

Chapter 01 Testbank

1. Directors could elect not to comply with an accounting standard on the grounds that applying the particular accounting standard would cause the accounts not to present a 'true and fair view'.
True False

2. The role of the Financial Reporting Council is to provide broad oversight of the process for setting standards in Australia, including the authority to direct the AASB to develop, amend or revoke a particular standard.
True False

3. To stay up-to-date, financial accountants must continually keep abreast of ongoing changes and this is why professional accounting bodies require their members to undergo continuing professional development/education.
True False

4. AASB 1053 introduced a two-tier reporting system for entities producing general purpose financial statements.
True False

5. An auditor's opinion is an assurance of the future viability of the entity, or of the efficiency or effectiveness with which management has conducted the affairs of the entity.
True False

6. Articles in the financial press suggest that professional money managers, security analysts and other investors impose costs on firms when their managers appear to delay bad news disclosures.
True False

7. One of the reasons why regulators require reporting entities to comply with accounting standards is that this is perceived to increase the 'comparability' of the information being produced by different reporting entities.
True False

8. What are two of the key ways in which management accounting differs from financial accounting?
A. Management accounting provides special-purpose information to people external to the firm and it is highly regulated.

B. Management accounting provides information for the day-to-day running of an organisation and it is governed by the requirements of ASIC.

C. Management accounting is focused on providing information to shareholders who wish to have input into the management of the organisation and it is regulated by generally accepted accounting principles.

D. Management accounting focuses on providing information for internal users and it is largely unregulated.

9. One among the duties of accountability is to provide a reckoning or account of those actions to the _____.

A. stakeholders

B. chief executive officer

C. chief financial officer

D. chief executive officer and chief financial officer

10. AASB are initials that stand for:

A. Australian Accounting Standards Board

B. Auditing & Assurance Standards Board

C. Australian Accounting Standards Bureau

D. Accounting & Auditing Supervision Board

11. The broad role of 'accounting', and of a corporate report (and corporate reporting) is to inform relevant _____ about the extent to which the actions for which an organisation is deemed to be responsible (which in itself is a controversial issue as people can have very different views about the responsibilities of organisations) have actually been fulfilled.

A. stakeholders

B. directors

C. managers

D. compliance officers

12. To which body does the Australian Accounting Standards Board report?

A. The Urgent Issues Group

B. The Financial Accounting Standards Board

C. The Financial Reporting Council

D. The Auditing and Assurance Standards Board

13. The Financial Reporting Council appoints the 12 part-time AASB members from a variety of backgrounds, including:

A. the private sector, government, academia, Big 4 accounting firms and independent consultancy

B. the private sector, government, academia, Big 4 accounting firms and employee lobby groups

C. the private sector, government, academia, accounting firms and environmental lobby groups

D. the private sector, government, academia, Big 4 accounting firms and the education sector

14. A financial statement designed to meet the needs of a specific group or to satisfy a specific purpose is known as a _____.

- A. general purpose financial statement
- B. special purpose financial statement
- C. demand financial statement
- D. true and fair financial statement

15. A financial statement that complies with the requirements of the Conceptual Framework and accounting standards, and that meets the information needs common to users who are unable to prepare financial statements tailored specifically to satisfy all of their information needs, is known as a _____.

- A. general purpose financial statement
- B. special purpose financial statement
- C. demand financial statement
- D. true and fair financial statement

16. The _____ sets uniform trading rules, ethical standards and listing requirements in Australia.

- A. Australian National Exchange
- B. Australian Securities Exchange
- C. Australian Stock Exchange
- D. Australian Trading Exchange

17. _____ is the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account.

