

## Chapter 02 - The Conceptual Framework of Accounting and its Relevance to Financ

1. The AASB Framework has the force of law:

Ans:F

True False

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

Ans:F

True False

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

Ans:T

True False

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

Ans:F

True False

5. One of the uses of the Conceptual Framework is that it provides parameters for the exercise of judgement in resolving accounting issues:

Ans:T

True False

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

Ans:T

True False

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

Ans:F

True False

8. The Framework suggests that the relevance characteristic outweighs the reliability characteristic if the financial statement is to be rendered useful:

Ans:F

True False

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

Ans:F

True False

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

Ans:T

True False

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.

Ans:T

True False

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

Ans:F

True False

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.

Ans:F

True False

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

Ans:F

True False

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

Ans:T

True False

16. Prudence is exercised in the preparation and presentation of financial statements when asset values are never shown in excess of their realisable values but could be understated, and liabilities are never to be understated.

Ans:F

True False

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

Ans:F

True False

18. The trade-off between relevance and reliability requires exercise of judgment constrained by timeliness and costs versus benefits.

Ans:T

True False

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

1. the scope and objectives of financial reporting.
2. the qualitative characteristics that financial information should possess.
3. what the elements of financial reporting are, including agreement on the characteristics and recognition criteria for assets, liabilities, income, expenses and equity.
4. All of the given answers.
5. the scope and objectives of financial reporting and the qualitative characteristics that financial information should possess.

20. 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.

1. Separation of management from those with economic interest in the entity.
2. Economic or political importance/influence.
3. Financial characteristics.
4. All of the given answers.
5. Separation of management from those with economic interest in the entity and economic or political importance/influence.

21. 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. Blank Ltd is:

1. a reporting entity because there are at least two users of a financial report.
2. not likely to be a reporting entity because it is unlikely to have users dependent on its financial reports.
3. likely to be a reporting entity because there are two shareholders and it is an exempt proprietary entity.
4. not a reporting entity because small proprietary companies are frequently not considered reporting entities.
5. is a reporting entity because total assets of the entity is greater than \$5,000,000.

22. 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?

1. Yes, because dependent users of exist.
2. Yes, because there are trade creditors who are external users.
3. No, because it is a small proprietary firm.
4. No, because there are no obvious users who are unable to command the preparation of information from the entity.
5. None of the given answers.

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

1. General purpose financial reports should be prepared by all reporting entities.
2. General-purpose financial reports are reports that comply with statements of accounting concepts and accounting standards.
3. General-purpose financial reports are intended to meet the information needs common to users who are able to command the preparation of reports.
4. All of the given answers.
5. 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.

24. Which of the following are considered in the AASB Framework as primary qualitative characteristics?

1. relevance, reliability, materiality and comparability.
2. relevance, reliability, timeliness and understandability.
3. relevance, reliability, understandability and comparability.
4. materiality, reliability, understandability and comparability.
5. materiality, timeliness, understandability and comparability.

25. 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:

1. materiality.
2. reliability.
3. understandability.
4. comparability.
5. relevance.

26. James Cook Ltd bought a piece of land 10 years ago and the market value of this property is now worth 5 times its purchase cost. The accountant suggested that James Cook Ltd should revalue the asset. This notion is consistent with the qualitative characteristic of:

1. relevance.
2. reliability.
3. understandability.
4. comparability.
5. materiality.

27. 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 and 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?

1. Matilda Ltd should wait for the court decision to be completed before releasing the financial reports as the amount of the liability is material.
2. 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.
3. Matilda Ltd should release the financial report on or before the deadline but disclose the contingent liability in the notes to the accounts.
4. 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).
5. None of the given answers.

28. The Framework identifies two aspects to financial information that is "relevant". These are:

1. verifiability and understandability.
2. predictability and verifiability.
3. neutrality and verifiability.
4. prudence and neutrality.
5. comparability and verifiability.

29. SAC 2 (Objectives of General Purpose Financial Reporting) requires that general-purpose financial reports disclose information that is:

1. Relevant to the assessment of profit, funding and investing, and compliance.
2. Relevant to the assessment of financial and social performance, financial position and funding and investing and includes information about compliance.
3. Relevant to the assessment of performance, financial position and funding and investing, including information about compliance.
4. Relevant to the assessment of performance, financial position and cash flows.
5. None of the given answers.

