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Student: _____

1. The primary function of financial accounting is to provide relevant financial information to parties external to business enterprises.
True False
2. Accrual accounting attempts to measure revenues and expenses that occurred during accounting periods so they equal net operating cash flow.
True False
3. The FASB is currently the public sector organization responsible for setting accounting standards in Canada.
True False
4. Capital markets provide a mechanism to help the economy allocate resources.
True False
5. A rules-based approach to standard setting stresses professional judgment as opposed to following a list of rules.
True False
6. The Canadian legislation and securities regulations require companies listed on Canadian stock exchanges to prepare statements that conform to GAAP
True False
7. The primary responsibility for properly applying GAAP when communicating with investors and creditors through financial statements lies with a firm's auditors.
True False
8. Auditors play an important role in the resource allocation process by adding credibility to financial statements.
True False
9. Materiality can be affected by the dollar amount of an item, the nature of the item, or both.
True False
10. Conservatism is a desired qualitative characteristic of accounting information.
True False
11. Equity is a residual amount representing the owner's interest in the assets of the business.
True False
12. Revenues are inflows or other enhancements of assets or settlements of liabilities from activities that constitute the entity's ongoing operations.
True False
13. Gains or losses result, respectively, from the disposition of business assets for greater than, or less than, their book values.
True False
14. Comprehensive income is another term for net income.
True False
15. Accounting choices should influence the behavior of managers.
True False
16. Trade offs are often required between relevance and reliability.
True False

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Comprehensive income
- B. Distribution to owners
- C. Feedback value
- D. Gain
- E. Materiality

- F. Predictive value
- G. Relevance
- H. Reliability
- I. Representational faithfulness
- J. Timeliness

17. ___ Information is useful in projecting cash flows.

18. ___ Pertinent to the decision at hand.

19. ___ Information is available prior to the decision.

20. ___ Decrease in equity due to transfers to owners.

21. ___ Information confirms expectations.

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- J. Timeliness

22. ___ Along with relevance, a primary decision-specific quality.

23. ___ Results if an asset is sold for more than book value.

24. ___ Agreement between a measure and what it purports to represent.

25. ___ The change in equity from nonowner transactions.

26. ___ Concerns the decision making impact of both the amount and nature of an item.

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term with their phrases by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Comparability
- B. Consistency
- C. Cost effectiveness
- D. Economic entity assumption
- E. Going concern assumption
- F. Monetary unit assumption
- G. Neutrality
- H. Periodicity assumption
- I. Recognition
- J. Verifiability

27. ___ Important in analysis between firms.

28. ___ Accounting information should be unbiased.

29. ___ The process of including data in financial statements.

30. ____ Applying the same accounting practices over time.

31. ____ Considers the value of using information relative to cost of providing it.

Listed below are ten terms are followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

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- I. Recognition
- J. Verifiability

32. ____ Implies consensus among different observers.

33. ____ Assumes all transactions can be identified with a particular entity.

34. ____ Assumes an entity will continue to operate indefinitely.

35. ____ Requires reporting the financial life of an entity in discrete time frames.

36. ____ Ignores the possibility of inflation.

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. IASB
- B. CICA
- C. Conservatism
- D. AcSB
- E. Full-disclosure principle
- F. Historical cost principle
- G. Matching principle
- H. Materiality
- I. Realization principle
- J. Securities and Exchange Commission

37. ____ Basis of measurement for based on amount given or received.

38. ____ Recognition of revenue only after certain criteria are satisfied.

39. ____ Guide to expense recognition.

40. ____ Reporting of all information that could affect decisions.

41. ____ Application of GAAP sometimes avoided under this constraint.

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. EIC
- B. CICA
- C. Conservatism
- D. AcSB
- E. Full-disclosure principle

- F. Historical cost principle
- G. Matching principle
- H. Materiality
- I. Realization principle
- J. IASB

42. ____ It is a practical justification for choosing among alternative accounting methods.

