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Exam

Name___________________________________

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

1) Which statement is incorrect?

A) APB statement No. 4. 'Basic-Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises' was the US profession's first conceptual framework
B) The trend in accounting over many years has been to reduce disclosure in published reports
C) The double-entry bookkeeping system was developed in Italy during the 13th and 14th centuries
D) In earlier times many present-day transactions were not contemplated by accountants
Answer B
Diff 1 Page Ref 26-27

2) The approach taken in the Australian conceptual framework is

A) hypothetical
B) notional
C) descriptive
D) prescriptive
Answer D
Diff 1 Page Ref 27

3) A major beneficiary from the development of a conceptual framework is expected to be

A) governments
B) preparers of financial reports
C) accounting standard setters
D) managers
Answer C
Diff 2 Page Ref 29

4) Which of these is not one of the major potential benefits of a conceptual framework?

A) More economical development of standards
B) Increased international compatibility of standards
C) Savings in auditing costs
D) None of the above, i.e., all are major potential benefits of a conceptual framework
Answer C
Diff 1 Page Ref 29-30

5) The correct order for the seven levels of the accounting standard-setting part of the conceptual framework is

A) standard-setting policy, display, border of discipline, subject, objective, fundamentals, operational
B) fundamentals, border of discipline, operational, subject, objective, display, standard-setting policy
C) border of discipline, subject, objective, fundamentals, operational, display, standard-setting policy
D) subject, objective, fundamentals, border of discipline, operational, display, standard-setting policy
Answer C
Diff 3 Page Ref 30

6) The first and second levels of the conceptual framework are concerned with

A) the qualitative characteristics of financial reporting

B) the elements of financial reporting
C) the objective of financial reporting
D) the scope of financial reporting
Answer D
Diff 2 Page Ref 31

7) Which of these is a constraint on financial reporting rather than a qualitative characteristic?

A) Relevance
B) Comparability
C) Timeliness
D) Reliability
Answer C
Diff 2 Page Ref 31-32

8) The elements of financial statements, as outlined in the conceptual framework, are

A) assets, liabilities, equity, income, expenses
B) balance sheet, income statement, cash flow statement
C) materiality, comparability, relevance, reliability
D) historical cost, current cost, net market value, constant purchasing power
Answer A
Diff 2 Page Ref 31

9) The statement concerning general-purpose financial reports that is correct is

A) Potential users of the reports are in a strong bargaining position to demand information from the entity to meet their needs
B) No particular group of users of the reports is provided with ideal information for their needs
C) The objective of the reports is to meet the needs of both external and internal users
D) The reports specifically attempt to meet all the information needs of shareholders
Answer B
Diff 2 Page Ref 33

10) Which of these is the least likely to be able to use their influence to obtain special purpose reports to meet their needs for financial information?

A) Governments
B) Institutional investors
C) Small shareholders
D) Major lenders
Answer C
Diff 2 Page Ref 33

11) Under the FASB Statement of Financial Accounting Concepts No. 1 the scope of general purpose financial reporting includes all of the following <u>except</u>

A) management forecasts included in the financial reports
B) cash budgets prepared by management
C) voluntary information in the notes to the financial statements
D) None of the above is excluded from the scope of general purpose financial reports
Answer B
Diff 2 Page Ref 35-36

12) Management must ensure that the information contained in financial statements is presented in such a way that the statements can be understood only by

A) the financially literate
B) accounting professionals
C) customers and employees
D) None of the above. Everyone should be able to understand financial statements
Answer A
Diff 2 Page Ref 34-35

13) SAC1 defines an entity which has users who are dependent on general purpose financial reports as a/an

A) accounting entity
B) reporting entity
C) company entity
D) legal entity
Answer B
Diff 1 Page Ref 36

14) Under APES1 entities that will always be reporting entities and are required to prepare general purpose financial reports include

A) family trusts
B) local government
C) stock exchange listed companies
D) both B and C
Answer D
Diff 2 Page Ref 37

15) In establishing external reporting requirements, the Corporations Act distinguishes between

A) large and small proprietary companies
B) service and non-service entities
C) legal and non-legal entities
D) reporting and non-reporting entities
Answer A
Diff 1 Page Ref 37

16) Which factor(s) is/are identified in SAC1 to assist in determining whether an entity has users dependent on general purpose financial reports?

