

Ethical Accounting - Organizational Ethics and Corporate Governance (C03) Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Section 10A covers reporting fraud; which description best identifies its scope?**
 - A. It governs reporting to the SEC when fraud is suspected**
 - B. It applies to all public companies and requires specific reporting actions**
 - C. It requires no external reporting and is optional**
 - D. It only concerns internal investigations by auditors**

- 2. What was the fundamental significance of the Menendez v Halliburton, Inc. case?**
 - A. Halliburton maintained GAAP compliance for its bill-and-hold method**
 - B. Menendez regained his position and the actions were considered retaliatory**
 - C. The appeals court ruled that Menendez faced retaliation for whistleblowing**
 - D. The SEC supported Menendez and Halliburton restated its financials and paid penalties**

- 3. A troubling result of the 2013 National Business Ethics Survey is:**
 - A. Increased witnessing of misconduct in the workplace**
 - B. Decline in pressure to compromise ethics**
 - C. Percentage of employees retaliated against for whistle-blowing is a problem**
 - D. Lessening of observed misconduct**

- 4. The most important element of a high ethics organization would be:**
 - A. Acting in accordance with self-interest**
 - B. Having a credo and mission statement**
 - C. Having a mission statement, values, and ethical code**
 - D. Acting opposite of stated values, ethics and mission**

- 5. The relationship between the shareholders, directors, and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law is known as which concept?**
- A. Code of ethics**
 - B. Corporate leadership**
 - C. Corporate responsibility**
 - D. Corporate governance**
- 6. Backdating of stock options is unethical because:**
- A. It favors top executives over other company employees with respect to the number of options**
 - B. It purposefully manipulates the option criteria that determine their value**
 - C. It changes the exercise price on options to benefit top executives**
 - D. It changes the exercise date on options to benefit top executives**
- 7. What did Miceli and Near identify as whistleblowers' primary expectation?**
- A. Prosecution of violators**
 - B. Correction of organizational wrongdoing**
 - C. Financial rewards**
 - D. Altruistic motives only**
- 8. The honest services fraud rule that was used by Jeff Skilling was successful because the U.S. Supreme Court ruled that:**
- A. He did not conspire to defraud shareholders of Enron**
 - B. He did not accept bribes or kickbacks as an Enron officer**
 - C. He did not commit fraud**
 - D. He resigned from Enron before the fraud became public knowledge**

- 9. The ACFE found that the most common way that fraud is first detected is:**
- A. Internal audit**
 - B. Internal controls**
 - C. External audit**
 - D. Tip**
- 10. Which of the following is NOT one of the audit committee's responsibilities?**
- A. Monitor the integrity of the financial statements.**
 - B. Review all financial reporting judgments.**
 - C. Review whistle-blowing and compliance processes.**
 - D. Review and monitor the external audit process**

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Answers

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1. A
2. C
3. C
4. C
5. D
6. B
7. B
8. B
9. D
10. B

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Explanations

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1. Section 10A covers reporting fraud; which description best identifies its scope?

A. It governs reporting to the SEC when fraud is suspected

B. It applies to all public companies and requires specific reporting actions

C. It requires no external reporting and is optional

D. It only concerns internal investigations by auditors

Section 10A focuses on the auditor's duty to report suspected illegal acts that have a direct and material effect on the financial statements to the appropriate authorities. Specifically, it requires the auditor to bring such findings to the attention of the audit committee, and if remedial action isn't taken, to report to the SEC. This makes the external reporting to the SEC when fraud is suspected the core scope of the section, and it applies to audits of public companies. The description matches this external reporting requirement rather than any notion of optional reporting, internal-only investigations, or applicability to private entities.