- A. Corporate governance
- B. Corporate social responsibility
- C. Corporate reporting
- D. Corporate law

18. Which among the following is *not* a principle of corporate governance?

- A. To lay solid foundations for management and oversight
- B. To structure the board to be effective and add value
- C. To promote a culture of acting lawfully, unethically and irresponsibly
- D. To safeguard the integrity of corporate reports

19. Which of the following most accurately describes the process of issuing an IASB standard?

- A. An advisory committee may be established to give advice on the project. This may be followed by the development and publication of discussion documents. After receiving public feedback, an exposure draft may be issued for further comment. A final IFRS is then issued based on previous feedback along with Basis for Conclusion.
- B. Discussion documents are developed and published for public comment, then an advisory committee must be established to give advice on the project. After receiving public feedback, an exposure draft may be issued for further comment. A final IFRS is then issued based on previous feedback along with Basis for Conclusion.
- C. An advisory committee may be established to give advice on the project and develop an exposure draft, which will be followed by the development and publication of discussion documents. After receiving public feedback, a final IFRS is then issued along with Basis for Conclusion.
- D. An advisory committee must be established to give advice on the project; this will be followed by the development and publication of discussion documents. After receiving public feedback, an exposure draft is required to be issued for further comment. A final IFRS is then issued based on previous feedback, along with the Basis for Conclusion.

20. Pursuant to sections 298–300A of the *Corporations Act*, the Directors' Report must include:

- A. a copy of the independent audit report
- B. details of all related-party transactions
- C. details of directors' emoluments
- D. details of compliance with the *ASX Corporate Governance Principles and Recommendations*

21. AASB 1053 introduced a ____-tier reporting system for entities producing general purpose financial statements.

- A. three
- B. one
- C. two
- D. four

22. _____ means accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs.

- A. Private accountability
- B. Public accountability
- C. Potential accountability
- D. Tailored accountability

23. The functioning of the Auditing and Assurance Standards Board is overseen by:

- A. the Australian Prudential Regulation Authority
- B. the Australian Accounting Standards Board
- C. the Financial Reporting Council
- D. the International Accounting Standards Board

24. The _____ opinion helps to establish the credibility and reliability of the financial information.
- A. lender's
 - B. consumer's
 - C. investor's
 - D. auditor's
25. One of the benefits of international _____ is that it helps to improve the quality of financial reporting in Australia so that it meets best international practice.
- A. law
 - B. standardisation
 - C. governance
 - D. reporting
26. Which of the following statements is generally supported by the extensive review of existing research according to AASB (2016)?
- A. IFRS adoption has benefitted the Australian economy.
 - B. IFRS adoption has not benefitted the Australian economy.
 - C. IFRS adoption has led to financial reports becoming longer and harder to read.
 - D. None of the given options are correct.
27. The publication of an exposure draft , or an International Financial Reporting Standard (including an International Accounting Standard or an Interpretation of the Interpretations Committee) requires approval by:
- A. the chairman of the IASB
 - B. a simple majority of the IASB's 14 members
 - C. 9 of the IASB's 14 members
 - D. 12 of the IASB's 14 members
28. The *Corporations Act* requires which of the following statements to be included in a Directors' Declaration?
- A. Whether in their opinion the financial statements comply with accounting standards and the *Corporations Act*.
 - B. Whether in their opinion the financial statements give a true and fair view of the financial position and financial performance of the entity.
 - C. Whether or not in their opinion, when the declaration was made, there were reasonable grounds to believe that the company would be able to pay its debts as they become due.
 - D. All the options listed here are correct.
29. _____ tend to understate the value of an entity's net assets; they have a bias towards understating the carrying amount of assets and overstating the carrying amount of liabilities.

- A. Conservative accounting policies
- B. Commercial accounting policies
- C. Modern accounting policies
- D. New age accounting policies

30. The financial statements shall present a measure of _____ that has been determined by applying accounting standards.

- A. social responsibilities
- B. number of employees
- C. profits
- D. securities

31. Differential reporting is based on:

- A. small and large proprietary companies having the same requirements to comply with accounting standards in the preparation of financial reports
- B. the burden of additional reporting for some organisations in situations where there were questionable benefits to report preparers
- C. the difference between the ability of shareholders in 'small' and those in 'large' companies to request information to satisfy their specific needs
- D. None of the options listed here is correct

32. The IASB has:

- A. the power to enforce standards in Australia
- B. the power to enforce standards in any country adopting IFRSs
- C. limited powers of enforcement in IFRS-adopting countries
- D. no powers of enforcement

33. Define general purpose financial statements as per accounting standard AASB 101 *Preparation and Presentation of Financial Statements*.

