

Testbank

to accompany

Company accounting

12th edition

By
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Chapter 2: Disclosure: legal requirements and accounting policies

Multiple-choice questions

1. According to the *Conceptual Framework*, the objective of general purpose financial reporting is to:

- *a. provide financial information about the reporting entity that is useful to existing and potential investors, lenders and creditors in making decisions relating to providing resources to the entity.
- b. provide financial information about the reporting entity to users for making economic decisions in relation to the entity.
- c. enable directors to discharge their accountability for the management of economic resources entrusted to them.
- d. provide information to management for internal decision making for operating and investing activities.

General Feedback:

Correct answer: a

Learning objective 2.1

2. According to the *Conceptual Framework*, the role of general purpose financial reports is to be useful for decisions that involve:

- a. buying, selling or holding equity and debt instruments.
- b. providing or settling loans and other forms of credit.
- c. exercising rights to vote on, or influence, management's actions that affect the use of an entity's economic resources.
- *d. all of the above.

General Feedback:

Correct answer: d

Learning objective 2.1

3. According to the *Conceptual Framework*, existing and potential investors, lenders and other creditors of a reporting entity need information in general purpose financial reports to make assessments about:

- I. expected returns from the entity in the form of dividends, principal and interest payments or market price increases.
- II. the amount, timing and uncertainty of future net cash inflows of the entity.
- III. management's stewardship of the entity's economic resources.
- IV. the corporate social responsibility performance of the entity.

a. I. only

- b. I. and II. only.
- *c. I., II. and III. only.
- d. I., II., III. and IV.

General Feedback:

Correct answer: c

Learning objective 2.1

4. General purpose financial reports:

- I. may be useful to other parties such as regulators and members of the public.
- II. do not provide all the information that existing and potential investors, lenders and other creditors need.
- III. are not designed to show the value of a reporting entity but provide information to help estimate the value of the reporting entity.
- IV. are relied on by management because they are unable to satisfy their financial information needs internally.

- a. I. only
- b. I. and II. only.
- *c. I., II. and III. only.
- d. I., II., III. and IV.

General Feedback:

Correct answer: c

Learning objective 2.1

5. According to the *Conceptual Framework*, information about the financial position of a reporting entity relates to:

- a. the entity's income and expenses for the period.
- *b. the entity's economic resources and claims against the entity.
- c. the financial effects of cash transactions on the entity for the period.
- d. the capacity of the entity to adapt to changes in its economic environment.

General Feedback:

Correct answer: b

Learning objective 2.1

6. According to the *Conceptual Framework*, the information about the financial position of a reporting entity helps users to:

- I. identify the entity's financial strengths and weaknesses.

- II. assess the entity's liquidity and solvency.
- III. assess the entity's needs for additional financing.
- IV. assess management's stewardship of the entity's economic resources.

- a. I. only
- b. I. and II. only.
- c. I., II. and III. only.
- *d. I., II., III. and IV.

General Feedback:

Correct answer: d

Learning objective 2.1

7. According to the *Conceptual Framework*, the financial performance of an entity relates to:

- a. changes in the entity's cash and cash equivalents.
- b. the entity's assets and liabilities at the end of the period.
- c. changes in the entity's economic resources and claims resulting from issuing debt or equity instruments.
- *d. changes in the entity's economic resources and claims other than by obtaining additional resources directly from investors and creditors.

General Feedback:

Correct answer: d

Learning objective 2.1

8. According to the *Conceptual Framework*, information about the financial performance of a reporting entity helps users to:

- I. understand the return that the entity has produced on its economic resources.
- II. assess management's stewardship of the entity's economic resources.
- III. assess the uncertainty of the entity's future cash flows.
- IV. predict the entity's future returns on its economic resources.

- a. I. only
- b. I. and II. only.
- c. I., II. and III. only.
- *d. I., II., III. and IV.

