



Pearson

## Chapter 2

# Measuring and reporting financial position

**Choose the one alternative that best completes the statement or answers the question.**

1) What is the purpose of the statement of financial position?

- A) to determine the cash inflows and outflows over a period of time.
- B) to determine the profit earned over a period of time.
- C) to list the assets of the business and the claims against the assets at a particular point of time.
- D) all of the above.

Answer: C

Difficulty: Basic

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 1 – Written and oral communication

2) Which of these is *not* always a characteristic of an asset?

- A) Ability of the benefit to be measured in money terms.
- B) Exclusive control of the economic benefits.
- C) Legal ownership by the entity.
- D) Probable expected future economic benefits.

Answer: C

Difficulty: Complex

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 3 – Analytical thinking

3) Identify the asset.

- A) Bank overdraft.
- B) Plant and equipment.
- C) Loan from ABC Ltd.
- D) Accrued expenses.

Answer: B

Difficulty: Basic



Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

4) Which of these is *not* an asset?

- A) Accounts payable.
- B) Loan to J Troja.
- C) Accounts receivable.
- D) Both A and B.

Answer: A

Difficulty: Basic

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

5) Intangible assets have no physical substance but still provide expected future benefits. Which of the following is *not* an intangible asset?

- A) Newspaper masthead.
- B) Goodwill.
- C) Patent.
- D) None of the above, i.e., all are intangible assets.

Answer: D

Difficulty: Basic

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

6) Identify the intangible asset.

- A) Brand name.
- B) Loan.
- C) Accounts payable.
- D) Inventory.

Answer: A

Difficulty: Basic

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position



AACSB: 8 – Application of knowledge

7) In the accounting equation, claims on the business are of two broad types:

- A) bills payable and bills receivable.
- B) liabilities and equity.
- C) loans to and loans from outsiders.
- D) accounts receivable and accounts payable.

Answer: B

Difficulty: Basic

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 3 – Analytical thinking

8) 'A present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits,' is the generally acceptable definition of:

- A) an asset.
- B) equity.
- C) a liability.
- D) an expense.

Answer: C

Difficulty: Basic

Learning Objective 1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

9) Which of the following is a liability?

- A) Drawings.
- B) Prepaid insurance.
- C) Accounts payable.
- D) Cash at bank.

Answer: C

Difficulty: Basic

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge



10) The recognition criteria for liabilities includes:

- A) future obligation.
- B) probability of occurrence.
- C) reliability of measurement.
- D) Both B and C.

Answer: D

Difficulty: Complex

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 3 – Analytical thinking

11) Which of the following would appear in the equity section of the statement of financial position?

- A) Loan from ABC Bank.
- B) Loan to family member.
- C) Bank overdraft.
- D) Drawings by the owner.

Answer: D

Difficulty: Basic

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

12) Which of these does *not* belong with the others?

- A) Bank overdraft.
- B) Prepaid wages.
- C) Accounts payable.
- D) Mortgage loan.

Answer: B

Difficulty: Basic

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

13) Which statement concerning the reserves component of equity is *not* correct?

- A) Reserves represent cash.
- B) Retained profits and reserves are often classified under the general heading of reserves.
- C) The higher the dividend paid by the company, the lower the reserves.



D) Many reserves arise as transfers from retained profits.

Answer: A

Difficulty: Moderate

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 3 – Analytical thinking

14) What is another name for accounts receivable?

A) debtors.

B) receivables.

C) accounts payable.

D) Both A and B.

Answer: D

Difficulty: Basic

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

15) Which of these assets, which *could* be listed on a statement of financial position, is likely *not* to translate into future economic benefits?

A) Large inventories of spare parts.

B) Accounts receivable that have been outstanding for several months.

C) Inventory that has been on the shelves for over a year.

D) All of the above.

Answer: D

Difficulty: Moderate

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

16) Despite the uncertainty in relation to the exact amount to be paid and the actual timing of the payment, which of the following is still regarded as a liability?

A) Deposit on services received in advance.

B) Provision for employee bonuses.

C) Accounts payable.

D) Money borrowed from an associate company.

Answer: B



Difficulty: Moderate

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

17) Which of the following is *not* necessarily a liability?

A) Provision for holiday pay.

B) Bank overdraft.

C) Loan to employee.

D) None of the above, i.e., all are necessarily liabilities.