34. Do accounting standards change across time?

35. Discuss why professional accounting bodies typically require their members to undergo continuing professional development/education as part of their membership requirements.

36. What benefits can we expect from international standardisation?

37. What is meant by conservative accounting policies?

38. Explain briefly why accounting cannot be considered culture-free.

39. Discuss the 'free-market' perspective on accounting regulation.

40. What are the motivations for providing the alternative measures of performance?

Chapter 01 Testbank Key

1. Directors could elect not to comply with an accounting standard on the grounds that applying the particular accounting standard would cause the accounts not to present a 'true and fair view'.

Ans: False

AACSB: Analytic
Blooms: Analysis
Difficulty: Hard

Learning Objective: 1.03 Understand the role of the Australian Securities and Investments Commission with respect to general purpose financial reporting within Australia, and be aware of the requirements within the Corporations Act that require the preparation of a Directors' Declaration, Directors' Report, and a Declaration by the Chief Executive Officer and Chief Financial Officer

Topic: Australian Securities and Investments Commission

2. The role of the Financial Reporting Council is to provide broad oversight of the process for setting standards in Australia, including the authority to direct the AASB to develop, amend or revoke a particular standard.

Ans: False

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium

Learning Objective: 1.05 Understand the role of the Financial Reporting Council with respect to general purpose financial reporting within Australia

Topic: Financial Reporting Council

3. To stay up-to-date, financial accountants must continually keep abreast of ongoing changes and this is why professional accounting bodies require their members to undergo continuing professional development/education.

Ans: True

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Easy

Learning Objective: 1.08 Understand that accounting standards change across time, meaning that profits calculated in past years may not be directly comparable with current profit calculations

Topic: Accounting standards change across time

4. AASB 1053 introduced a two-tier reporting system for entities producing general purpose financial statements.

Ans: True

AACSB: Communication
Blooms: Knowledge
Difficulty: Easy

Learning Objective: 1.09 Be able to explain the idea of 'differential reporting'

Topic: Differential reporting

5. An auditor's opinion is an assurance of the future viability of the entity, or of the efficiency or effectiveness with which management has conducted the affairs of the entity.

Ans: False

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.10 Understand the role of the auditor, and the auditor's report, with respect to general purpose financial reporting

Topic: The use and role of audit reports

6. Articles in the financial press suggest that professional money managers, security analysts and other investors impose costs on firms when their managers appear to delay bad news disclosures.

Ans: True

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.13 Understand that the practice of general purpose financial reporting is quite heavily regulated within Australia, and be aware of some of the arguments for and against the regulation of financial accounting

Topic: All of this regulation—is it really necessary?

7. One of the reasons why regulators require reporting entities to comply with accounting standards is that this is perceived to increase the 'comparability' of the information being produced by different reporting entities.

Ans: True

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.14 Understand that organisations will often include and highlight measures of financial performance within their annual reports that do not comply with accounting standards

Topic: The reporting of alternative measures of 'profits'

8. What are two of the key ways in which management accounting differs from financial accounting?

A. Management accounting provides special-purpose information to people external to the firm and it is highly regulated.

B. Management accounting provides information for the day-to-day running of an organisation and it is governed by the requirements of ASIC.

C. Management accounting is focused on providing information to shareholders who wish to have input into the management of the organisation and it is regulated by generally accepted accounting principles.