General Feedback:

Correct answer: d

Learning objective 2.1

9. According to the *Conceptual Framework*, accrual accounting reflects financial performance because accrual accounting:

- *a. depicts the effects of transactions and other events on a reporting entity 's economic resources and claims in the periods in which those effects occur.
- b. depicts the effects of transactions and other events on a reporting entity 's economic resources and claims in the periods when the cash receipts and cash payments occur.
- c. depicts and entity's past and future ability to generate net cash inflows.
- d. depicts an entity's past and future performance.

General Feedback:

Correct answer: a

Learning objective 2.1

10. According to the *Conceptual Framework*, information about a reporting entity's cash flows explains:

- *a. how the entity obtains and spends cash including information about its borrowing and repayment of debt, cash dividends and other cash distributions to investors.
- b. how the entity's economic resources and claims have changed including from obtaining additional resources directly from investors and creditors.
- c. the entity's economic resources and claims against the entity.
- d. all the detail in the entity's bank statements.

General Feedback:

Correct answer: a

Learning objective 2.1

11. According to the *Conceptual Framework*, information about a reporting entity's cash flows helps users to:

- I. understand a reporting entity's operations.
 - II. evaluate the entity's financing and investing activities.
 - III. assess the entity's liquidity or solvency.
 - IV. interpret other information about financial performance.
-
- a. I. only
 - b. I. and II. only.
 - c. I., II. and III. only.
 - *d. I., II., III. and IV.

General Feedback:

Correct answer: d

Learning objective 2.1

12. In Australia, the *Corporations Act 2001* requires that the following entities must prepare a financial report and directors report for each financial year.

- I. Disclosing entities.
- II. Public companies.
- III. Large proprietary companies.
- IV. Registered schemes.
- V. Small proprietary companies.

- a. I. and II. only.
- b. I., II. and III. only.
- *c. I., II., III. and IV. only.
- d. I., II., III., IV and V.

General Feedback:

Correct answer: c

Learning objective 2.1

13. A small proprietary company must prepare a financial report for a financial year if directed to do so by shareholders with at least:

- a. 2% of the company's votes.
- *b. 5% of the company's votes.
- c. 10% of the company's votes.
- d. 15% of the company's votes.

General Feedback:

Correct answer: b

Learning objective 2.2

14. In accordance with the *Corporations Act 2001*, an annual financial report is comprised of the following:

- I. the financial statements for the year
- II. the notes to the financial statements
- III. the directors' declaration about the statements and notes
- IV. the auditor's report

- a. I. and II. only.
- *b. I., II. and III. only.

- c. I., II. and IV. only.
- d. I., II., III. and IV.

General Feedback:

Correct answer: b

Learning objective 2.2

15. The Corporations Act 2001 requires that a company, registered scheme or disclosing entity keep written financial records that:

- I. correctly record and explain its transactions and financial position and performance.
- II. would enable true and fair financial statements to be prepared and audited.
- III. cover a period of 7 years after the transactions are completed.
- IV. can be electronic provided they are convertible into hard copy.

- a. I. only
- b. I. and II. only.
- c. I., II. and III. only.
- *d. I., II., III. and IV.

General Feedback:

Correct answer: d

Learning objective 2.2

16. In accordance with the *Corporations Act 2001*, the financial report of an entity for a financial year must comply with

- a. all the accounting standards.
- b. the accounting standards chosen by management.
- *c. the accounting standards that are applicable to the entity.
- d. the accounting standards that give a true and fair view.

General Feedback:

Correct answer: c

Learning objective 2.2

17. The following financial statements are included in an annual financial report as required by the accounting standards.

- I. Statement of financial position.
- II. Statement of profit and loss and other comprehensive income.
- III. Statement of changes in equity.
- IV. Statement of cash flows.

- a. I. and II. only.
- b. I., II. and III. only.
- c. I., II. and IV. only.
- *d. I., II., III. and IV.

General Feedback:

Correct answer: d

Learning objective 2.2

18. The Corporations Act 2001 requires that the financial statements (or consolidated financial statements) and notes of a company, registered scheme or disclosing entity for a financial year:

- a. are true and correct in every material aspect.
- *b. give a true and fair view of the financial position and performance of the entity (or consolidated entity).
- c. give an accurate view of the financial position and performance of the entity (or consolidated entity).
- d. give a fair presentation of the financial position and performance of the entity (or consolidated entity).