Answer: C

Difficulty: Complex

Learning Objective 2.1: Explain the nature and purpose of the statement of financial position (balance sheet) and its component parts

Topic: Nature and purpose of the statement of financial position

AACSB: 8 – Application of knowledge

18) Which of the following is the correct version of the accounting equation?

A) liabilities = assets + equity.

B) equity = assets + liabilities.

C) assets = equity + liabilities.

D) none of the above.

Answer: C

Difficulty: Basic

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 3 – Analytical thinking

19) If liabilities are \$45,000 and equity is \$68,900, assets are:

A) \$23,100.

B) \$23,900.

C) \$113,900.

D) \$113,100.

Answer: C

Difficulty: Basic

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation



AACSB: 8 – Application of knowledge

20) If liabilities are \$55,000 and assets are \$123,600, equity is:

- A) \$178,400.
- B) \$68,600.
- C) \$178,600.
- D) \$68,400.

Answer: B

Difficulty: Basic

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

21) If assets are \$36,200 and equity is \$13,600, liabilities are:

- A) \$47,500.
- B) \$22,100.
- C) \$22,600.
- D) \$22,900.

Answer: C

Difficulty: Basic

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

22) Calculate equity. Cash at bank \$3,500; inventory \$1,600; accounts receivable \$3,500; accounts payable \$1,700; loan from ABC bank \$3,500.

- A) \$8,900.
- B) \$3,400.
- C) \$1,900.
- D) \$12,300.

Answer: B

Difficulty: Moderate

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

23) Calculate the missing cash at bank account balance from these statement of financial position items.



Equity \$5,800; accounts receivable \$890; accounts payable \$450; inventory \$360; loan to a business \$1,400.

A) \$4,900.

B) \$5,400.

C) \$3,600.

D) \$6,300.

Answer: C

Difficulty: Complex

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

24) What is the effect on the statement of financial position of a business buying supplies for cash?

A) increase asset supplies; increase asset bank.

B) decrease asset supplies; decrease asset bank.

C) decrease asset supplies; increase asset bank.

D) increase asset supplies; decrease asset bank.

Answer: D

Difficulty: Basic

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

25) What is the effect on the statement of financial position when the business buys inventory on credit?

A) Increase asset inventory; increase liability creditor.

B) Increase asset inventory; increase equity.

C) Decrease asset inventory; decrease liability creditor.

D) Decrease asset inventory; increase liability creditor.

Answer: A

Difficulty: Moderate

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

26) What is the effect on the statement of financial position when the business buys a car for \$35,000, paying a deposit of \$10,000 and promising to pay the balance within 60 days?

A) Increase asset vehicle by \$5,000; decrease asset bank by \$5,000.

B) Increase asset vehicle by \$35,000; decrease asset bank by \$10,000; increase liability accounts payable by



\$25,000.

C) Increase asset vehicle by \$25,000; decrease asset bank by \$5,000; increase liability accounts payable by \$20,000.

D) None of the above.

Answer: B

Difficulty: Complex

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

27) What is the effect on the statement of financial position when the business pays a creditor?

A) decrease asset creditor; decrease liability bank.

B) decrease asset bank; decrease liability creditor.

C) decrease asset bank; decrease equity.

D) none of the above.

Answer: B

Difficulty: Basic

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

28) The effect on the statement of financial position when a debtor pays the amount that is owed is:

A) increase asset bank; decrease asset debtor; increase equity.

B) increase asset bank; increase equity.

C) increase asset bank; decrease asset debtor.

D) none of the above.

Answer: C

Difficulty: Moderate

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

29) The effect on the statement of financial position when the owner withdraws money from the business is:

A) decrease asset bank; decrease equity.

B) decrease drawings; decrease equity.

C) increase drawings; increase equity.



D) decrease asset bank; increase equity.

Answer: A

Difficulty: Moderate

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

30) The effect on the statement of financial position when the owner contributes her private vehicle for the exclusive use of the business is:

A) increase asset vehicle; increase equity.

B) increase asset vehicle; decrease equity.

C) increase asset vehicle; increase owner's drawings.

D) none of the above.

Answer: A

Difficulty: Moderate

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

31) Calculate the profit for the year if capital at the beginning is \$45,000, capital at the end is \$40,000 and during the year the owner withdrew \$15,000.

A) \$5,000.

B) \$15,000.

C) \$10,000.

D) \$20,000.

Answer: C

Difficulty: Complex

Learning Objective 2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

32) What is the overall effect on the statement of financial position when the business sells inventory for a profit of \$5,000?

A) Increase total assets \$3,000; decrease total equity \$3,000.

