Testbank

to accompany

Financial reporting

2nd edition

by
Loftus et al.

WILEY

Chapter 1: Accounting regulation and the conceptual framework

Multiple choice questions

1. With regards to the Australian accounting standards, IASB stands for:

a. International Auditing Standards Board.
b. International Accounting Securities Body.
*c. International Accounting Standards Board.
d. International Accounting Statements Body.

Answer: c
Learning objective 1.3: explain the structure, role and processes of the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC).

2. Which of the following statements is *false*?

*a. The IFRS Advisory Council is directly accountable to the Monitoring Board.
b. Australia adopted international accounting standards issued on or after 1 January 2005.
c. The IASB and IFRS Interpretations Committee are appointed and overseen by a geographically and professionally diverse group called the IFRS Foundation Trustees.
d. The IASB is an independent standard-setting board that develops and approves International Financial Reporting Standards.

Answer: a
Learning objective 1.3: explain the structure, role and processes of the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC).

3. Which of the following is *not* a chapter in the IASB's conceptual framework?

a. the *Framework*.
b. qualitative characteristics of useful financial reporting.
c. the objective of general purpose financial reporting.
*d. the issues with financial reporting.

Answer: d
Learning objective 1.4: explain the key components of the conceptual framework.

4. Which of the following statements about the conceptual framework is true?

a. The conceptual framework deals only with the objective of special purpose financial statements.
b. The *Conceptual Framework for Financial Reporting* provides guidelines intended to meet the information needs of a range of users who are able to command that reports be prepared to their own particular needs.
*c. The conceptual framework deals only with the objective of general purpose financial statements.
d. the *Conceptual Framework for Financial Reporting*, SAC 1, and SAC 2 provides guidelines on the preparation of financial statements for a specific group of users.

Answer: c
Learning objective 1.4: explain the key components of the conceptual framework.

5. The two fundamental qualitative characteristics of useful information are:

a. materiality and timeliness.
b. understandability and verifiability.
c. faithful representation and comparability.
*d. relevance and faithful representation.

Answer: d
Learning objective 1.5: explain the qualitative characteristics that make information in financial statements useful.

6. For information to be considered material:

a. it must be complete.
b. it must not include any bias.
*c. its omission or misstatement could influence users' decision-making.
d. it has a predictive or confirmatory value.

Answer: c
Learning objective 1.5: explain the qualitative characteristics that make information in financial statements useful.

7. Costs of providing useful information include:

a. collection and processing costs.
b. dissemination costs.
c. verification costs.
*d. All of these options are costs of providing useful information.

Answer: d
Learning objective 1.5: explain the qualitative characteristics that make information in financial statements useful.

8. If different independent observers could reach the same general conclusions that the information represents then the quality of the information has achieved:

a. neutrality.
b. understandability.
*c. verifiability.
d. comparability.

Answer: c
Learning objective 1.5: explain the qualitative characteristics that make information in financial statements useful.

9. Which of the following statements about the going concern assumption is *not* true?

a. it can justify the use of historical costs when measuring non-current assets.
b. it supports the use of assets such as Prepaid Expenses.
c. it supports the systematic allocation of depreciation over an asset's useful life.
*d. it is used when an entity goes into liquidation.

Answer: d
Learning objective 1.6: discuss the going concern assumption underlying the preparation of financial statements.

10. Which of the following are the three essential criteria in the definition of an asset:

I.	Future sacrifices of economic benefits	IV.	Past event.
II.	Future economic benefits.	V.	Ownership.
III.	Present obligation.	VI.	Control.

a. I, III, VI.
*b. II, IV, VI.
c. II, III, VI.
d. I, III, V.

Answer: b
Learning objective 1.7: define the basic elements in financial statements — assets, liabilities, equity, income and expenses.

11. The only financial statement element which cannot be defined independently of the other elements under the conceptual framework is:

*a. equity.
b. assets.
c. income.
d. expenses.

