c2

Student: ____

1. Recognition requires the measurement of an item for inclusion in the financial statements.

   True False

2. The use of historical cost, rather than liquidation value, is supported by the continuity assumption.

   True False

3. The use of fair value rather than historical cost increases both the relevance and verifiability of the financial statements.

   True False

4. The separate entity assumption has more validity for a larger corporation than it would for a sole proprietorship.

   True False

5. The unit of measure assumption holds that all aspects of a company's business operations can be readily quantified.

   True False

6. The goal of maximizing shareholder wealth is consistent with the entity concept.

   True False

7. The continuity assumption holds that a business will carry on indefinitely.

   True False

8. Legally, as well as for accounting statement purposes, a corporation is treated as a separate entity apart from its stockholders, whereas a partnership is treated as one entity including the owners.

   True False

9. The time period concept dictates that the reporting period or fiscal period of an entity must be for 12 months.

True False

10. Under the productive capacity capital maintenance approach, a profit is assumed to have been earned only if enough financial capital has been recovered by the end of the year to enable the business to operate at the same level as at the beginning of the year.

True False

11. "Substance over form" effectively refers to Representational Faithfulness in the conceptual framework.

True False

12. The first step in choosing an accounting policy is to understand a company's primary reporting objectives.

True False

13. The continuity assumption assumes that a company will have a perpetual life.

True False

14. Predictive value is a component of representational faithfulness.

True False

15. Equity is a residual and as such is not specifically defined in the IFRS Conceptual Framework.

True False

16. The qualitative characteristics follow the same hierarchy under both the IFRS and ASPE Conceptual Frameworks.

True False

17. Revenues must ultimately lead to cash flows in order to be recognized.

True False

18. Assuming that the continuity assumption is valid, accrual accounting income and cash based income would be expected to "even out" over the long term.

True False

19. Deferrals are required when cash flows are received before they affect the income statement, while accruals affect the income statement prior to cash being exchanged.

True False

20. The use of deferrals and accruals in accounting relates to the Time Period Assumption.

True False

21. Under IFRS, Level 1 amounts refer to quoted prices or directly observable amounts.

True False

22. Under ASPE, capital maintenance can be said to be achieved if a company has maintained or increased its productive capacity.

True False

23. Information is reliable when it is in agreement with the actual underlying transactions and events, the agreement is capable of independent verification and the information is reasonably free from error and bias.

True False

24. The going concern principal does not apply if a company is expected to be liquidated in the next 24 months.

True False

25. Relevance is of primary importance in financial reporting, whereas comparability is of secondary importance.

True False

26. Interperiod comparability is significantly enhanced when two similar companies use the same accounting methods during a single reporting period.

True False

27. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented.

True False

28. Accounting transactions must always be realized prior to being recognized.

True False

29. Accounting should provide information that is useful in assessing the "value" of an entity; however, accounting information does not necessarily report the actual "value" of the entity.

True False

30. The nominal dollar capital maintenance approach is the mostly widely used application of the stable currency assumption in North American practice.

True False

31. The nominal dollar capital maintenance approach implicitly recognizes that inflation is under control, and thus ignores inflation in the preparation of financial statements.

True False

32. The constant dollar capital maintenance approach adjusts for the decline in the asset's productive capacity when reporting earnings.

True False

33. The nominal dollar capital maintenance approach adjusts for the replacement cost of the assets when reporting earnings.

True False

34. At times, reliability must be sacrificed in order to enhance the relevance of accounting information.

True False

35. To Recording periodic depreciation on assets such as buildings or machinery is an application of the matching principle.

True False

36. The matching concept is the name applied to the process of associating expenses with revenues.

True False

37. An example of the full disclosure principle would be a firm signing a major contract in November to construct custom machinery for a client. Work in the current year is nil, yet the notes to the firm's financial statements discuss the nature and dollar amount of the contract.

True False

38. The understandability concept states that the information contained in financial statements should be understandable to persons who have a reasonable understanding of business and economic conditions and are willing to study the information with reasonable diligence.

True False

39. One of the objectives of financial reporting is to help users assess the amounts, timing and uncertainty of prospective cash flows of the enterprise.

True False

40. The continuity assumption holds that the entity will continue in business for the foreseeable future but it does not mean that it will be a going concern forever.

True False

41. Revenue is recognized when service is rendered and collection is probable.

True False

42. Materiality is one of the underlying constraints in the application of the IFRS conceptual framework.

True False

43. Under IFRS, a change in accounting policy must result in information that is more reliable and relevant.

True False

44. Under IFRS 13, Level 3 inputs are deemed to be more reliable than Level 2 inputs.

True False

45. In order to recognize sales revenue, collection of cash from the buyer is not necessary; however, collection must be reasonably assured.

True False

46. No revenue whatsoever from the performance of a service can be recognized until all of the service has been performed.

True False

47. Warranty expense on goods sold should be recognized in the period of the sale, even though the costs to fulfill warranty claims will not be incurred until two or three years later.

True False

48. The full disclosure principle asserts that the financial reports of a business enterprise should disclose all reliable information relating to its economic affairs.

True False

49. Relevance and representation faithfulness are the fundamental qualities under IFRS.

True False

50. The separate entity assumption applies only to legally separate entities such as corporations; it does not apply to proprietorships or other unincorporated businesses.

True False

51. Under IFRS 13, a publicly quoted share price would be an example of a Level 1 Input.

True False

52. Comparability is an enhancing quality under IFRS and ASPE.

True False

53. The cost-benefit trade-off is a persuasive constraint under both IFRS and ASPE.

True False

54. Materiality is a component of representational faithfulness under IFRS.

True False

55. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

True False

56. Under IFRS and ASPE, both assets and liabilities are mostly arises from past events.

True False

57. The quality of information that gives assurance that it is reasonably free of error and bias and is a faithful representation is relevance.