B) Increase total assets \$5,000; increase total equity \$5,000.

C) No change in total assets; no change in total equity.

D) None of the above.



Answer: B

Difficulty: Moderate

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

33) What is the effect on the statement of financial position when the business has cash sales of \$15,000 of goods that were originally purchased for \$10,000?

A) Increase asset bank \$12,000; increase equity \$12,000.

B) Increase asset bank \$15,000; decrease asset inventory \$10,000; increase equity \$5,000.

C) Increase asset bank \$4,000; increase equity \$4,000.

D) None of the above.

Answer: B

Difficulty: Complex

Learning Objective 2. 2: Explain the accounting equation, and use it to build up a statement of financial position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

**Write your answer on a separate sheet of paper.**

34) You are provided with the statement of financial position at the beginning of the period for a firm of accountants. You are also given four of the transactions that have occurred during the period.

REQUIRED:

a) Complete the table to show how each transaction affects the accounts shown.

b) Calculate the figures in the final column of the table from which the statement of financial position at the end of the period can be prepared.

|                        | Beginning<br>Balance<br>Sheet | Transaction<br>1 | Transaction<br>2 | Transaction<br>3 | Transaction<br>4 | Ending<br>Balance<br>Sheet |
|------------------------|-------------------------------|------------------|------------------|------------------|------------------|----------------------------|
| <i>Assets</i>          | \$                            | \$               | \$               | \$               | \$               | \$                         |
| Cash                   | 10,000                        |                  |                  |                  |                  |                            |
| accounts<br>receivable | 5,500                         |                  |                  |                  |                  |                            |
| Plant &                | <u>50,000</u>                 |                  |                  |                  |                  |                            |

|                  |               |  |  |  |  |  |
|------------------|---------------|--|--|--|--|--|
| Equip            |               |  |  |  |  |  |
|                  | <u>65,000</u> |  |  |  |  |  |
| Liabilities      |               |  |  |  |  |  |
| accounts payable | 6,000         |  |  |  |  |  |
| Equity           | <u>59,500</u> |  |  |  |  |  |
|                  | <u>65,500</u> |  |  |  |  |  |

Transactions for the period:

1. Collected \$3,000 from debtors
2. Paid accounts payable \$6,000
3. Owner paid in additional capital contribution of \$10,000
4. Purchased on credit \$2,000 of additional plant.

Answer:

|                     | Beginning<br>Balance<br>Sheet | Transaction<br>1 | Transaction<br>2 | Transaction<br>3 | Transaction<br>4 | Ending<br>Balance<br>Sheet |
|---------------------|-------------------------------|------------------|------------------|------------------|------------------|----------------------------|
| <i>Assets</i>       | \$                            | \$               | \$               | \$               | \$               | \$                         |
| Cash                | 10,000                        | +3,000           | -6,000           | +10,000          |                  | 17,000                     |
| accounts receivable | 5,500                         | -3,000           |                  |                  |                  | 2,500                      |
| Plant & Equip       | <u>50,000</u>                 |                  |                  |                  | +2,000           | <u>52,000</u>              |
|                     | <u>\$65,500</u>               |                  |                  |                  |                  | <u>\$71,500</u>            |
| <i>Liabilities</i>  |                               |                  |                  |                  |                  |                            |
| accounts payable    | 6,000                         |                  | -6,000           |                  | +2,000           | 2,000                      |
| Equity              | <u>59,500</u>                 |                  |                  | +10,000          |                  | <u>69,500</u>              |
|                     | <u>65,500</u>                 |                  |                  |                  |                  | <u>\$71,500</u>            |

Difficulty: Complex

Learning Objective 2.2: Explain the accounting equation, and use it to build up a statement of financial



position at the end of a period

Topic: The accounting equation

AACSB: 8 – Application of knowledge

**Choose the one alternative that best completes the statement or answers the question.**

35) Identify the current asset.

A) Fixtures and fittings.

B) Inventory.

C) Delivery vehicle.

D) Loan to L Hardie repayable in 2 years.

Answer: B

Difficulty: Basic

Learning Objective 2.3: Classify assets and claims

Topic: The classification of assets and claims

AACSB: 8 – Application of knowledge

36) Assets are classified as either current or non-current. Current assets are:

A) goodwill.

B) expected to be turned into cash within 12 months.

C) the infrastructure assets.

D) all of the above.

Answer: B

Difficulty: Moderate

Learning Objective 2.3: Classify assets and claims

Topic: The classification of assets and claims

AACSB: 3 – Analytical thinking

37) Which of the following is a non-current asset?

