statements are correct.
4. The Act that requires a company to give 60 days' notice of mass layoffs or plant closings is:
 - a. OWBPA
 - b. WARN
 - c. ERISA
 - d. NLRA
5. The remedies that might occur when an employer is found to have violated the Age Discrimination Act include:
 - a. Back pay and benefits for up to 60 days.
 - b. Force the employer to reopen a closed plant.
 - c. Back wages, reinstatement, and promotion.

10 Truths You Need to Know About Fraud (p. 28)**Field of Study: FRAUD — Level: Intermediate**

1.
 - a. Incorrect, although this was the finding of a KPMG survey.
 - b. Incorrect, although this is a true statement. PWC reported this finding along with the finding that more than 30% of respondents in every industry reported fraud.
 - c. Incorrect, although this is a true statement. This was part of an E&Y study report.
 - d. Correct. All of the above are true facts quoted in the article.
2.
 - a. Incorrect. There must be a perceived opportunity, but there may not be a real opportunity when one is perceived.
 - b. Incorrect. Pressure is a factor, but it doesn't have to be peer pressure. There may be a desire to get even, financial problems, and so forth.
 - c. Correct. These are the three elements specifically identified in the triangle presented and discussed by the author.
 - d. Incorrect. Although financial pressures are sometimes due to drug and alcohol abuse, the element of rationalization is missing.
3.
 - a. Incorrect. The presence of internal auditors suggests that controls are in place and the potential of being caught is real.
 - b. Correct. When asked directly, employees are more often than not compelled to share information.
 - c. Incorrect. Publicizing events and related costs and penalties involved tends to deter fraud attempts.
 - d. Incorrect. Internal controls may not prevent all fraud, but they do prevent some fraud.
4.
 - a. Correct. These are the two basic methods quoted in the article.
 - b. Incorrect. It is only a matter of time before someone is caught due to controls associated with bank deposits and withdrawals.
 - c. Incorrect. It is likely that the audit of the reconciliation will uncover the fraud.
 - d. Incorrect. These are common fraud events that are relatively easy to uncover.
5.
 - a. False. True is incorrect because auditors rendering an opinion on your company's financial statements have no responsibility to detect immaterial fraud and provide no guarantee that even all cases of material fraud will be detected.
 - b. reduces management's flexibility.
 - c. Incorrect. The ability to offer stock ownership enhances executive recruitment and retention and is an advantage to going public.
2.
 - a. Incorrect. IPOs are more costly and more time-consuming than reverse mergers.
 - b. Incorrect. Sarbanes-Oxley has not eliminated advantages of using IPOs to go public.
 - c. Incorrect. Investors in IPOs do not always make large profits immediately.
 - d. Correct. Reverse mergers appear to take less time and cost less than IPOs, and reverse mergers may also offer more tax benefits.
3.
 - a. Incorrect. With a merger, the two organizations will become larger, not smaller.
 - b. Incorrect. This is a definition of a "normal" merger, not a reverse merger.
 - c. Incorrect. The article discusses reverse mergers in detail.
 - d. Correct. This is the definition cited in the article.
4.
 - a. Correct. Reverse mergers require much less time than IPOs to accomplish.
 - b. Incorrect. More time is required for an IPO, and that added time increases risk of market condition deterioration.
 - c. Incorrect. SEC registration is not required for a reverse merger.
 - d. Incorrect. An IPO requires more in underwriting fees, not less.
5.
 - a. Incorrect. Investors are not always eager to invest in untested concepts, and lack of performance history is an impediment to a successful IPO.
 - b. Incorrect. Brokers will have a more difficult time selling the IPO if there is no performance history.
 - c. Incorrect. Mergers don't always fail, but they may be made more difficult under these circumstances.
 - d. Correct. A new or untested concept makes a successful IPO more difficult when it is the core or primary product of the company.

Reducing Your Workforce (p. 40)**Field of Study: MANAGEMENT-COST PLANNING — Level: Basic**

1.
 - a. Incorrect. The author cites an example where the employees were told a more generous package would not be offered and then such a package was offered.
 - b. Correct. ERISA does not apply to all voluntary separation agreements.
 - c. Incorrect. There is a fiduciary duty to disclose information to employees who leave just prior to voluntary severance plans being formalized.
2.
 - a. True. Disparate treatment cases are where employees are charging the employer with discriminating based on race, disability, age, and so forth. False is incorrect because this is precisely what the theory of disparate treatment or disparate impact involves.
3.
 - a. Incorrect. The claim would first be filed with the EEOC

SELF-STUDY QUIZ: Feedback continued

- or related state agency, not the courts.
- b. Incorrect. The legitimate business reason is a defense, but plaintiffs can still respond by calling this reason a pretext for discrimination.
 - c. Correct. This is where the process begins. If the investigation indicates merit, then there is an attempt to seek conciliation with the employer before a suit is filed.
 - d. Incorrect. Answer (c) is the only correct statement.
4.
 - a. Incorrect. OWBPA is the Older Workers Benefit Protection Act and focuses on age discrimination.
 - b. Correct. The Worker Adjustment and Retraining Notification Act requires this notice.
 - c. Incorrect. ERISA regulates employer conduct concern-
 - ing pensions and employee welfare benefit plans.
- d. Incorrect. The National Labor Relations Act gives workers the right of collective bargaining.
5.
 - a. Incorrect. This is a potential remedy when proper notification of a plant closing or mass layoffs is not provided under the Worker Adjustment Retraining and Notification Act.
 - b. Incorrect. This is a potential remedy when a violation of the National Labor Relations Act occurs.
 - c. Correct. The aggrieved worker may be reinstated and provided with promotions he/she would have earned, as well as back pay. There are also damages and attorneys' fees that the employer may need to pay.

