

Chapter 02 Testbank

1. When an AASB standard conflicts with the Conceptual Framework, the former prevails.

True False

2. In Australia the first Statement of Accounting Concept, released as part of the Australian Conceptual Framework Project (SAC 1 Definition of the Reporting Entity), was released in 1990.

True False

3. Conceptual frameworks can be classified as normative theories of accounting as they provide guidance (prescription) to people involved in preparing general purpose financial statements.

True False

4. IASB stands for International Assessment Standards Board.

True False

5. A normative theory of accounting prescribes a particular accounting practice.

True False

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

A. Yes, because dependent users of financial reports exist

B. Yes, because there are trade creditors who are external users

C. No, because it is a small proprietary firm

D. No, because there are no obvious users who are unable to command the preparation of information from the entity

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

A. Relevance, faithful representation, materiality and comparability

B. Relevance, faithful representation, timeliness and understandability

C. Relevance, faithful representation, understandability and comparability

D. Materiality, faithful representation, understandability and comparability

8. The Conceptual Framework identifies two aspects to financial information that are 'relevant'. These are:

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

9. The IASB *Conceptual Framework for Financial Reporting* (as released in 2010), removed 'stewardship'. It was reinstated in 2018. Stewardship in this context relates to:

- A. how closely the information provided in the financial report reflects the concerns of the reporting entity's management.
- B. whether the information is comparable, verifiable, timely and understandable.
- C. the relevance of performance, financial position, funding and investing, and compliance.
- D. how efficiently and effectively the reporting entity's management has discharged its responsibilities to use the entity's economic resources.

10. 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 Conceptual Framework?

- A. Blaxland Ltd should recognise a receivable of \$75 000, the expected value of the gain.
- B. Blaxland Ltd should recognise a receivable of \$50 000, a conservative estimate of the gain.
- C. Blaxland Ltd should not recognise the receivable until it is probable that they have won the case.
- D. Blaxland Ltd should not recognise the receivable because while the solicitor is expecting to win the case, the receivable cannot be estimated reliably.

11. In accordance with the IASB Conceptual Framework, which of the following is consistent with the definition of expenses?

- A. Decreases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to distributions to holders of equity claims.
- B. Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to control of equity claims.
- C. Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.
- D. All of the given answers are correct.

12. Which of the following is not among the primary users of general purpose financial reports?

- A. Investors
- B. Lenders
- C. Creditors
- D. Artificial intelligence

13. _____ is defined in the Conceptual Framework as ‘a present obligation of the entity to transfer an economic resource as a result of past events’.
- A. Asset
 - B. Liability
 - C. Income
 - D. Expense
14. Which among the following is not a current value measurement?
- A. Fair value
 - B. Value in use (for assets), or fulfilment value (for liabilities)
 - C. Current cost
 - D. Historical cost
15. In Australia, work on the Australian Conceptual Framework commenced in the _____.
- A. 1950s
 - B. 1960s
 - C. 1970s
 - D. 1980s
16. Accounting standards should be more _____, because they are developed from an orderly set of agreed concepts.
- A. appealing
 - B. inconsistent
 - C. consistent and logical
 - D. available
17. The first component to be addressed in the Conceptual Framework of Financial Reporting is _____.
- A. definition of general purpose financial reporting
 - B. elements of financial statements
 - C. measurement basics and techniques
 - D. what information shall be disclosed and how it shall be presented to users
18. What is the next step after defining the general purpose financial reporting in the building blocks of the Conceptual Framework for Financial Reporting?
- A. Definition of the reporting entity
 - B. Objectives of general purpose financial reports
 - C. Underlying assumptions
 - D. Recognition criteria

19. Accounting standard AASB 1053 *Application of Tiers of Australian Accounting Standards* defines a _____ as ‘an entity in respect of which it is reasonable to expect the existence of users who rely on the entity’s general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. It can be a single entity or a group comprising a parent and all of its subsidiaries’.