A) 5-year loan to Ti Finance.

B) Machinery.

C) Long-term investment.

D) All of the above.

Answer: D

Difficulty: Basic

Learning Objective 2.3: Classify assets and claims

Topic: The classification of assets and claims

AACSB: 8 – Application of knowledge

38) What do non-current liabilities represent?

A) amounts due to the owner of the business which are not payable within 12 months.



- B) amounts due to outsiders which are not payable within 12 months.
- C) amounts due and payable to outsiders within 12 months.
- D) Both A and B.

Answer: B

Difficulty: Basic

Learning Objective 2.3: Classify assets and claims

Topic: The classification of assets and claims

AACSB: 3 – Analytical thinking

39) Identify the current liability.

- A) Wages owing.
- B) Loan from B Buy (due in 4 months).
- C) Bill payable (due in 2 years).
- D) Both A and B.

Answer: D

Difficulty: Basic

Learning Objective 2.3: Classify assets and claims

Topic: The classification of assets and claims

AACSB: 8 – Application of knowledge

40) Which of the following statements in relation to non-current assets is *untrue*?

- A) They are held for sale or consumption.
- B) They may be tangible or intangible.
- C) May vary in classification according to the nature of the business.
- D) They are generally held for generating wealth.

Answer: A

Difficulty: Basic

Learning Objective 2.3: Classify assets and claims

Topic: The classification of assets and claims

AACSB: 3 – Analytical thinking

41) Which of the following is regarded as a tangible asset?

- A) Franchise.
- B) Goodwill.
- C) Long-term investment.
- D) Copyright.

Answer: C

Difficulty: Basic

Learning Objective 2.3: Classify assets and claims

Topic: The classification of assets and claims



AACSB: 3 – Analytical thinking

42) If current assets are \$15,200, current liabilities are \$3,100, non-current liabilities are \$45,000 and equity is \$70,000, non-current assets are:

- A) \$108,100
- B) \$48,100
- C) \$92,900
- D) \$102,900

Answer: D

Difficulty: Basic

Learning Objective 2.3: Classify assets and claims

Topic: The classification of assets and claims

AACSB: 8 – Application of knowledge

**Write your answer on a separate sheet of paper.**

43) Complete the following table concerning the classification of items in the statement of financial position.

ACCOUNT ELEMENTS CLASSIFICATION

(Asset, Liability, Equity) (Current, Non-current)

|     |                                   |       |             |
|-----|-----------------------------------|-------|-------------|
| e.g | Cash on hand                      | Asset | Current     |
| e.g | Land and buildings                | Asset | Non-current |
| 1   | Inventory                         |       |             |
| 2   | Accounts receivable               |       |             |
| 3   | Bank overdraft                    |       |             |
| 4   | Prepaid insurance                 |       |             |
| 5   | Share capital                     |       |             |
| 6   | Retained profits                  |       |             |
| 7   | Accounts payable                  |       |             |
| 8   | Goodwill                          |       |             |
| 9   | Plant and equipment               |       |             |
| 10  | Franchise                         |       |             |
| 11  | Loan from Eagle Finance (5 years) |       |             |

Difficulty: Basic

Learning Objective 2.3: Classify assets and claims

Topic: The classification of assets and claims

AACSB: 8 – Application of knowledge

**Choose the one alternative that best completes the statement or answers the question.**



44) In recent years, the more common format of layout for the financial statement of position is

- A) Horizontal format.
- B) Parallel format.
- C) 'T' format.
- D) Vertical or narrative format.

Answer: D

Difficulty: Moderate

Learning Objective 2.4: Apply the different possible formats for the statement of financial position

Topic: Formats for statements of financial position

AACSB: 1 – Written and oral communication

45) What are the possible approaches to presenting a narrative statement of financial position?

- A) Entity.
- B) Proprietary.
- C) Horizontal.
- D) Both A and B.

Answer: D

Difficulty: Moderate

Learning Objective 2.4: Apply the different possible formats for the statement of financial position

Topic: Formats for statements of financial position

AACSB: 1 – Written and oral communication

46) The accounting convention that means only those transactions that are capable of being expressed in monetary terms are recorded, is the:

- A) money measurement convention.
- B) historical cost convention.
- C) conservatism convention.
- D) reliability convention.