2. What was the fundamental significance of the Menendez v Halliburton, Inc. case?

A. Halliburton maintained GAAP compliance for its bill-and-hold method

B. Menendez regained his position and the actions were considered retaliatory

C. The appeals court ruled that Menendez faced retaliation for whistleblowing

D. The SEC supported Menendez and Halliburton restated its financials and paid penalties

The central idea is protecting employees who raise concerns about a company's accounting or governance. In Menendez v. Halliburton, the appeals court found that Menendez faced retaliation for whistleblowing. This matters because it reinforces that reporting potential misconduct is protected, and actions taken against a whistleblower can be unlawful retaliation. The ruling signals to organizations that ethical reporting must be safeguarded and that courts will scrutinize whether adverse actions follow whistleblowing as evidence of retaliation, which in turn supports stronger internal controls and a culture of accountability. Why the other options don't fit as the fundamental takeaway: the case isn't about GAAP compliance for a bill-and-hold method, nor about Menendez merely regaining his position while labeling actions retaliatory, and it isn't centered on the SEC's support or a restatement and penalties. The key point is the affirmation of retaliation against a whistleblower and its implications for governance and ethics.

3. A troubling result of the 2013 National Business Ethics Survey is:

- A. Increased witnessing of misconduct in the workplace**
- B. Decline in pressure to compromise ethics**
- C. Percentage of employees retaliated against for whistle-blowing is a problem**
- D. Lessening of observed misconduct**

The main idea is that protecting whistle-blowers is essential for an effective ethics program. When a substantial share of employees who report misconduct face retaliation, a chilling effect ensues: people become afraid to raise concerns, misconduct goes unchecked, and the organization's governance and internal controls weaken. The 2013 National Business Ethics Survey highlighted that retaliation against those who speak up remains a troubling, persistent problem, because it directly undermines reporting, accountability, and trust in ethical processes. Other possibilities describe shifts that would imply more misconduct being seen or improvements in the ethical environment, which are less alarming than retaliation since they don't directly deter reporting or erode the reporting mechanism.

4. The most important element of a high ethics organization would be:

- A. Acting in accordance with self-interest**
- B. Having a credo and mission statement**
- C. Having a mission statement, values, and ethical code**
- D. Acting opposite of stated values, ethics and mission**

The main idea here is that a truly ethical organization relies on a clear, integrated framework that defines why it exists and how people should behave. A mission statement explains the purpose and direction, values spell out the standards that matter, and an ethical code translates those values into concrete rules and guidance for daily decisions. When these elements are aligned, they shape culture, guide behavior across all levels, and provide a basis for accountability and consistent decision-making, even in tough situations. Relying on a credo or mission alone can be aspirational without practical guidance, and acting in self-interest or opposite of stated values shows the framework isn't being lived. So, having the mission, values, and ethical code together best supports ethical performance.

5. The relationship between the shareholders, directors, and management of a company, as defined by the corporate charter, bylaws, formal policy and rule of law is known as which concept?

- A. Code of ethics**
- B. Corporate leadership**
- C. Corporate responsibility**
- D. Corporate governance**

Corporate governance is the framework that defines how a company is directed and controlled, detailing how the relationships among shareholders, the board of directors, and management are governed by the charter, bylaws, formal policy, and law. This system sets the authority, accountability, and decision-making processes that ensure the organization is run in a way that protects shareholders' interests while balancing the duties to other stakeholders. The charter and bylaws lay out the legal structure, formal policies guide behavior and decisions, and the rule of law provides the binding framework for oversight and accountability. The other concepts don't capture this governance mechanism. A code of ethics focuses on expected conduct rather than the overarching system of oversight and decision rights. Corporate leadership centers on guiding people and strategy rather than the formal frame that coordinates governance. Corporate responsibility emphasizes obligations to society and stakeholders beyond shareholders, not the specific governance structure that links owners, board, and management.