- A. non reporting entity
- B. reasonable entity
- C. reporting entity
- D. resource entity

20. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential _____ in making decisions about providing resources to the entity.

- A. investors
- B. lenders
- C. other creditors
- D. All of the given answers are correct.

21. _____ are developed on the basis that readers have reasonable knowledge about financial accounting and financial reporting.

- A. Accounting standards
- B. Production standards
- C. Marketing standards
- D. Human resource standards

22. The Conceptual Framework, when it was released in 2018, grouped existing measurement bases into two broad categories: historical cost and _____.

- A. current value
- B. fair value
- C. fulfilment value
- D. current cost

23. The financial information included within the financial statements reflects only the financial performance of the entity as determined by applying the guidance and rules incorporated within the Conceptual Framework and within applicable accounting standards: they do not provide a means of assessing the _____ performance of the entity.

- A. legal
- B. technological
- C. social or environmental
- D. political

24. *The Corporate Report* (issued in 1975 by the Accounting Standards Steering Committee of the Institute of Chartered Accountants in England and Wales) considered the _____ as a key audience of corporate financial reports.

- A. employees
- B. public
- C. marketers
- D. banks

25. A normative theory of accounting provides prescription about what accounting methods an organisation should _____.

- A. adopt
- B. not adopt
- C. remove
- D. avoid

26. The global financial crisis (GFC) of 2007–2009 generated a great deal of discussion about the potential deficiencies in financial accounting practices used in many countries, particularly within _____.

- A. Australia
- B. the USA
- C. England
- D. Japan

27. Discuss the benefits of a conceptual framework.

28. With the past convergence project between IASB and FASB explain why there is a need for a revised Conceptual Framework.

29. Discuss the need to know about the *Conceptual Framework for Financial Reporting*.

30. How is the Conceptual Framework different from an accounting standard? Discuss.

31. Discuss briefly the order of building blocks in the Conceptual Framework.

32. When is an entity deemed to be a reporting entity?

33. Who are the primary users of general purpose financial reports? Discuss.

34. What are the objectives of general purpose financial reporting?

35. List any two qualitative characteristics that financial information should possess.

36. According to the Conceptual Framework (released in 2010 and 2018), what was proposed as a general expectation with respect to the user groups?

37. The Conceptual Framework, when it was released in 2018, grouped existing measurement bases into two broad categories. What are they?

38. Briefly differentiate between positive theory and normative theory.

39. Identify and discuss the fundamental qualitative characteristics of financial information identified in the *IASB Conceptual Framework for Financial Reporting*.

Chapter 02 Testbank Key

1. When an AASB standard conflicts with the Conceptual Framework, the former prevails.

Ans: True

AACSB: Analytic
Blooms: Analysis
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Easy

Learning Objective: 2.03 Understand the history of the evolution of the Conceptual Framework used within Australia
Topic: An overview of the recently revised Conceptual Framework

2. In Australia the first Statement of Accounting Concept, released as part of the Australian Conceptual Framework Project (SAC 1 Definition of the Reporting Entity), was released in 1990.

Ans: True

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.01 Understand the meaning of a 'conceptual framework' for financial reporting
Topic: An introduction to the IASB Conceptual Framework

3. Conceptual frameworks can be classified as normative theories of accounting as they provide guidance (prescription) to people involved in preparing general purpose financial statements.