30. The Framework outlines two underlying assumptions of financial statements. These are:

1. fair value basis and insolvency assumption.
2. accrual basis of accounting and going concern assumption.
3. cash basis of accounting and insolvency assumption.
4. historical cost accounting and limited life concept.
5. fair value basis of measurement and perpetual life concept.

31. Which of the following actions best describes the qualitative characteristic "relevance"?

1. The financial report of KMC Ltd was audited by one of the Big 4 four accounting firms.
2. DGC limited provides quarterly financial reports.
3. MCB Ltd and DGC Ltd both use accelerated depreciation method.
4. GEP Ltd did not revalue its intangible assets because it was difficult to obtain the fair value of the assets.
5. None of the given answers.

32. Which of the following statement(s) is/are true of the qualitative characteristic "reliability"?

1. Information that is free from material bias and error.
2. Information that faithfully represents what it purports to represent.
3. Information that should affect the decisions of financial statement users.
4. All of the given answers.
5. Information that is free from material bias and error, and that faithfully represents what it purports to represent.

33. Which of the following actions are consistent with the notion of "prudence"?

1. deliberate overstatement of expenses to reduce profits.
2. excessive provisions for warranty expenses.
3. careful assessment of doubtful debts.
4. adoption of accelerated depreciation method to reduce profits.
5. moving forward unrealised sales to increase profits.

34. Which of the following is/are characteristics of "comparability"?

1. Users must be able to compare the financial reports of an entity with the financial reports of a shareholder.
2. Users must be able to compare the current financial reports with prior period financial reports of an entity.
3. Users must be able to compare the financial reports of an entity with the financial reports of another entity
4. All of the given answers.
5. 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.

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

1. A financial report must show corresponding results for the preceding period.
2. 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.
3. A financial report must contain all material and relevant items.
4. All of the given answers.
5. 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.

36. 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 \_\_\_\_\_?

1. Timeliness
2. Prudence
3. Understandability
4. Comparability
5. Relevance

37. 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 \_\_\_\_\_.

1. substance over form.
2. balancing of relevance and reliability.
3. accrual accounting.
4. cash accounting.
5. true and fair view.

38. The Framework adopts which approach to determining profits.

1. Revenue/expense approach.
2. Matching principle approach.
3. Asset/liability approach.
4. Cash basis approach.
5. None of the given answers

39. The key characteristics of an asset as defined in the Framework include.

1. There must be future economic benefits.
2. The reporting entity must control the future economic benefits.
3. The asset results from past transactions.
4. All of the given answers.
5. There must be future economic benefits and the reporting entity must control the future economic benefit.

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

1. Patents.
2. Research expenses of an R&D project.
3. Equipment under lease where the risks and rewards flows into the entity.
4. All of the given answers.
5. Research expenses of an R&D project and equipment under lease where the risks and rewards flows into the entity.

41. 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 package could be used by the entity for another ten years. Which accounting treatment would be consistent with the Framework?

1. Recognise an asset of \$150,000.
2. Recognise an expense of \$150,000.
3. Recognise an asset of \$100,000 and expense of \$50,000.
4. Recognise an asset of \$50,000 and expense of \$100,000.
5. None of the given answers.

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

1. Deposit for purchase of equipment.
2. Commitment to purchase equipment.
3. Finance leased equipment.
4. Purchase of equipment on credit.
5. None of the given answers.

43. Ms Marple is an accounting cadet for one of the big accounting firms. She is a bit confused as to which of the following Anss should be applied first in dealing with an accounting issue.

I. Industry Practice

II. Accounting Standards

III. Conceptual Framework

IV. International Financial Reporting Interpretations Committee (IFRIC)

Which ordering would you recommend?

1. I, II, III, IV.
2. II, IV, III, I.
3. II, I, IV, III.
4. III, II, I, IV.
5. IV, III, II, I.

44. 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?

1. 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.
2. The company uses an inventory valuation method that is different from the method used by other companies in the industry.
3. The estimated remaining useful life of an asset was reduced due to the increase in volume of use of the asset.
4. The company disposed of a subsidiary that had been included in the financial reports in prior years.
5. The company wrote off equipment due to obsolescence.

45. The Framework's recognition criteria provides 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 \_\_\_\_\_.

1. possible; reliably.
2. probable; accurately.
3. probable; reliably.
4. certain; accurately.
5. None of the given answers.

46. 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?