6. Backdating of stock options is unethical because:

- A. It favors top executives over other company employees with respect to the number of options**
- B. It purposefully manipulates the option criteria that determine their value**
- C. It changes the exercise price on options to benefit top executives**
- D. It changes the exercise date on options to benefit top executives**

Backdating stock options is unethical because it deliberately alters the factors that determine how valuable an option is. The grant date and the exercise price set the option's value, and choosing a past grant date (often when the stock price was low) can make the options appear more valuable than they should be and mislead investors and employees about compensation costs. This focus on manipulating the value-determining criteria is the core issue. While changing the exercise price or the date can be part of the tactic, the ethical problem lies in the intentional manipulation of what actually determines the option's value, not just a single aspect of it. Options A, C, and D miss that broader manipulation focus and thus aren't as fitting.

7. What did Miceli and Near identify as whistleblowers' primary expectation?

- A. Prosecution of violators**
- B. Correction of organizational wrongdoing**
- C. Financial rewards**
- D. Altruistic motives only**

Miceli and Near showed that whistleblowers' main expectation is that the organization will address and fix the misconduct—correct the organizational wrongdoing—so that the improper activity stops and recurrence is prevented. The focus is on remediation and strengthening controls, not on punishing violators or rewarding the whistleblower. While altruistic motives can be present, the central idea is that the desired outcome is organizational remedy rather than external rewards or sanctions. If the organization responds with proper corrective action, that aligns with what whistleblowers anticipate.

8. The honest services fraud rule that was used by Jeff Skilling was successful because the U.S. Supreme Court ruled that:

- A. He did not conspire to defraud shareholders of Enron**
- B. He did not accept bribes or kickbacks as an Enron officer**
- C. He did not commit fraud**
- D. He resigned from Enron before the fraud became public knowledge**

The essential idea is how honest-services fraud is applied. The Supreme Court clarified that when someone is charged with honest-services fraud, the government must prove a bribery or kickback scheme—essentially a quid pro quo in exchange for official actions. In Skilling's case, the Court held that simply engaging in undisclosed conflicts of interest or self-dealing isn't enough unless there is evidence of a paid exchange for specific actions. He did not accept bribes or kickbacks as an Enron officer, so the basis for the honest-services conviction didn't hold under that narrowed standard. This is why the ruling focused on the absence of bribery or kickbacks. Note that other charges, like securities or wire fraud, could still be pursued if the facts support them, but the honest-services theory requires that payment-for-favor element to sustain a conviction.

9. The ACFE found that the most common way that fraud is first detected is:

- A. Internal audit**
- B. Internal controls**
- C. External audit**
- D. Tip**

The main idea is that fraud is most often first detected through tips from whistleblowers or anonymous reporting channels. People who work in or around an organization are in a good position to notice unusual activity—like irregular expense patterns, fictitious vendors, or unusual journal entries—and report it through confidential hotlines or other reporting mechanisms. The ACFE’s research shows that tips are the leading source of initial fraud discovery, often surfacing before audits or controls flag anything. While internal controls and internal audits are essential for preventing and catching fraud, they’re typically not the earliest signal because audits are periodic and controls may fail to reveal the first indication. External audits add value but are limited by their timing and scope, making them less likely to be the first detection. So, a tip is the most common way fraud comes to light initially.

10. Which of the following is NOT one of the audit committee's responsibilities?

- A. Monitor the integrity of the financial statements.**
- B. Review all financial reporting judgments.**
- C. Review whistle-blowing and compliance processes.**
- D. Review and monitor the external audit process**

Audit committee oversight focuses on safeguarding the reliability of financial reporting, the independence of the external auditor, and the effectiveness of controls. The idea being tested is that the committee does not review every single financial reporting judgment; it concentrates on significant or material judgments and estimates that could affect the statements or disclosures. This targeted focus helps ensure that management has applied appropriate accounting policies and supported estimates with evidence, while avoiding the impractical task of evaluating every minor decision. The other responsibilities—ensuring the financial statements' integrity, overseeing whistle-blowing and compliance processes, and monitoring the external audit—fit squarely within the committee’s remit because they relate to governance, ethics, and the overall quality and credibility of the financial reporting process.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://ethicalacctc03.examzify.com>

We wish you the very best on your exam journey. You've got this!

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