Ans: True

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.12 Understand that a conceptual framework for general purpose financial reporting represents a 'normative' theory of accounting
Topic: The Conceptual Framework as a normative theory of accounting

4. IASB stands for International Assessment Standards Board.

Ans: False

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Easy

Learning Objective: 2.01 Understand the meaning of a 'conceptual framework' for financial reporting
Topic: An introduction to the IASB Conceptual Framework

5. A normative theory of accounting prescribes a particular accounting practice.

Ans: True

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Easy

Learning Objective: 2.12 Understand that a conceptual framework for general purpose financial reporting represents a 'normative' theory of accounting
Topic: The Conceptual Framework as a normative theory of accounting

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

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

Ans: D

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.05 Understand what is meant by the term 'reporting entity' and understand the financial reporting implications of being classified as a reporting entity
Topic: Definition of general purpose financial reporting and a reporting entity

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

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

Ans: C

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.08 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements
Topic: Qualitative characteristics of useful financial information

8. The Conceptual Framework identifies two aspects to financial information that are 'relevant'. These are:

- A. verifiability and understandability
- B. predictability and verifiability

- C. neutrality and verifiability
 D. prudence and neutrality
 Ans: B

AACSB: Reflective thinking
 Blooms: Comprehension
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Medium

Learning Objective: 2.08 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements
 Topic: Qualitative characteristics of useful financial information

9. The IASB *Conceptual Framework for Financial Reporting* (as released in 2010), removed 'stewardship'. It was reinstated in 2018. Stewardship in this context relates to:
- A. how closely the information provided in the financial report reflects the concerns of the reporting entity's management.
 B. whether the information is comparable, verifiable, timely and understandable.
 C. the relevance of performance, financial position, funding and investing, and compliance.
 D. how efficiently and effectively the reporting entity's management has discharged its responsibilities to use the entity's economic resources.
 Ans: D

AACSB: Reflective thinking
 Blooms: Comprehension
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Easy

Learning Objective: 2.07 Understand the objective of general purpose financial reporting
 Topic: Objective of general purpose financial reporting

10. 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 Conceptual Framework?
- A. Blaxland Ltd should recognise a receivable of \$75 000, the expected value of the gain.
 B. Blaxland Ltd should recognise a receivable of \$50 000, a conservative estimate of the gain.
 C. Blaxland Ltd should not recognise the receivable until it is probable that they have won the case.
 D. Blaxland Ltd should not recognise the receivable because while the solicitor is expecting to win the case, the receivable cannot be estimated reliably.
 Ans: C

AACSB: Reflective thinking
 Blooms: Comprehension
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Medium

Learning Objective: 2.09 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting
 Topic: Definition and recognition of the elements of financial statements

11. In accordance with the IASB Conceptual Framework, which of the following is consistent with the definition of expenses?

- A. Decreases in assets, or decreases in liabilities, that result in increases in equity, other than those relating to distributions to holders of equity claims.
- B. Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to control of equity claims.
- C. Decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims.
- D. All of the given answers are correct.

Ans: C

AACSB: Analytic
Blooms: Analysis
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.09 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting

Topic: Definition and recognition of the elements of financial statements

12. Which of the following is not among the primary users of general purpose financial reports?

- A. Investors
- B. Lenders
- C. Creditors
- D. Artificial intelligence

Ans: D

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Easy

Learning Objective: 2.06 Be able to define the 'users' of general purpose financial statements and understand the degree of proficiency in accounting that is expected of users of general purpose financial statements

Topic: Users of general purpose financial statements

13. _____ is defined in the Conceptual Framework as 'a present obligation of the entity to transfer an economic resource as a result of past events'.

- A. Asset
- B. Liability
- C. Income
- D. Expense

Ans: B

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Easy

Learning Objective: 2.09 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting

Topic: Definition and recognition of the elements of financial statements

14. Which among the following is not a current value measurement?

- A. Fair value
- B. Value in use (for assets), or fulfilment value (for liabilities)
- C. Current cost
- D. Historical cost

Ans: D

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium
Learning Objective: 2.10 Understand that measurement forms an important component of a conceptual framework and understand how measurement issues have been addressed within the IASB Conceptual Framework
Topic: Measurement principles

15. In Australia, work on the Australian Conceptual Framework commenced in the _____.

- A. 1950s
- B. 1960s
- C. 1970s
- D. 1980s

Ans: D

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium
Learning Objective: 2.01 Understand the meaning of a 'conceptual framework' for financial reporting
Topic: An introduction to the IASB Conceptual Framework