1. Blaxland Ltd. should recognise a receivable of \$75,000, the expected value of the gain.
2. Blaxland Ltd. should recognise a receivable of \$50,000, a conservative estimate of the gain.
3. Blaxland Ltd. should not recognise the receivable until it is probable that they have won the case.
4. Blaxland Ltd. should not recognise the receivable because while the solicitor is expecting to win the case, the receivable cannot be estimated reliably.
5. None of the given answers.

47. 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 future. You are sceptical of the business venture and said you would have to look up the financial statements of the company before investing your own money. He sends you the financial report and noticed that the report is unaudited and does not provide prior year's 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-tech's financial reports?

1. relevance and reliability.
2. relevance and timeliness.
3. comparability and consistency.
4. reliability and consistency.
5. reliability and comparability.

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

1. It refers to the notion that an item need not be recognised in the financial reports.
2. It is a primary qualitative characteristic.
3. It relates to financial information where its omission or misstatement could influence the economic decisions of users.
4. All of the given answers.
5. Equipment under lease where the risks and rewards flows into the entity and it relates to financial information where its omission or misstatement could influence the economic decisions of users.

49. 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        5,000

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?

1. The impairment loss for both firms is material.
2. The impairment loss for Manly Ltd is material.
3. The impairment loss for Mosman Ltd is material.
4. The impairment loss for both firms is immaterial.
5. None of the given answers.

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

1. If the amount is equal or greater than 10% of the appropriate base amount, the item is material.
2. If the amount is equal or greater than 10% of the appropriate base amount, the item is immaterial.
3. If the amount is equal or less than 5% of the appropriate base amount, the item is material
4. If the amount is equal or less than 5% of the appropriate base amount, the item is immaterial.
5. 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.

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

The financial reports of Curl Curl Ltd are audited by a chartered accountant.

Curl Curl Ltd and Bondi Ltd both use fair value accounting to recognise financial instruments.

Curl Curl Ltd authorises issue of its financial reports prior to the shareholders' meeting.

1. relevance, comparability, timeliness.
2. reliability, consistency, understandability.
3. reliability, comparability, timeliness.
4. relevance, understandability, comparability.
5. None of the given answers.

52. Identify the appropriate qualitative characteristic employed in the following information provided.  
Predictive value is a primary quality of this information.  
This information is free from material error and bias.  
Companies in the same industry employ the same accounting principles.

1. relevance, reliability, consistency.
2. reliability, relevance, comparability.
3. reliability, relevance, consistency.
4. relevance, reliability, comparability.
5. None of the given answers.

53. In accordance with AASB framework which of the following is consistent with the definition of income?

1. 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.
2. Increases in economic benefits during the accounting period in the form of inflows other than those relating to contributions from equity participants.
3. 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.
4. All of the given answers.
5. None of the given answers.

54. In accordance with AASB framework which of the following transaction(s) is/are consistent with a definition of income?

1. Collection of accounts receivable.
2. Debt forgiveness.
3. Issue of share capital.
4. All of the given answers.
5. Collection of accounts receivable and debt forgiveness.

55. In accordance with AASB framework which of the following is consistent with the definition of expenses?

1. Expenses are decreases in economic benefits during the accounting period in the form of outflows other than those relating to distributions to equity participants.
2. Expenses are 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.
3. Expenses are 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.
4. All of the given answers.
5. None of the given answers.

56. In accordance with AASB framework which of the following accounts are expenses?

1. Dividends paid.
2. Provision for warranties.
3. Entity dumps pollutants in a river adjacent to its factory.
4. All of the given answers.
5. None of the given answers.

57. Faithful presentation is one on the two primary fundamental qualitative characteristics for financial information to be useful as proposed in the Exposure Draft released as part of the joint initiative of the IASB and US FASB. A financial report is faithfully presented if it is:

1. consistent, free from bias and free of material error.
2. accurate, free from bias and free of material error.
3. complete, neutral and free of material error.
4. reliable, neutral and free of material error.
5. None of the given answers.

58. Which of the following statements most accurately reflects the qualitative characteristics of financial information in the Conceptual Framework?

1. These attributes or qualities determine whether an entity is considered to be a reporting entity.
2. These are attributes or qualities that financial information should possess if it is to be useful for such decision making.
3. These attributes or qualities satisfy the definition of elements in the financial reports.
4. All of the given answers.
5. None of the given answers.

