

Chapter 02 The financial reporting environment

1. What is the minimum level of accounting knowledge that readers of financial statements are assumed to possess, according to most professional accounting bodies around the world?
 - A. None
 - B. A level of knowledge sufficient to understand the financial reports properly
 - C. A sound working knowledge
 - D. An expert level of knowledge

2. Which of the following is not a rationale for regulating financial accounting information?
 - A. To protect users from fraudulent or misleading information.
 - B. A market for information without regulation is inefficient, and may result in the production of a sub-optimal amount of information.
 - C. To assist management with better information, and to provide reports for use by management and parties within the organisation.
 - D. To ensure equal access to information by all interested parties, including those that have limited power to demand it.

3. Which of the following statements is true about accounting measurements such as profits and assets?
 - A. They are subject to professional judgment.
 - B. They would not vary if prepared by different accountants, providing they were based on the same set of accounting standards.
 - C. They are based on hard, objective, evidence.
 - D. All of the given options are correct.

4. Which of the following statements is true about management accounting?
 - A. Management accounting provides financial reports to external parties that require information to meet their decision needs.
 - B. Management accounting is largely unregulated.
 - C. Management accounting attempts to protect the information rights and needs of all users.
 - D. Management accounting adopts a pro-regulation perspective.

5. Financial accounting leads to the generation of:
 - A. Reports to meet the specific information needs of users
 - B. Monthly financial reports for management
 - C. Special purpose financial reports
 - D. General purpose financial reports

6. Which of the following is a criticism of the double-entry financial accounting system?

- A. It has a general inability to take the social and environmental consequences of a reporting entity's existence into account.
- B. It uses a system of debts and credits to account for increases and decreases, instead of positive and negative numbers.
- C. Its initial development in a generally unregulated environment has resulted in a lack of uniformity and comparability.
- D. All of the given options are correct.

7. Which of the following statements is true about the regulation of accounting practice in its early period of development?

- A. Accounting was largely determined by accounting theory.
- B. Accounting was largely determined by accounting standards issued by the accounting profession.
- C. Accounting was largely determined by the national Securities and Exchange Commissions and resulting legislation.
- D. Accounting was largely determined by generally accepted practice.

8. Which of the following is not a rationale for regulation?

- A. To redress the inequality of access to information by users.
- B. To protect users from the fraudulent activities of insiders.
- C. To reduce the oversupply of information caused by excess user demand, because users do not have to pay for its cost.
- D. To enhance the consistency and comparability of prepared financial reports.

9. What is the role of the accounting profession in the US with regard to stipulating accounting standards?

- A. It has the authority to develop and issue accounting standards.
- B. It has been delegated responsibility from the Securities and Exchange Commission, providing it performs such duties diligently.
- C. Indirect authority. Standards are issued by the Accounting Principles Board, a committee of the accounting professional bodies.
- D. No authority. Standards are issued by the Federal Accounting Standards Board, which is independent of the accounting profession.

10. Who has overall responsibility for issuing accounting standards in Australia?

- A. The Financial Reporting Council (FRC)
- B. The Australian Accounting Standards Board (AASB)
- C. The International Accounting Standards Board (IASB)
- D. The Australian Accounting Research Foundation (AARF)

11. Which of the following is not an argument for regulation?

- A. Markets for information are not efficient, and therefore produce a sub-optimum amount of information given the problem of 'free riders'.
- B. The capital market is efficient, but only 'on average'.
- C. Capital markets require information, and therefore firms that do not supply it will be punished.
- D. Information asymmetry exists, because not everyone has the same power over resources to obtain the information they need.

12. Which of the following theories asserts that regulators are not initially put in place to protect the public interest, and are driven by self-interest?

- A. Private interest theory
- B. Public interest theory
- C. Capture theory
- D. All of the given options are correct.