A) Type of accounting system
B) Classes of issued shares
C) Separation of management and ownership
D) All of the above
Answer C
Diff 1 Page Ref 37

17) When deciding whether an entity is a reporting entity reference should be made to

A) relevant legislation rather than SAC1
B) SAC1 rather than relevant legislation

C) ASX listing rules rather than Australian Accounting Standards
D) Australian Accounting Standards rather than ASX listing rules
Answer A
Diff 2 Page Ref 37

18) The first Australian study on the objective of financial reporting was by

A) Kenley and Staubus
B) Sprouse and Moonitz
C) Chambers
D) Paton and Littleton
Answer C
Diff 3 Page Ref 27

19) SAC2 defines the objective of general purpose financial reporting as

A) to provide information to users that is useful for making and evaluating decisions about the allocation of scarce resources
B) to decide whether the reporting entity is achieving its objectives
C) to give a true and fair view of the financial position and performance of the entity
D) all of the above
Answer A
Diff 2 Page Ref 38

20) Which of these are identified by SAC2 as major categories of users of general-purpose financial reports?

A) Resource providers
B) Parties performing an oversight function
C) Recipients of goods and services
D) All of the above
Answer D
Diff 1 Page Ref 38

21) Which statement is true?

A) The provision of information for control is regarded as a more appropriate objective for external reporting than the decision-usefulness objective
B) Decision-usefulness as the objective for financial reporting is a relatively recent innovation
C) The historical cost measurement basis is specifically designed to meet the decision-usefulness objective
D) None of the statements is true, i.e., all are untrue
Answer B
Diff 3 Page Ref 38

22) Under SAC2, parties performing a review or oversight functions for general-purpose financial reports would include all of the following, <u>except</u>

A) ACCC
B) Lenders
C) Stock Exchange
D) ASIC
Answer B
Diff 1 Page Ref 39

23) From 1 January 2005 the Australian conceptual framework consists of

A) SAC 1-2 and the IASB conceptual framework
B) SAC 1-4 and the IASB conceptual framework
C) the IASB conceptual framework
D) none of the above
Answer A
Diff 2 Page Ref 28

24) Which of these statements is correct?

A) The principle qualitative characteristics in the Framework are substantially different to those in the old SAC3
B) Possible measurement bases in the Framework do not include current cost
C) The operational level of the Framework is concerned with the recognition and measurement of the elements of financial statements
D) All of the statements are correct
Answer C
Diff 2 Page Ref 31-32

ESSAY. Write your answer in the space provided or on a separate sheet of paper.
25) 'General purpose financial reports should meet the information needs of users with only a limited knowledge and understanding of financial matters'. Discuss
Answer
Diff 2 Page Ref 34-35

26) Explain and discuss why, when there was already a large number of accounting standards on issue, accountants decided that they needed a conceptual framework.
Answer
Diff 1 Page Ref 26-28

27) Distinguish between general purpose and special purpose financial reports. In your answer give examples of each type of report.
Answer
Diff 1 Page Ref 33-34

28) Describe the structure of the Australian conceptual framework. In your answer explain how the building blocks fit together at each level.
Answer
Diff 2 Page Ref 30-32

1) B
2) D
3) C
4) C
5) C
6) D
7) C
8) A
9) B
10) C
11) B
12) A
13) B
14) D
15) A
16) C
17) A
18) C
19) A
20) D
21) B
22) B
23) A
24) C
25)
26)
27)
28)