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

1. the Australian Conceptual Framework and Statement of Accounting Concepts 1 to 4;
2. the Australian Conceptual Framework and Statement of Accounting Concepts 3 and 4;
3. the IASB Framework and the Statement of Accounting Concepts 3 and 4;
4. the IASB Framework and the Statement of Accounting Concepts 1 and 2;
5. None of the given answers

60. Which of the following Statement of Accounting Concepts are still operational in Australia?

1. Statement of Accounting Concepts 1 to 4
2. Statement of Accounting Concepts 1 to 3
3. Statement of Accounting Concepts 1 and 2
4. Statement of Accounting Concepts 3 and 4
5. Statement of Accounting Concepts 2 and 3

61. Which of the following accounting policies is an example of a trade-off between relevance and reliability?

1. Research outflows are expensed and development activities expenses are capitalized.
2. Biological assets are stated at fair value unless the fair value cannot be measured reliably.
3. Machinery and equipment are reviewed periodically to assess propriety of useful life estimations used in depreciation.
4. All of the given answers.
5. None of the given answers.

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

1. Inventory is valued at lower of cost or market.
2. Property, plant and equipment are appraised and revalued every three years.
3. Biological assets are stated at fair value unless the fair value cannot be measured reliably.
4. Research and development costs are expensed as incurred.
5. None of the given answers.

63. What qualities should financial information possess to be reliable?

64. The framework identified some constraints that preparers should consider in the preparation of financial reports. Identify and discuss these constraints.

65. "Liabilities that are legally enforceable and equitably or constructively unavoidable must be recognised if they can be measured reliably". Discuss.

66. Discuss the differences between IASB Framework and AASB framework.

67. Discuss some of the criticisms of the conceptual framework.

68. Identify and discuss the differences between the primary qualitative characteristics of financial information in the IASB Framework and that in the Exposure Draft jointly released IASB and FASB in 2008.

69. Identify at least three differences in the operative IASB Framework and the Exposure Draft jointly released by the IASB and US FASB in 2008.

70. Discuss issues covered by IASB and the US FASB with respect to measurement principles in the development of a common Conceptual Framework.

## 02 Key

1. The AASB Framework has the force of law:

Ans:F

**TRUE**

*Deegan - Chapter 02 #1*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:F

**TRUE**

*Deegan - Chapter 02 #2*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:T

**TRUE**

*Deegan - Chapter 02 #3*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:F

**TRUE**

*Deegan - Chapter 02 #4*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

5. One of the uses of the Conceptual Framework is that it provides parameters for the exercise of judgement in resolving accounting issues:

Ans:T

**TRUE**

*Deegan - Chapter 02 #5*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:T

**TRUE**

*Deegan - Chapter 02 #6*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:F

**TRUE**

*Deegan - Chapter 02 #7*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

8. The Framework suggests that the relevance characteristic outweighs the reliability characteristic if the financial statement is to be rendered useful:

Ans:F

**TRUE**

*Deegan - Chapter 02 #8*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:F

**TRUE**

*Deegan - Chapter 02 #9*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:T

**TRUE**

*Deegan - Chapter 02 #10*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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.

Ans:T

**TRUE**

*Deegan - Chapter 02 #11*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:F

**TRUE**

*Deegan - Chapter 02 #12*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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.

Ans:F

**TRUE**

*Deegan - Chapter 02 #13*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:F

**TRUE**

*Deegan - Chapter 02 #14*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:T

**TRUE**

*Deegan - Chapter 02 #15*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

16. Prudence is exercised in the preparation and presentation of financial statements when asset values are never shown in excess of their realisable values but could be understated, and liabilities are never to be understated.

Ans:F

**TRUE**

*Deegan - Chapter 02 #16*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

Ans:F

**TRUE**

*Deegan - Chapter 02 #17*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

18. The trade-off between relevance and reliability requires exercise of judgment constrained by timeliness and costs versus benefits.

Ans:T

**TRUE**

*Deegan - Chapter 02 #18*

*difficulty: EMPTY*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

1. the scope and objectives of financial reporting.
2. the qualitative characteristics that financial information should possess.
3. what the elements of financial reporting are, including agreement on the characteristics and recognition criteria for assets, liabilities, income, expenses and equity.
4. All of the given answers.
5. the scope and objectives of financial reporting and the qualitative characteristics that financial information should possess.

*Deegan - Chapter 02 #19*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

20. 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.

1. Separation of management from those with economic interest in the entity.
2. Economic or political importance/influence.
3. Financial characteristics.
4. All of the given answers.
5. Separation of management from those with economic interest in the entity and economic or political importance/influence.