Answer: A

Difficulty: Basic

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of the financial reports

AACSB: 3 – Analytical thinking

47) The accounting convention that requires the activities of the business to be kept separate from the activities of the owner is the:

- A) dual aspect convention.
- B) business entity convention.
- C) conservatism convention.



D) accounting period convention.

Answer: B

Difficulty: Basic

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of the financial reports

AACSB: 3 – Analytical thinking

48) Which accounting convention has the effect that the employees will not appear as an asset on the entity's statement of financial position?

A) Money measurement convention.

B) Accounting period convention.

C) Stable monetary unit convention.

D) Entity convention.

Answer: A

Difficulty: Moderate

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of the financial reports

AACSB: 3 – Analytical thinking

49) Without the business entity convention, which item in the statement of financial position would *not* exist?

A) Assets.

B) Equity.

C) Liabilities.

D) Cash at bank.

Answer: B

Difficulty: Moderate

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of the financial reports

AACSB: 3 – Analytical thinking

50) The accounting convention that states that every transaction has at least two effects on the accounting equation, so that after the transaction is processed, the equation remains in balance is the:

A) going concern/continuity convention.

B) objectivity/reliability convention.

C) conservatism/prudence convention.

D) dual aspect convention.



Answer: D

Difficulty: Moderate

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of the financial reports

AACSB: 3 – Analytical thinking

51) The accounting convention that requires items in the statement of financial position to be valued at their acquisition cost is the:

- A) matching convention.
- B) realisation convention.
- C) money measurement convention.
- D) historic cost convention.

Answer: D

Difficulty: Basic

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

52) If reported profits are reduced by \$6,000 in year one because of the operation of conservatism:

- A) profits in later years will be unaffected.
- B) profits in later years must be \$5,000 lower.
- C) profits in later years will be \$6,000 higher.
- D) none of the above.

Answer: C

Difficulty: Complex

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 8 – Application of knowledge

53) The accounting convention that calls for financial reports to err on the side of caution is the:

- A) accounting period convention.
- B) stable monetary unit convention.
- C) conservatism (prudence) convention.
- D) objectivity convention.

Answer: C

Difficulty: Basic

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of



financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

54) The accounting convention which results in the anticipation of losses but *not* of profits is:

A) matching.

B) prudence (conservatism).

C) going concern.

D) none of the above.

Answer: B

Difficulty: Moderate

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 8 – Application of knowledge

55) If the prudence (conservatism) convention conflicts with another convention, which will normally prevail?

A) Prudence (conservatism).

B) The other convention.

C) 50% of the time prudence and 50% of the time the other convention.

D) Conventions never conflict so the issue does not arise.

Answer: A

Difficulty: Complex

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

56) Under the accounting standards, which alternative measure of value is *not* permitted to be used for valuing assets?

A) Historical cost.

B) Net realisable value.

C) Fair value.

D) None of the above. i.e., all are permitted methods in some circumstances.

Answer: D

Difficulty: Complex

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports



AACSB: 3 – Analytical thinking

57) An example of where the prudence assumption leads to a reduction in the valuation of an asset is:

- A) development expenditure capitalised as an asset rather than written off as an expense.
- B) taking an upward revaluation of an asset to a reserve rather than including it in the profit calculation.
- C) valuing inventory at the lower of cost and net realisable value.
- D) All are examples.

Answer: C

Difficulty: Complex

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

58) Which statement about current value is true?

- A) Current value can only be defined one way.
- B) An accounting system could be produced based on current value rather than historical cost.
- C) The second-hand sale value of an asset is *not* an example of current value.
- D) Current values are based on transactions.

Answer: B

Difficulty: Complex

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

59) The accounting convention that the objectivity principle provides support for is:

- A) historic cost.
- B) prudence (conservatism).
- C) relevance.
- D) accounting period.

Answer: A

Difficulty: Complex

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

60) There is a growing tendency for many non-current assets to be valued on the basis of market values. The item which is most likely to be valued at market value is:



- A) the assets of a life insurer.
- B) goodwill.
- C) motor vehicles.
- D) accounts receivable.

Answer: A

Difficulty: Complex

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 8 – Application of knowledge

61) The assumption that means accountants ignore inflation is:

- A) the stable monetary unit assumption.
- B) the going concern assumption.
- C) the monetary assumption.
- D) the prudence assumption.

Answer: A

Difficulty: Basic

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

62) Application of the (prudence) conservatism assumption can produce:

- A) higher profits.
- B) higher values for assets.
- C) higher amounts for liabilities.
- D) lower amounts for expenses.