16. Accounting standards should be more _____, because they are developed from an orderly set of agreed concepts.

- A. appealing
- B. inconsistent
- C. consistent and logical
- D. available

Ans: C

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium
Learning Objective: 2.02 Understand the need for, and the role of, a conceptual framework
Topic: Benefits of a conceptual framework

17. The first component to be addressed in the Conceptual Framework of Financial Reporting is _____.

- A. definition of general purpose financial reporting
- B. elements of financial statements
- C. measurement basics and techniques

D. what information shall be disclosed and how it shall be presented to users

Ans: A

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.04 Be able to explain the structure, or building blocks, of a well-designed conceptual framework
Topic: An overview of the building blocks of the Conceptual Framework

18. What is the next step after defining the general purpose financial reporting in the building blocks of the Conceptual Framework for Financial Reporting?

- A. Definition of the reporting entity
- B. Objectives of general purpose financial reports
- C. Underlying assumptions
- D. Recognition criteria

Ans: A

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.04 Be able to explain the structure, or building blocks, of a well-designed conceptual framework
Topic: An overview of the building blocks of the Conceptual Framework

19. Accounting standard AASB 1053 *Application of Tiers of Australian Accounting Standards* defines a _____ as ‘an entity in respect of which it is reasonable to expect the existence of users who rely on the entity’s general purpose financial statements for information that will be useful to them for making and evaluating decisions about the allocation of resources. It can be a single entity or a group comprising a parent and all of its subsidiaries’.

- A. non reporting entity
- B. reasonable entity
- C. reporting entity
- D. resource entity

Ans: C

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Hard

Learning Objective: 2.05 Understand what is meant by the term ‘reporting entity’ and understand the financial reporting implications of being classified as a reporting entity
Topic: Definition of general purpose financial reporting and a reporting entity

20. The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential _____ in making decisions about providing resources to the entity.

- A. investors
- B. lenders

- C. other creditors
D. All of the given answers are correct.
Ans: D

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.07 Understand the objective of general purpose financial reporting
Topic: Objective of general purpose financial reporting

21. _____ are developed on the basis that readers have reasonable knowledge about financial accounting and financial reporting.

- A. Accounting standards
B. Production standards
C. Marketing standards
D. Human resource standards

Ans: A

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.06 Be able to define the 'users' of general purpose financial statements and understand the degree of proficiency in accounting that is expected of users of general purpose financial statements
Topic: Users of general purpose financial statements

22. The Conceptual Framework, when it was released in 2018, grouped existing measurement bases into two broad categories: historical cost and _____.

- A. current value
B. fair value
C. fulfilment value
D. current cost

Ans: A

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.10 Understand that measurement forms an important component of a conceptual framework and understand how measurement issues have been addressed within the IASB Conceptual Framework
Topic: Measurement principles

23. The financial information included within the financial statements reflects only the financial performance of the entity as determined by applying the guidance and rules incorporated within the Conceptual Framework and within applicable accounting standards: they do not provide a means of assessing the _____ performance of the entity.

- A. legal
B. technological
C. social or environmental

D. political

Ans: C

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.11 Be able to critically review the existing Conceptual Framework
Topic: A critical review of conceptual frameworks

24. *The Corporate Report* (issued in 1975 by the Accounting Standards Steering Committee of the Institute of Chartered Accountants in England and Wales) considered the _____ as a key audience of corporate financial reports.

A. employees

B. public

C. marketers

D. banks

Ans: B

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.11 Be able to critically review the existing Conceptual Framework
Topic: A critical review of conceptual frameworks

25. A normative theory of accounting provides prescription about what accounting methods an organisation should _____.

A. adopt

B. not adopt

C. remove

D. avoid

Ans: A

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.12 Understand that a conceptual framework for general purpose financial reporting represents a 'normative' theory of accounting
Topic: The Conceptual Framework as a normative theory of accounting

26. The global financial crisis (GFC) of 2007–2009 generated a great deal of discussion about the potential deficiencies in financial accounting practices used in many countries, particularly within _____.