General Feedback:

Correct answer: b

Learning objective 2.2

19. When compliance with the accounting standards does not result in the financial statements providing a true and fair view, then an entity must provide:

- *a. additional information in the notes that is necessary to give a true and fair view.
- b. an alternative set of financial statements that gives a true and fair view.
- c. a single set of financial statements that gives a true and fair view.
- d. a letter of explanation from the auditor.

General Feedback:

Correct answer: a

Learning objective 2.2

20. A directors' report for the financial year must contain the following general information in respect of the company, registered scheme or disclosing entity.

- I. Review of operations and the results of those operations.
- II. Details of any significant changes in the state of affairs during the year.

- III. Principal activities and any significant changes in those activities.
- IV. Details of any matter or circumstance that has arisen after year end which has significantly affected, or may significantly affect, the operations or state of affairs.
- V.. Likely developments in operations in future financial years and the expected results of those operations.
- IV. Details of performance against any applicable environmental regulations.

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

General Feedback:

Correct answer: a

Learning objective 2.2

21. A directors' report for the financial year must contain the following specific information in respect of the company, registered scheme or disclosing entity.

- I. Dividends or distributions paid to members during year.
- II. Dividends or distributions recommended or declared but not paid during the year.
- III. The name of each person who has been a director at any time during or since the end of the year and the period for which they were a director.
- IV. Details of options that have been granted over unissued shares or unissued interests during or since the end of the year to any directors or any of the five most highly remunerated officers other than directors as part of their remuneration.
- V. Unissued shares or interests under options as at the day the report is made.
- IV. Details of indemnities given and insurance premiums paid during or since the end of the year for a person who has been an officer or auditor.

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

General Feedback:

Correct answer: a

Learning objective 2.2

22. An auditor who audits the financial report of a company, registered scheme or disclosing entity must report to members:

- a. a confirmation that the financial report complies with accounting standards and gives a true and fair view.
- *b. an opinion of whether the financial report complies with accounting standards and gives a true and fair view.
- c. an opinion of whether the directors and other key management personal have properly managed the entity during the period.
- d. a statement of whether anything has come their attention that could make the financial report false and misleading.

General Feedback:

Correct answer: b

Learning objective 2.2

23.

Which of the following matters does an auditor of the financial report not have to form an opinion about?

- a. Whether the financial report gives a true and fair view.
- *b. Whether any financial statement fraud has occurred.
- c. Whether the auditor has been given all information, explanation and assistance necessary for the conduct of the audit.
- d. Whether the company has kept financial records sufficient to enable the financial report to be prepared and audited.

General Feedback:

Correct answer: b

Learning objective 2.2

24. The *Corporations Act* allows a company, registered scheme or disclosing entity the right to prepare and send a concise report to members which consists of which of the following?

- I. A concise financial report drawn up in accordance with accounting standards.
- II. A directors' report for the year.
- III. An auditor's statement.
- IV. A statement that the report is a concise report and that the full financial report and auditor's report is available if requested.

- a. I., II. and III. only
- b. II., III. and IV. only
- c. III. and IV. only
- *d. I., II., III. and IV.

General Feedback:

Correct answer: d

Learning objective 2.2

25. The Corporations Act requires the following to prepare half yearly financial reports.

- a. public companies.
- *b. disclosing entities.
- c. large proprietary companies
- d. all of the above.

General Feedback:

Correct answer: b

Learning objective 2.3

26. The requirements for half yearly financial reports are set out in the following accounting standard.

- a. AASB 10/IFRS 10 *Consolidated Financial Statements*
- b. AASB 101/IAS 1 *Presentation of Financial Statements*
- *c. AASB 134/IAS 34 *Interim Financial Reporting*.
- d. AASB 1048 *Interpretation of Standards*

General Feedback:

Correct answer: c

Learning objective 2.3

27. AASB 108/IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* defines accounting policies as:

- *a. the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting its financial statements.
- b. the accounting standards, accounting interpretations, the conceptual framework, accounting literature and industry practice.
- c. accounting rules applied by an entity to prepare its financial statements.
- d. all of the above.