13. Which of the following is a characteristic of capture theory?

- A. In deciding on a particular regulation, regulators consider the impact on key voters and on election finances.
- B. The regulated subsequently try to control the regulator, to achieve their self-interest.
- C. The regulator is a neutral arbiter, and does not let its own interest impact on its rule-making process.
- D. None of the given options is correct.

14. Advocates of which theory would argue that the government is best able to develop accounting standards because it has greater enforcement powers, and is more likely to be less responsive to pressures from interest groups?

- A. Capture theory
- B. Private interest theory
- C. Economic interest theory
- D. Public interest theory

15. Which of the following expectations regarding the economic and social consequences of accounting standards on affected parties is *not* in line with statements by standards-setters?

- A. Accounting standards should be neutral and free from bias.
- B. Accounting standards should represent faithfully the underlying transactions.
- C. Accounting standards should consider the potential impact on others.
- D. None of the given options is correct.

16. Which theoretical perspective suggests that where firms are able to choose accounting methods, they will choose those that best reflect their economic performance?

- A. Opportunistic perspective
- B. Efficiency perspective
- C. Creative accounting perspective
- D. Economic interest perspective

17. Which theoretical perspective suggests that where firms are able to choose accounting methods, they will choose those that provide the result desired by the preparers?

- A. Efficiency perspective
- B. Objectivity perspective
- C. Stakeholder perspective
- D. Opportunistic perspective

18. Which of the following is a reason why accounting, and accountants, can be considered very powerful?

- A. The emphasis on profitability measures provides support to profitable companies which may not be worthy of support under other measures.
- B. The provision of purported objective information provides users with a source of power to drive changes to a corporation's behaviour.
- C. The output of the accounting process impacts on many decisions which can result in transfers of funds, and therefore wealth.
- D. All of the given options are correct.

19. Which of the following statements is true?

- A. Measures of profit ignore many social and environmental externalities caused by the firm.
- B. The profit figure is an objective measure of performance.
- C. The company has reported a record profit, therefore it is automatically worthy of support.
- D. All of the given options are correct.

20. Which of the following statements is not true for accountants in general?

- A. They should be objective and free from bias when performing their duties.
- B. The information they report should represent faithfully the underlying transactions and events.
- C. They adopt different accounting methods to suit their own needs, and the needs of the company.
- D. None of the given options is correct.

21. Accounting theories should be:

- A. Inductive
- B. Deductive
- C. Descriptive
- D. None of the given options is correct.

22. Which of the following is an example of a normative accounting theory, or research?

- A. Conceptual frameworks of accounting
- B. Critical perspectives of accounting practice
- C. True income theories
- D. All of the given options are normative accounting theories.

23. Which of the following statements is true about early codification of accounting rules?

- A. In the early part of the twentieth century, limited work was undertaken to codify particular accounting principles or rules.
- B. Accountants used rules of which they were aware, and which they believed were most appropriate to the particular circumstances.
- C. There was very limited uniformity between the accounting methods adopted by different organisations, thereby creating comparability problems.
- D. All of the given options are correct.

24. Which of the following arguments supports the view that regulation is not necessary, particularly to the extent that it currently exists?

- A. Accounting information is like any other good, and people will be prepared to pay for it to the extent that it has a use.
- B. Markets for information are not efficient and therefore produce a sub-optimum amount of information, given the problem of 'free riders'.
- C. Investors need protection from fraudulent organisations that may produce misleading information.
- D. Information asymmetry exists because not everyone has the same power over resources to obtain the information they need.

25. 'In the process of introducing regulation, the organisations that are subject to the regulation will ultimately come to control the regulators'. This statement denotes:

- A. Public interest theory
- B. Capture theory
- C. Private interest theory
- D. Economic interest group theory

26. Efficiency perspective can be described as:

- A. All individuals' action is driven by self-interest.
- B. Individuals will act in an opportunistic manner to the extent that the actions will increase their wealth.
- C. Notions of loyalty and morality are ignored.
- D. Different organisational characteristics explain why different firms adopt different accounting methods.

