

Chapter 02 Testbank

1. The AASB framework has the force of law.

FALSE

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-04 Understand the history of the evolution of the conceptual framework in use within Australia.

Section: Australia's use of the IASB conceptual framework

Topic: Conceptual framework

2. The Australian Accounting Standards Board (AASB) retained the use of its own conceptual framework even after harmonisation.

FALSE

AACSB: Analytic

Difficulty: Easy

Learning Objective: 02-04 Understand the history of the evolution of the conceptual framework in use within Australia.

Section: Australia's use of the IASB conceptual framework

Topic: Conceptual framework

3. The AASB framework serves as a guide to the Australian Accounting Standards Board (AASB) in developing accounting standards.

TRUE

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-02 Understand the need for, and the role of, a conceptual framework.

Section: Benefits of a conceptual framework

Topic: Conceptual framework

4. The AASB framework is considered to be an Australian Accounting Standards Board (AASB) standard.

FALSE

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-04 Understand the history of the evolution of the conceptual framework in use within Australia.

Section: Australia's use of the IASB conceptual framework

Section: Structure of the conceptual framework

Topic: Conceptual framework

5. One of the benefits of the conceptual framework is that it provides parameters for the exercise of judgement in resolving accounting issues.

TRUE

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-02 Understand the need for, and the role of, a conceptual framework.

Section: Benefits of a conceptual framework

Topic: Conceptual framework

6. When an AASB standard conflicts with the framework, the former prevails.

TRUE

AACSB: Analytic

Difficulty: Easy

Learning Objective: 02-02 Understand the need for, and the role of, a conceptual framework.

Section: Structure of the conceptual framework

Topic: Conceptual framework

7. The framework defines principles for a specific accounting recognition, measurement and disclosure matter.

FALSE

AACSB: Analytic

Difficulty: Easy

Learning Objective: 02-03 Be able to explain the structure, or building blocks, of a well designed conceptual framework.

Section: What is a conceptual framework?

Topic: Conceptual framework

8. The framework suggests that the relevance characteristic outweighs the faithfully represented characteristic if the financial statement is to be rendered useful.

FALSE

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-03 Be able to explain the structure, or building blocks, of a well designed conceptual framework.

Section: Building blocks of a conceptual framework

Topic: Conceptual framework

9. The objective of financial statements is to provide future-oriented information to help investors make business decisions.

FALSE

AACSB: Analytic

Difficulty: Easy

Learning Objective: 02-05 Understand the objective of general purpose financial reporting.

Section: Current initiatives to develop a revised conceptual framework

Topic: General purpose financial reporting

10. Relevance and faithfully represented characteristics are placed as overriding qualities of financial statements over other qualitative characteristics

TRUE

AACSB: Analytic

Difficulty: Easy

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

11. A separate recognition criteria for equity is not set forth in the framework because it represents a residual interest in the assets of an entity.

TRUE

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Definition and recognition of equity

12. Social accountability is considered in the framework as part of the objectives of general purpose financial reports.

FALSE

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-05 Understand the objective of general purpose financial reporting.

Section: A critical review of conceptual frameworks

Topic: General purpose financial reporting

13. The IASB and US FASB are jointly developing a common conceptual framework to guide both standard-setters in developing separate standards for their constituents.

FALSE

AACSB: Analytic
Difficulty: Medium

Learning Objective: 02-12 Be aware of initiatives currently being undertaken by the IASB to develop a revised conceptual framework for financial reporting, and understand some of the changes that might arise as a result of this initiative.

*Section: Benefits of a conceptual framework
Section: Current initiatives to develop a revised conceptual framework
Topic: Current initiatives to develop a revised conceptual framework*

14. For the preparation and presentation of financial statements, Australia adopts the IASB framework and the Statement of Accounting Concepts 1 to 4.

FALSE

AACSB: Reflective thinking
Difficulty: Easy

Learning Objective: 02-02 Understand the need for, and the role of, a conceptual framework.

*Section: Structure of the conceptual framework
Topic: Conceptual framework in Australia*

15. The IASB and US FASB were jointly developing a common conceptual framework because this was necessary for the Convergence Project, which aims to converge two sets of accounting standards.

TRUE

AACSB: Reflective thinking
Difficulty: Easy

Learning Objective: 02-12 Be aware of initiatives currently being undertaken by the IASB to develop a revised conceptual framework for financial reporting, and understand some of the changes that might arise as a result of this initiative.

