

Student name: _____

The main purpose of financial accounting is to communicate useful financial information to decision-makers both inside and outside of the business organization.

true

false

The Canadian Business Corporations Act mandates that all incorporated companies in Canada follow IFRS.

true

false

Private companies in Canada may choose between IFRS or ASPE.

true

false

Canada has adapted its own pre-existing standards for public companies to IFRS, while the U.S has adopted IFRS completely.

true

false

LPP Inc. is a public company in Canada whose shares are traded on the New York Stock Exchange. LPP Inc. may use either IFRS or a disclosed basis of accounting (DBA).

true

false

Only publicly traded companies in Canada are required to adopt IFRS.

true

false

Earnings quality is said to be high when most of a company's earnings are the result of its continuing operations.

true

false

Income tax deferral, tax minimization and tax evasion are all illegal in Canada.

true

false

In Canada, income for tax and accounting purposes may be different.

true

false

External users of a company's financial statements may have conflicting objectives.

true

false

In Canada, IFRS standards were essentially converged with Canadian GAAP.

true

false

A company's functional currency is always the currency in which the financial statements are presented.

true

false

It is acceptable for publicly traded Canadian companies to report under US GAAP.

true

false

In Canada, almost all equity financing for both public and private companies is done through private placements.

true

false

IFRS standards may be modified to allow for a disclosed basis of accounting (DBA).

true

false

Privately held for-profit enterprises with a fiduciary responsibility have a choice between IFRS and ASPE.

true

false

Mutual fund companies, which may be privately held, are deemed to have a fiduciary responsibility and must therefore comply with IFRS.

true

false

Canadian companies must always present their financial results in Canadian dollars.

true

false

Canadian corporations are prohibited from using U.S. GAAP.

true

false

A company's reporting currency is the currency in which it conducts most of its business.

true

false

The disclosed basis of accounting (DBA) refers to the use of Non-GAAP accounting policies by private companies.

true

false

A company's presentation currency can differ from its functional currency.

true

false

The accounting standards for private enterprises (ASPE) are essentially a scaled-down version of the CPA Handbook, which is available to all small and medium sized enterprises with no fiduciary responsibility.

true

false

Different stakeholders have different reporting requirements with respect to general-purpose financial statements. A lender will be more interested in a company's cash flows while an investor will likely be more interested in a company's earnings.

true

false

The influence of tax rules when selecting appropriate accounting treatment for a transaction is particularly strong with public companies.

true

false

Due to the excellent work of the ACSB, there are very few choices among alternative accounting policies today.

true

false

Cash flow prediction is a common internal user reporting objective.

true

false

Disclosure notes facilitate the evaluation of enterprise position and performance because they include information, which helps to explain qualitative aspects of earnings.

true

false

A company that chooses to expense development cost instead of capitalizing is perceived to have high-quality earnings.

true

false

Lending institutions such as banks are most interested in a company's profitability ratios.

true

false

Developments in accounting standards have not addressed the problem of using accounting techniques to smooth earnings.

true

false

Management will choose policies that focus more on accrual basis of accounting when cash flow assessment and prediction is a key objective.

true

false

Private companies may choose to use tax-based capital cost allowance (CCA) instead of accounting depreciation to depreciate its capital assets.

true

false

A company interested in minimizing the amount of taxes it pays would defer revenue into later years.

true

false

Tax deferral objective is in the best interest of lenders and creditors, however, reported earnings will look poorer, even though the cash flow will actually be better.

true

false

The CPA Canada Handbook requires that income for tax purposes be equal to a company's accounting income at all times.

true

false

The Accounting Standards Board (ACSB) is an independent group established to promulgate accounting standards for governmental units such as provincial and civic entities.

true

false

The International Accounting Standards Board is responsible for the creation of International Financial Reporting Standards used by companies whose securities are traded on international markets.

true

false

A company interested in increasing debt-to-equity ratio will prefer to capitalize than expense the development cost.

true

false

Interperiod allocation makes it easier for financial statement readers to see how management is managing the funds entrusted to its care.

true

false

A German company uses IFRS when reporting their consolidated results so it is straightforward to compare their IFRS results to a Canadian competitor who also uses IFRS.

true

false

ASPE required companies to report using their functional currency and present using a presentation currency.

true

false

The move to IFRS may still incentivize management to take a big bath since IFRS requires assets to be written up if fair value recovers in future years.

true

false

If cash flow prediction is a company's primary reporting objective, this would likely result in:

Higher earnings.

Lower earnings.

Poor matching.

Fewer accruals and deferrals.

Generally accepted accounting principles currently are promulgated primarily by the:

Canadian Business Corporations Act (CBCA).

Federal Accounting Standard Board (FASB).