D. Management accounting focuses on providing information for internal users and it is largely unregulated.

Ans: D

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.01 Understand the meaning of 'financial accounting' and its relationship to the broader areas of 'accounting' and 'accountability'

Topic: Accounting, accountability and the role of financial accounting

9. One among the duties of accountability is to provide a reckoning or account of those actions to the _____.

- A. stakeholders
- B. chief executive officer
- C. chief financial officer
- D. chief executive officer and chief financial officer

Ans: A

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Easy

Learning Objective: 1.01 Understand the meaning of 'financial accounting' and its relationship to the broader areas of 'accounting' and 'accountability'
Topic: Accounting, accountability and the role of financial accounting

10. AASB are initials that stand for:

- A. Australian Accounting Standards Board
- B. Auditing & Assurance Standards Board
- C. Australian Accounting Standards Bureau
- D. Accounting & Auditing Supervision Board

Ans: A

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Easy

Learning Objective: 1.04 Understand the role of the Australian Accounting Standards Board with respect to general purpose financial reporting within Australia
Topic: Australian Accounting Standards Board

11. The broad role of 'accounting', and of a corporate report (and corporate reporting) is to inform relevant _____ about the extent to which the actions for which an organisation is deemed to be responsible (which in itself is a controversial issue as people can have very different views about the responsibilities of organisations) have actually been fulfilled.

- A. stakeholders
- B. directors
- C. managers
- D. compliance officers

Ans: A

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Easy

Learning Objective: 1.01 Understand the meaning of 'financial accounting' and its relationship to the broader areas of 'accounting' and 'accountability'
Topic: Accounting, accountability and the role of financial accounting

12. To which body does the Australian Accounting Standards Board report?

- A. The Urgent Issues Group
- B. The Financial Accounting Standards Board

- C. The Financial Reporting Council
D. The Auditing and Assurance Standards Board

Ans: C

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.04 Understand the role of the Australian Accounting Standards Board with respect to general purpose financial reporting within Australia

Topic: Australian Accounting Standards Board

13. The Financial Reporting Council appoints the 12 part-time AASB members from a variety of backgrounds, including:

- A. the private sector, government, academia, Big 4 accounting firms and independent consultancy
B. the private sector, government, academia, Big 4 accounting firms and employee lobby groups
C. the private sector, government, academia, accounting firms and environmental lobby groups
D. the private sector, government, academia, Big 4 accounting firms and the education sector

Ans: A

AACSB: Analytic

Blooms: Analysis

Difficulty: Medium

Learning Objective: 1.05 Understand the role of the Financial Reporting Council with respect to general purpose financial reporting within Australia

Topic: Financial Reporting Council

14. A financial statement designed to meet the needs of a specific group or to satisfy a specific purpose is known as a _____.

- A. general purpose financial statement
B. special purpose financial statement
C. demand financial statement
D. true and fair financial statement

Ans: B

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.02 Be able to explain who is likely to be a user of general purpose financial statements

Topic: Users' demand for general purpose financial statements

15. A financial statement that complies with the requirements of the Conceptual Framework and accounting standards, and that meets the information needs common to users who are unable to prepare financial statements tailored specifically to satisfy all of their information needs, is known as a _____.

- A. general purpose financial statement
B. special purpose financial statement
C. demand financial statement
D. true and fair financial statement

Ans: A

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.02 Be able to explain who is likely to be a user of general purpose financial statements

Topic: Users' demand for general purpose financial statements

16. The _____ sets uniform trading rules, ethical standards and listing requirements in Australia.

- A. Australian National Exchange
- B. Australian Securities Exchange
- C. Australian Stock Exchange
- D. Australian Trading Exchange

Ans: B

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.06 Understand the role of the Australian Securities Exchange with respect to general purpose financial reporting within Australia

Topic: Australian Securities Exchange

17. _____ is the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It encompasses the mechanisms by which companies, and those in control, are held to account.