True False

58. A furniture builder accepts a purchase order from a client to build a customized dresser. The acceptance of this contract on that date is executory in nature and the builder must thus record a liability on that date.

True False

59. Comparability is sometimes sacrificed for consistency.

True False

60. In classifying the elements of financial statements, the primary distinction between revenues and gains is the materiality of the amounts involved.

True False

61. The going concern or continuity assumption is critical to financial accounting. The assumption

A.
B.
C.
D.

62. The objective of financial reporting is:

A.
B.
C.
D.

63. A firm's accounting policy is to immediately expense the cost of metal wastebaskets it purchases for use by its employees at their desks. The total cost of wastebaskets in any year is $1,000 and the firm has $6 billion in total assets. The firm expects the wastebaskets to last indefinitely. The firm

A.
B.
C.
D.
E.

64. The sales manager of a firm has the use of a blue company-owned automobile to use to visit potential customers. The sales manager also owns her own identical car except that it is red. The manager paid for the red car with funds earned from her employment as sales manager. The firm will report the cost of the blue auto in its balance sheet, but not the red auto. This is an example of:

A.
B.
C.
D.
E.

65. Preparation of financial statements with adequate notes is primarily based on the:

A.
B.
C.
D.
E.

66. Which of the following accounting concepts best justifies the use of accruals and deferrals?

A.
B.
C.
D.

67. Accounting traditionally has been influenced by conservatism because of the:

A.
B.
C.
D.
E.

68. The organization created to develop accounting standards in Canada, the AcSB, is LEAST concerned with:

A.
B.
C.
D.
E.

69. The continuity assumption is the basis for the rule that:

A.
B.
C.
D.

70. S Corporation offered to issue 5,000 shares of its no par value common shares to another company in exchange for a building at a time when there were 1,000,000 shares already outstanding and were selling for $4.00 per share at the time. The owner of the building had the opportunity to sell it to a competing buyer for $26,000. However, because the seller wanted the S Corporation shares, S's offer was accepted. At what amount should the building be reported in S's financial statements?

A.
B.
C.
D.

71. C Corporation exchanged 20,000 shares of its nonconvertible preferred shares for land owned by B Corporation. A competing buyer previously had offered $150,000 cash for the land. Because of tax consequences, the cash offer was not accepted and the lot was exchanged for the shares. C Corporation previously had sold only 100 shares of its preferred shares at $9 per share several months ago. Based on the cost principle, at what amount should the land be reported on C's financial statements?

A.
B.
C.
D.

72. The list price of a new van was $30,000 at a local car dealership. However, a customer convinced the dealer to sell the van for $25,000 (the van had cost the dealer $20,000 one year earlier). The van would cost the dealer $24,000 today. Inflation is 5% per year. The amount of profit that would be recognized by the dealer as a result of the sale using the nominal dollar approach is:

A.
B.
C.
D.

73. The list price of a new van was $30,000 at a local car dealership. However, a customer convinced the dealer to sell the van for $25,000 (the van had cost the dealer $20,000 one year earlier). The van would cost the dealer $24,000 today. Inflation is 5% per year. The amount of profit that would be recognized by the dealer as a result of the sale using the constant dollar financial capital maintenance approach is:

A.
B.
C.
D.

74. The list price of a new van was $30,000 at a local car dealership. However, a customer convinced the dealer to sell the van for $25,000 (the van had cost the dealer $20,000 one year earlier). The van would cost the dealer $24,000 today. Inflation is 5% per year. The amount of profit that would be recognized by the dealer as a result of the sale using the physical capital maintenance approach is:

A.
B.
C.
D.

75. Accounting information is considered to be relevant when it

A.
B.
C.
D.

76. The quality of information that gives assurance that it is reasonably free of error and bias and is a faithful representation is

A.
B.
C.
D.
E.

77. Timeliness is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

78. Verifiability is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

79. Neutrality is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

80. Predictive value is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

81. Representational faithfulness is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

82. A primary objective of financial reporting is to:

A.
B.
C.
D.

83. If, in year 1, a company used LIFO; year 2, FIFO; and in year 3, moving average cost for inventory valuation, which of the following assumptions, constraints, or principles would be violated:

A.
B.
C.
D.
E.

84. Which of the following qualities does the cost principle primarily support?

A.
B.
C.
D.

85. The inclusion of notes and supporting schedules in the financial statements reflect application of the:

A.
B.
C.
D.
E.

86. Certain costs of doing business are capitalized when incurred and then amortized over subsequent accounting periods to:

A.
B.
C.
D.
E.

87. Adjusting entries are needed because an entity:

A.
B.
C.
D.

88. A large international corporation immediately expenses the $50 cost of a small item of office equipment. This is an example of:

A.
B.
C.
D.
E.

89. When an $30 asset with a six-year estimated useful life is recorded as an expense at the date of purchase, this is an application of the:

A.
B.
C.
D.
E.

90. Which of the following distinguishes the personal transactions of business owners from business transactions?

A.
B.
C.
D.

91. A corporation needed a new warehouse; a contractor quoted a $250,000 price to construct it. The corporation believed that it could build the warehouse for $215,000 and decided to use company employees to construct the warehouse. The final construction cost incurred by the corporation was $240,000 but the asset was recorded at $250,000. This is in violation of the:

A.
B.
C.
D.
E.

92. Which of the following is the incorrect basis for recognizing the expense indicated?

A.
B.
C.
D.

93. When a corporation buys a portion of its own common shares, the recording must conform to the:

A.
B.
C.
D.

94. A corporation reports the sale of some of its shares to a shareholder in its financial statements, and the shareholder reports the same transaction as an investment. Therefore,

A.
B.
C.
D.

95. The separate entity assumption:

A.
B.
C.
D.

96. An accounting error may be all of the following except:

A.
B.
C.
D.

97. Under which of the following will revenues and expenses most likely be reported in the period they are earned or incurred?