*Deegan - Chapter 02 #20*

*Difficulty: Easy*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

21. 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. Blank Ltd is:

1. a reporting entity because there are at least two users of a financial report.
2. not likely to be a reporting entity because it is unlikely to have users dependent on its financial reports.
3. likely to be a reporting entity because there are two shareholders and it is an exempt proprietary entity.
4. not a reporting entity because small proprietary companies are frequently not considered reporting entities.
5. is a reporting entity because total assets of the entity is greater than \$5,000,000.

*Deegan - Chapter 02 #21*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

22. 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?

1. Yes, because dependent users of exist.
2. Yes, because there are trade creditors who are external users.
3. No, because it is a small proprietary firm.
4. No, because there are no obvious users who are unable to command the preparation of information from the entity.
5. None of the given answers.

*Deegan - Chapter 02 #22*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

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

1. General purpose financial reports should be prepared by all reporting entities.
2. General-purpose financial reports are reports that comply with statements of accounting concepts and accounting standards.
3. General-purpose financial reports are intended to meet the information needs common to users who are able to command the preparation of reports.
4. All of the given answers.
5. 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.

*Deegan - Chapter 02 #23*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

24. Which of the following are considered in the AASB Framework as primary qualitative characteristics?

1. relevance, reliability, materiality and comparability.
2. relevance, reliability, timeliness and understandability.
3. relevance, reliability, understandability and comparability.
4. materiality, reliability, understandability and comparability.
5. materiality, timeliness, understandability and comparability.

*Deegan - Chapter 02 #24*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

25. 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:

1. materiality.
2. reliability.
3. understandability.
4. comparability.
5. relevance.

*Deegan - Chapter 02 #25*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

26. James Cook Ltd bought a piece of land 10 years ago and the market value of this property is now worth 5 times its purchase cost. The accountant suggested that James Cook Ltd should revalue the asset. This notion is consistent with the qualitative characteristic of:

1. relevance.
2. reliability.
3. understandability.
4. comparability.
5. materiality.

*Deegan - Chapter 02 #26*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

27. 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 and 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?

1. Matilda Ltd should wait for the court decision to be completed before releasing the financial reports as the amount of the liability is material.
2. 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.
3. Matilda Ltd should release the financial report on or before the deadline but disclose the contingent liability in the notes to the accounts.
4. 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).
5. None of the given answers.

*Deegan - Chapter 02 #27*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

28. The Framework identifies two aspects to financial information that is "relevant". These are:

1. verifiability and understandability.
2. predictability and verifiability.
3. neutrality and verifiability.
4. prudence and neutrality.
5. comparability and verifiability.

*Deegan - Chapter 02 #28*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

29. SAC 2 (Objectives of General Purpose Financial Reporting) requires that general-purpose financial reports disclose information that is:

1. Relevant to the assessment of profit, funding and investing, and compliance.
2. Relevant to the assessment of financial and social performance, financial position and funding and investing and includes information about compliance.
3. Relevant to the assessment of performance, financial position and funding and investing, including information about compliance.
4. Relevant to the assessment of performance, financial position and cash flows.
5. None of the given answers.

*Deegan - Chapter 02 #29*  
*Difficulty: Easy*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

30. The Framework outlines two underlying assumptions of financial statements. These are.

1. fair value basis and insolvency assumption.
2. accrual basis of accounting and going concern assumption.
3. cash basis of accounting and insolvency assumption.
4. historical cost accounting and limited life concept.
5. fair value basis of measurement and perpetual life concept.

*Deegan - Chapter 02 #30*  
*Difficulty: Easy*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

31. Which of the following actions best describes the qualitative characteristic "relevance"?

1. The financial report of KMC Ltd was audited by one of the Big 4 four accounting firms.
2. DGC limited provides quarterly financial reports.
3. MCB Ltd and DGC Ltd both use accelerated depreciation method.
4. GEP Ltd did not revalue its intangible assets because it was difficult to obtain the fair value of the assets.
5. None of the given answers.

*Deegan - Chapter 02 #31*  
*Difficulty: Difficult*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

32. Which of the following statement(s) is/are true of the qualitative characteristic "reliability"?

1. Information that is free from material bias and error.
2. Information that faithfully represents what it purports to represent.
3. Information that should affect the decisions of financial statement users.
4. All of the given answers.
5. Information that is free from material bias and error, and that faithfully represents what it purports to represent.

*Deegan - Chapter 02 #32*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

33. Which of the following actions are consistent with the notion of "prudence"?

1. deliberate overstatement of expenses to reduce profits.
2. excessive provisions for warranty expenses.
3. careful assessment of doubtful debts.
4. adoption of accelerated depreciation method to reduce profits.
5. moving forward unrealised sales to increase profits.