General Feedback:

Correct answer: a

Learning objective 2.4

28. In accordance with AASB 101/IAS 1 *Presentation of Financial Statements*, an entity must disclose its significant accounting policies comprising:

- a. the measurement basis (or bases) used in preparing the financial statements.
- b. other accounting policies used that relevant to an understanding of the financial statements..
- c. the recognition criteria and accrual adjustments used in preparing the financial statements..
- *d. both a. and b.

General Feedback:

Correct answer: d

Learning objective 2.4

29. Which of the following is not required to be disclosed in an entity's accounting policy note?

- a. That the financial statements are general purpose financial statements.
- b. The measurement bases used in the preparation of the financial statements.
- *c. That the financial statements have been prepared on the going concern basis.
- d. A description of the entity's key accounting policies.

General Feedback:

Correct answer: c

Learning objective 2.4

30. In accordance with AASB 108/IAS 8 *Accounting Policies Changes in Accounting Estimates and Errors*, the order of authority for the selection and application of accounting policies to a transaction, other event, or condition is:

- I. Requirements in an Accounting Standard that specifically applies to the item.
- II. Requirements in Accounting Standards dealing with similar and related issues.
- III. Definitions, recognition criteria and measurement concepts in the *Conceptual Framework*.
- IV. Other accounting literature and accepted industry practice.

- *a. I., II., III. and IV.
- b. I., III., II. and IV.
- c. III., I., II. and IV.
- d. IV., III., II. and I.

General Feedback:

Correct answer: a

Learning objective 2.4

31. In accordance with AASB 108/IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity is only permitted to change an accounting policy if the change:

- a. is required by an Accounting Standard.
- b. results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions.
- c. is not a reversal of a previous change in accounting policy.
- *d. both a. and b. are correct.

General Feedback:

Correct answer: d

Learning objective 2.4

32. In accordance with AASB 108/IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, a voluntary change in accounting policy other than a change to revalue property, plant and equipment or intangibles is recognised:

- a. retrospectively.
- b. prospectively.
- c. retroactively.
- *d. retrospectively unless such application is impracticable.

General Feedback:

Correct answer: d

Learning objective 2.4

33. A gold exploration company voluntarily changes its accounting policy regarding exploration costs on active sites. Previously, the exploration costs were recognised as an exploration asset. The new accounting policy is to recognise the costs incurred as an expense as incurred. Costs incurred were \$80 000 in the current period and \$50 000 in the prior period. The financial statements of the current period will show the following.

- a. Current Period: Exploration asset \$80,000. Comparative: Exploration asset: \$50,000
- b. Current Period: Exploration expenses \$80,000. Comparative: Exploration expenses: \$0
- *c. Current Period: Exploration expenses \$80,000. Comparative: Exploration expenses: \$50,000
- d. Current Period: Exploration expenses \$130,000. Comparative: Exploration asset: \$0

General Feedback:

Correct answer: c

Learning objective 2.4

34. If an accounting policy change is voluntary, which of the following disclosures is required by AASB 108/IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*?

- a. The nature of the change.
- b. The reasons that applying the new accounting policy provides reliable and more relevant information.

c. The amount of the adjustment relating to periods prior to those presented to the extent practicable.

*d. All of the above.

General Feedback:

Correct answer: d

Learning objective 2.4

35. Many items in the financial statements cannot be measured with precision but can only be estimated. Example of estimates include:

- I. Bad debts.
- II. Inventory obsolescence.
- III. Fair values of financial assets and financial liabilities.
- IV. Useful lives of, or expected pattern of consumption of the future economic benefits embodied in depreciable assets
- V. Warranty obligations.
- VI. Historic costs of items of property, plant and equipment.

a. I., II., III., IV., V. and VI.