A.
B.
C.
D.

98. Estimating bad debt expense for the period is based primarily on the:

A.
B.
C.
D.
E.

99. A corporation made the following entries:

A
B
C
D

Which entry must have been made as a direct result of the matching principle?

A.
B.
C.
D.

100. The assumption that dollars will buy the same quantity of goods and services today as they would have five years ago is the:

A.
B.
C.
D.
E.

101. Revenues and expenses often are recognized in income statement accounts even though no cash has been received or paid. This is primarily a result of applying the:

A.
B.
C.
D.

102. The underlying assumptions of accounting include all of the following except:

A.
B.
C.
D.
E.

103. The measurement conventions of accounting include all of the following except:

A.
B.
C.
D.
E.

104. The implementation constraints include all of the following except:

A.
B.
C.
D.

105. The underlying concept that the value of accounting information must exceed the expenditures incurred to provide it is called the:

A.
B.
C.
D.

106. The materiality constraint:

A.
B.
C.
D.

107. The use of deferrals and accruals is a direct result of the:

A.
B.
C.
D.

108. An item is not material if:

A.
B.
C.
D.

109. Financial information exhibits the characteristic of consistency when

A.
B.
C.
D.

110. Valuing assets at their liquidation values rather than their cost is inconsistent with the

A.
B.
C.
D.

111. Which of the following is NOT a time when revenue may be recognized?

A.
B.
C.
D.

112. Application of the full disclosure principle

A.
B.
C.
D.

113. Which of the following relates to both relevance and reliability?

A.
B.
C.
D.
E.

114. Charging off the cost of a calculator with an estimated useful life of 10 years as an expense of the period when purchased is an example of the application of the

A.
B.
C.
D.

115. Which of the following accounting concepts states that before a transaction is recorded, sufficient evidence must exist to allow two or more knowledgeable individuals to reach essentially the same conclusion about the transaction?

A.
B.
C.
D.
E.

116. The recognition of periodic amortization expense on company-owned automobiles requires estimating both salvage or residual value, and the useful life of the vehicles. The use of estimates in this case is an example of:

A.
B.
C.
D.
E.

117. A firm does not know exactly how long its equipment will last. The firm decides to use shorter rather than longer useful lives for amortizing the equipment. This is an example of:

A.
B.
C.
D.
E.

118. Revenue is recognized when

A.
B.
C.
D.
E.

119. The matching concept

A.
B.
C.
D.

120. A firm signs a major contract in December to construct custom machinery for a client. No work is begun the current year, yet the notes to the firm's financial statements discuss the nature and dollar amount of the contract. This is an example of

A.
B.
C.
D.
E.

121. A firm purchased $40,000 of supplies in its first year of operations but used up only $30,000 of the supplies during the year. Therefore:

A.
B.
C.
D.

122. J. Green is the sole owner and manager of the ABC Lawn and Grass Service. Green purchased a new station wagon only for personal use. Green uses a dump truck in the business. Which of the following assumptions, principles, or constraints would be violated if Green recorded the cost of the station wagon as an asset of the business?

A.
B.
C.
D.
E.

123. Recording periodic depreciation on assets such as buildings or machinery is an application of the:

A.
B.
C.
D.
E.

124. When assets are acquired, they should be recorded in the accounts in conformity with the:

A.
B.
C.
D.
E.

125. Under ASPE (Private Entity GAAP), which of the following is an ingredient of reliability?

A.
B.
C.
D.

126. Under ASPE, feedback value is an ingredient of:

1
2
3
4

A.
B.
C.
D.

127. The information provided by financial reporting pertains to:

A.
B.
C.
D.

128. Relevance is sometimes sacrificed for:

A.
B.
C.
D.

129. If accounting information is timely and has predictive and feedback value, then it can be characterized as:

A.
B.
C.
D.

130. The primary qualitative criteria of accounting information include which of the following:

A.
B.
C.
D.

131. Relevance is not a function of:

A.
B.
C.
D.

132. Accrual accounting is essentially an application of:

A.
B.
C.
D.

133. Increases in equity (net assets) from peripheral or incidental transactions of an entity are called:

A.
B.
C.
D.

134. At the date of purchase of a service which is not immediately used up, the cost of such unused service is a(n):

A.
B.
C.
D.

135. State the accounting assumption, principle, information characteristic, or constraint that is most applicable in the following cases.

1. All significant post-balance sheet events are reported.

____

2. Personal transactions of the proprietor are distinguished from business transactions.

____

3. Goodwill is capitalised and amortised over the periods benefited.

____

4. Assuming that dollars today will buy as much as 10 years ago.

____

5. Rent paid in advance is recorded as prepaid rent.

____

6. Financial statements are prepared each year.

____

7. All payments less than $25 are expensed as incurred. (Do not use conservatism.)

____

8. The company employs the same inventory valuation method from period to period.

____

136. State the accounting assumption, principle, information characteristic or constraint that is most applicable:

1. An officer of Nanuck Inc. purchased a new home computer for personal use with company money, charging miscellaneous expense.

____

2. A machine, which cost $60,000, is reported at its current market value of $90,000.

____

3. Nanuck Inc. decides to establish a large loss and related liability this year because of the possibility that it may lose a pending patent infringement lawsuit. The possibility of loss is considered remote by its lawyers.

____

4. Because the company's income is low this year, a switch from accelerated depreciation to straight-line depreciation is made this year.

____

5. The president of Nanuck Inc. believes it is foolish to report financial information on a yearly basis. Instead, the president believes that financial information should be disclosed only when significant new information is available related to the company's operations.