*Section: Current initiatives to develop a revised conceptual framework
Topic: Current initiatives to develop a revised conceptual framework*

16. The IASB conceptual framework explicitly recognises accepted measurement bases exactly the same as those contained in the FASB framework.

FALSE

AACSB: Reflective thinking
Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

*Section: Measurement principles
Topic: Measurement principles*

17. The efficiency perspective is consistent with limiting accounting policy choices in the interest of consistency and comparability.

FALSE

AACSB: Reflective thinking
Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

*Section: Building blocks of a conceptual framework
Topic: Qualitative characteristics of financial accounting information*

18. The trade-off between relevance and faithful representation requires exercise of judgement constrained by timeliness and costs versus benefits.

TRUE

AACSB: Analytic
Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics of financial accounting information

19. The recognition criteria for liabilities are consistent with those for assets.

TRUE

AACSB: Reflective thinking
Difficulty: Easy

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Liabilities element of financial accounting

20. Transactions or events that cannot be linked to a 'cost' or a 'market price' are not recognised.

TRUE

AACSB: Reflective thinking
Difficulty: Medium

Learning Objective: 02-13 Be able to critically review the existing conceptual framework.

Section: A critical review of conceptual frameworks

Topic: Reviewing the conceptual framework

21. A central goal in establishing a conceptual framework of accounting will be to obtain general consensus on:

- A. the scope and objectives of financial reporting.
- B. the qualitative characteristics that financial information should possess.
- C. what the elements of financial reporting are, including agreement on the characteristics and recognition criteria for assets, liabilities, income, expenses and equity.
- D.** the scope and objectives of financial reporting and the qualitative characteristics that financial information should possess.

AACSB: Reflective thinking
Difficulty: Medium

Learning Objective: 02-02 Understand the need for, and the role of, a conceptual framework.

Section: What is a conceptual framework?

Topic: Conceptual framework

22. Which of the following factors should be considered in order to determine whether an entity is a reporting entity when it is not obvious that users exist who would be dependent on the financial reports of the entity?

- A. Separation of management from those with economic interest in the entity.
- B. Economic or political importance/influence.
- C. Financial characteristics.
- D.** Separation of management from those with economic interest in the entity and economic or political importance/influence.

AACSB: Analytic
Difficulty: Easy

Learning Objective: 02-08 Be able to define the 'users' of general purpose financial statements and understand the degree of proficiency in accounting that is expected of users of general purpose financial statements.

Section: Building blocks of a conceptual framework

Section: Structure of the conceptual framework

Topic: Users of financial statements

23. Mr and Mrs K Urban are partners in Urban Ltd, a music shop with sales revenue of \$5 000 000 per annum, total assets of \$10 000 000 and employees totalling 15. Urban Ltd is:

- A. a reporting entity because there are at least two users of a financial report.
- B. not likely to be a reporting entity because it is unlikely to have users dependent on its financial reports.
- C. likely to be a reporting entity because there are two shareholders and it is an exempt proprietary entity.
- D.** not a reporting entity because small proprietary companies are frequently not considered reporting entities.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-06 Understand what is meant by the term 'reporting entity' and understand the financial reporting implications of being classified as a reporting entity.

Section: Building blocks of a conceptual framework

Section: Structure of the conceptual framework

Topic: Reporting entity

24. Bowen Pty Ltd is a small proprietary company with seven directors. Four of the seven directors own 75% of the ordinary shares and the remaining shares are owned by family members of the directors. The company also has 15 trade creditors and an open line of credit with one state bank. Is Bowen Pty Ltd a reporting entity and hence required to prepare general purpose financial reports?

- A. Yes, because dependent users of financial reports exist.
- B. Yes, because there are trade creditors who are external users.
- C. No, because it is a small proprietary firm.
- D.** No, because there are no obvious users who are unable to command the preparation of information from the entity.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-06 Understand what is meant by the term 'reporting entity' and understand the financial reporting implications of being classified as a reporting entity.