*Deegan - Chapter 02 #33*  
*Difficulty: Easy*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

34. Which of the following is/are characteristics of "comparability"?

1. Users must be able to compare the financial reports of an entity with the financial reports of a shareholder.
2. Users must be able to compare the current financial reports with prior period financial reports of an entity.
3. Users must be able to compare the financial reports of an entity with the financial reports of another entity
4. All of the given answers.
5. 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.

*Deegan - Chapter 02 #34*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

1. A financial report must show corresponding results for the preceding period.
2. 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.
3. A financial report must contain all material and relevant items.
4. All of the given answers.
5. 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.

*Deegan - Chapter 02 #35*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

36. 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 \_\_\_\_\_?

1. Timeliness
2. Prudence
3. Understandability
4. Comparability
5. Relevance

*Deegan - Chapter 02 #36*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

37. 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 \_\_\_\_\_.

1. substance over form.
2. balancing of relevance and reliability.
3. accrual accounting.
4. cash accounting.
5. true and fair view.

*Deegan - Chapter 02 #37*  
*Difficulty: Easy*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

38. The Framework adopts which approach to determining profits.

1. Revenue/expense approach.
2. Matching principle approach.
3. Asset/liability approach.
4. Cash basis approach.
5. None of the given answers

*Deegan - Chapter 02 #38*  
*Difficulty: Easy*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

39. The key characteristics of an asset as defined in the Framework includeE.

1. There must be future economic benefits.
2. The reporting entity must control the future economic benefits.
3. The asset results from past transactions.
4. All of the given answers.
5. There must be future economic benefits and the reporting entity must control the future economic benefit.

*Deegan - Chapter 02 #39*  
*Difficulty: Easy*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

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

1. Patents.
2. Research expenses of an R&D project.
3. Equipment under lease where the risks and rewards flows into the entity.
4. All of the given answers.
5. Research expenses of an R&D project and equipment under lease where the risks and rewards flows into the entity.

*Deegan - Chapter 02 #40*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

41. 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 package could be used by the entity for another ten years. Which accounting treatment would be consistent with the Framework?

1. Recognise an asset of \$150,000.
2. Recognise an expense of \$150,000.
3. Recognise an asset of \$100,000 and expense of \$50,000.
4. Recognise an asset of \$50,000 and expense of \$100,000.
5. None of the given answers.

*Deegan - Chapter 02 #41*

*Difficulty: Easy*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

1. Deposit for purchase of equipment.
2. Commitment to purchase equipment.
3. Finance leased equipment.
4. Purchase of equipment on credit.
5. None of the given answers.

*Deegan - Chapter 02 #42*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

43. Ms Marple is an accounting cadet for one of the big accounting firms. She is a bit confused as to which of the following Anss should be applied first in dealing with an accounting issue.

- I. Industry Practice
- II. Accounting Standards
- III. Conceptual Framework
- IV. International Financial Reporting Interpretations Committee (IFRIC)

Which ordering would you recommend?

1. I, II, III, IV.
2. II, IV, III, I.
3. II, I, IV, III.
4. III, II, I, IV.
5. IV, III, II, I.

*Deegan - Chapter 02 #43*  
*Difficulty: Fairly difficult*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

44. 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?

1. 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.
2. The company uses an inventory valuation method that is different from the method used by other companies in the industry.
3. The estimated remaining useful life of an asset was reduced due to the increase in volume of use of the asset.
4. The company disposed of a subsidiary that had been included in the financial reports in prior years.
5. The company wrote off equipment due to obsolescence.

*Deegan - Chapter 02 #44*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

45. The Framework's recognition criteria provides 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 \_\_\_\_\_.

1. possible; reliably.
2. probable; accurately.
3. probable; reliably.
4. certain; accurately.
5. None of the given answers.

*Deegan - Chapter 02 #45*  
*Difficulty: Easy*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

46. 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?

1. Blaxland Ltd. should recognise a receivable of \$75,000, the expected value of the gain.
2. Blaxland Ltd. should recognise a receivable of \$50,000, a conservative estimate of the gain.
3. Blaxland Ltd. should not recognise the receivable until it is probable that they have won the case.
4. Blaxland Ltd. should not recognise the receivable because while the solicitor is expecting to win the case, the receivable cannot be estimated reliably.
5. None of the given answers.

