



Pearson

Henderson, Issues in Financial Accounting 16e

Chapter 1: Institutional arrangements for setting accounting standards in Australia

1) Which of these are the main sources of regulations governing financial reporting in Australia?

- A) Government legislation, stock exchange listing rules, accounting standards and pronouncement of FAASB
- B) Accounting standards, conceptual framework, stock exchange listing rules
- C) The Corporations Act, the AASB, CLERP
- D) AASB, FRC, government legislation

Answer: A

AACSB: Written and Oral Communication

Topic: 1.1 Introduction

Learning Objective: LO 1.1 Identify the main sources of financial reporting.

Difficulty: Easy

2) The ASX listing rules:

- A) apply to all companies and other entities reporting under the Corporations Act
- B) apply only to public sector entities
- C) are mandatory for public sector entities
- D) apply to publicly listed companies only

Answer: D

AACSB: Written and Oral Communication

Topic: 1.1 Introduction

Learning Objective: LO 1.1 Identify the main sources of regulation of financial reporting.

Difficulty: Easy

3) Compliance with accounting standards by reporting entities in the public sector is commonly supplemented by:

- A) ASIC
- B) 'Treasurer's Instructions'
- C) FRC
- D) the Corporations Act

Answer: B

AACSB: Written and Oral Communication

Topic: 1.1 Introduction

Learning Objective: LO 1.1 Identify the main sources of regulation of financial reporting.

Difficulty: Easy

4) To practice in Australia, an accountant:

- A) must be registered by the AASB
- B) must be registered by the government
- C) must be a member of CPA Australia or ICAA
- D) none of the above

Answer: D

AACSB: Written and Oral Communication



Topic: 1.1 Introduction

Learning Objective: LO 1.1 Identify the main sources of regulation of financial reporting.

Difficulty: Medium

5) The AASB has responsibility for making accounting standards applicable to:

A) entities coming under the Corporations Act, entities in the public sector and the remainder of the non-corporate sector entities

B) entities coming under the Corporations Act

C) entities coming under the Corporations Act and entities in the public sector

D) none of the above

Answer: A

AACSB: Written and Oral Communication

Topic: 1.1 Introduction

Learning Objective: LO 1.1. Identify the main sources of regulation of financial reporting.

Difficulty: Medium

6) The ASX listing rules include two mandatory requirements relating to their corporate governance guidelines. These include a requirement:

A) that the top 500 companies have an audit committee

B) that the top 300 companies have an audit committee

C) that all listed companies have an audit committee

D) that the top 500 companies have an independent audit committee

Answer: B

AACSB: Written and Oral Communication

Topic: 1.1 Introduction

Learning Objective: LO 1.1 Identify the main sources of regulation of financial reporting.

Difficulty: Medium

7) Additional disclosure requirements by the ASX for stock exchange listed companies are all of the following, except:

A) reporting of performance indicators such as return on shareholders' equity

B) a statement of ethical guidelines for employees and management

C) a requirement for the top 300 companies to have an audit committee

D) none of the above, i.e., all are additional requirements for ASX listed companies

Answer: B

AACSB: Written and Oral Communication

Topic: 1.1 Introduction

Learning Objective: LO 1.1 Identify the main sources of regulation of financial reporting.

Difficulty: Medium

8) Under the Corporations Act the financial report consists of:

A) comprehensive income statement, balance sheet, statement of cash flow, statement of changes in equity,

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director's declaration, notes to the financial statements

B) comprehensive income statement, balance sheet, statement of changes in equity, cash flow statement

C) comprehensive income statement, balance sheet, statement of cash flow

D) comprehensive income statement, balance sheet, statement of changes in equity

Answer: A

AACSB: Written and Oral Communication

Topic: 1.1 Introduction

Learning Objective: LO 1.1 Identify the main sources of regulation of financial reporting.

Difficulty: Medium

9) Give an overview of the present institutional arrangements for standard setting in Australia.

Answer: In the private sector, the most important legislation specifying financial reporting requirements is the *Corporations Act 2001*, which replaced the *Corporations Act 1989*. This legislation may be found at <[www.legislation.gov.au](http://www.legislation.gov.au)>. The Corporate Law Economic Reform Program (CLERP) was commenced in 1998 as part of the Commonwealth Government's ongoing program to modernise business regulation in Australia. As part of this program, the Corporations Act was simplified through substantial amendments made in 1998, some of which affected financial reporting. Section 292 of the Corporations Act requires the preparation of financial statements for each financial year by all disclosing entities, all public companies, all large proprietary companies and all registered schemes

AACSB: Written and Oral Communication

Topic: 1.1 Introduction

Learning Objective: LO 1.1 Identify the main sources of regulation of financial reporting.