____

137. Fill in the blanks below with the accounting principle, assumption, or related item that BEST completes each sentence.

1. Recognition of revenue at the end of production is an allowable exception to the ________________________ principle.
2. Parenthetical balance sheet disclosure of the inventory method utilised by a particular company is an application of the ________________________ principle.
3. Corporations must prepare accounting reports at least yearly due to the ________________________ assumption.
4. Some costs, which give rise to future benefits cannot be directly associated with the revenues they generate. Such costs are allocated in a ______________________ and ________________________ manner to the periods expected to benefit from the cost.
5. ________________________ would allow the expensing of all repair tools when purchased, even though they have an estimated life of 3 years.
6. The __________________________ characteristic requires that the same accounting method be used from one accounting period to the next, unless it becomes evident that an alternative method will bring about a better description of a firm's financial situation.
7. ___________________________ and ________________________ are the two primary qualities that make accounting information useful for decision making.
8. Information which helps users confirm or correct prior expectations has __________________________.
9. ____________________________ enables users to identify the real similarities and differences in economic phenomena because the information has been measured and reported in a similar manner for different enterprises

138. Explain how the continuity assumption and the historical cost principle are related.

139. Stratford decided in October of the current fiscal year to start a massive advertising campaign to enhance the marketability of its product. In November, the company paid $750,000 for advertising time on a major radio chain to advertise its product during the next 12 months. The chief accountant expensed the $750,000 in the current fiscal year on the basis that "once the money was spent, it could never be recovered from the radio chain".
State whether or not you agree with the accounting treatment given to this disbursement and support your opinion with principles discussed in the chapter on the Criteria for Accounting Choices.

140. ABC Inc. is being sued by a client for an alleged breach of contract. The company's lawyers are uncertain as to what the outcome of the case will be. The client is suing ABC for $500,000 plus arrearages. Should ABC record a liability on its books due to the impending litigation? Why or why not?

141. Explain how revenues and gains are similar and how they differ.

142.

A mining company with global operations sets up a mining operation in Northern Quebec. Five years later, the mine is completely depleted and the area abandoned. The company has an excellent track record, both with respect to its corporate citizenship and environmental responsibility, having always restored all mining sites to their original state, regardless of any contractual obligations.

However, the company did not restore the land on its Northern Quebec mining site, citing recent cash flow issues and the absence of any written agreement to do so with the Quebec government. The Quebec government then decides to sue the company, for damages to its land.

Do you think the Quebec government has a strong case here? Why or why not?

c2 Key

1. Recognition requires the measurement of an item for inclusion in the financial statements.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #1
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

2. The use of historical cost, rather than liquidation value, is supported by the continuity assumption.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #2
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

3. The use of fair value rather than historical cost increases both the relevance and verifiability of the financial statements.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #3
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-24 Fair Value

4. The separate entity assumption has more validity for a larger corporation than it would for a sole proprietorship.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #4
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-07 Entity-Specific Assumptions

5. The unit of measure assumption holds that all aspects of a company's business operations can be readily quantified.

FALSE

Accessibility: Keyboard Navigation

Beechy - Chapter 02 #5
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-19 Measurement

6. The goal of maximizing shareholder wealth is consistent with the entity concept.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #6
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-07 Entity-Specific Assumptions

7. The continuity assumption holds that a business will carry on indefinitely.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #7
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

8. Legally, as well as for accounting statement purposes, a corporation is treated as a separate entity apart from its stockholders, whereas a partnership is treated as one entity including the owners.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #8
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-07 Entity-Specific Assumptions

9. The time period concept dictates that the reporting period or fiscal period of an entity must be for 12 months.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #9
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

10. Under the productive capacity capital maintenance approach, a profit is assumed to have been earned only if enough financial capital has been recovered by the end of the year to enable the business to operate at the same level as at the beginning of the year.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #10
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-07 Entity-Specific Assumptions

11. "Substance over form" effectively refers to Representational Faithfulness in the conceptual framework.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #11
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

12. The first step in choosing an accounting policy is to understand a company's primary reporting objectives.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #12
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Topic: 02-01 Categories of Accounting Concepts

13. The continuity assumption assumes that a company will have a perpetual life.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #13
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

14. Predictive value is a component of representational faithfulness.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #14
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

15. Equity is a residual and as such is not specifically defined in the IFRS Conceptual Framework.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #15
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-13 Elements of Financial Statements and Recognition

16. The qualitative characteristics follow the same hierarchy under both the IFRS and ASPE Conceptual Frameworks.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #16
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-27 Measurement Variability

17. Revenues must ultimately lead to cash flows in order to be recognized.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #17
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

18. Assuming that the continuity assumption is valid, accrual accounting income and cash based income would be expected to "even out" over the long term.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #18
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

19. Deferrals are required when cash flows are received before they affect the income statement, while accruals affect the income statement prior to cash being exchanged.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #19
Blooms: Remember

Difficulty: 1 Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

20. The use of deferrals and accruals in accounting relates to the Time Period Assumption.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #20
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

21. Under IFRS, Level 1 amounts refer to quoted prices or directly observable amounts.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #21
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-24 Fair Value

22. Under ASPE, capital maintenance can be said to be achieved if a company has maintained or increased its productive capacity.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #22
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity-Specific Assumptions
Topic: 02-21 Current Cost

23. Information is reliable when it is in agreement with the actual underlying transactions and events, the agreement is capable of independent verification and the information is reasonably free from error and bias.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #23
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

24. The going concern principal does not apply if a company is expected to be liquidated in the next 24 months.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #24
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

25. Relevance is of primary importance in financial reporting, whereas comparability is of secondary importance.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #25
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualities

26. Interperiod comparability is significantly enhanced when two similar companies use the same accounting methods during a single reporting period.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #26
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

27. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #27
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

28. Accounting transactions must always be realized prior to being recognized.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #28
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

29. Accounting should provide information that is useful in assessing the "value" of an entity; however, accounting information does not necessarily report the actual "value" of the entity.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #29
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

30. The nominal dollar capital maintenance approach is the mostly widely used application of the stable currency assumption in North American practice.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #30
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity-Specific Assumptions
Topic: 02-21 Current Cost

31. The nominal dollar capital maintenance approach implicitly recognizes that inflation is under control, and thus ignores inflation in the preparation of financial statements.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #31
Blooms: Remember
Difficulty: 1 Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity-Specific Assumptions
Topic: 02-21 Current Cost

32. The constant dollar capital maintenance approach adjusts for the decline in the asset's productive capacity when reporting earnings.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #32
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity-Specific Assumptions
Topic: 02-21 Current Cost

33. The nominal dollar capital maintenance approach adjusts for the replacement cost of the assets when reporting earnings.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #33
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity-Specific Assumptions
Topic: 02-21 Current Cost

34. At times, reliability must be sacrificed in order to enhance the relevance of accounting information.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #34
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

35. To Recording periodic depreciation on assets such as buildings or machinery is an application of the matching principle.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #35
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-18 Expense Recognition and "Matching"

36. The matching concept is the name applied to the process of associating expenses with revenues.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #36
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-18 Expense Recognition and "Matching"

37. An example of the full disclosure principle would be a firm signing a major contract in November to construct custom machinery for a client. Work in the current year is nil, yet the notes to the firm's financial statements discuss the nature and dollar amount of the contract.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #37

Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

38. The understandability concept states that the information contained in financial statements should be understandable to persons who have a reasonable understanding of business and economic conditions and are willing to study the information with reasonable diligence.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #38
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-01 Categories of Accounting Concepts
Topic: 02-28 Reserves

39. One of the objectives of financial reporting is to help users assess the amounts, timing and uncertainty of prospective cash flows of the enterprise.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #39
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-14 Elements of the Statement of Financial Position

40. The continuity assumption holds that the entity will continue in business for the foreseeable future but it does not mean that it will be a going concern forever.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #40
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-02 Explain the role of ethical professional judgement in accounting.
Topic: 02-05 Underlying Assumptions

41. Revenue is recognized when service is rendered and collection is probable.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #41
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

42. Materiality is one of the underlying constraints in the application of the IFRS conceptual framework.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #42
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-11 Pervasive Constraints

43. Under IFRS, a change in accounting policy must result in information that is more reliable and relevant.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #43
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Topic: 02-03 Structure of Accounting Policy Change

44. Under IFRS 13, Level 3 inputs are deemed to be more reliable than Level 2 inputs.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #44
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-28 Reserves

45. In order to recognize sales revenue, collection of cash from the buyer is not necessary; however, collection must be reasonably assured.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #45
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

46. No revenue whatsoever from the performance of a service can be recognized until all of the service has been performed.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #46
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

47. Warranty expense on goods sold should be recognized in the period of the sale, even though the costs to fulfill warranty claims will not be incurred until two or three years later.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #47
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

48. The full disclosure principle asserts that the financial reports of a business enterprise should disclose all reliable information relating to its economic affairs.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #48
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

49. Relevance and representation faithfulness are the fundamental qualities under IFRS.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #49
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

50. The separate entity assumption applies only to legally separate entities such as corporations; it does not apply to proprietorships or other unincorporated businesses.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #50
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-07 Entity-Specific Assumptions

51. Under IFRS 13, a publicly quoted share price would be an example of a Level 1 Input.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #51
Blooms: Remember
Difficulty: 1 Easy

Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-24 Fair Value

52. Comparability is an enhancing quality under IFRS and ASPE.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #52
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualities

53. The cost-benefit trade-off is a persuasive constraint under both IFRS and ASPE.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #53
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

54. Materiality is a component of representational faithfulness under IFRS.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #54
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-11 Pervasive Constraints

55. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #55
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-10 Enhancing Qualities

56. Under IFRS and ASPE, both assets and liabilities are mostly arises from past events.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #56
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-28 Reserves

57. The quality of information that gives assurance that it is reasonably free of error and bias and is a faithful representation is relevance.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #57
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-14 Elements of the Statement of Financial Position

58. A furniture builder accepts a purchase order from a client to build a customized dresser. The acceptance of this contract on that date is executory in nature and the builder must thus record a liability on that date.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #58
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-14 Elements of the Statement of Financial Position

59. Comparability is sometimes sacrificed for consistency.

TRUE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #59
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualities

60. In classifying the elements of financial statements, the primary distinction between revenues and gains is the materiality of the amounts involved.

FALSE

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #60
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-14 Elements of the Statement of Financial Position

61. The going concern or continuity assumption is critical to financial accounting. The assumption

A.
<u>B.</u>
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #61
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

62. The objective of financial reporting is:

A.
B.
<u>C.</u>
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #62
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 Elements of Financial Statements and Recognition

63. A firm's accounting policy is to immediately expense the cost of metal wastebaskets it purchases for use by its employees at their desks. The total cost of wastebaskets in any year is $1,000 and the firm has $6 billion in total assets. The firm expects the wastebaskets to last indefinitely. The firm

A.
<u>B.</u>
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #63
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-11 Pervasive Constraints

64. The sales manager of a firm has the use of a blue company-owned automobile to use to visit potential customers. The sales manager also owns her own identical car except that it is red. The manager paid for the red car with funds earned from her employment as sales manager. The firm will report the cost of the blue auto in its balance sheet, but not the red auto. This is an example of:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #64
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-07 Entity-Specific Assumptions