Section: Building blocks of a conceptual framework

Section: Structure of the conceptual framework

Topic: Reporting entity

25. Which of the following statement(s) is/are true of general purpose financial reports?

- A. General purpose financial reports should be prepared by all reporting entities.
- B. General purpose financial reports are reports that comply with statements of accounting concepts and accounting standards.
- C. General purpose financial reports are intended to meet the information needs common to users who are able to command the preparation of reports.
- D.** General purpose financial reports should be prepared by all reporting entities and general purpose financial reports are reports that comply with statements of accounting concepts and accounting standards.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-05 Understand the objective of general purpose financial reporting.

Section: Building blocks of a conceptual framework

Section: Structure of the conceptual framework

Topic: General purpose financial reports

26. Which of the following are considered in the AASB framework as primary qualitative characteristics?

- A. Relevance, faithful representation, materiality and comparability.
- B. Relevance, faithful representation, timeliness and understandability.
- C. Relevance, faithful representation, understandability and comparability.
- D. Materiality, faithful representation, understandability and comparability.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

27. When preparing financial reports, 'users are assumed to have a reasonable knowledge of the business and economic activities and accounting and a willingness to study the information with reasonable diligence'. This statement is consistent with the qualitative characteristic of:

- A. materiality.
- B. faithful representation.
- C. understandability.
- D. comparability.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

28. James Cook Ltd bought a piece of land 10 years ago and the market value of this property is now worth five times its purchase cost. The accountant suggested that James Cook Ltd should revalue the asset. This notion is consistent with the qualitative characteristic of:

- A. relevance.
- B. faithful representation.
- C. understandability.
- D. comparability.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

29. The audit of the financial reports of Matilda Ltd had been completed except for the outcome of a material contingent liability that is still subject to the outcome of a court decision. The case is still ongoing but it is expected that a decision will be made after three months. The deadline for submitting the financial reports is next month. Which action is consistent with the notion of 'timeliness' in the preparation of financial reports?

- A. Matilda Ltd should wait for the court decision to be completed before releasing the financial reports as the amount of the liability is material.
- B. Matilda Ltd should release the financial report on or before the deadline but exclude the contingent liability from the report as the outcome is still uncertain.
- C.** Matilda Ltd should release the financial report on or before the deadline but disclose the contingent liability in the notes to the accounts.
- D. Matilda Ltd must wait for the court decision to be completed before releasing the financial reports as it is expected to occur in the near future anyway (i.e. three months).

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

30. The framework identifies two aspects to financial information that are 'relevant'. These are:

- A. verifiability and understandability.
- B.** predictability and verifiability.
- C. neutrality and verifiability.
- D. prudence and neutrality.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

31. The IASB Conceptual Framework for Financial Reporting (as released in 2010), requires that general purpose financial reports disclose information that is:

- A. relevant to the assessment of profit, funding and investing, and compliance.
- B. relevant to the assessment of financial and social performance, financial position and funding and investing, and includes information about compliance.
- C. relevant to the assessment of performance, financial position and funding and investing, including information about compliance.
- D.** relevant to the assessment of performance, financial position and cash flows.

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-05 Understand the objective of general purpose financial reporting.

Section: Building blocks of a conceptual framework

Topic: General purpose financial reporting

32. The framework outlines two underlying assumptions of financial statements. These are:

- A. fair value basis and insolvency assumption.
- B.** accrual basis of accounting and going concern assumption.
- C. cash basis of accounting and insolvency assumption.
- D. historical cost accounting and limited life concept.

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-05 Understand the objective of general purpose financial reporting.

Section: Building blocks of a conceptual framework

Topic: General purpose financial reporting

33. Which of the following actions best describes the qualitative characteristic 'relevance'?

- A. The financial report of KMC Ltd was audited by one of the Big Four accounting firms.
- B.** DGC omitted a sales transaction equal to 10.5% of its accounts receivable.
- C. MCB Ltd and DGC Ltd both use accelerated depreciation method.
- D. GEP Ltd did not revalue its intangible assets because it was difficult to obtain the fair value of the assets.

AACSB: Reflective thinking

Difficulty: Hard

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

34. Which of the following statement(s) is/are true of the qualitative characteristic 'faithful representation'?

- A. Information that is free from material bias and error.
- B. Information that faithfully represents what it purports to represent.
- C. Information that should affect the decisions of financial statement users.
- D.** Information that is free from material bias and error, complete description and that faithfully represents what it purports to represent.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

35. Which of the following actions are consistent with the Doctrine of Conservatism?

- A. Deliberate overstatement of expenses to reduce profits.
- B. Excessive provisions for warranty expenses.
- C.** Careful assessment of doubtful debts.
- D. Adoption of accelerated depreciation method to reduce profits.