*b. I., II., III., IV. and V. only.

c. I., II., III. and IV. only.

d. I., II. and III. only.

General Feedback:

Correct answer: b

Learning objective 2.5

36. In accordance with AASB 108/IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, changes in accounting estimates are required to be applied:

a. retrospectively.

*b. prospectively.

c. retroactively.

d. prospectively unless such application is impracticable.

General Feedback:

Correct answer: b

Learning objective 2.5

37. CT Ltd has discovered that the estimated useful life of a depreciable asset is 6 years instead of 4 years due to a change in the way the asset was being used. The correct accounting treatment of this event is to:

- a. reissue the financial statements of the prior period using lower depreciation.
- b. restate the comparatives in the financial statements of the current period using lower depreciation.
- *c. adjust depreciation expense in the current period and future periods based using the new estimate of the useful life.
- d. adjust depreciation expense in the current period to catch up for the understatement of depreciation in prior periods.

General Feedback:

Correct answer: c

Learning objective 2.5

38. On 1 July 2021, an entity acquired an item of plant that cost \$100 000. The plant was estimated to have a useful life of 4 years when acquired. At the end of 30 June 2024, the estimated useful life of the asset was changed 10 years. What is the amount of depreciation expense recognised for the year to 30 June 2024?

- a. \$12 500 [= (\$100 000 ÷ 8 years)]
- b. \$10 000 [= \$100 000 ÷ 10 years]
- *c. \$6250 [= \$50 000 ÷ 8 years]
- d. \$5000 [= \$50 000 ÷ 10 years]

General Feedback:

Correct answer: c

Learning objective 2.5

39. Errors in the recognition, measurement, presentation or disclosure of elements of financial statements can arise from the following,

- a. Mistakes in applying accounting policies
- b. Misinterpretation of facts
- c. Fraud
- *d. All of the above

General Feedback:

Correct answer: d

Learning objective 2.6

40. In accordance with AASB 108/IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the correction of a material error that occurred in a previous period must be accounted for by:

- a. disclosure in the notes to the financial statements.

- b. an adjustment in future accounting periods.
- c. a prospective adjustment to the financial statements.
- *d. a retrospective restatement in the first financial statements issued after the discovery of the error.

General Feedback:

Correct answer: d

Learning objective 2.6

41. When preparing its financial statements for 30 June 2023, the chief financial officer of BCD Ltd discovered that bank loans of \$1.5 million at 30 June 2022 had been netting off against loans to directors of \$2.0 million so that only \$0.5 million was disclosed. What is the correct treatment on discovering this material error in the current period?

- a. ignore the error if it has no effect on the asset and liability balances at the end of the current period.
- *b. restate the comparatives: loans receivable \$2 million; loans payable \$1.5 million.
- c. disclose the error made in the notes without restating the comparatives.
- d. keep it hidden from the auditors.

General Feedback:

Correct answer: b

Learning objective 2.6

42. When preparing the ABC Ltd financial statements for 30 June 2023, it was discovered that a material item of plant had not been depreciated since its acquisition on 1 July 2020. The asset cost \$400 000 and was assessed to have a 5-year useful life. What is the correct accounting treatment on discovering this prior period error? Ignore income tax.

- I. Recognise depreciation expense of \$80 000.
 - III. Reduce retained profits (1/7/22) by \$160 000.
 - II. Increase accumulated depreciation by \$240 000.
 - IV. Make no changes to the comparative financial information.
-
- a. I. only
 - b. I. and II. only
 - *c. I., II. and III. only
 - d. I., II., III. and IV.

General Feedback:

Correct answer: c

Learning objective 2.6

43. Which of the following statements is correct?

- I. If the retrospective application of a voluntary change in accounting policy is impracticable, then the change is applied prospectively.
- II. If the retrospective restatement of the amounts for the elements of the financial statements is impracticable, then the restatement is made prospectively.
- III. If the prospective application of a change to an accounting estimate is impracticable, then the change is applied retrospectively.
- IV. Managers can simply claim impracticability to avoid the cost and effort of making retrospective adjustments.

a. I. only

*b. I. and II. only

c. I., II. and III. only

d. I., II., III. and IV.