27. The qualitative characteristics of financial reports that make information useful to users are:

- A. Understandability
- B. Reliability
- C. Comparability
- D. Understandability, reliability and comparability

28. Which of the following is not true for the International Accounting Standards Board (IASB)?

- A. The IASB is an independent standard-setting board that is publicly accountable to a monitoring board of capital market authorities.
- B. The IASB receives funding from the private sector, including mandatory levies on listed and non-listed entities in countries that utilise its standards.
- C. The IASB has strong enforcement powers to ensure that entities that have adopted its standards are in full compliance.
- D. From 2005, the European Union adopted IFRSs for listed companies preparing consolidated financial reports.

29. Which of the following is true regarding the role of professional judgment in financial reporting?

- A. Accountants are always subjective in their judgments.
- B. Information generated should faithfully represent transactions and be neutral and verifiable.
- C. The consideration of economic and social standards implies objectivity in their development and implementation.
- D. Accountants are never required to apply professional judgment.

Chapter 02 The financial reporting environment **Key**

1. What is the minimum level of accounting knowledge that readers of financial statements are assumed to possess, according to most professional accounting bodies around the world?

A. None

B. A level of knowledge sufficient to understand the financial reports properly

C. A sound working knowledge

D. An expert level of knowledge

Deegan - Chapter 02 #1

Difficulty: Easy

2. Which of the following is not a rationale for regulating financial accounting information?

A. To protect users from fraudulent or misleading information.

B. A market for information without regulation is inefficient, and may result in the production of a sub-optimal amount of information.

C. To assist management with better information, and to provide reports for use by management and parties within the organisation.

D. To ensure equal access to information by all interested parties, including those that have limited power to demand it.

Deegan - Chapter 02 #2

Difficulty: Medium

3. Which of the following statements is true about accounting measurements such as profits and assets?

A. They are subject to professional judgment.

B. They would not vary if prepared by different accountants, providing they were based on the same set of accounting standards.

C. They are based on hard, objective, evidence.

D. All of the given options are correct.

Deegan - Chapter 02 #3

Difficulty: Easy

4. Which of the following statements is true about management accounting?

- A. Management accounting provides financial reports to external parties that require information to meet their decision needs.
- B. Management accounting is largely unregulated.**
- C. Management accounting attempts to protect the information rights and needs of all users.
- D. Management accounting adopts a pro-regulation perspective.

Deegan - Chapter 02 #4
Difficulty: Easy

5. Financial accounting leads to the generation of:

- A. Reports to meet the specific information needs of users
- B. Monthly financial reports for management
- C. Special purpose financial reports
- D. General purpose financial reports**

Deegan - Chapter 02 #5
Difficulty: Medium

6. Which of the following is a criticism of the double-entry financial accounting system?

- A. It has a general inability to take the social and environmental consequences of a reporting entity's existence into account.
- B. It uses a system of debts and credits to account for increases and decreases, instead of positive and negative numbers.
- C. Its initial development in a generally unregulated environment has resulted in a lack of uniformity and comparability.
- D. All of the given options are correct.**

Deegan - Chapter 02 #6
Difficulty: Easy

7. Which of the following statements is true about the regulation of accounting practice in its early period of development?

- A. Accounting was largely determined by accounting theory.
- B. Accounting was largely determined by accounting standards issued by the accounting profession.
- C. Accounting was largely determined by the national Securities and Exchange Commissions and resulting legislation.
- D. Accounting was largely determined by generally accepted practice.**

Deegan - Chapter 02 #7
Difficulty: Easy

8. Which of the following is not a rationale for regulation?

- A. To redress the inequality of access to information by users.
- B. To protect users from the fraudulent activities of insiders.
- C.** To reduce the oversupply of information caused by excess user demand, because users do not have to pay for its cost.
- D. To enhance the consistency and comparability of prepared financial reports.