Difficulty: Easy

Learning Objective: 02-13 Be able to critically review the existing conceptual framework.

Section: A critical review of conceptual frameworks

Section: Structure of the conceptual framework

Topic: Critical review of the current conceptual framework

36. Which of the following is/are characteristics of 'comparability'?

- A. Users must be able to compare the financial reports of an entity with the financial reports of a shareholder.
- B. Users must be able to compare the current financial reports with prior period financial reports of an entity.
- C. Users must be able to compare the financial reports of an entity with the financial reports of another entity.
- D. Users must be able to compare the current financial reports with prior period financial reports of an entity and users must be able to compare the financial reports of an entity with the financial reports of another entity.**

AACSB: Analytic

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

37. Which of the following statement(s) is/are true of the qualitative characteristic 'comparability'?

- A. A financial report must show corresponding results for the preceding period.**
- B. A financial report must be presented in a consistent manner, hence, an entity must adopt similar accounting policies from period to period even though a more reliable and relevant alternative exist.
- C. A financial report must contain all material and relevant items.
- D. A financial report must show corresponding results for the preceding period and be presented in a consistent manner, hence, an entity must adopt similar accounting policies from period to period even though a more reliable and relevant alternative exist.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

38. When a standard restricts the number of accounting methods to be used to account for a particular accounting issue, it is promoting the qualitative characteristic of _____?

- A. timeliness
- B. prudence
- C. understandability
- D. comparability**

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

39. The accountant of Broken Bay Ltd decided to retain the historical cost of the entity's intangible assets because it was difficult to obtain fair value of these assets. This action is consistent with _____.

- A. substance over form
- B. balancing of relevance and faithful representation**
- C. accrual accounting
- D. cash accounting

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

40. The IASB conceptual framework adopts which approach to determining profits?

- A. Revenue/expense approach.
- B. Matching principle approach.
- C. Asset/liability approach.**
- D. Cash basis approach.

AACSB: Analytic

Difficulty: Easy

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

41. The key characteristics of an asset as defined in the framework include:

- A. there must be future economic benefits.
- B. the reporting entity must control the future economic benefits.
- C. the asset results from past transactions.
- D. all of the given answers.**

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Assets and elements of financial accounting

42. Which of the following items is not considered an asset?

- A. Patents.
- B. Research expenses of an R&D project.
- C. Equipment under lease where the risks and rewards flow into the entity.
- D. Research expenses of an R&D project and equipment under lease where the risks and rewards flow into the entity.**

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Assets and elements of financial accounting

43. Jackson Ltd is developing computer software for use in its courier delivery service business. So far the company had spent \$50 000 but the software is still unfinished and not expected to be finished in time for the preparation of the reports. As a result, the company had to purchase a computer package amounting to \$100 000 to finalise its accounts. There is no further use for the unfinished software as it is expected that the purchased computer package could be used by the entity for another 10 years. Which accounting treatment would be consistent with the framework?

- A. Recognise an asset of \$150 000.
- B. Recognise an expense of \$150 000.
- C.** Recognise an asset of \$100 000 and expense of \$50 000.
- D. Recognise an asset of \$50 000 and expense of \$100 000.

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Assets and elements of financial accounting

44. Which of the following transactions does not meet the definition of an asset?

- A. Deposit for purchase of equipment.
- B.** Commitment to purchase equipment.
- C. Finance leased equipment.
- D. Purchase of equipment on credit.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Assets and elements of financial accounting

45. Ms Maple is an accounting cadet for one of the big accounting firms. She is a bit confused as to which of the following sources should be referred to first in dealing with an accounting issue:

- A. industry practice.
- B.** accounting standards.
- C. conceptual framework.
- D. auditing standards.

AACSB: Analytic

Difficulty: Medium

Learning Objective: 02-02 Understand the need for, and the role of, a conceptual framework.

Section: Structure of the conceptual framework

Topic: Conceptual framework

46. The audit of Liverpool Ltd had been completed and the audit senior for the engagement prepared items for discussion. He argues that the following list of accounting changes violate the consistency qualitative characteristic of accounting information. As audit manager, which of the following items do you think are worthy of discussion with the audit partner?