- A. Corporate governance
- B. Corporate social responsibility
- C. Corporate reporting
- D. Corporate law

Ans: A

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1.06 Understand the role of the Australian Securities Exchange with respect to general purpose financial reporting within Australia

Topic: Australian Securities Exchange

18. Which among the following is *not* a principle of corporate governance?

- A. To lay solid foundations for management and oversight
- B. To structure the board to be effective and add value
- C. To promote a culture of acting lawfully, unethically and irresponsibly
- D. To safeguard the integrity of corporate reports

Ans: C

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.06 Understand the role of the Australian Securities Exchange with respect to general purpose financial reporting within Australia

Topic: Australian Securities Exchange

19. Which of the following most accurately describes the process of issuing an IASB standard?

- A. An advisory committee may be established to give advice on the project. This may be followed by the development and publication of discussion documents. After receiving public feedback, an exposure draft may be issued for further comment. A final IFRS is then issued based on previous feedback along with Basis for Conclusion.
- B. Discussion documents are developed and published for public comment, then an advisory committee must be established to give advice on the project. After receiving public feedback, an exposure draft may be issued for further comment. A final IFRS is then issued based on previous feedback along with Basis for Conclusion.
- C. An advisory committee may be established to give advice on the project and develop an exposure draft, which will be followed by the development and publication of discussion documents. After receiving public feedback, a final IFRS is then issued along with Basis for Conclusion.
- D. An advisory committee must be established to give advice on the project; this will be followed by the development and publication of discussion documents. After receiving public feedback, an exposure draft is required to be issued for further comment. A final IFRS is then issued based on previous feedback, along with the Basis for Conclusion.

Ans: A

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Hard

Learning Objective: 1.07 Be able to explain the general functions of the International Accounting Standards Board and its relevance to Australian general purpose financial reporting
Topic: The International Accounting Standards Board

20. Pursuant to sections 298–300A of the *Corporations Act*, the Directors' Report must include:

- A. a copy of the independent audit report
- B. details of all related-party transactions
- C. details of directors' emoluments
- D. details of compliance with the *ASX Corporate Governance Principles and Recommendations*

Ans: C

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Easy

Learning Objective: 1.03 Understand the role of the Australian Securities and Investments Commission with respect to general purpose financial reporting within Australia, and be aware of the requirements within the *Corporations Act* that require the preparation of a Directors' Declaration, Directors' Report, and a Declaration by the Chief Executive Officer and Chief Financial Officer
Topic: Australian Securities and Investments Commission

21. AASB 1053 introduced a ____-tier reporting system for entities producing general purpose financial statements.

- A. three
- B. one
- C. two
- D. four

Ans: C

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.09 Be able to explain the idea of 'differential reporting'

Topic: Differential reporting

22. _____ means accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs.

- A. Private accountability
- B. Public accountability
- C. Potential accountability
- D. Tailored accountability

Ans: B

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1.09 Be able to explain the idea of 'differential reporting'

Topic: Differential reporting

23. The functioning of the Auditing and Assurance Standards Board is overseen by:

- A. the Australian Prudential Regulation Authority
- B. the Australian Accounting Standards Board
- C. the Financial Reporting Council
- D. the International Accounting Standards Board

Ans: C

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.05 Understand the role of the Financial Reporting Council with respect to general purpose financial reporting within Australia

Topic: Financial Reporting Council

24. The _____ opinion helps to establish the credibility and reliability of the financial information.

- A. lender's
- B. consumer's
- C. investor's
- D. auditor's

Ans: D

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1.10 Understand the role of the auditor, and the auditor's report, with respect to general purpose financial reporting

Topic: The use and role of audit reports

25. One of the benefits of international _____ is that it helps to improve the quality of financial reporting in Australia so that it meets best international practice.

- A. law
- B. standardisation
- C. governance
- D. reporting

Ans: B

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1.11 Be aware of some of the perceived benefits pertaining to the international standardisation of financial reporting as espoused by the International Accounting Standards Board

Topic: What benefits can we expect from all of this international standardisation?