Deegan - Chapter 02 #8
Difficulty: Medium

9. What is the role of the accounting profession in the US with regard to stipulating accounting standards?

- A. It has the authority to develop and issue accounting standards.
- B. It has been delegated responsibility from the Securities and Exchange Commission, providing it performs such duties diligently.
- C. Indirect authority. Standards are issued by the Accounting Principles Board, a committee of the accounting professional bodies.
- D.** No authority. Standards are issued by the Federal Accounting Standards Board, which is independent of the accounting profession.

Deegan - Chapter 02 #9
Difficulty: Easy

10. Who has overall responsibility for issuing accounting standards in Australia?

- A. The Financial Reporting Council (FRC)
- B.** The Australian Accounting Standards Board (AASB)
- C. The International Accounting Standards Board (IASB)
- D. The Australian Accounting Research Foundation (AARF)

Deegan - Chapter 02 #10
Difficulty: Easy

11. Which of the following is not an argument for regulation?

- A. Markets for information are not efficient, and therefore produce a sub-optimum amount of information given the problem of 'free riders'.
- B. The capital market is efficient, but only 'on average'.
- C.** Capital markets require information, and therefore firms that do not supply it will be punished.
- D. Information asymmetry exists, because not everyone has the same power over resources to obtain the information they need.

Deegan - Chapter 02 #11
Difficulty: Medium

12. Which of the following theories asserts that regulators are not initially put in place to protect the public interest, and are driven by self-interest?

- A.** Private interest theory
- B. Public interest theory
- C. Capture theory
- D. All of the given options are correct.

Deegan - Chapter 02 #12
Difficulty: Easy

13. Which of the following is a characteristic of capture theory?

- A. In deciding on a particular regulation, regulators consider the impact on key voters and on election finances.
- B.** The regulated subsequently try to control the regulator, to achieve their self-interest.
- C. The regulator is a neutral arbiter, and does not let its own interest impact on its rule-making process.
- D. None of the given options is correct.

Deegan - Chapter 02 #13
Difficulty: Easy

14. Advocates of which theory would argue that the government is best able to develop accounting standards because it has greater enforcement powers, and is more likely to be less responsive to pressures from interest groups?

- A. Capture theory
- B. Private interest theory
- C. Economic interest theory
- D.** Public interest theory

Deegan - Chapter 02 #14
Difficulty: Easy

15. Which of the following expectations regarding the economic and social consequences of accounting standards on affected parties is *not* in line with statements by standards-setters?

- A.** Accounting standards should be neutral and free from bias.
- B. Accounting standards should represent faithfully the underlying transactions.
- C. Accounting standards should consider the potential impact on others.
- D. None of the given options is correct.

Deegan - Chapter 02 #15
Difficulty: Easy

16. Which theoretical perspective suggests that where firms are able to choose accounting methods, they will choose those that best reflect their economic performance?

- A. Opportunistic perspective
- B. Efficiency perspective**
- C. Creative accounting perspective
- D. Economic interest perspective

Deegan - Chapter 02 #16
Difficulty: Easy

17. Which theoretical perspective suggests that where firms are able to choose accounting methods, they will choose those that provide the result desired by the preparers?

- A. Efficiency perspective
- B. Objectivity perspective
- C. Stakeholder perspective
- D. Opportunistic perspective**

Deegan - Chapter 02 #17
Difficulty: Easy

18. Which of the following is a reason why accounting, and accountants, can be considered very powerful?

- A. The emphasis on profitability measures provides support to profitable companies which may not be worthy of support under other measures.
- B. The provision of purported objective information provides users with a source of power to drive changes to a corporation's behaviour.
- C. The output of the accounting process impacts on many decisions which can result in transfers of funds, and therefore wealth.
- D. All of the given options are correct.**

Deegan - Chapter 02 #18
Difficulty: hard

19. Which of the following statements is true?

- A. Measures of profit ignore many social and environmental externalities caused by the firm.**
- B. The profit figure is an objective measure of performance.
- C. The company has reported a record profit, therefore it is automatically worthy of support.
- D. All of the given options are correct.

