

# **Testbank**

to accompany

# **Company accounting**

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by

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## Chapter 1: Nature and regulation of companies

### Multiple-choice questions

1. The advantages of a company over a partnership and sole trader do not include which of the following?
  - a. Members are able to sell their shares at any time to another person without having to obtain permission from the other members.
  - b. Members are liable for only a limited amount of the company's debts.
  - c. A company has a legal existence distinct from its owners.
  - \*d. A company is only entitled to raise small amounts of cash by issuing shares.

*Correct answer: d*

*Learning objective 1.1*

2. In Australia, the *Corporations Act 2001* is administered by the:
  - a. Australian Securities Exchange.
  - b. Australian Accounting Research Foundation.
  - \*c. Australian Securities and Investments Commission.
  - d. Securities and Exchange Commission.

*Correct answer: c*

*Learning objective 1.1*

3. The two main types of companies permitted to be registered under the *Corporations Act 2001* are a:
  - a. private company and a proprietary company.
  - b. public company and a trade union.
  - \*c. proprietary company, and a public company.
  - d. proprietary company and a partnership.

*Correct answer: c*

*Learning objective 1.2*

4. According to the *Corporations Act 2001*, a small proprietary company is one which satisfies at least two of the following tests: it must have consolidated revenue of less than \$25 million, consolidated gross assets of less than \$12.5 million and:
- a. total liabilities of less than \$10 million.
  - b. total liabilities of less than \$20 million.
  - c. fewer than 100 employees at the end of the financial year.
  - \*d. fewer than 50 employees at the end of the financial year.

*Correct answer: d*

*Learning objective 1.2*

5. A proprietary company must have at least one shareholder and cannot have more than:
- a. 100 shareholders.
  - \*b. 50 shareholders.
  - c. 20 shareholders.
  - d. 500 shareholders.

*Correct answer: b*

*Learning objective 1.2*

6. A disclosing entity includes:
- a. a company that is not a reporting entity.
  - \*b. an entity which has its shares listed on the ASX.
  - c. an entity which issues its shares only to the company directors.
  - d. a small proprietary company.

*Correct answer: b*

*Learning objective 1.2*

7. The certificate of registration issued by the Australian Securities and Investments Commission is valid:
- a. for 12 months only and must be renewed annually.
  - b. for a maximum period of 5 years.
  - c. for 15 years.
  - \*d. until the company is deregistered.

*Correct answer: d*

*Learning objective 1.3*

8. The replaceable rules built into the Corporations Act deal with which of the following?
- \*a. Appointment, powers, remuneration and termination of directors.
  - b. Meetings between the external auditors and the company's audit committee.
  - c. Remuneration of the external auditors.
  - d. Annual dividend payments to members.

*Correct answer: a*

*Learning objective 1.3*

9. The replaceable rules that apply to a company have effect as a contract between:
- a. the company and each member.
  - b. the company and each director and company secretary.
  - c. a member and each other member.
  - \*d. all of the above.

*Correct answer: d*

*Learning objective 1.3*

10. The share capital of a company may consist of:
- \*a. ordinary or preference shares issued by the company either fully paid or partly paid.
  - b. loans from banks.
  - c. secured and unsecured notes issued by the company.
  - d. debentures issued by the company.

*Correct answer: a*

*Learning objective 1.5*

11. The main role of the trustee for debenture holders is to protect the interests of:
- a. suppliers.
  - \*b. debenture holders.
  - c. directors.
  - d. employees.

*Correct answer: b*

*Learning objective 1.5*

12. Which of the following is *not* specifically excluded from the definition of a debenture under s. 9 of the *Corporations Act 2001*?

- a. Bank overdrafts in the ordinary course of business.
- \*b. Unsecured notes.
- c. Money orders.
- d. Cheques.

*Correct answer: b*

*Learning objective 1.5*

13. Which of the following statements is correct in relation to disclosure documents?

- a. The most complete disclosure document on the issue of securities is a profile statement.
- b. Prospective investors are not entitled to receive a copy of the prospectus lodged with the ASIC.
- \*c. Information in a disclosure document must be worded and presented in a clear, concise and effective manner.
- d. Where a company offers to issue securities which will raise \$10 million or less, an offer information statement cannot be issued in place of a prospectus.

