Testbank

to accompany

Contemporary Issues in Accounting

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Chapter 2 The *Conceptual Framework for Financial Reporting*

Multiple Choice Questions

1. How does the conceptual framework differ from an accounting standard?

   a. The principles in the conceptual framework are specific in nature while accounting standards provide more general requirements for financial reporting
   *b. The principles in the conceptual framework are general concepts while accounting standards provide specific requirements for a particular area of financial reporting
   c. The principles in the conceptual framework are designed to provide guidance and apply to a limited range of decisions relating to the preparation of financial reports while accounting standards apply to a wider range of decisions relating to the preparation of financial reports
   d. The principles in the conceptual framework provide specific requirements for a particular area of financial reporting while accounting standards are designed to provide general guidance

Correct answer: b
Learning Objective 2.1 ~ Explain what a conceptual framework is.

2. The accounting conceptual framework is what kind of theory?

   a. Abstract
   *b. Normative
   c. Positive
   d. Emergent

Correct answer: b
Learning Objective 2.1 ~ Explain what a conceptual framework is.

3. The *Conceptual Framework*:

   a. Is based on the one Pacioli included in *Particularis de Computis et Scripturis*
   b. Is used by every country that has adopted the International Accounting Standards
   *c. Was a joint project between the AASB and FASB
   d. Has remained unchanged for over 20 years

Correct answer: c
Learning Objective 2.2 ~ Understand the history, evolution of and current developments in the Conceptual Framework for Financial Reporting.

4. Which of the following questions does the *Conceptual Framework* NOT answer?

   a. Who are financial reports for
   b. What is the purpose of the financial reports
   c. What type of information should be included in financial reports
   *d. What measurement basis should be used in financial reports

Correct answer: d
Learning Objective 2.3 ~ Outline the structure, approach and components of the Conceptual Framework.

5. Which of the following statements is correct in relation to the assumptions to be made when preparing financial reports?

   a. The conceptual framework requires that several assumptions be made when preparing financial reports
   b. There are no assumptions to be made when preparing financial reports
   *c. There is one underlying assumption which is that financial reports are prepared on a going concern basis
   d. There is an assumption that more information is better than less

Correct answer: c
Learning Objective 2.3 ~ Outline the structure, approach and components of the Conceptual Framework.

6. The conceptual framework states that it is concerned with general purpose financial reports. What are general purpose financial reports?

   a. Financial reports that are tailored to the particular information needs of users
   *b. Financial reports 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
   c. Financial reports which do not meet the needs of users
   d. None of the above

Correct answer: b
Learning Objective 2.4 ~ Explain and evaluate the purpose, objective and underlying assumption of the Conceptual Framework.

7. According to the conceptual framework the primary objective of financial information is

   *a. Decision Usefulness
   b. Prediction
   c. Stewardship
   d. Accountability

Correct answer: a
Learning Objective 2.4 ~ Explain and evaluate the purpose, objective and underlying assumption of the Conceptual Framework.

8. The *Conceptual Framework* identifies a limited range of primary users of financial statements. Which of the following best describes these users?

   a. Current investors
   *b. Existing and potential investors, Lenders, Other creditors
   c. Investors, Creditors, Overseers, Customers, General Public
   d. Resource providers

Correct answer: b
Learning Objective 2.4 ~ Explain and evaluate the purpose, objective and underlying assumption of the Conceptual Framework.

9. According to the *Conceptual Framework* which of the following are included in the fundamental qualitative characteristics that accounting information should have?
   I. Relevance
   II. Reliability
   III. Faithful Representation

IV. Understandability

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

Correct answer: c
Learning Objective 2.5 ~ Explain the qualitative characteristics of useful financial information in the Conceptual Framework.

10. A key aspect of relevance is that information is

a. Complete
b. Neutral
c. Forward looking
*d. Material

Correct answer: d
Learning Objective 2.5 ~ Explain the qualitative characteristics of useful financial information in the Conceptual Framework.

11. The four enhancing qualitative characteristics recognised by the *conceptual framework* are:

a. Materiality, comparability, timeliness, cost versus benefit
b. Relevance, materiality, reliability, comparability
*c. Understandability, verifiability, timeliness, comparability
d. Understandability, cost versus benefit, verifiability, comparability

Correct answer: c
Learning Objective 2.5 ~ Explain the qualitative characteristics of useful financial information in the Conceptual Framework.

12. The constraints on financial reporting identified under the *conceptual framework* are:

*a. Cost versus benefit
b. Timeliness and neutrality
c. Understandability and materiality
d. Understandability and cost versus benefit

Correct answer: a
Learning Objective 2.5 ~ Explain the qualitative characteristics of useful financial information in the Conceptual Framework.

13. Which of the following elements in the financial statement is NOT defined by reference to other elements?

    a. Equity
    b. Expenses
    *c. Liabilities
    d. Income

Correct answer: c
Learning Objective 2.6 ~ Explain the elements of financial statements in the Conceptual Framework.

14. Which of the following are key parts of the definition of an asset?
    I. Probability
    II. Control
    III. Ownership
    IV. Past Transaction or Event
    V. Reliable Measurement
    VI. Future Economic Benefits

    a. I., III. & VI.
    b. II., IV. & V.
    c. III., V. & VI.
    *d. II., IV. & VI.

Correct answer: d
Learning Objective 2.6 ~ Explain the elements of financial statements in the Conceptual Framework.

15. An element is considered probable if the chance of the flow associated with it occuring is greater than:

    a. 30%
    *b. 50%
    c. 75%
    d. 90%

Correct answer: b
Learning Objective 2.6 ~ Explain the elements of financial statements in the Conceptual Framework.

16. A key political benefit that may arise from a conceptual framework in accounting is:

    a. Individuals and groups are able to influence the standard setters
    b. Protection of the professional status of accountants and accounting
    *c. Prevention of political interference in setting accounting standards
    d. All of the above

Correct answer: c
Learning Objective 2.7 ~ Explain the benefits of conceptual frameworks.

17. Accounting standards are seen to be political because

    a. They can create wealth transfers between different groups in society
    b. They can affect the competitiveness of organisations
    c. They can influence perceptions about organisations
    *d. All of the above

Correct answer: d
Learning Objective 2.7 ~ Explain the benefits of conceptual frameworks.

18. Which of these is <u>not</u> a criticism of conceptual framework projects?

    *a. The measurement of the elements of financial reporting is too highly specified
    b. It is ambiguous and open to interpretation
    c. It is too descriptive
    d. Faithful representation and relevance conflict with each other

Correct answer: a
Learning Objective 2.8 ~ Explain and evaluate the problems and criticisms of conceptual frameworks, including the Conceptual Framework.

19. It is argued that the conceptual framework is descriptive, not prescriptive, because:

    a. Its purpose is to try to improve practice rather than simply reflecting and giving approval to existing accounting principles and practice
    b. It describes what should happen in practice
    *c. It simply describes accounting principles as currently practiced and applied
    d. None of the above

Correct answer: c
Learning Objective 2.8 ~ Explain and evaluate the problems and criticisms of conceptual frameworks, including the Conceptual Framework.

20. Faithfull representation has been criticised because

*a. It does not reflect the inherent uncertainty in accounting
b. It is not an important issue for accountants
c. It does not capture the true value of accounting transactions
d. It leads to a single measurement model dominating accounting

Correct answer: a
Learning Objective 2.8 ~ Explain and evaluate the problems and criticisms of conceptual frameworks, including the Conceptual Framework.