A. Australia

B. the USA

C. England

D. Japan

Ans: B

AACSB: Communication
 Blooms: Knowledge
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Medium

Learning Objective: 2.11 Be able to critically review the existing Conceptual Framework
 Topic: A critical review of conceptual frameworks

27. Discuss the benefits of a conceptual framework.

Ans:

The benefits of a conceptual framework are that it allows for:

1. more consistent and logical accounting standards, because they are developed from an orderly set of agreed concepts. The view is that in the absence of a coherent framework for financial reporting, the development of accounting standards could be somewhat ad hoc.
2. increased international compatibility of accounting standards, because they are based on a conceptual framework that is similar to that in other jurisdictions (for example, there is much in common between the IASB and FASB frameworks).
3. more accountability by the AASB and the IASB for their decisions, because the thinking behind specific requirements should be more explicit, as should any departure from the concepts that might be included in specific accounting standards.
4. enhanced communication between the IASB and the AASB and their constituents because the conceptual underpinnings of proposed accounting standards should be more apparent when the AASB or the IASB seeks public comment on them. The view is also held that a conceptual framework should alleviate some of the political pressure that might otherwise be exerted when accounting standards are developed—the Conceptual Framework could, in a sense, provide a defence against political attack.
5. the development of accounting standards and other authoritative pronouncements to be more economical because the concepts developed within a framework will guide the AASB and the IASB in their decision making.
6. fewer additional accounting standards to be developed, if accounting concepts developed within a conceptual framework cover a particular issue.

AACSB: Communication
 Blooms: Knowledge
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Medium

Learning Objective: 2.02 Understand the need for, and the role of, a conceptual framework
 Topic: Benefits of a conceptual framework

28. With the past convergence project between IASB and FASB explain why there is a need for a revised Conceptual Framework.

Ans: It is generally accepted that conceptual frameworks evolve over time as information demands change, and as financial systems change. Therefore, it is not surprising that the conceptual frameworks of the FASB and the IASB, both of which were developed more than three decades ago, were considered to be in need of significant revision. The accepted view is that conceptual frameworks will evolve over time.

AACSB: Analytic
 Blooms: Analysis
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Medium

Learning Objective: 2.03 Understand the history of the evolution of the Conceptual Framework used within Australia
 Topic: An overview of the recently revised Conceptual Framework

29. Discuss the need to know about the *Conceptual Framework for Financial Reporting*.

Ans: The Conceptual Framework provides the basis for the practice of general purpose financial reporting. Anyone involved in the production and/or use of financial reports should be aware of the building blocks on which financial reporting is based.

AACSB: Reflective thinking
 Blooms: Comprehension
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Easy

Learning Objective: 2.01 Understand the meaning of a 'conceptual framework' for financial reporting
 Topic: An introduction to the IASB Conceptual Framework

30. How is the Conceptual Framework different from an accounting standard? Discuss.

Ans: The Conceptual Framework is not an accounting standard, and as such does not prescribe recognition, measurement or disclosure requirements in relation to specific transactions or events. Rather, the Conceptual Framework provides guidance at a *general* or conceptual level. It provides insights into the fundamentals of financial reporting. Specific transactions and events (such as, for example, how to account for the acquisition of inventory, how to revalue property, plant and equipment, or how to account for the acquisition of goodwill) are addressed by particular accounting standards, of which there are many.

When an accounting standard relates to a particular type of transaction or event, then that accounting standard shall be applied even if it appears to somewhat contradict the guidance provided within the Conceptual Framework. That is to say, accounting standards take precedence over the Conceptual Framework. However, in the absence of a directly relevant accounting standard, preparers of general purpose financial statements are required to follow the Conceptual Framework.