65. Preparation of financial statements with adequate notes is primarily based on the:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #65
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 Elements of Financial Statements and Recognition

66. Which of the following accounting concepts best justifies the use of accruals and deferrals?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #66
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

67. Accounting traditionally has been influenced by conservatism because of the:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #67
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

68. The organization created to develop accounting standards in Canada, the AcSB, is LEAST concerned with:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #68
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-28 Reserves

69. The continuity assumption is the basis for the rule that:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #69
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

70. S Corporation offered to issue 5,000 shares of its no par value common shares to another company in exchange for a building at a time when there were 1,000,000 shares already outstanding and were selling for $4.00 per share at the time. The owner of the building had the opportunity to sell it to a competing buyer for $26,000. However, because the seller wanted the S Corporation shares, S's offer was accepted. At what amount should the building be reported in S's financial statements?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #70
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 Elements of Financial Statements and Recognition

71. C Corporation exchanged 20,000 shares of its nonconvertible preferred shares for land owned by B Corporation. A competing buyer previously had offered $150,000 cash for the land. Because of tax consequences, the cash offer was not accepted and the lot was exchanged for the shares. C Corporation previously had sold only 100 shares of its preferred shares at $9 per share several months ago. Based on the cost principle, at what amount should the land be reported on C's financial statements?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #71
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 Elements of Financial Statements and Recognition

72. The list price of a new van was $30,000 at a local car dealership. However, a customer convinced the dealer to sell the van for $25,000 (the van had cost the dealer $20,000 one year earlier). The van would cost the dealer $24,000 today. Inflation is 5% per year. The amount of profit that would be recognized by the dealer as a result of the sale using the nominal dollar approach is:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #72
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

73. The list price of a new van was $30,000 at a local car dealership. However, a customer convinced the dealer to sell the van for $25,000 (the van had cost the dealer $20,000 one year earlier). The van would cost the dealer $24,000 today. Inflation is 5% per year. The amount of profit that would be recognized by the dealer as a result of the sale using the constant dollar financial capital maintenance approach is:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #73
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity-Specific Assumptions
Topic: 02-21 Current Cost

74. The list price of a new van was $30,000 at a local car dealership. However, a customer convinced the dealer to sell the van for $25,000 (the van had cost the dealer $20,000 one year earlier). The van would cost the dealer $24,000 today. Inflation is 5% per year. The amount of profit that would be recognized by the dealer as a result of the sale using the physical capital maintenance approach is:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #74
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity-Specific Assumptions
Topic: 02-21 Current Cost

75. Accounting information is considered to be relevant when it

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #75
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

76. The quality of information that gives assurance that it is reasonably free of error and bias and is a faithful representation is

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #76
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

77. Timeliness is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #77
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-05 Underlying Assumptions
Topic: 02-14 Elements of the Statement of Financial Position

78. Verifiability is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #78
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-05 Underlying Assumptions
Topic: 02-14 Elements of the Statement of Financial Position

79. Neutrality is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #79
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-05 Underlying Assumptions
Topic: 02-14 Elements of the Statement of Financial Position

80. Predictive value is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #80
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualities

81. Representational faithfulness is an ingredient of the qualitative criteria of

1
2
3
4

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #81
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

82. A primary objective of financial reporting is to:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #82
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 Elements of Financial Statements and Recognition

83. If, in year 1, a company used LIFO; year 2, FIFO; and in year 3, moving average cost for inventory valuation, which of the following assumptions, constraints, or principles would be violated:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #83
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

84. Which of the following qualities does the cost principle primarily support?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #84
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualities

85. The inclusion of notes and supporting schedules in the financial statements reflect application of the:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #85
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

86. Certain costs of doing business are capitalized when incurred and then amortized over subsequent accounting periods to:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #86
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

87. Adjusting entries are needed because an entity:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #87
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

88. A large international corporation immediately expenses the $50 cost of a small item of office equipment. This is an example of:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #88
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

89. When an $30 asset with a six-year estimated useful life is recorded as an expense at the date of purchase, this is an application of the:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #89
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-05 Underlying Assumptions
Topic: 02-08 Qualitative Criteria

90. Which of the following distinguishes the personal transactions of business owners from business transactions?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #90
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-07 Entity-Specific Assumptions

91. A corporation needed a new warehouse; a contractor quoted a $250,000 price to construct it. The corporation believed that it could build the warehouse for $215,000 and decided to use company employees to construct the warehouse. The final construction cost incurred by the corporation was $240,000 but the asset was recorded at $250,000. This is in violation of the:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #91
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-19 Measurement

92. Which of the following is the incorrect basis for recognizing the expense indicated?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #92
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

93. When a corporation buys a portion of its own common shares, the recording must conform to the:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #93
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-19 Measurement

94. A corporation reports the sale of some of its shares to a shareholder in its financial statements, and the shareholder reports the same transaction as an investment. Therefore,

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #94
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-14 Elements of the Statement of Financial Position

95. The separate entity assumption:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #95
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-04 Ethical Professional Judgement - Part 1

96. An accounting error may be all of the following except:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #96
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualities

97. Under which of the following will revenues and expenses most likely be reported in the period they are earned or incurred?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #97
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

98. Estimating bad debt expense for the period is based primarily on the:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #98
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-18 Expense Recognition and "Matching"

99. A corporation made the following entries:

A
B
C
D

Which entry must have been made as a direct result of the matching principle?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #99
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-18 Expense Recognition and "Matching"

100. The assumption that dollars will buy the same quantity of goods and services today as they would have five years ago is the:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #100
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

101. Revenues and expenses often are recognized in income statement accounts even though no cash has been received or paid. This is primarily a result of applying the:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #101
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

102. The underlying assumptions of accounting include all of the following except:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #102
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

103. The measurement conventions of accounting include all of the following except:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #103
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