26. Which of the following statements is generally supported by the extensive review of existing research according to AASB (2016)?

- A. IFRS adoption has benefitted the Australian economy.
- B. IFRS adoption has not benefitted the Australian economy.
- C. IFRS adoption has led to financial reports becoming longer and harder to read.
- D. None of the given options are correct.

Ans: A

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1.11 Be aware of some of the perceived benefits pertaining to the international standardisation of financial reporting as espoused by the International Accounting Standards Board

Topic: What benefits can we expect from all of this international standardisation?

27. The publication of an exposure draft , or an International Financial Reporting Standard (including an International Accounting Standard or an Interpretation of the Interpretations Committee) requires approval by:

- A. the chairman of the IASB
- B. a simple majority of the IASB's 14 members
- C. 9 of the IASB's 14 members
- D. 12 of the IASB's 14 members

Ans: C

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Easy

Learning Objective: 1.07 Be able to explain the general functions of the International Accounting Standards Board and its relevance to Australian general purpose financial reporting

Topic: The International Accounting Standards Board

28. The *Corporations Act* requires which of the following statements to be included in a Directors' Declaration?

- A. Whether in their opinion the financial statements comply with accounting standards and the *Corporations Act*.

- B. Whether in their opinion the financial statements give a true and fair view of the financial position and financial performance of the entity.
- C. Whether or not in their opinion, when the declaration was made, there were reasonable grounds to believe that the company would be able to pay its debts as they become due.
- D. All the options listed here are correct.

Ans: D

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Easy

Learning Objective: 1.03 Understand the role of the Australian Securities and Investments Commission with respect to general purpose financial reporting within Australia, and be aware of the requirements within the Corporations Act that require the preparation of a Directors' Declaration, Directors' Report, and a Declaration by the Chief Executive Officer and Chief Financial Officer

Topic: Australian Securities and Investments Commission

29. _____ tend to understate the value of an entity's net assets; they have a bias towards understating the carrying amount of assets and overstating the carrying amount of liabilities.
- A. Conservative accounting policies
- B. Commercial accounting policies
- C. Modern accounting policies
- D. New age accounting policies

Ans: A

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium

Learning Objective: 1.12 Be aware of some research which suggests that the pursuit of international standardisation in general purpose financial reporting ignores many important impediments, such as international differences in 'culture'

Topic: International cultural differences and the harmonisation of accounting standards

30. The financial statements shall present a measure of _____ that has been determined by applying accounting standards.
- A. social responsibilities
- B. number of employees
- C. profits
- D. securities

Ans: C

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium

Learning Objective: 1.14 Understand that organisations will often include and highlight measures of financial performance within their annual reports that do not comply with accounting standards

Topic: The reporting of alternative measures of 'profits'

31. Differential reporting is based on:
- A. small and large proprietary companies having the same requirements to comply with accounting standards in the preparation of financial reports
- B. the burden of additional reporting for some organisations in situations where there were questionable benefits to report preparers

- C. the difference between the ability of shareholders in 'small' and those in 'large' companies to request information to satisfy their specific needs
D. None of the options listed here is correct

Ans: C

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Hard

Learning Objective: 1.04 Understand the role of the Australian Accounting Standards Board with respect to general purpose financial reporting within Australia
Topic: Australian Accounting Standards Board

32. The IASB has:

- A. the power to enforce standards in Australia
B. the power to enforce standards in any country adopting IFRSs
C. limited powers of enforcement in IFRS-adopting countries
D. no powers of enforcement

Ans: D

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium

Learning Objective: 1.07 Be able to explain the general functions of the International Accounting Standards Board and its relevance to Australian general purpose financial reporting
Topic: The International Accounting Standards Board

33. Define general purpose financial statements as per accounting standard AASB 101
Preparation and Presentation of Financial Statements.