Difficulty: Hard

10) Interpretation Advisory Panels make recommendations on particular issues to:

A) AASB

B) UIG

C) ASIC

D) ASX

Answer: A

AACSB: Written and Oral Communication

Topic: 1.2 Accounting standard setting in Australia

Learning Objective: LO 1.2. Identify the major developments in the institutional arrangements for accounting standard setting.

Difficulty: Medium

11) It is not part of the role of the Financial Reporting Council:

A) to approve and monitor the AASB's priorities

B) to review the content of existing accounting standards

C) to promote a greater role for international accounting standards in Australia

D) to appoint members of the AASB

Answer: B



AACSB: Written and Oral Communication

Topic: 1.2 Accounting standard setting in Australia

Learning Objective: LO 1.2. Identify the major developments in the institutional arrangements for accounting standard setting.

Difficulty: Medium

12) Which statement is incorrect regarding the Corporations Act 2001?

A) the accounting standards are deemed to be part of the Corporations Act

B) financial reports must comply with the accounting standards

C) the accounting standards need not be complied with if, in the opinion of the board of directors, this would not result in a true and fair view

D) if the financial statements and notes prepared in compliance with accounting standards would not give a true and fair view, then additional information necessary to give a true and fair view must be included in the notes to the statements

Answer: C

AACSB: Written and Oral Communication

Topic: 1.2 Accounting standard setting in Australia

Learning Objective: LO 1.2 Identify the major developments in the institutional arrangements for accounting standard setting.

Difficulty: Hard

13) The body that oversees the operation of the Auditing and Assurance Standards Board is:

A) The Financial Reporting Council (FRC)

B) ASIC

C) AASB

D) ASX

Answer: A

AACSB: Written and Oral Communication

Topic: 1.2 Accounting standard setting in Australia

Learning Objective: LO 1.3 Explain the present accounting standard-setting arrangements.

Difficulty: Medium

14) The most correct description of the stages in the development of AASB accounting standards is:

A) invitation to comment, exposure draft, discussion paper, approval of final standard

B) discussion paper, public comment, exposure draft, approval of final standard

C) discussion paper, exposure draft, approval of final standard, review

D) discussion paper, exposure draft, public comment, approval of final standard

Answer: D

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.4 Explain the process of developing accounting standards and concepts statements in Australia.

Difficulty: Hard

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15) Which statement concerning AASB Interpretations is not correct?

- A) In 2006, the AASB decided to take over the role of the Urgent Issues Group
- B) The AASB has set up an Interpretations Agenda Committee comprising the chairman and two other AASB members
- C) Interpretations of IASB standards made by the IFRIC are not relevant in Australia
- D) None of the above, i.e., all statements are correct

Answer: C

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.4 Explain the process of developing accounting standards and concepts statements in Australia.

Difficulty: Medium

16) Which of the following is/are true concerning the issue of accounting standards in Australia after internationalisation?

- A) The AASB adds to proposed international standards material detailing their scope and applicability in Australia
- B) The AASB adds material to broaden the content of international standards to cover the not-for-profit sector
- C) After issuing an exposure draft for comment and considering the response, the AASB issues an Australian standard equivalent to the IASB standard
- D) All of the statements are true

Answer: D

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.4 Explain the process of developing accounting standards and concepts statements in Australia.

Difficulty: Medium

17) Explain and discuss the procedures currently operating in Australia for dealing with issues involving the development of AASB Interpretations.

Answer: The present arrangement in Australia is that the AASB has direct responsibility for developing and approving interpretations. This arrangement came into place on 1 July 2006, when the AASB took over the role of the Urgent Issues Group (UIG). One reason for taking over this responsibility is that the AASB has more scope to consider issues of interpretation of accounting standards in a timely fashion now that most of the development of accounting standards is conducted by the IASB. The UIG was operative between 1995 and 2006, issuing UIG Abstracts, which fulfilled a similar role to AASB Interpretations. Prior to its disbandment, the UIG undertook a revision of existing UIG Abstracts to ensure consistency with IFRSs from 1 January 2005. We refer to the revised material as 'UIG Interpretations'. After assuming responsibility for developing and approving interpretations, the AASB sought stakeholder input on its proposed interpretations model. Ultimately, the interpretations model was finalised and has been effective since 1 January 2008

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations



Learning Objective: LO 1.5. Explain the process of developing interpretations.