Answer: C

Difficulty: Basic

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

63) Which of the following conventions dictates that a sole owner's personal transactions should not be included in the records of the business?

- A) Accounting period.
- B) Business entity.
- C) Prudence.



D) Historic cost.

Answer: B

Difficulty: Complex

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

64) The accounting assumption that a business will continue to operate into the foreseeable future is the:

A) entity assumption.

B) going concern assumption.

C) accounting period assumption.

D) historical cost assumption.

Answer: B

Difficulty: Basic

Learning Objective 2.5: Identify the main factors that influence the content and values in a statement of financial position

Topic: Factors influencing the form and content of financial reports

AACSB: 3 – Analytical thinking

65) Which aspect of business performance does the statement of financial position directly provide insight into?

A) Cash flows.

B) Profitability.

C) Share price.

D) The relative proportions of funds contributed by owners and outsiders.

Answer: D

Difficulty: Basic

Learning Objective 2.6: Explain the main ways in which the statement of financial position can be useful for users of accounting information

Topic: Usefulness of the statement of financial position

AACSB: 7 – Reflective thinking

66) The statement of financial position assists users in terms of:

A) Assessing the value of a business.

B) Determining the liquidity of a business.

C) The effectiveness of wealth generation.

D) All of the above.

Answer: D

Difficulty: Basic



Learning Objective 2.6: Explain the main ways in which the statement of financial position can be useful for users of accounting information

Topic: Usefulness of the statement of financial position

AACSB: 7 – Reflective thinking

67) The statement of financial position provides insight into the liquidity of the business. This means that

- A) the ability of the business to pay its long-term debts.
- B) the ability of the business to pay dividends.
- C) the ability of the business to pay its short-term obligations with current assets.
- D) the ability of the business to purchase new long-term assets.

Answer: C

Difficulty: Moderate

Learning Objective 2.6 Explain the main ways in which the statement of financial position can be useful for users of accounting information

Topic: Usefulness of the statement of financial position

AACSB: 3 – Analytical thinking

68) Which of the following is *not* a reason that the relationship between current and non-current assets important?

- A) Firms having too much funds tied up in non-current assets can lead to business failure.
- B) In case of financial difficulty, non-current assets are often difficult to sell.
- C) It shows the ability of the business to pay long-term obligations.
- D) Converting non-current assets to cash often results in a loss to the business.

Answer: C

Difficulty: Moderate

Learning Objective 2.6: Explain the main ways in which the statement of financial position can be useful for users of accounting information

Topic: Usefulness of the statement of financial position

AACSB: 3 – Analytical thinking

69) Which of the following is *not* a potential conflict in the statement of financial position?

- A) The statement of financial position is generally only determined annually.
- B) In reality, a country's money may not be 'a stable monetary unit'.
- C) Relevant information is not always entirely reliable.
- D) Australian dollars in 2005 may not have the same purchasing power in 2018.

Answer: A

Difficulty: Moderate

Learning Objective 2.7: Identify the main deficiencies or limitations in the statement of financial position

Topic: Statement of financial position deficiencies

AACSB: 3 – Analytical thinking



70) Which of the following is an example of an expenditure that could be recognized as either an immediate asset or an expense?

- A) Purchase of a new plant (factory)
- B) Purchase of a 12 month insurance policy
- C) Payment of an account payable
- D) Payment of wages

Answer: B

Difficulty: Moderate

Learning Objective 2.7: Identify the main deficiencies or limitations in the statement of financial position

Topic: Statement of financial position deficiencies

AACSB: 3 – Analytical thinking

71) A limitation of the statement of financial position in portraying the financial position of an entity is:

- A) items which cannot be measured in money are not included.
- B) the historical cost approach means that assets are not shown at their estimated market values.
- C) there is no adjustment to values for inflation.
- D) All of the above are limitations.

Answer: D

Difficulty: Moderate

Learning Objective 2.7: Identify the main deficiencies or limitations in the statement of financial position

Topic: Statement of financial position deficiencies

AACSB: 3 – Analytical thinking

72) Which of the following is *not* considered a deficiency of the statement of financial position?

- A) The amount of discretion in recording some transactions.
- B) The lack of recognition of inflation.
- C) The disclosure of assets and the claims against such assets.
- D) The conflict between relevant and reliable information.

Answer: C

Difficulty: Moderate

Learning Objective 2.7: Identify the main deficiencies or limitations in the statement of financial position

Topic: Statement of financial position deficiencies

AACSB: 3 – Analytical thinking