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FINANCE SELF-STUDY QUIZ: Final Test – May 2004

Please circle your answer for each question

10 Truths You Need to Know About Fraud (p. 28)

Field of Study: FRAUD — Level: Intermediate

1. With regard to using “hotlines” to report fraud, each of the following is true except:
 - a. They have proven over the long run not to be a helpful technique for detecting fraud.
 - b. They allow for anonymous reporting.
 - c. They should be available 24 hours a day.
 - d. They should be operated by a third-party provider.
2. Which of the following is not an element that must be present for someone to attempt to commit fraud?
 - a. Pressure/motive.
 - b. Perceived opportunity.
 - c. Rationalization.
 - d. Opportunity.
3. It makes sense for a company to publicize fraud to all employees because:
 - a. It is important for employees to realize the cost to the company.
 - b. Employees need to understand how someone commits fraud.
 - c. Internal auditors need to be aware of the fraud events that have taken place.
 - d. All of the above.
4. Typical fraud perpetrators are likely to be:
 - a. Single, well-educated, and wealthy.
 - b. Single, uneducated, and wealthy.
 - c. Single, uneducated, and poor.
 - d. Married, well-educated, and have no arrest record.
5. Consecutively numbered invoices for the same vendor, even-dollar amounts on invoices, and employees showing signs of lifestyles more extravagant than their salary can support are:
 - a. Red flags/warning signs of fraud.
 - b. Red flags/warning signs of potential fraud.
 - c. Blue flags/indicating good controls exist.
 - d. Are signs that internal controls are weak.

Reverse Merger or IPO? (p. 46)

Field of Study: MANAGEMENT — Level: Basic

6. IPOs are risky for companies because:
 - a. The company has to buy the stock if investors don't.
 - b. They are rarely used, and few underwriters understand them.
 - c. They depend on factors over which the company has no control, such as the economy.
 - d. None of the above; IPOs aren't risky for companies.
7. Possible tax advantages in a reverse merger include:
 - a. NOL carryforwards from the shell company.
 - b. Exemption from income tax filing for the first five years.
 - c. Ability of officers and directors to obtain stock at a favorable price before the issue sells.
 - d. Liabilities of the shell company are not transferred to the new owners.
8. Timing restrictions on the sale of stock should be in the reverse merger agreement because:
 - a. It makes the stock more valuable if it can't be sold.
 - b. It prevents insider trading.
 - c. It prevents dumping of stock by shell stockholders.
 - d. Sarbanes-Oxley mandates it.
9. Reverse mergers avoid full SEC registration, so:
 - a. Reverse mergers are difficult to accomplish.
 - b. The SEC never examines them.
 - c. The SEC prefers promoters not to be original shareholders.
 - d. The SEC is skeptical and may judge individual cases to be illegal.
10. Typical steps in a reverse merger include:
 - a. Finding a public company with few assets and no current operations.
 - b. Developing a financing strategy and performing due diligence on the shell.

- c. Obtaining assistance from a national CPA firm and a prestigious securities law firm.
- d. All of the above.

Reducing Your Workforce (p. 40)

**Field of Study: MANAGEMENT-COST PLANNING —
Level: Basic**

11. In disparate treatment cases where employees charge the employer with discrimination based on race, disability, or age, which of the following would be an example of inferential evidence?
 - a. A memo from an officer specifying that all foreign-born workers be terminated.
 - b. A higher than normal percentage of older workers affected by the layoff.
 - c. The use of performance ratings when there is no evidence of prior discriminatory treatment.
 - d. All of the above are examples of inferential evidence.
12. Antidiscrimination laws that managers must consider when making decisions to reduce a company workforce include all of the following except:
 - a. The Civil Rights Act of 1964.
 - b. Age Discrimination Act.
 - c. Americans with Disabilities Act.
 - d. Employee Retirement Income Security Act.
13. The Act that prevents a company from threatening or announcing a reduction in force when the motivation is to discourage workers from exercising their right to organize or use a labor organization as a bargaining representative is known as:
 - a. OWBPA
 - b. WARN
 - c. ERISA
 - d. NIRA
14. To reduce company risks during downsizing, you should:
 - a. Minimize the risk of discrimination charges.
 - b. Demonstrate respect for affected workers and survivors.
 - c. Be certain voluntary severance packages are actually voluntary.
 - d. All of the above.
15. The remedies that may potentially occur when an employer is found to have violated the Worker Adjustment Retraining and Notification Act include:
 - a. Back pay and benefits for up to 60 days.
 - b. Force the employer to reopen a closed plant.
 - c. Back wages, reinstatement, and promotion.

I have read the articles in *Strategic Finance* upon which the questions are based and have personally prepared the answers without the assistance of any other person.

Signature _____ Date _____

Print Name _____ Member Number _____

STRATEGIC FINANCE SELF-STUDY QUIZ ORDER FORM

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