General Feedback:

Correct answer: b

Learning objective 2.7

44. AASB 101/IAS 1 *Presentation of Financial Statements*

defines 'materiality' for the financial statements of a specific reporting entity in the following terms.

- *a. information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users make on the basis of those financial statements.
- b. information is material if omitting, misstating or not disclosing it has the potential to adversely affect the economic decisions made by users of the financial statements.
- c. information is material if it is important to the users of the financial statements when making economic decisions.
- d. information is material if it is reasonably capable of making a difference to the proper evaluation of the issue at hand.

General Feedback:

Correct answer: a

Learning objective 2.8

45. According to the *Conceptual Framework*, materiality is a key aspect of which qualitative characteristic of useful financial information?

a. reliability.

b. prudence.

*c. relevance.

d. conservatism.

General Feedback:

Correct answer: c

Learning objective 2.8

46. According to AASB 101/IAS 1 *Presentation of Financial Statements*, whether information is material depends on:

- a. where the information is disclosed in the financial report.
- b. the magnitude of the information.
- c. the nature of the information.
- *d. either, or both of, b. and c.

General Feedback:

Correct answer: d

Learning objective 2.8

47. Historically, information was considered material if omissions or misstatements represented a certain percentage of a relevant base amount from the financial statements or notes to the financial statements as follows.

- a. 20% or more
- *b. 10% or more
- c. 5% or more
- d. 1% or more

General Feedback:

Correct answer: b

Learning objective 2.8

48. Which of the following statements is correct?

- a. Materiality applies to information disclosed in the financial statements but not to information disclosed in the notes to the financial statements.
- b. The disclosure provisions of accounting standards must always be applied even if the resulting information is immaterial.
- c. Extensive guidance on how to calculate materiality using quantitative thresholds is provided in AASB 101/IAS 1 *Presentation of Financial Statements*.
- *d. None of the above.

General Feedback:

Correct answer: d

Learning objective 2.8

49. In accordance with AASB 110/IAS 10 *Events after the Reporting Period*, events after the reporting period are those events, favourable and unfavourable, that occur between:

- *a. the end of the reporting period and the date when the financial statements are authorised for issue.
- b. the end of the reporting period and the date when the annual financial report is made available to members.
- c. the end of the reporting period and the lodgement deadline for the annual financial report with the Australian Securities and Investments Commission
- d. the end of the reporting period and the end of the next reporting period.

General Feedback:

Correct answer: a

Learning objective 2.9

50. The financial statements of a company are authorised for issue on:

- *a. the day the directors' declaration is signed.
- b. 30 June each year.
- c. the last day of the financial year.
- d. the day the auditor's report is signed.

General Feedback:

Correct answer: a

Learning objective 2.9

51. AASB 110/IAS 10 *Events after the Reporting Period* identifies two types of events after the reporting period as follows.

- a. reporting events and non-reporting events.
- *b. adjusting events and non-adjusting events.
- c. important events and non-important events.
- d. disclosing events and non-disclosing events.

General Feedback:

Correct answer: b

Learning objective 2.9

52. AASB 110/IAS 10 *Events after the Reporting Period* defines 'adjusting events after the reporting period' as those events that:

- a. provide evidence of conditions that the entity is adjusting to..
- b. provide evidence of conditions that arose after the reporting period.

- *c. provide evidence of conditions that existed at the end of the reporting period.
- d. provides evidence of conditions that will affect future reporting periods.

General Feedback:

Correct answer: c

Learning objective 2.9

53. In accordance with AASB 110/IAS 10 *Events after the Reporting Period*, an entity must account for adjusting events after the reporting period by:

- a. including disclosure in the notes to the financial statements for the reporting period.
- *b. adjusting the amounts recognised in the financial statements for the reporting period.
- c. recognising the events in the financial statements of the next reporting period.
- d. either a., b., or c. is allowed.