Ans: General purpose financial statements (referred to as 'financial statements') are those intended to meet the information needs common to users who are unable to command the preparation of financial statements tailored specifically to satisfy all of their information needs.

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium

Learning Objective: 1.02 Be able to explain who is likely to be a user of general purpose financial statements
Topic: Users' demand for general purpose financial statements

34. Do accounting standards change across time?

Ans: Yes. Accounting standards frequently change over time. Each year, various existing accounting standards will be changed, and new ones addressing new topics might be introduced. The accounting standards themselves might retain the same numbers (for example, AASB 101) but undergo changes periodically.

AACSB: Reflective thinking
Blooms: Comprehension
Difficulty: Medium

Learning Objective: 1.08 Understand that accounting standards change across time, meaning that profits calculated in past years may not be directly comparable with current profit calculations
Topic: Accounting standards change across time

35. Discuss why professional accounting bodies typically require their members to undergo continuing professional development/education as part of their membership requirements.

Ans: Since accounting standards change over time, some of what we learn now might not be relevant in five or more years. Therefore, to stay up-to-date, financial accountants must continually keep abreast of ongoing changes.

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1.08 Understand that accounting standards change across time, meaning that profits calculated in past years may not be directly comparable with current profit calculations

Topic: Accounting standards change across time

36. What benefits can we expect from international standardisation?

Ans: The Australian government decided that Australia would adopt IFRSs because of the perceived benefits. The benefits that were promoted by the FRC included an increased ability for Australian entities to access capital from international sources and for investors to compare the results of Australian entities with those of overseas entities. There is also the expectation that it will be more efficient for international companies operating in Australia to prepare financial statements internationally on the basis of the same set of accounting standards.

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1.11 Be aware of some of the perceived benefits pertaining to the international standardisation of financial reporting as espoused by the International Accounting Standards Board

Topic: What benefits can we expect from all of this international standardisation?

37. What is meant by conservative accounting policies?

Ans: Conservative accounting policies tend to understate the value of an entity's net assets. They tend to have a bias towards understating the carrying amount of assets and overstating the carrying amount of liabilities.

AACSB: Reflective thinking

Blooms: Comprehension

Difficulty: Medium

Learning Objective: 1.12 Be aware of some research which suggests that the pursuit of international standardisation in general purpose financial reporting ignores many important impediments, such as international differences in 'culture'

Topic: International cultural differences and the harmonisation of accounting standards

38. Explain briefly why accounting cannot be considered culture-free.

Ans: Culture is described by Gray (1988, p. 4) as a system of societal or collectively held values, where values are defined as a broad tendency to prefer certain states of affairs over others. Perera (1989) describes culture as an expression of norms, values and customs which reflect typical behavioural characteristics. There are many accounting researchers (for example, Gray 1988; Perera 1989; Fechner & Kilgore 1994; Eddie 1996; Chand & White 2007) who argue that the accounting policies and practices adopted within particular countries are to some extent a direct reflection of the cultural and individual values and beliefs in those countries. That is, the values in the accounting subculture are directly influenced by society-wide values. Perera (1989) argues that culture is a powerful environmental factor affecting the accounting system of a country and, therefore, accounting cannot be considered to be 'culture-free'.

*AACSB: Reflective thinking**Blooms: Comprehension**Difficulty: Medium**Learning Objective: 1.12 Be aware of some research which suggests that the pursuit of international standardisation in general purpose financial reporting ignores many important impediments, such as international differences in 'culture'**Topic: International cultural differences and the harmonisation of accounting standards*

39. Discuss the 'free-market' perspective on accounting regulation.

Ans: Proponents of a free-market perspective on accounting regulation often believe that accounting information should be treated like other goods, with demand and supply forces being allowed to operate to generate an optimal supply of information about an entity.