A. After five years of using straight-line depreciation for reporting purposes and accelerated depreciation for tax purposes, the entity decided to adopt accelerated depreciation for reporting purposes.

B. The company uses an inventory valuation method that is different from the method used by other companies in the industry.

C. The estimated remaining useful life of an asset was reduced due to the increase in volume of use of the asset.

D. The company disposed of a subsidiary that had been included in the financial reports in prior years.

AACSB: Analytic

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

47. The framework's recognition criteria provide that 'an asset is recognised in the balance sheet when it is _____ that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured _____'.

A. possible; reliably

B. probable; accurately

C. probable; reliably

D. certain; accurately

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Assets and elements of financial accounting

48. The Blaxland Ltd filed a lawsuit against D-Mart Machineries for failure to comply with the specifications of the factory equipment that they ordered and received. The solicitors for Blaxland Ltd strongly believe that the company will receive \$50 000 to \$100 000 if they win the case. Which action is consistent with the framework?

A. Blaxland Ltd should recognise a receivable of \$75 000, the expected value of the gain.

B. Blaxland Ltd should recognise a receivable of \$50 000, a conservative estimate of the gain.

C. Blaxland Ltd should not recognise the receivable until it is probable that they have won the case.

D. Blaxland Ltd should not recognise the receivable because while the solicitor is expecting to win the case, the receivable cannot be estimated reliably.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Assets and elements of financial accounting

49. Your best friend from high school approaches you to invest in 'e-track' an upcoming high-tech company which he is convinced will make huge profits in the future. You are sceptical of the business venture and say that you would have to look up the financial statements of the company before investing your own money. He sends you the financial report and you notice that the report is unaudited and does not provide prior years' results even though the firm had been operating for the last three years. Based on the above information, which qualitative characteristics is lacking in e-track's financial reports?

- A. Relevance and faithful representation.
- B. Relevance and timeliness.
- C. Comparability and consistency.
- D. Faithful representation and comparability.**

AACSB: Reflective thinking
Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics of financial accounting information

50. Which of the following statement(s) is/are true with respect to materiality?

- A. Materiality refers to the notion that an item need not be recognised in the financial reports.
- B. Materiality is a primary qualitative characteristic.
- C. Materiality relates to financial information where its omission or misstatement could influence the economic decisions of users.**
- D. Materiality relates to financial information where its omission or misstatement could influence the economic decisions that users make about a specific reporting entity.

AACSB: Analytic
Difficulty: Medium

Learning Objective: 02-09 Understand the concept of materiality and how this influences decisions about the disclosure of financial information.

Section: Building blocks of a conceptual framework

Topic: Materiality

51. Consider the following information:

	Mosman Ltd	Manly Ltd
Sales	\$ 5 000 000	\$50 000
Cost and expenses	4 000 000	40 000
Net profit	1 000 000	10 000
Impairment loss	40 000	5000

You are an accountant for both firms and would like to determine whether the impairment loss is material or not. Which of the following statement(s) is/are correct?

- A. The impairment loss for both firms is material.
- B. The impairment loss for Manly Ltd is material.**
- C. The impairment loss for Mosman Ltd is material.
- D. The impairment loss for both firms is immaterial.

AACSB: Analytic
Difficulty: Easy

Learning Objective: 02-09 Understand the concept of materiality and how this influences decisions about the disclosure of financial information.

Section: Building blocks of a conceptual framework

Topic: Materiality

52. What guidelines are available in AASB 1031 Materiality to assist in determining the materiality of an item?

- A. If the amount is equal or greater than 10% of the appropriate base amount, the item is material.
- B. If the amount is equal or greater than 10% of the appropriate base amount, the item is immaterial.
- C. If the amount is equal or less than 5% of the appropriate base amount, the item is material
- D.** If the amount is equal or greater than 10% of the appropriate base amount, the item is material; if the amount is equal or less than 5% of the appropriate base amount, the item is immaterial.

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-09 Understand the concept of materiality and how this influences decisions about the disclosure of financial information.

Section: Building blocks of a conceptual framework

Topic: Materiality

53. Identify which qualitative characteristic of financial reports is best described in each item below:

- A. relevance, comparability, timeliness.
- B. faithful representation, consistency, understandability.
- C.** faithful representation, comparability, timeliness.
- D. relevance, understandability, comparability.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

54. Identify the appropriate qualitative characteristic employed in the following information:

- A. relevance, faithful representation, consistency.
- B. faithful representation, relevance, comparability.
- C. faithful representation, relevance, consistency .
- D.** relevance, faithful representation, comparability.