General Feedback:

Correct answer: b

Learning objective 2.9

54. Which of the following is an example of an adjusting event after the end of the reporting period?

- a. Changes in exchange rates after period end.
- b. A flood that destroys the company's buildings after period end.
- c. A transaction to acquire a major new business after period end.
- *d. A customer with a significant outstanding debt enters bankruptcy after period end.

General Feedback:

Correct answer: d

Learning objective 2.9

55. Which of the following is an example of an adjusting event after the end of the reporting period?

- I. The entity is a company and enters liquidation.
 - II. A legal judgement awarding damages to the entity.
 - III. The discovery of a product defect requiring the entity to offer free repairs.
 - IV. A significant change in interest rates after period end.
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- a. I. only
 - b. I. and II. only
 - *c. I., II. and III. only
 - d. I., II., III. and IV.

General Feedback:

Correct answer: c

Learning objective 2.9

56.

A company's workforce went on strike for an indefinite period commencing on 5 August 2023. The strike was expected to cause severe financial conditions for the company. The financial statements for the year ended 30 June 2023 were expected to be finalised by 31 August 2023. In accordance with AASB 110/IAS 10 *Events after the Reporting Period*, the appropriate treatment regarding this event is:

- *a. disclosure as a note to the financial statements, as it is a non-adjusting event.
- b. disclosure as a note to the financial statements, as it is an adjusting event.
- c. to adjust the financial statements, as it is a non-adjusting event.
- d. to adjust the financial statements, as it is an adjusting event.

General Feedback:

Correct answer: a

Learning objective 2.9

57. The events after the reporting period of 30 June 2023 are shown below. Will it be necessary to adjust the financial statements, by way of general journal entry, for any of these events?

- I. On 15 July 2023, the directors declared a dividend of \$500 000.
- II. On 20 July 2023, the directors announced the closure of division of the company at an estimated cost of \$1 000 000.
- III. On 25 July 2023, an independent valuation of property revealed that the directors' valuation in the 30 June 2023 financial statements was overstated by \$700 000.
- IV. On 10 August 2023, a court decision found the company liable to pay damages of \$500 000 to a major customer who had commenced legal action in April 2022.

- a. I., II., III. and IV.
- b. II. only, and make a note disclosure for I., III. and IV.
- c. III only, and make a note disclosure for I., II. and IV.
- *d. III. and IV. only, and make a note disclosure for I. and II.

General Feedback:

Correct answer: d

Learning objective 2.9

Multiple-choice questions

58. General purpose financial statements are those intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs.

- *a. True
- b. False

General Feedback:

The statement is true. According to the Conceptual Framework, general purpose financial statements are directed to the primary users, namely existing and potential investors, lenders and other creditors.

Learning objective 2.1

59. The financial position of an entity as at reporting date is presented in a statement of comprehensive income.

- a. True
- *b. False

General Feedback:

The statement is false. Information about financial position is largely contained in the statement of financial position.

Learning objective 2.1

60. A complete set of financial statements will include a report on the entity's environmental activities.

- a. True
- *b. False

General Feedback:

The statement is false. A complete set of financial statements includes the following documents: statement of financial position; statement of profit or loss and comprehensive income; statement of changes in equity, statement of cash flows, notes to the financial statements and comparative information.

Learning objective 2.2

61. Attached to the financial statements must be a set of notes providing disclosures required by accounting standards.

- *a. True
- b. False

General Feedback:

The statement is true. The notes must also contain additional information necessary so that the financial statements and notes for the year provide a true and fair view of the company's financial position and performance.

Learning objective 2.2

62. Under the Corporations Act, directors have a choice of providing either a directors' declaration or a directors' report to accompany a set of annual financial statements.

a. True

*b. False

General Feedback:

The statement is false. Both a directors' statement and declaration must accompany a set of annual financial statements.

Learning objective 2.2

63. Compliance with AASB accounting standards automatically results in meeting the Corporations Act requirements in relation to presenting a true and fair view in financial reports.

a. True

*b. False

General Feedback:

The statement is false. In cases where management is of the opinion that compliance with an accounting standard will not present a true and fair view, they must include a note disclosure to address the issue.