104. The implementation constraints include all of the following except:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #104
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualities

105. The underlying concept that the value of accounting information must exceed the expenditures incurred to provide it is called the:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #105
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-05 Underlying Assumptions
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

106. The materiality constraint:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #106
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualities

107. The use of deferrals and accruals is a direct result of the:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #107
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

108. An item is not material if:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #108
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualities

109. Financial information exhibits the characteristic of consistency when

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #109
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

110. Valuing assets at their liquidation values rather than their cost is inconsistent with the

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #110
Blooms: Remember
Difficulty: 2 Medium

Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-20 Historical Cost

111. Which of the following is NOT a time when revenue may be recognized?

A.
B.
C.
<u>D.</u>

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #111
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

112. Application of the full disclosure principle

A.
B.
<u>C.</u>
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #112
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

113. Which of the following relates to both relevance and reliability?

A.
B.
<u>C.</u>
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #113
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

114. Charging off the cost of a calculator with an estimated useful life of 10 years as an expense of the period when purchased is an example of the application of the

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #114
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualities

115. Which of the following accounting concepts states that before a transaction is recorded, sufficient evidence must exist to allow two or more knowledgeable individuals to reach essentially the same conclusion about the transaction?

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #115
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

116. The recognition of periodic amortization expense on company-owned automobiles requires estimating both salvage or residual value, and the useful life of the vehicles. The use of estimates in this case is an example of:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #116
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

117. A firm does not know exactly how long its equipment will last. The firm decides to use shorter rather than longer useful lives for amortizing the equipment. This is an example of:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #117
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

118. Revenue is recognized when

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #118
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

119. The matching concept

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #119
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-18 Expense Recognition and "Matching"

120. A firm signs a major contract in December to construct custom machinery for a client. No work is begun the current year, yet the notes to the firm's financial statements discuss the nature and dollar amount of the contract. This is an example of

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #120
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

121. A firm purchased $40,000 of supplies in its first year of operations but used up only $30,000 of the supplies during the year. Therefore:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #121
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-18 Expense Recognition and "Matching"

122. J. Green is the sole owner and manager of the ABC Lawn and Grass Service. Green purchased a new station wagon only for personal use. Green uses a dump truck in the business. Which of the following assumptions, principles, or constraints would be violated if Green recorded the cost of the station wagon as an asset of the business?

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #122
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.

Topic: 02-07 Entity-Specific Assumptions

123. Recording periodic depreciation on assets such as buildings or machinery is an application of the:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #123
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-18 Expense Recognition and "Matching"

124. When assets are acquired, they should be recorded in the accounts in conformity with the:

A.
B.
C.
D.
E.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #124
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-20 Historical Cost

125. Under ASPE (Private Entity GAAP), which of the following is an ingredient of reliability?

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #125
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

126. Under ASPE, feedback value is an ingredient of:

1
2
3
4

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #126
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

127. The information provided by financial reporting pertains to:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #127
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

128. Relevance is sometimes sacrificed for:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #128
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

129. If accounting information is timely and has predictive and feedback value, then it can be characterized as:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #129
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-05 Underlying Assumptions
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

130. The primary qualitative criteria of accounting information include which of the following:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #130
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-05 Underlying Assumptions
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

131. Relevance is not a function of:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #131
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

132. Accrual accounting is essentially an application of:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #132
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-16 Recognition

133. Increases in equity (net assets) from peripheral or incidental transactions of an entity are called:

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #133
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-16 Recognition
Topic: 02-19 Measurement

134. At the date of purchase of a service which is not immediately used up, the cost of such unused service is a(n):

A.
B.
C.
D.

Accessibility: Keyboard Navigation
Beechy - Chapter 02 #134
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-06 Universal Assumptions
Topic: 02-19 Measurement

135. State the accounting assumption, principle, information characteristic, or constraint that is most applicable in the following cases.

1. All significant post-balance sheet events are reported.

____

2. Personal transactions of the proprietor are distinguished from business transactions.

____

3. Goodwill is capitalised and amortised over the periods benefited.

____

4. Assuming that dollars today will buy as much as 10 years ago.

____

5. Rent paid in advance is recorded as prepaid rent.

____

6. Financial statements are prepared each year.

____

7. All payments less than $25 are expensed as incurred. (Do not use conservatism.)

____

8. The company employs the same inventory valuation method from period to period.

____

1. Full disclosure principle.
2. Separate entity assumption.
3. Matching principle.
4. Monetary unit assumption.
5. Matching principle.
6. Time period assumption.
7. Materiality constraint.
8. Consistency characteristic

Beechy - Chapter 02 #135
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-05 Underlying Assumptions
Topic: 02-09 Fundamental Qualities

136. State the accounting assumption, principle, information characteristic or constraint that is most applicable:

1. An officer of Nanuck Inc. purchased a new home computer for personal use with company money, charging miscellaneous expense.

____

2. A machine, which cost $60,000, is reported at its current market value of $90,000.

____

3. Nanuck Inc. decides to establish a large loss and related liability this year because of the possibility that it may lose a pending patent infringement lawsuit. The possibility of loss is considered remote by its lawyers.

____

4. Because the company's income is low this year, a switch from accelerated depreciation to straight-line depreciation is made this year.

____

5. The president of Nanuck Inc. believes it is foolish to report financial information on a yearly basis. Instead, the president believes that financial information should be disclosed only when significant new information is available related to the company's operations.

____

1. Separate entity.
2. Historical cost
3. Matching (also, conservatism)
4. Consistency.
5. Time period

Beechy - Chapter 02 #136
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-06 Universal Assumptions
Topic: 02-08 Qualitative Criteria
Topic: 02-19 Measurement

137.

Fill in the blanks below with the accounting principle, assumption, or related item that BEST completes each sentence.