AACSB: Reflective thinking

Difficulty: Hard

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

55. In accordance with the IASB conceptual framework, which of the following is consistent with the definition of income?

- A. Increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
- B. Increases in economic benefits during the accounting period in the form of inflows other than those relating to contributions from equity participants.
- C. Increases in economic benefits during the accounting period in the form of cash inflows or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
- D. All of the given answers are correct.

AACSB: Analytic
Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Income and elements of financial accounting

56. In accordance with the IASB conceptual framework, which of the following transaction(s) is/are consistent with a definition of income?

- A. Collection of accounts receivable.
- B. Debt forgiveness.
- C. Issue of share capital.
- D. Collection of accounts receivable and debt forgiveness.

AACSB: Reflective thinking
Difficulty: Easy

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Income and elements of financial accounting

57. In accordance with the IASB conceptual framework, which of the following is consistent with the definition of expenses?

- A. Decreases in economic benefits during the accounting period in the form of outflows other than those relating to distributions to equity participants.
- B. Increases in economic benefits during the accounting period in the form of inflows or enhancement of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.
- C. Decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.
- D. All of the given answers are correct.

AACSB: Analytic
Difficulty: Medium

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Expenses and elements of financial accounting

58. In accordance with the IASB conceptual framework, which of the following accounts are expenses?

- A. Dividends paid.
- B. Provision for warranties.
- C. Entity dumps pollutants in a river adjacent to its factory.
- D. None of the given answers is correct.

AACSB: Reflective thinking
Difficulty: Medium

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Expenses and elements of financial accounting

59. Faithful presentation is one on the two primary fundamental qualitative characteristics for financial information to be useful. According to the IASB conceptual framework, a financial report is faithfully presented if it is:

- A. consistent, free from bias and free of material error.
- B. accurate, free from bias and free of material error.
- C. complete, neutral and free of material error.**
- D. reliable, neutral and free of material error.

AACSB: Analytic

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

60. Which of the following statements most accurately reflects the qualitative characteristics of financial information in the IASB conceptual framework?

- A. These attributes or qualities determine whether an entity is considered to be a reporting entity.
- B. These are attributes or qualities that financial information should possess if it is to be useful for such decision making.**
- C. These attributes or qualities satisfy the definition of elements in the financial reports.
- D. All of the given answers are correct.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

61. In adopting the standards of IASB, Australian entities are required to comply with:

- A. the Australian conceptual framework and statement of accounting concepts 1 to 4.
- B. the Australian conceptual framework and statement of accounting concepts 3 and 4.
- C. the IASB framework and the statement of accounting concepts 3 and 4.
- D. the IASB conceptual framework and the statement of accounting concept 1.**

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-04 Understand the history of the evolution of the conceptual framework in use within Australia.

Section: Structure of the conceptual framework

Topic: Conceptual framework in Australia

62. Which of the following statement of accounting concepts are still operational in Australia?

- A. Statement of accounting concepts 1 to 4.
- B. Statement of accounting concepts 1 to 3.
- C. Statement of accounting concepts 1.**
- D. Statement of accounting concepts 3 and 4.

AACSB: Reflective thinking

Difficulty: Easy

Learning Objective: 02-04 Understand the history of the evolution of the conceptual framework in use within Australia.

Section: Structure of the conceptual framework

Topic: Conceptual framework in Australia

63. Which of the following accounting policies is an example of a trade-off between relevance and faithful representation?

- A. Research outflows are expensed and development activities expenses are capitalised.
- B.** Biological assets are stated at fair value unless the fair value cannot be measured reliably.
- C. Machinery and equipment are reviewed periodically to assess propriety of useful life estimations used in depreciation.
- D. All of the given answers are correct.

AACSB: Analytic
Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Building blocks of a conceptual framework

Topic: Qualitative characteristics

Topic: Qualitative characteristics

64. Which of the following accounting policies is an example of costs versus benefits constraint being exercised in the disclosure of financial information?

- A. Inventory is valued at lower of cost or market.
- B.** Property, plant and equipment are appraised and revalued every three years.
- C. Biological assets are stated at fair value unless the fair value cannot be measured reliably.
- D. Research and development costs are expensed as incurred.