Difficulty: Medium

18) The Corporations Act 2001 requires that the governing board of the company:

- A) table standards in the Commonwealth House of Representatives and the Senate
- B) establish accounting standards in preparing financial statements
- C) provide a true and fair view of the accounting standards
- D) comply with AASB accounting standards in preparing financial statements

Answer: D

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.6 Explain the process of enforcing accounting standards and interpretations.

Difficulty: Medium

19) Which of the following is not a form of public comment and discussion for agenda papers?

- A) a motion to order a deadline in publishing a final draft
- B) a discussion paper outlining a wide range of possible accounting policies on a particular topic
- C) an invitation to comment seeking feedback on broad proposals
- D) a draft interpretation of a standard

Answer: A

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.6 Explain the process of enforcing accounting standards and interpretations.

Difficulty: Medium

20) Which item listed indicates an effect of a 'legislative instrument'?

- A) The making of a standard is to be notified in the Commonwealth of Australia Gazette.
- B) Standards are to be tabled in the Commonwealth House of Representatives for 30 sitting days.
- C) The ASIC votes to make a standard.
- D) The Senate is given the final authority to approve accounting standards for application.

Answer: A

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.6 Explain the process of enforcing accounting standards and interpretations.

Difficulty: Medium

21) The final approval of accounting standards to apply under the Corporations Act rests with:

- A) Parliament
- B) AASB
- C) ASIC
- D) The Joint Standing Committee of the Institute of Chartered Accountants in Australia and CPA Australia

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Answer: A

AACSB: Analytical Thinking

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.6 Explain the process of enforcing accounting standards and interpretations.

Difficulty: Medium

22) The role of the Australian Securities and Investments Commission is to:

A) issue accounting standards

B) administer and ensure compliance with the Corporations Act

C) develop the conceptual framework

D) supervise the AASB

Answer: B

AACSB: Analytical Thinking

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.6 Explain the process of enforcing accounting standards and interpretations.

Difficulty: Easy

23) Under section 296 of the Corporations Act 2001, directors of companies that fail to comply with AASB accounting standards may be prosecuted by:

A) ASIC

B) AASB

C) ASX

D) FRP

Answer: A

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.6. Explain the process of enforcing accounting standards and interpretations.

Difficulty: Medium

24) Penalties that can be imposed by the professional bodies on members who do not comply with accounting standards can be:

A) disciplinary proceedings

B) fines

C) expulsion from the professional body

D) all of the above

Answer: D

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.6. Explain the process of enforcing accounting standards and interpretations.

Difficulty: Easy

25) Explain how accounting standards are currently enforced in Australia.

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Answer: Compliance with *APES 205* is mandatory for members of the professional accounting bodies, and non-compliance represents a breach of the code of ethics issued by the APESB. Failure by members to comply with the requirements of *APES 205* may result in disciplinary proceedings being brought against them, which could result in the imposition of a fine or expulsion from the professional body. The potential negative reputational effects that would result from the publication of the disciplinary action against a member are a strong incentive for members to comply with *APES 205*. However, in the absence of statutory registration of accountants, the threat of expulsion may be of limited value in ensuring compliance. Expulsion may have a limited effect on the earning capacity of the individual. The imposition of a fine may also be ineffective. If the fine is small, benefits from non-compliance with an accounting standard may exceed the fine.

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.6. Explain the process of enforcing accounting standards and interpretations.

Difficulty: Medium

26) Discuss the role of the accounting bodies in the regulation of Australian accounting practice.

Answer: The accounting profession's attitude towards accounting standards has changed from regarding them simply as recommendations during the 1960s to making them mandatory by the 1990s. In February 2006, the APESB was established as an initiative of CPAA and the then Institute of Chartered Accountants in Australia (ICAA) primarily to develop and issue appropriate professional and ethical standards for their membership. The IPA subsequently became a member of the APESB. The initial focus of the APESB's activities was, *inter alia*, the review of existing professional and ethical standards such as the old Code of Professional Conduct and Miscellaneous Professional Statements (APS series) and guidance notes (GN series). The subsequent APES series of ethical and professional standards approved by the APESB is mandatory for accountants who are members of CPAA, CAANZ and the IPA. Broadly, these standards aim to regulate members' ethical conduct and the performance of professional services across various types of professional engagements.

AACSB: Written and Oral Communication

Topic: 1.3. The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

Learning Objective: LO 1.6. Explain the process of enforcing accounting standards and interpretations.

Difficulty: Medium