International Accounting Standards Board (IASB).

Accounting Standards Board (AcSB).

External decision-makers include all of the following except:

manager

investor

creditor

employee

The users toward which financial statements are directed:

are very sophisticated and experienced in using financial information.

are independent Public Accountants.

have degrees in accounting and finance.

have a reasonable understanding of business and economic activities.

are Chartered Financial Analysts.

General-purpose financial statements report financial information relevant to:

investor only.

creditor only.

government user only.

investor, creditor and government user.

Users of financial statements can generally be broken down into which of the following two categories:

Government and external users.

Government and investor.

Creditor and Investor.

External users and preparers.

What is the purpose of financial statements?

To disclose the market value of the firm's assets and liabilities.

To determine compliance with tax laws.

To identify shareholders.

To help users make decisions.

Choose the correct statement about audits of corporations:

Outside auditors are paid by the government for auditing the financial statements of corporations.

Canada Revenue Agency (CRA) performs audits of corporations' financial statements.

Public corporations (those whose stock are traded on exchanges) are subject to annual audit as to their compliance with GAAP.

It is the employees of the firm being audited who perform the annual audit of the financial statements of that firm.

The stewardship function refers to:

Disclosing management's use of funds and other financial information to absentee shareholders.

A company's corporate citizenship track record.

The collection of information for planning the future of the entity, implementing those plans, and for controlling daily operations.

The collection of information to help present and potential investor and creditor and other users in assessing the amounts, timing and uncertainty of prospective cash receipts.

The primary responsibility of an independent auditor who is a professional accountant is to:

Prepare or make changes to source documents.

Assess whether the management is honest.

Evaluate the "fair presentation" of the company's financial reports.

Prepare current financial reports for the client.

Stewardship reporting is an important objective for many organizations, including not-for-profit organizations. Which of the following best reflects the objective of stewardship as a financial reporting choice?

Providing full disclosure and choosing to minimize the use of interperiod allocations, where possible.

Providing full disclosure and choosing to maximize the use of interperiod allocations, where possible.

Providing minimum mandatory disclosure and choosing to minimize the use of interperiod allocations, where possible.

Providing minimum mandatory disclosure and choosing to maximize the use of interperiod allocations, where possible.

Which of the following is NOT a primary motivator for maximizing net income?

Compliance with debt covenants.

To positively influence users' assessment of management performance.

To enhance managers' performance-based compensation.

To minimize the company's income tax liability.

Which policy would management choose if they're interested in maximizing current earnings?

gross revenue accounting instead of accounting revenue on a net basis

accruing expense as early as possible

write-down of capital assets

using straight-line depreciation instead of accelerated depreciation for capital assets

Which financial reporting objective would most likely be met when management defers expense to a later period instead of expensing immediately?

maximize future income

maximize current income tax

cash flow prediction

maximize current earnings.

Which of the following helps better predict cash flow?

writing off assets down to recoverable amount

revalue asset at its fair value

recording revenue in line with cash receipt

None of these answers are true

All of these answers are true

Which of the following helps minimize current income tax?

deferring expense to match revenue

recording revenue as soon as cash is received

deferring revenue to a later period

capitalizing cost instead of expensing

Which of the following financial statements are required for companies adhering to IFRS but not ASPE?

Statement of Comprehensive Income

Statement of Financial Position

Statement of Cash Flows

Statement of Retained Earnings

Which private company would benefit from using ASPE rather than IFRS?

company with a control block who owns the majority of the business

company with operations internationally

company interested in debt/equity financing in the external market

company whose parent company is a major public corporation

A company will choose straight line than declining balance depreciation because it is interested in the following objective:

high earnings quality.

tax-book conformity.

evaluating management's performance.

complying with the covenant to maintain high times-interest-earned ratio.

None of these answers are true.

The disclosed basis of accounting refers to

the use of non-GAAP policies by private companies.

the use of non-GAAP policies by any company.

the use of International Financial Reporting Standards.

the practice of disclosing all pertinent accounting policies in a company's annual report.

Private placements refer to:

funds not disclosed by private companies.

debt or equity securities issued to individuals or organizations without being listed with a securities commission.

shares that form part of a control block.

indirect negotiation with the one or more creditors.

Which of the following statement(s) is correct as it relates to tailored accounting policies also known as a disclosed basis of accounting?

A disclosed basis of accounting is GAAP.

An audit opinion can be provided on a disclosed basis of accounting

Note disclosure is not required if a disclosed basis of accounting is used

A public company can use a disclosed basis of accounting

There are two related sets of financial reporting standards for Canadian business enterprises: International Financial Reporting Standards (IFRS) and Accounting Standards for Private Enterprises (ASPE). Which of the following statements is correct?