*Correct answer: c*

*Learning objective 1.5*

14. Which of the following was *not* one of the objectives of the Corporate Law Economic Reform Program (CLERP)?

- a. To make access to capital easier for small business.
- \*b. To make access to capital easier for large business.
- c. To improve takeover legislation.
- d. To facilitate the more widespread use of electronic commerce.

*Correct answer: b*

*Learning objective 1.6*

15. The main functions of the Financial Reporting Council include:

- I. appointing members of the AASB and AUASB.
  - II. determining the AASB's broad strategic direction.
  - III. establishing appropriate consultative mechanisms.
  - IV. directing the AASB in relation to the development or making of a particular standard.
  - V. the power to veto a standard recommended by the AASB.
- a. I, II, III and V only.
  - \*b. I, II and III only.
  - c. I, II, IV and V only.
  - d. II, III, IV and V only.

*Correct answer: b*

*Learning objective 1.7*

16. The functions of the Australian Accounting Standards Board include:

- I. development of a conceptual framework for the purpose of evaluating proposed accounting standards.
  - II. making accounting standards for the purpose of the Corporations Act.
  - III. participating in and contributing to the development of a single set of accounting standards for worldwide use.
- a. I only.
  - b. II and III only.
  - c. I and III only.
  - \*d. I, II and III.

*Correct answer: d*

*Learning objective 1.7*

17. Which of the following statements is correct in relation to the Urgent Issues Group (UIG)?

- a. The UIG is now defunct. As a result, previously issued UIG interpretations are no longer enforceable.
- b. The UIG has been replaced by the International Accounting Standards Board.
- \*c. Prior to ceasing to exist, the UIG provided consensus views on a range of topics peculiar to the Australian political, legal and economic systems.
- d. Prior to ceasing to exist, the UIG was a subcommittee of the IFRS Interpretations Committee.

*Correct answer: c*

*Learning objective 1.7*

18. In 2001, the International Accounting Standards Board replaced the:

- \*a. International Accounting Standards Committee.
- b. Financial Reporting Council.
- c. Urgent Issues Group.
- d. Australian Accounting Research Foundation.

*Correct answer: a*

*Learning objective 1.7*

19. The IFRS Interpretations Committee is a subcommittee of the:

- a. Standing Interpretations Committee.
- b. Australian Accounting Standards Board.
- \*c. International Accounting Standards Board.
- d. Financial Reporting Committee.

*Correct answer: c*

*Learning objective 1.7*

20. Accounting standards approved by the Accounting Standards Review Board (ASRB) had:

- a. no legal backing under the Companies Act, and their application was optional.
- b. no legal backing under the Companies Act, although almost all companies followed their guidance.
- \*c. the force of law under the Companies Act, unless the companies could show that, by complying with any particular standard, the company's financial reports would not show a 'true and fair view'.
- d. the force of law under the Companies Act, and their application was mandatory at all times.

*Correct answer: c*

*Learning objective 1.7*

21. People cannot be appointed as members of the AASB unless:

- a. they are a member of one of the accounting professional bodies.
- b. they are a registered company auditor.
- \*c. their knowledge and experience in business, accounting, law or government qualifies them for appointment.
- d. they have experience as a company director.

*Correct answer: c*

*Learning objective 1.7*

22. According to s. 224 of the ASIC Act 2001, accounting standards should result in financial information which has which of the following characteristics?
- I. Allows users to make and evaluate decisions about allocating scarce resources.
  - II. Assists directors in discharging their obligations in relation to financial reporting.
  - III. Is relevant to assessing performance, financial position, financing and investment.
  - IV. Is readily understandable.
  - V. Facilitates comparability.
  - VI. Is relevant and reliable.
- a. I, IV and VI only.
  - b. I, III, IV and VI only.
  - c. I, II, IV, V and VI only.
  - \*d. all of the above.

*Correct answer: d*

*Learning objective 1.7*

23. In July 2002, the Financial Reporting Council (FRC) issued a bulletin requiring that the AASB would adopt IASB standards from 1 January 2005 for:
- a. non-reporting entities.
  - \*b. all financial statements.
  - c. for-profit entities.
  - d. listed entities.