AACSB: Analytic
 Blooms: Analysis
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Medium

Learning Objective: 2.03 Understand the history of the evolution of the Conceptual Framework used within Australia
 Topic: An overview of the recently revised Conceptual Framework

31. Discuss briefly the order of building blocks in the Conceptual Framework.

Ans: The first matter to be addressed is the definition of 'general purpose financial reporting'. Unless there is some agreement on this, it would be difficult to construct a framework for general purpose financial reporting. Once we determine what general purpose financial reporting means, we can then turn our attention to the *subject* of financial reporting, specifically which entities are required to produce general purpose financial statements, financial reporting.

Once we have an accepted objective for general purpose financial reporting, the next step is to determine the basic underlying assumptions and qualitative characteristics of financial information necessary to allow users to make 'economic decisions' on the basis of that information.

Finally, we need to have clear definitions and recognition criteria for the 'elements' of financial reporting, as well as some guidance in relation to both measurement and the disclosure and presentation of financial information.

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Hard

Learning Objective: 2.04 Be able to explain the structure, or building blocks, of a well-designed conceptual framework
Topic: An overview of the building blocks of the Conceptual Framework

32. When is an entity deemed to be a reporting entity?

Ans: When users exist who do not have access to information relevant to decision making and who are judged to be dependent on general purpose financial reports, the entity is deemed to be a reporting entity.

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.05 Understand what is meant by the term 'reporting entity' and understand the financial reporting implications of being classified as a reporting entity
Topic: Definition of general purpose financial reporting and a reporting entity

33. Who are the primary users of general purpose financial reports? Discuss.

Ans: Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed.

AACSB: Reflective thinking
Blooms: Comprehension
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.06 Be able to define the 'users' of general purpose financial statements and understand the degree of proficiency in accounting that is expected of users of general purpose financial statements
Topic: Users of general purpose financial statements

34. What are the objectives of general purpose financial reporting?

Ans: The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve decisions about:

- (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 otherwise influence, management's actions that affect the use of the entity's economic resources

AACSB: Reflective thinking
 Blooms: Comprehension
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Medium

Learning Objective: 2.07 Understand the objective of general purpose financial reporting
 Topic: Objective of general purpose financial reporting

35. List any two qualitative characteristics that financial information should possess.

Ans: Financial information should possess relevance and understandability.

AACSB: Reflective thinking
 Blooms: Comprehension
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Medium

Learning Objective: 2.06 Be able to define the 'users' of general purpose financial statements and understand the degree of proficiency in accounting that is expected of users of general purpose financial statements
 Topic: Users of general purpose financial statements

36. According to the Conceptual Framework (released in 2010 and 2018), what was proposed as a general expectation with respect to the user groups?

Ans: When the Conceptual Framework was released (in 2010 and 2018), it was proposed that accounting information designed to meet the information needs of investors, creditors and other users would also generally be expected to meet the needs of the other user groups such as the 'public'.

AACSB: Reflective thinking
 Blooms: Comprehension
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Medium

Learning Objective: 2.06 Be able to define the 'users' of general purpose financial statements and understand the degree of proficiency in accounting that is expected of users of general purpose financial statements
 Topic: Users of general purpose financial statements

37. The Conceptual Framework, when it was released in 2018, grouped existing measurement bases into two broad categories. What are they?

Ans: The Conceptual Framework, when it was released in 2018, grouped existing measurement bases into two broad categories, these being:

- (a) historical cost
- (b) current value

AACSB: Communication
 Blooms: Knowledge
 Chapter: Chapter - Chapter 02
 Chapter: Chapter 02
 Difficulty: Easy

Learning Objective: 2.10 Understand that measurement forms an important component of a conceptual framework and understand how measurement issues have been addressed within the IASB Conceptual Framework
 Topic: Measurement principles

38. Briefly differentiate between positive theory and normative theory.

Ans: A positive theory of accounting seeks to explain and predict particular accounting practices. This means that a positive theory of accounting will provide explanations of some of the outcomes that might follow the release of a particular accounting requirement (such as an accounting standard), or perhaps predictions about which entities are likely to favour particular accounting methods or adopt particular accounting methods when there are alternatives. By contrast, a normative theory of accounting provides prescription about which accounting methods an organisation should adopt.