Answer: a
Learning objective 1.7: define the basic elements in financial statements — assets, liabilities, equity, income and expenses.

12. Which of the following statements is correct?

a. Equity is defined as ‘the residual interest in the assets of the entity after deducting all its expenses’.
*b. Equity is increased by profit and owner contributions.
c. Equity is decreased by an entity’s income.
d. Equity cannot be sub-classified in the statement of financial position.

Answer: b
Learning objective 1.7: define the basic elements in financial statements — assets, liabilities, equity, income and expenses.

13. An example of an expense, as defined in the conceptual framework, is:

a. Payment to a supplier for purchases made on credit.
b. Dividends paid to shareholders.
c. Cash purchase of office equipment.
*d. Wages paid on a weekly-basis to employees.

Answer: d
Learning objective 1.7: define the basic elements in financial statements — assets, liabilities, equity, income and expenses.

14. Which of the following statements about income is *not* true?

*a. Income includes capital contributed by owners of the entity.
b. Income can be in the form of decreases of liabilities.
c. Income arises when there is control over the increase in economic benefits.
d. Income results in increases in economic benefits.

Answer: a
Learning objective 1.7: define the basic elements in financial statements — assets, liabilities, equity, income and expenses.

15. The two recognition criteria for the elements of financial statements are:

a. Measured reliably and Existence of economic benefits.
b. Existence of economic benefits and Control.
*c. Probability of occurrence and Measured reliably.
d. Probability of occurrence and Control.

Answer: c
Learning objective 1.8: explain the principles for recognising the elements of financial statements.

16. Georgetown Ltd purchased a block of land on 31 March and paid $400 000 cash to the land owner. An independent evaluation reveals that the land is worth $500 000. Using historical cost as a measurement base, how should Georgetown Ltd recognise this purchase of land in its financial statements?

a. $400 000 recognised as an asset (land) and $100 000 as a liability.
*b. $400 000 recognised as an asset (land).
c. $500 000 recognised as an asset (land).
d. The land should not be recognised as an asset as it cannot be reliably measured.

Answer: b
Learning objective 1.9: distinguish between alternative bases for measuring the elements of financial statements.

17. In order to comply with the Australian Accounting Standards, which of the following assets cannot be recorded at its historical cost?

*a. inventories.
b. buildings.
c. motor vehicles.
d. land.

Answer: a
Learning objective 1.9: distinguish between alternative bases for measuring the elements of financial statements.

18. In measuring the value of a liability, which measurement base uses the discounted future net cash outflows that are expected to settle the obligation in the normal course of business?

a. Realisable value.
b. Current cost.
c. Historical cost.
*d. Present value.

Answer: d
Learning objective 1.9: distinguish between alternative bases for measuring the elements of financial statements.

19. Which of the following is *not* an example of a settlement of a liability?

a. cash payment.
b. provision of services.
*c. owner contribution.
d. creditor waiving their rights to the obligation.

Answer: c
Learning objective 1.7: define the basic elements in financial statements — assets, liabilities, equity, income and expenses.

20. Bruce's Bouquets rents a small shop located in the outskirts of Melbourne. In accordance with the *Conceptual Framework*, Bruce's Bouquets should recognise the monthly payment for the shop rental as:

a. an increase in income and a decrease in liabilities.
b. a decrease in assets and an increase in equity.
c. a decrease in assets and a decrease in income.
*d. a decrease in assets and an increase in expense.

Answer: d
Learning objective 1.7: define the basic elements in financial statements — assets, liabilities, equity, income and expenses.

21. Which of the following statements is *incorrect* about the physical capital concept?

*a. The general price level accounting system follows the physical capital concept.
b. Capital is seen as the operating capability of the entity's assets.
c. Profit is earned after an entity has set aside enough capital to maintain the operating capability of the entity's assets.
d. Physical capital may be measured under a current value system.

Answer: d
Learning objective 1.10: outline concepts of capital maintenance.