1. Recognition of revenue at the end of production is an allowable exception to the ________________________ principle.
2. Parenthetical balance sheet disclosure of the inventory method utilised by a particular company is an application of the _________________________ principle.
3. Corporations must prepare accounting reports at least yearly due to the _________________________ assumption.
4. Some costs, which give rise to future benefits cannot be directly associated with the revenues they generate. Such costs are allocated in a ______________________ and ________________________ manner to the periods expected to benefit from the cost.
5. _________________________ would allow the expensing of all repair tools when purchased, even though they have an estimated life of 3 years.
6. The __________________________ characteristic requires that the same accounting method be used from one accounting period to the next, unless it becomes evident that an alternative method will bring about a better description of a firm's financial situation.
7. ___________________________ and _________________________ are the two primary qualities that make accounting information useful for decision making.
8. Information which helps users confirm or correct prior expectations has __________________________.
9. ____________________________ enables users to identify the real similarities and differences in economic phenomena because the information has been measured and reported in a similar manner for different enterprises

1. revenue realisation
2. full disclosure
3. time period
4. rational; systematic
5. materiality convention
6. consistency

7. relevance, reliability
8. feedback value
9. comparability

Beechy - Chapter 02 #137
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-10 Enhancing Qualities
Topic: 02-19 Measurement

138. Explain how the continuity assumption and the historical cost principle are related.

Expenses, a component of earnings, are measured in terms of the historical cost of resources (assets) consumed or used in producing revenue because, under the continuity assumption, there is no assumption that the assets used in operations will be sold. Using historical cost allows an evaluation of how management created value with the assets entrusted to them, measured at the actual cost of those resources. Thus, income reflects the excess of revenues over the historical cost, rather than market value, of the resources used.
An alternative approach to earnings measurement, not supported by the continuity assumption, would employ market values of revenues and costs (expenses) to determine an "opportunity" cost measure of earnings.
The continuity assumption also supports the inclusion of certain costs in assets used in operations, as opposed to immediate expensing of those costs, even though there is no expectation that such costs will be recouped on sale of the asset. The value of such operational assets is derived through use, rather than from sale, under the continuity assumption. Specific examples include installation costs of equipment, and many prepaid assets such as prepaid rent. In the latter example, if the firm were not a going concern, prepaid rent would not represent an asset beyond the liquidation date.

Beechy - Chapter 02 #138
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.

139. Stratford decided in October of the current fiscal year to start a massive advertising campaign to enhance the marketability of its product. In November, the company paid $750,000 for advertising time on a major radio chain to advertise its product during the next 12 months. The chief accountant expensed the $750,000 in the current fiscal year on the basis that "once the money was spent, it could never be recovered from the radio chain".
State whether or not you agree with the accounting treatment given to this disbursement and support your opinion with principles discussed in the chapter on the Criteria for Accounting Choices.

This treatment violates the matching principle because the revenues to be gained for the advertising campaign will only be experienced in the accounting period in which the advertising will be aired. The $750,000 disbursement should be set up as a prepaid expense to be expensed in the proportion of the advertising incurred to the total advertising contract cost.

Beechy - Chapter 02 #139
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-18 Expense Recognition and "Matching"

140. ABC Inc. is being sued by a client for an alleged breach of contract. The company's lawyers are uncertain as to what the outcome of the case will be. The client is suing ABC for $500,000 plus arrearages. Should ABC record a liability on its books due to the impending litigation? Why or why not?

No. Although some might argue that not recording a liability in this case would be a violation of the conservatism principle, no liability should be recorded, as the outcome of the litigation is uncertain. Kindly recall that to qualify as liabilities obligations must require a future transfer of assets, be an unavoidable current obligation and result from a past transaction. Although the lawsuit arose as a result of ABC's actions in a prior period, there is no transfer of assets or unavoidable current obligation, since the outcome of the litigation has not yet been determined.

Beechy - Chapter 02 #140
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

141. Explain how revenues and gains are similar and how they differ.

Both revenues and gains increase net income and net assets. However, revenues arise more from a company's day-to-day operations and routine transactions (usually from the company's line of business) while gains arise from non day-to-day non routine transactions such as the sale of assets. In the latter case, a gain would arise if the company sold an asset for an amount greater than the book value of that asset.

Beechy - Chapter 02 #141
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-17 Recognitions versus Realization

142. A mining company with global operations sets up a mining operation in Northern Quebec. Five years later, the mine is completely depleted and the area abandoned. The company has an excellent track record, both with respect to its corporate citizenship and environmental responsibility, having always restored all mining sites to their original state, regardless of any contractual obligations.

However, the company did not restore the land on its Northern Quebec mining site, citing recent cash flow issues and the absence of any written agreement to do so with the Quebec government. The Quebec government then decides to sue the company, for damages to its land.

Do you think the Quebec government has a strong case here? Why or why not?

While there is no legal obligation for the company to restore the land, there may well be a morale (constructive) obligation to do so. For obvious reasons, the ethical thing for the company to do would be to restore the land. The Quebec government may argue that they granted the company mining rights because they had a reasonable expectation that the company would restore the land since it had always done so in the past. Indeed, the Quebec government may have a strong case here. The company should restore the land, and should accrue a liability for its best estimate of the cost of doing so. Failure to do so would compromise the representational faithfulness of the company's statements by understating its liabilities. Even if the company refused to voluntarily restore the land, a judge would likely side with the Quebec government here.

Note that IFRS requires the recognition of constructive obligations such as these when they are likely and measurable, in addition to recognizing legal obligations. ASPE is less specific, recognition of legal obligations only.

Beechy - Chapter 02 #142
Blooms: Remember
Difficulty: 2 Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Trade-Off Between Relevance and Faithful Representation

c2 Summary