A mutual fund is an example of a publicly accountable enterprise and must use IFRS

A private company which is a subsidiary of a parent that reports on the basis of IFRS must also use IFRS

A bank is not a publicly accountable enterprise and may choose to use either IFRS or ASPE

A private company that is considering issuing shares to the public must use IFRS in order to establish a pattern of IFRS compliance in the financial statements.

Moon Company is a Canadian public corporation located in Kitchener, Ontario and its shares are primarily traded in New York Stock Exchange (NYSE). Which of the following is correct as it relates to the choice of GAAP?

Moon Company must follow U.S. GAAP as the Securities Exchange Commission (SEC) will only accept U.S. GAAP

Moon Company may choose to follow U.S. GAAP or IFRS as the Securities Exchange Commission (SEC) will accept either standard

Moon Company must use IFRS as the basic reporting requirement for Canadian public companies is IFRS

Moon Company must use IFRS as Canada's adoption of IFRS makes it relatively easy for Canadian public companies to list on foreign exchanges.

External users often use financial statements as the basis for assessing whether an enterprise has complied with contract provisions. Which of the following provisions best represent debt covenants or maintenance tests?

Minimum times-interest-earned ratio and/or maximum debt-to-equity ratio

Maximum times-interest-earned-ratio and/or maximum debt-to-equity ratio

Minimum times-interest-earned ratio and/or maximum balance of shareholders' equity

Maximum times-interest-earned ratio and/or maximum balance of shareholders' equity

Information provided in financial statements often have direct economic impacts for either the enterprise or its stakeholders. Which of the following would most likely not have an immediate economic impact but could affect users' perception of the reporting enterprise?

Various reported numbers in the financial statements may trigger a default on loan agreements

Shareholders assess management's ability to conduct the affairs of the enterprise

Reported earnings are used as a basis for management bonuses

The reported level of inventories and accounts receivable affects the level of financing through an operating line of credit.

Which financial reporting objective is best served when management follows the accounting policy of disclosing potential lawsuits against the company?

Assessing and predicting cash flows

Minimizing current income taxes

Maximizing current earnings

Complying with a debt covenant that specify minimum levels of shareholders' equity.

IFRS specifies a set of financial statements that are required to be prepared. Which of the following is correct?

The financial statement title of 'balance sheet' may be used instead of 'statement of financial position'

The statement of comprehensive income must be shown as two individual statements presented in immediate succession

Only the statement of financial position needs to be a comparative statement with both the current and the preceding year's amounts presented in comparative columnar format

The statement of changes in equity is essentially the same as the statement of retained earnings.

Please explain the accounting framework to be used by private and publicly accountable enterprises. Why would companies choose one framework over the other?

Please explain the concept of functional and presentation currency and whether the requirements are the same/different under IFRS and ASPE.

Discuss the reasons why a corporation would have the motive or the tendency to adopt the same accounting practices for financial reporting purposes as for tax reporting.

What kind of forces shape a company's financial reporting objectives and why are they important consideration?

Please provide examples of the various types of key financial reporting objectives and which users would those objectives be aligned with?

Give two examples of conflicting motivation between various users. Why is it important to pay attention to the conflict in objectives?

Creditors and analysts who attempt to assess and predict future cash flows tend to prefer earnings measures that are supported by operating cash flows taken from the Cash Flow Statement. What comparisons do they use in assessing the entity's strength in respect of operating cash flows?

Give examples of provisions, known as maintenance tests or covenants which are often contained in debt contracts or agreements.

Instead of maximizing reported earnings, management may wish to minimize reported earnings an ongoing endeavour. Besides income tax minimization, what are some of the reasons why management would want to minimize earnings?

Briefly explain how the Canada Revenue Agency's (CRA's) view differs from most GAAP based policies in terms of revenue recognition

Do you think that most companies in the oil sector would adopt expanded disclosure policies or simply adhere to minimum compliance requirements? Explain.

Explain the differences between the adoption, adaption and convergence of accounting standards.

Give two reasons why managers may have a bias toward smoothing earnings, and give two examples stating how this is achieved in practice.

As it relates to an enterprise's primary financial reporting objectives of cash flow prediction and earnings maximization which of the following is correct?

In periods of declining inventory costs, if the primary objective is cash flow prediction, the enterprise should use FIFO with LCM

In periods of declining inventory costs, if the primary objective is earnings maximization, the enterprise should use FIFO with LCM

In periods of rising inventory costs, if the primary objective is cash flow prediction, the enterprise should use FIFO with LCM

In periods of rising inventory costs, if the primary objective is earnings maximization, the enterprise should use Average cost with LCM

Answer Key

Test name: Ch1_Intermediate Accounting Volume 1_9ce

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Short Answer

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