*Correct answer: b*

*Learning objective 1.7*

24. In terms of the numbering of AASB accounting standards:
- \*a. AASB 1–99 are the AASB equivalent of the IFRSs issued by the IASB.
  - b. AASB 101–199 are the AASB equivalent of the IFRSs issued by the IASB.
  - c. AASB 1–99 address domestic issues such as director and executive disclosures and concise financial reports.
  - d. AASB 101–199 address domestic issues such as director and executive disclosures and concise financial reports.

*Correct answer: a*

*Learning objective 1.7*



25. Compared to IFRS standards, Australian accounting standards initially required:

- a. less disclosure in notes to the financial statements.
- b. identical disclosures in notes to the financial statements.
- \*c. more information disclosed in the notes to the financial statements.
- d. different disclosures in the notes to the financial statements.

*Correct answer: c*

*Learning objective 1.7*

26. AASB 1048 *Interpretation and Application of Standards* contains the:

- a. IFRS interpretations approved by the AASB.
- b. UIG interpretations approved by the IASB.
- c. IFRS interpretations approved by the IASB.
- \*d. UIG interpretations approved by the AASB.

*Correct answer: d*

*Learning objective 1.7*

27. The role of the Australian Securities and Investments Commission is to:

- I. enforce and administer the Corporations Act.
  - II. make information about companies and other bodies available to the public as soon as practicable.
  - III. issue accounting standards for reporting entities.
  - IV. maintain, facilitate and improve the performance of the financial system and entities in it.
- 
- a. I, II, III and IV.
  - b. I, III and IV only.
  - \*c. I, II and IV only.
  - d. II and III only.

*Correct answer: c*

*Learning objective 1.8*

28. A key role of the Australian Securities and Investments Commission (ASIC) is to ensure that all company financial statements lodged with it:

- a. do not contain any fraud.
- b. are approved by the Financial Reporting Council.
- c. comply with the ASX Listing Rules.
- \*d. comply with the Corporations Act, including accounting standards.

*Correct answer: d*

*Learning objective 1.8*

29. Which of the following statements is *not* correct?

- \*a. Requirements for special purpose financial reports are contained in AASB accounting standards.
- b. The IASB's *Conceptual Framework* identifies potential investors as a primary user group of general purpose financial reports.
- c. All general purpose financial reports are prepared in accordance with accounting standards.
- d. SAC 1 *Definition of the Reporting Entity* defines a general purpose financial report as 'a report intended to meet the information needs of users who are unable to command the preparation of reports tailored to satisfy their information needs'.

*Correct answer: a*

*Learning objective 1.9*

30. The definition of a reporting entity in SAC 1 requires:

- a. the existence of external users.
- b. the existence of dependant users.
- c. a reasonable expectation of external users.
- \*d. a reasonable expectation of users reliant on the entity's general purpose financial report.

*Correct answer: d*

*Learning objective 1.9*

### **True/false questions**

31. Members of a company are allowed to sell their shares at any time, provided they obtain permission from the other members.

The statement is false. Provided a proper instrument of transfer has been delivered to the company, members do not have to obtain permission from the other members (s. 1071B of the Corporations Act).

#### *Learning objective 1.1*

32. Small proprietary companies must prepare audited accounts if requested by ASIC.

The statement is true. ASIC can require small proprietary companies to prepare audited financial statements under s. 294 of the Corporations Act.

#### *Learning objective 1.2*

33. When determining whether a proprietary company is classified as small or large, the consolidated gross assets test is determined based on the average of the opening and closing gross assets.

The statement is false. The assets test is based on consolidated gross assets at the end of the financial year.

#### *Learning objective 1.2*

34. Disclosing entities must prepare annual and half-yearly financial statements, have them audited and lodge them with the ASIC.

The statement is true. This is required under s. 302 of the Corporations Act.

#### *Learning objective 1.2*

35. Costs incurred in promoting and setting up a company are considered to be capital in nature and cannot be paid from the company's assets.

The statement is false. Section 122 of the Corporations Act allows such costs to be paid from the company's assets.

#### *Learning objective 1.3*

36. All company registers must be kept at the registered office of the company.

The statement is false. The Corporations Act (s. 172) allows company registers to be kept at the registered office, the principal place of business or at another location approved by the ASIC.