Learning objective 2.2

64. AASB 1048 Interpretation of Standards gives all IFRIC Interpretations the same status as AASB standards.

*a. True

b. False

General Feedback:

The statement is true. All IFRIC and AASB Interpretations have the same standing as AASB standards as a result of AASB 1048.

Learning objective 2.2

65. Comparative information in respect of the past two periods for all amounts reported in the financial statements must be provided.

- a. True
- *b. False

General Feedback:

The statement is false. Comparative information for only the previous financial year must be presented alongside the current year's information.

Learning objective 2.2

66. Small proprietary companies that are required by 5% or more of their shareholders to prepare a financial report for a financial year do not have to prepare a directors' report.

- a. True
- *b. False

General Feedback:

The statement is false. The exemption only applies in the case where the shareholders have waived the requirement for a director's report.

Learning objective 2.2

67. When conducting an audit of financial statements, an auditor must give an opinion on the existence of fraud in the company's financial statements.

- a. True
- *b. False

General Feedback:

The statement is false. The auditor is not required to provide an opinion on the existence of fraud, rather whether the financial report is in accordance with accounting standards and gives a true and fair view.

Learning objective 2.2

68. In addition to the annual financial statements, companies have the right to choose to prepare and distribute concise financial reports to members.

- *a. True
- b. False

General Feedback:

The statement is true. Companies do not have to prepare and distribute a concise financial report, but some choose to do so.

Learning objective 2.2

69. Disclosing entities must prepare a half year financial report in accordance with AASB 134/IAS 34 Interim Financial Reporting.

- *a. True
- b. False

General Feedback:

The statement is true. Only disclosing entities are required to prepare half year financial reports.
Learning objective 2.3

70. Companies must always disclose the fact that their financial statements are prepared using the going concern assumption.

- a. True
- *b. False

General Feedback:

The statement is false. Disclosure of the going concern assumption is only required if there is material uncertainty about the company's ability to continue as a going concern.
Learning objective 2.4

71. An entity is not permitted to change its accounting policies.

- a. True
- *b. False

General Feedback:

The statement is false. Changes in accounting policies may be due to either the adoption of a new accounting standard or a voluntary change in accounting policies.
Learning objective 2.4

72. When it is difficult to distinguish between a change in an accounting estimate and a change in an accounting policy, the change must be treated as a change in an accounting estimate.

- *a. True
- b. False

General Feedback:

The statement is true. This is required under paragraph 35 of AASB 108/IAS 8.
Learning objective 2.5

73. If a mistake in applying an accounting policy is discovered in a subsequent period, that mistake must be corrected retrospectively.

- *a. True
- b. False

General Feedback:

The statement is true. An error, omission or misstatement in the financial statements that is discovered in a subsequent period must be corrected retrospectively by restating the comparative amounts if the error occurred in the previous financial period, or by restating the relevant opening balances for the earliest prior period presented in the financial statements.

Learning objective 2.6

74. Material prior period errors must be corrected retrospectively, unless it is impracticable to do so.

- *a. True
- b. False

General Feedback:

The statement is true. Where it is impracticable to restate retrospectively, then restatement must be made on a prospective basis.

Learning objective 2.7

75. The assessment of materiality is a matter of judgement in light of the reporting entity's particular circumstances.

- *a. True
- b. False

General Feedback:

The statement is true. To assess whether items are material, their size and nature are normally considered together, although it is possible for items to be deemed material purely on the basis of either their size or nature.

Learning objective 2.8

76. Adjusting events are indicative of conditions that arose after the end of the reporting period.

- a. True
- *b. False

General Feedback:

The statement is false. Adjusting events provide evidence of conditions that existed at the end of the reporting period.

Learning objective 2.9

77. The date at which financial statements are authorised for issue is the date on which the shareholders approve the financial statements at an annual meeting.

- a. True
- *b. False

General Feedback:

The statement is false. The date at which the financial statements are authorised for issue is the day the directors' declaration is signed.

Learning objective 2.9