*Deegan - Chapter 02 #46*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

47. 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 future. You are sceptical of the business venture and said you would have to look up the financial statements of the company before investing your own money. He sends you the financial report and noticed that the report is unaudited and does not provide prior year's 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-tech's financial reports?

1. relevance and reliability.
2. relevance and timeliness.
3. comparability and consistency.
4. reliability and consistency.
5. reliability and comparability.

*Deegan - Chapter 02 #47*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

1. It refers to the notion that an item need not be recognised in the financial reports.
2. It is a primary qualitative characteristic.
3. It relates to financial information where its omission or misstatement could influence the economic decisions of users.
4. All of the given answers.
5. Equipment under lease where the risks and rewards flows into the entity and it relates to financial information where its omission or misstatement could influence the economic decisions of users.

*Deegan - Chapter 02 #48*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

49. 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 | 5,000 |
|-----------------|--------|-------|

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?

1. The impairment loss for both firms is material.
2. The impairment loss for Manly Ltd is material.
3. The impairment loss for Mosman Ltd is material.
4. The impairment loss for both firms is immaterial.
5. None of the given answers.

*Deegan - Chapter 02 #49*

*Difficulty: Easy*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

1. If the amount is equal or greater than 10% of the appropriate base amount, the item is material.
2. If the amount is equal or greater than 10% of the appropriate base amount, the item is immaterial.
3. If the amount is equal or less than 5% of the appropriate base amount, the item is material
4. If the amount is equal or less than 5% of the appropriate base amount, the item is immaterial.
5. 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.

*Deegan - Chapter 02 #50*

*Difficulty: Easy*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

The financial reports of Curl Curl Ltd are audited by a chartered accountant.

Curl Curl Ltd and Bondi Ltd both use fair value accounting to recognise financial instruments.

Curl Curl Ltd authorises issue of its financial reports prior to the shareholders' meeting.

1. relevance, comparability, timeliness.
2. reliability, consistency, understandability.
3. reliability, comparability, timeliness.
4. relevance, understandability, comparability.
5. None of the given answers.

*Deegan - Chapter 02 #51*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

52. Identify the appropriate qualitative characteristic employed in the following information provided.  
Predictive value is a primary quality of this information.  
This information is free from material error and bias.  
Companies in the same industry employ the same accounting principles.

1. relevance, reliability, consistency.
2. reliability, relevance, comparability.
3. reliability, relevance, consistency.
4. relevance, reliability, comparability.
5. None of the given answers.

*Deegan - Chapter 02 #52*  
*Difficulty: Difficult*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

53. In accordance with AASB framework which of the following is consistent with the definition of income?

1. 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.
2. Increases in economic benefits during the accounting period in the form of inflows other than those relating to contributions from equity participants.
3. 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.
4. All of the given answers.
5. None of the given answers.

*Deegan - Chapter 02 #53*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

54. In accordance with AASB framework which of the following transaction(s) is/are consistent with a definition of income?

1. Collection of accounts receivable.
2. Debt forgiveness.
3. Issue of share capital.
4. All of the given answers.
5. Collection of accounts receivable and debt forgiveness.

*Deegan - Chapter 02 #54*

*Difficulty: Easy*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

55. In accordance with AASB framework which of the following is consistent with the definition of expenses?

1. Expenses are decreases in economic benefits during the accounting period in the form of outflows other than those relating to distributions to equity participants.
2. Expenses are 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.
3. Expenses are 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.
4. All of the given answers.
5. None of the given answers.

*Deegan - Chapter 02 #55*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

56. In accordance with AASB framework which of the following accounts are expenses?

1. Dividends paid.
2. Provision for warranties.
3. Entity dumps pollutants in a river adjacent to its factory.
4. All of the given answers.
5. None of the given answers.

*Deegan - Chapter 02 #56*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

57. Faithful presentation is one on the two primary fundamental qualitative characteristics for financial information to be useful as proposed in the Exposure Draft released as part of the joint initiative of the IASB and US FASB. A financial report is faithfully presented if it is:

1. consistent, free from bias and free of material error.
2. accurate, free from bias and free of material error.
3. complete, neutral and free of material error.
4. reliable, neutral and free of material error.
5. None of the given answers.

*Deegan - Chapter 02 #57*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

58. Which of the following statements most accurately reflects the qualitative characteristics of financial information in the Conceptual Framework?

1. These attributes or qualities determine whether an entity is considered to be a reporting entity.
2. These are attributes or qualities that financial information should possess if it is to be useful for such decision making.
3. These attributes or qualities satisfy the definition of elements in the financial reports.
4. All of the given answers.
5. None of the given answers.