Deegan - Chapter 02 #19
Difficulty: hard

20. Which of the following statements is not true for accountants in general?

- A. They should be objective and free from bias when performing their duties.
- B. The information they report should represent faithfully the underlying transactions and events.
- C.** They adopt different accounting methods to suit their own needs, and the needs of the company.
- D. None of the given options is correct.

Deegan - Chapter 02 #20

Difficulty: Medium

21. Accounting theories should be:

- A. Inductive
- B. Deductive
- C. Descriptive
- D.** None of the given options is correct.

Deegan - Chapter 02 #21

Difficulty: Easy

22. Which of the following is an example of a normative accounting theory, or research?

- A. Conceptual frameworks of accounting
- B. Critical perspectives of accounting practice
- C. True income theories
- D.** All of the given options are normative accounting theories.

Deegan - Chapter 02 #22

Difficulty: Easy

23. Which of the following statements is true about early codification of accounting rules?

- A. In the early part of the twentieth century, limited work was undertaken to codify particular accounting principles or rules.
- B. Accountants used rules of which they were aware, and which they believed were most appropriate to the particular circumstances.
- C. There was very limited uniformity between the accounting methods adopted by different organisations, thereby creating comparability problems.
- D.** All of the given options are correct.

Deegan - Chapter 02 #23

Difficulty: hard

24. Which of the following arguments supports the view that regulation is not necessary, particularly to the extent that it currently exists?

- A.** Accounting information is like any other good, and people will be prepared to pay for it to the extent that it has a use.
- B. Markets for information are not efficient and therefore produce a sub-optimum amount of information, given the problem of 'free riders'.
- C. Investors need protection from fraudulent organisations that may produce misleading information.
- D. Information asymmetry exists because not everyone has the same power over resources to obtain the information they need.

Deegan - Chapter 02 #24
Difficulty: Medium

25. 'In the process of introducing regulation, the organisations that are subject to the regulation will ultimately come to control the regulators'. This statement denotes:

- A. Public interest theory
- B.** Capture theory
- C. Private interest theory
- D. Economic interest group theory

Deegan - Chapter 02 #25
Difficulty: Easy

26. Efficiency perspective can be described as:

- A. All individuals' action is driven by self-interest.
- B. Individuals will act in an opportunistic manner to the extent that the actions will increase their wealth.
- C. Notions of loyalty and morality are ignored.
- D.** Different organisational characteristics explain why different firms adopt different accounting methods.

Deegan - Chapter 02 #26
Difficulty: Medium

27. The qualitative characteristics of financial reports that make information useful to users are:

- A. Understandability
- B. Reliability
- C. Comparability
- D.** Understandability, reliability and comparability

Deegan - Chapter 02 #27
Difficulty: Easy

28. Which of the following is not true for the International Accounting Standards Board (IASB)?

- A. The IASB is an independent standard-setting board that is publicly accountable to a monitoring board of capital market authorities.
- B. The IASB receives funding from the private sector, including mandatory levies on listed and non-listed entities in countries that utilise its standards.
- C.** The IASB has strong enforcement powers to ensure that entities that have adopted its standards are in full compliance.
- D. From 2005, the European Union adopted IFRSs for listed companies preparing consolidated financial reports.

Deegan - Chapter 02 #28
Difficulty: hard

29. Which of the following is true regarding the role of professional judgment in financial reporting?

- A. Accountants are always subjective in their judgments.
- B.** Information generated should faithfully represent transactions and be neutral and verifiable.
- C. The consideration of economic and social standards implies objectivity in their development and implementation.
- D. Accountants are never required to apply professional judgment.

Deegan - Chapter 02 #29
Difficulty: Medium

Chapter 02 The financial reporting environment **Summary**

<u>Category</u>	<u># of Questions</u>
Deegan - Chapter 02	29
Difficulty: Easy	17
Difficulty: hard	4
Difficulty: Medium	8