*AACSB: Reflective thinking**Blooms: Comprehension**Difficulty: Medium**Learning Objective: 1.13 Understand that the practice of general purpose financial reporting is quite heavily regulated within Australia, and be aware of some of the arguments for and against the regulation of financial accounting**Topic: All of this regulation—is it really necessary?*

40. What are the motivations for providing the alternative measures of performance?

Ans: The motivations for providing alternative measures of performance comes from a belief that the measures of performance derived by not complying with accounting standards provides a relatively superior indicator of the organisation's underlying performance and that this measure is more useful to both the managers of the organisation, in terms of effectively managing the organisation, and to the readers of the financial reports. Alternatively, such disclosures might be made opportunistically by managers to generate a result that managers think will provide some form of benefit to the organisation, or to themselves. Perhaps it could also be a mixture of both incentives.

*AACSB: Reflective thinking**Blooms: Comprehension**Difficulty: Medium**Learning Objective: 1.14 Understand that organisations will often include and highlight measures of financial performance within their annual reports that do not comply with accounting standards**Topic: The reporting of alternative measures of 'profits'*

Category

of Questions

AACSB: Analytic

2

AACSB: Communication

1

AACSB: Reflective thinking

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Blooms: Analysis

2

Blooms: Comprehension

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Blooms: Knowledge

1

Difficulty: Easy

19

Difficulty: Hard

3

Difficulty: Medium

18

Learning Objective: 1.01 Understand the meaning of 'financial accounting' and its relationship to the broader areas of 'accounting' and 'accountability'

3

Learning Objective: 1.02 Be able to explain who is likely to be a user of general purpose financial statements

3

Learning Objective: 1.03 Understand the role of the Australian Securities and Investments Commission with respect to general purpose financial reporting within Australia, and be aware of the requirements within the Corporations Act that require the preparation of a Directors' Declaration, Directors' Report, and a Declaration by the Chief Executive Officer and Chief Financial Officer

3

Learning Objective: 1.04 Understand the role of the Australian Accounting Standards Board with respect to general purpose financial reporting within Australia

3

Learning Objective: 1.05 Understand the role of the Financial Reporting Council with respect to general purpose financial reporting within Australia

3

Learning Objective: 1.06 Understand the role of the Australian Securities Exchange with respect to general purpose financial reporting within Australia

3

Learning Objective: 1.07 Be able to explain the general functions of the International Accounting Standards Board and its relevance to Australian general purpose financial reporting

3

Learning Objective: 1.08 Understand that accounting standards change across time, meaning that profits calculated in past years may not be directly comparable with current profit calculations

3

Learning Objective: 1.09 Be able to explain the idea of 'differential reporting'

3

Learning Objective: 1.10 Understand the role of the auditor, and the auditor's report, with respect to general purpose financial reporting

2

Learning Objective: 1.11 Be aware of some of the perceived benefits pertaining to the international standardisation of financial reporting as espoused by the International Accounting Standards Board

3

Learning Objective: 1.12 Be aware of some research which suggests that the pursuit of international standardisation in general purpose financial reporting ignores many important impediments, such as international differences in ‘culture’

3

Learning Objective: 1.13 Understand that the practice of general purpose financial reporting is quite heavily regulated within Australia, and be aware of some of the arguments for and against the regulation of financial accounting

2

Learning Objective: 1.14 Understand that organisations will often include and highlight measures of financial performance within their annual reports that do not comply with accounting standards

3

Topic: Accounting standards change across time

3

Topic: Accounting, accountability and the role of financial accounting

3

Topic: All of this regulation—is it really necessary?

2

Topic: Australian Accounting Standards Board

3

Topic: Australian Securities Exchange

3

Topic: Australian Securities and Investments Commission

3

Topic: Differential reporting

3

Topic: Financial Reporting Council

3

Topic: International cultural differences and the harmonisation of accounting standards

3

Topic: The International Accounting Standards Board

3

Topic: The reporting of alternative measures of ‘profits’

3

Topic: The use and role of audit reports

2

Topic: Users’ demand for general purpose financial statements

3

Topic: What benefits can we expect from all of this international standardisation?

3