*Deegan - Chapter 02 #58*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

1. the Australian Conceptual Framework and Statement of Accounting Concepts 1 to 4;
2. the Australian Conceptual Framework and Statement of Accounting Concepts 3 and 4;
3. the IASB Framework and the Statement of Accounting Concepts 3 and 4;
4. the IASB Framework and the Statement of Accounting Concepts 1 and 2;
5. None of the given answers

*Deegan - Chapter 02 #59*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

60. Which of the following Statement of Accounting Concepts are still operational in Australia?

1. Statement of Accounting Concepts 1 to 4
2. Statement of Accounting Concepts 1 to 3
3. Statement of Accounting Concepts 1 and 2
4. Statement of Accounting Concepts 3 and 4
5. Statement of Accounting Concepts 2 and 3

*Deegan - Chapter 02 #60*

*Difficulty: Easy*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

61. Which of the following accounting policies is an example of a trade-off between relevance and reliability?

1. Research outflows are expensed and development activities expenses are capitalized.
2. Biological assets are stated at fair value unless the fair value cannot be measured reliably.
3. Machinery and equipment are reviewed periodically to assess propriety of useful life estimations used in depreciation.
4. All of the given answers.
5. None of the given answers.

*Deegan - Chapter 02 #61*

*Difficulty: Moderate*

*learning goal: EMPTY*

*learning objective: EMPTY*

*level: EMPTY*

*lo: EMPTY*

*question type: EMPTY*

*source: EMPTY*

*type: EMPTY*

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

1. Inventory is valued at lower of cost or market.
2. Property, plant and equipment are appraised and revalued every three years.
3. Biological assets are stated at fair value unless the fair value cannot be measured reliably.
4. Research and development costs are expensed as incurred.
5. None of the given answers.

*Deegan - Chapter 02 #62*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

63. What qualities should financial information possess to be reliable?

Refer to subsection headed "Reliability" on page 66

*Deegan - Chapter 02 #63*  
*Difficulty: Easy*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
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*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

64. The framework identified some constraints that preparers should consider in the preparation of financial reports. Identify and discuss these constraints.

Refer to subsection headed "Balancing relevance and reliability" on page 68.

*Deegan - Chapter 02 #64*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
*lo: EMPTY*  
*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

65. "Liabilities that are legally enforceable and equitably or constructively unavoidable must be recognised if they can be measured reliably". Discuss.

Refer to subsection headed "Definition and recognition of liabilities" on page 71,

*Deegan - Chapter 02 #65*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
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*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

66. Discuss the differences between IASB Framework and AASB framework.

Refer Section 2.7 headed "Implications of convergence with IASB standards for our conceptual framework" on page 76.

*Deegan - Chapter 02 #66*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
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*type: EMPTY*

67. Discuss some of the criticisms of the conceptual framework.

Refer to Section 2.8 headed "Critical review of conceptual frameworks" on page 78.

*Deegan - Chapter 02 #67*  
*Difficulty: Easy*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
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*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

68. Identify and discuss the differences between the primary qualitative characteristics of financial information in the IASB Framework and that in the Exposure Draft jointly released IASB and FASB in 2008.

Refer to section on "Qualitative characteristics of financial information".

*Deegan - Chapter 02 #68*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
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*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

69. Identify at least three differences in the operative IASB Framework and the Exposure Draft jointly released by the IASB and US FASB in 2008.

Refer to section on Chapter 2 related to the Convergence Project between IASB and US FASB.

*Deegan - Chapter 02 #69*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
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*question type: EMPTY*  
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*type: EMPTY*

70. Discuss issues covered by IASB and the US FASB with respect to measurement principles in the development of a common Conceptual Framework.

Refer to section under "Measurement Principles".

*Deegan - Chapter 02 #70*  
*Difficulty: Moderate*  
*learning goal: EMPTY*  
*learning objective: EMPTY*  
*level: EMPTY*  
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*question type: EMPTY*  
*source: EMPTY*  
*type: EMPTY*

## 02 Summary

| <u>Category</u>              | <u># of Questions</u> |
|------------------------------|-----------------------|
| Deegan - Chapter 02          | 70                    |
| Difficulty: Difficult        | 2                     |
| Difficulty: Easy             | 15                    |
| Difficulty: Fairly difficult | 1                     |
| Difficulty: Moderate         | 34                    |