Hence, the difference can be summarised by saying that a positive theory of accounting attempts to explain or predict accounting practice, whereas a normative theory of accounting prescribes a particular accounting practice.

AACSB: Analytic
Blooms: Analysis
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.12 Understand that a conceptual framework for general purpose financial reporting represents a 'normative' theory of accounting
Topic: The Conceptual Framework as a normative theory of accounting

39. Identify and discuss the fundamental qualitative characteristics of financial information identified in the *IASB Conceptual Framework for Financial Reporting*.

Ans: The fundamental qualitative characteristics identified in the *IASB Conceptual Framework for Financial Reporting* (as released in 2018) are 'relevance' and 'faithful representation'.

In discussing the need for information to be relevant and faithfully represented, paragraph 2.20 of the Conceptual Framework states:

Information must be both relevant and faithfully represented if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions.

AACSB: Communication
Blooms: Knowledge
Chapter: Chapter - Chapter 02
Chapter: Chapter 02
Difficulty: Medium

Learning Objective: 2.08 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements
Topic: Qualitative characteristics of useful financial information

Category
of Questions
AACSB: Analytic
5
AACSB: Communication
17
AACSB: Reflective thinking
17
Blooms: Analysis
5
Blooms: Comprehension
17

Blooms: Knowledge

17

Chapter - Chapter 02

39

Chapter 02

39

Difficulty: Easy

8

Difficulty: Hard

2

Difficulty: Medium

29

Learning Objective: 2.01 Understand the meaning of a 'conceptual framework' for financial reporting

4

Learning Objective: 2.02 Understand the need for, and the role of, a conceptual framework

2

Learning Objective: 2.03 Understand the history of the evolution of the Conceptual Framework used within Australia

3

Learning Objective: 2.04 Be able to explain the structure, or building blocks, of a well-designed conceptual framework

3

Learning Objective: 2.05 Understand what is meant by the term 'reporting entity' and understand the financial reporting implications of being classified as a reporting entity

3

Learning Objective: 2.06 Be able to define the 'users' of general purpose financial statements and understand the degree of proficiency in accounting that is expected of users of general purpose financial statements

5

Learning Objective: 2.07 Understand the objective of general purpose financial reporting

3

Learning Objective: 2.08 Understand what qualitative characteristics should be possessed by financial accounting information if such information is to be considered useful to users of general purpose financial statements

3

Learning Objective: 2.09 Be able to define the elements of financial accounting and be able to explain the recognition criteria for the various elements of accounting

3

Learning Objective: 2.10 Understand that measurement forms an important component of a conceptual framework and understand how measurement issues have been addressed within the IASB Conceptual Framework

3

Learning Objective: 2.11 Be able to critically review the existing Conceptual Framework

3

Learning Objective: 2.12 Understand that a conceptual framework for general purpose financial reporting represents a 'normative' theory of accounting

4

Topic: A critical review of conceptual frameworks

3

Topic: An introduction to the IASB Conceptual Framework

4

Topic: An overview of the building blocks of the Conceptual Framework

3

Topic: An overview of the recently revised Conceptual Framework

3

Topic: Benefits of a conceptual framework

2

Topic: Definition and recognition of the elements of financial statements

3

Topic: Definition of general purpose financial reporting and a reporting entity

3

Topic: Measurement principles

3

Topic: Objective of general purpose financial reporting

3

Topic: Qualitative characteristics of useful financial information

3

Topic: The Conceptual Framework as a normative theory of accounting

4

Topic: Users of general purpose financial statements

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