*Learning Objective 1.4 ~ describe the types of records needed to manage a company*

37. Shares and debentures are the most common types of securities issued by companies when raising funds.

The statement is true. Companies can also issue options, but these are not as common.

*Learning objective 1.5*

38. All offers by a company to issue shares or debentures must be accompanied by a disclosure document.

The statement is false. Section 708 of the Corporations Act provides a number of specific exclusions where a disclosure document is not required. Examples include the offer of shares to 'professional' investors and offers of securities as part of a takeover bid.

*Learning objective 1.5*

39. The aim of the proposals in the Corporate Law Economic Reform Program (CLERP) first discussion paper was to provide a standard-setting process which would be beneficial for Australian business operating in a global environment and which would be economically efficient.

The statement is true. The government was concerned that the existing accounting standard-setting arrangements were imposing excessive costs on business.

*Learning objective 1.7*

40. Prior to 1988 the role of the Accounting Standards Review Board (ASRB) was to formulate and issue accounting standards.

The statement is false. The role of the ASRB prior to 1988 was to review and approve accounting standards that had been prepared by the professional accounting bodies, via the Australian Accounting Research Foundation (AARF). The role of the ASRB expanded in 1988 to include developing accounting standards. In 1991, the ASRB was replaced by the Australian Accounting Standards Board (AASB).

*Learning objective 1.7*

41. In announcing that the AASB would adopt IASB accounting standards by 1 January 2005, the Financial Reporting Council (FRC) argued that a single set of high-quality accounting standards that are accepted in international capital markets would greatly help cross-border comparisons by investors.

The statement is true. The FRC also argued that a single set of accounting standards would reduce the cost of capital and help Australian companies wishing to raise capital or list their shares on overseas stock markets.

*Learning objective 1.7*

42. Under the ASIC Act 2001 one of the key functions of the Australian Accounting Standards Board (AASB) is to participate in the development of a single set of accounting standards for worldwide use.

The statement is true. This is stipulated in s. 227(1) of the ASIC Act 2001.

*Learning objective 1.7*

43. Australian accounting standards are now identical to their equivalent International Financial Reporting Standards (IFRSs).

The statement is false. Australian accounting standards are substantially the same as the equivalent IFRSs, with two important exceptions: some Australian standards have increased disclosure requirements and Australian standards contain additional guidance relating to the public and not-for-profit sectors.

*Learning objective 1.7*

44. As the Urgent Issues Group (UIG) is now defunct, the interpretations issued by it are no longer enforceable.

The statement is false. The interpretations issued by the UIG are listed in AASB 1048 *Interpretation and Application of Standards*. As they form part of an accounting standard, they are enforceable under the Corporations Act.

*Learning objective 1.7*

45. From March 2010, the principal objectives of the International Accounting Standards Board (IASB) include promoting the use and rigorous application of IFRSs and to bring about convergence of national accounting standards and IFRSs.

The statement is true. These objectives are set out in the constitution of the IFRS Foundation and the IASB.

*Learning objective 1.7*

46. The Australian Securities and Investments Commission (ASIC) is responsible for monitoring and promoting market integrity and consumer protection in relation to the Australian financial system.

The statement is true. This responsibility is set out in s. 12A(2) of the ASIC Act.

*Learning objective 1.8*

47. The Australian Securities and Investments Commission (ASIC) does not determine accounting standards, but has the right to lobby for or against accounting standards as it sees fit.

This statement is true. ASIC is one of many organisations that lobby for and against accounting standards.

*Learning objective 1.8*

48. The Australian Securities Exchange (ASX) played a major role in influencing the Australian Government to push the AASB towards the adoption of IASB standards.

The statement is true.

*Learning objective 1.8*

49. The content and format of general purpose financial reports are determined by the company's management and the specific user group requiring the special purpose financial report.

The statement is false. Management and specific user groups determine the content and format of special purpose financial reports.

*Learning objective 1.9*

50. The three main user groups of general purpose financial reports (GPFRs) contained in the *Framework for the Preparation and Presentation of Financial Statements* (the *Framework*) include the management of the reporting entity.

The statement is false. The three main user groups are existing and potential investors, lenders, and other creditors.

*Learning objective 1.9*