AACSB: Analytic
Difficulty: Medium

Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).

Section: Measurement principles

Topic: Qualitative characteristics

Topic: Qualitative characteristics

65. The Exposure Draft of the conceptual framework released in May 2015 represents the latest thinking of the:

- A.** IASB.
- B. FASB.
- C. joint IASB and FASB.
- D. EU Council.

AACSB: Reflective thinking
Difficulty: Easy

Learning Objective: 02-12 Be aware of initiatives currently being undertaken by the IASB to develop a revised conceptual framework for financial reporting, and understand some of the changes that might arise as a result of this initiative.

Section: Structure of the conceptual framework

Topic: Conceptual framework

66. Which of the following is correct with regard to applying the bundling of rights for assets, under the IASB's 21 May 2014 Staff Paper?

- A. An entity would account separately for rights within a bundle only when required to provide a relevant and faithful representation, at any cost.
- B. An entity would account separately for rights within a bundle only when required to provide a relevant representation, at a cost that does not exceed the benefits.
- C.** An entity would account separately for rights within a bundle only when required to provide a relevant and faithful representation, at a cost that does not exceed the benefits.
- D. An entity would account separately for rights within a bundle only when required to provide a reliable and relevant representation, at a cost that does not exceed the benefits.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.

Section: Building blocks of a conceptual framework

Topic: Assets and elements of financial accounting

67. Before paragraphs 10 and 11 were added to AASB 108, the conceptual framework was a useful source of guidance but was not mandatory.

TRUE

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-02 Understand the need for, and the role of, a conceptual framework.

Learning Objective: 02-04 Understand the history of the evolution of the conceptual framework in use within Australia.

Section: Structure of the conceptual framework

Topic: Structure of the conceptual framework

68. Bronte Ltd's excavation activities near a waterway have caused some environmental damage, resulting in a major reduction in local water quality. For Bronte Ltd the waterway falls within the conceptual framework's definition of control.

FALSE

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-05 Understand the objective of general purpose financial reporting.

Section: A critical review of conceptual frameworks

Topic: A critical review of conceptual frameworks

69. Which of the following is NOT one of the measurement attributes in both the IASB and FASB frameworks:

- A. historical cost.
- B. current cost.
- C. current market value.
- D.** present value of expected past cash flows.

AACSB: Reflective thinking

Difficulty: Medium

Learning Objective: 02-11 Understand that measurement forms an important component of a conceptual framework and understand that measurement issues remain as an issue still to be addressed within the IASB conceptual framework project.

Section: Measurement principles

Topic: Measurement principles

Chapter 02 Testbank Summary

<u>Category</u>	<u># of Qu esti ons</u>
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Difficulty: Medium	39
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Learning Objective: 02-03 Be able to explain the structure, or building blocks, of a well designed conceptual framework.	2
Learning Objective: 02-04 Understand the history of the evolution of the conceptual framework in use within Australia.	6
Learning Objective: 02-05 Understand the objective of general purpose financial reporting.	6
Learning Objective: 02-06 Understand what is meant by the term 'reporting entity' and understand the financial reporting implications of being classified as a reporting entity.	2
Learning Objective: 02-07 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements. In particular, understand both the fundamental qualitative characteristics of financial reporting (relevance and faithful representation) as well as the enhancing qualitative characteristics of financial reporting (comparability, verifiability, timeliness and understandability).	24
Learning Objective: 02-08 Be able to define the 'users' of general purpose financial statements and understand the degree of proficiency in accounting that is expected of users of general purpose financial statements.	1
Learning Objective: 02-09 Understand the concept of materiality and how this influences decisions about the disclosure of financial information.	3
Learning Objective: 02-10 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting.	14
Learning Objective: 02-11 Understand that measurement forms an important component of a conceptual framework and understand that measurement issues remain as an issue still to be addressed within the IASB conceptual framework project.	1
Learning Objective: 02-12 Be aware of initiatives currently being undertaken by the IASB to develop a revised conceptual framework for financial reporting, and understand some of the changes that might arise as a result of this initiative.	3
Learning Objective: 02-13 Be able to critically review the existing conceptual framework.	2
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Topic: Definition and recognition of equity	1
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Topic: Materiality	3
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Topic: Qualitative characteristics	20
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