43. ____ Set up by AcSB to provide more timely responses to emerging financial reporting issues.

44. ____ Responsible for establishing accounting standards for Canadian companies.

45. ____ Group dedicated to developing a single set of global accounting standards.

46. ____ It is the national organization for CAs in the Canada.

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Assets
- B. Comprehensive income
- C. Distributions to owners
- D. Equity
- E. Expenses
- F. Gains
- G. Investments by owners
- H. Liabilities
- I. Losses
- J. Revenues

47. ____ Net assets.

48. ____ Outflows of resources to generate revenues.

49. ____ Cash dividends.

50. ____ Claims of creditors against the assets of a business.

51. ____ Transfers of resources in exchange for common and preferred stock.

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

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- E. Expenses
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- G. Investments by owners
- H. Liabilities
- I. Losses
- J. Revenues

52. ____ Net outflows from peripheral transactions.

53. ____ Increases in equity from the sale of goods and/or services.

54. ____ Net inflows generally reported as part of nonoperating income.

55. ____ All changes in equity except owner transactions.

56. ____ Probable future economic benefits controlled by an entity.

Listed below are basic assumptions, underlying principles and constraints. Match each phrases with the correct assumption, principle or constraint.

Organization:

- A. Economic Entity assumption
- B. Going Concern assumption
- C. Periodicity assumption
- D. Monetary unit assumption
- E. Historical Cost principle
- F. Revenue recognition principle
- G. Matching principle
- H. Full disclosure principle
- I. Benefit versus cost
- J. Materiality

57. ____ Revenue is recognized only after certain criteria are met

58. ____ Information that could affect decision making should be reported

59. ____ Cause and effect relationship between revenues and expenses

60. ____ The basis for measurement for many assets and liabilities.

61. ____ T Relates to the qualitative characteristic of timeliness.

62. ____ All economic events can be identified with a particular entity.

63. ____ . The benefits of providing accounting information should exceed the costs of doing so.

64. ____ A consequence is that GAAP need not be followed in all situations.

65. ____ Assumes the entity will continue indefinitely.

66. ____ Inflation causes a violation of this assumption.

67. External decision makers would not look primarily to financial accounting information to assist them in making decisions on:

- A. Granting credit.
- B. Capital budgeting.
- C. Selecting stocks.
- D. Mergers and acquisitions.

68. Corporations issue their shares to the investing public in the:

	Primary Market	Secondary Market
A.	Yes	Yes
B.	No	Yes
C.	Yes	No
D.	No	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D

69. The primary focus for financial accounting information is to provide information useful for:

Investing decisions	Credit decisions
A. Yes	Yes
B. Yes	No
C. No	Yes
D. No	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D

70. Which of the following is not true about net operating cash flow?

- A. It is the difference between cash receipts and cash disbursements from providing goods and services.
- B. It is a measure used in accrual accounting and is recognized as the best predictor of future operating cash flows.
- C. Over short periods of time, it may not be indicative of long-run cash-generating ability.
- D. It is easy to understand and all information required to measure it is factual.

71. Which of the following groups is not among financial intermediaries?

- A. Mutual fund managers
- B. Financial analysts
- C. CICA
- D. Credit rating organizations

72. Which of the following is responsible for setting accounting standards in Canada?

- A. IASB
- B. AcSB
- C. FASB
- D. AICPA

73. Which of the following does not apply to secondary markets?

- A. Transactions are important to the efficient allocation of resources in our economy.
- B. New resources are provided when shares of a company are sold by the corporation to the initial owners.
- C. Transactions help to establish market prices for additional shares that may be issued in the future.
- D. Many investors might be unwilling to provide resources to corporations if there is no available mechanism for the future sale of their stocks and bonds to others.

74. A cause-and-effect relationship is implicit in the:

- A. Realization principle.
- B. Historical cost principle.
- C. Matching principle.
- D. Going concern assumption.

75. The full disclosure principle requires a balance between:

- A. Comparability and consistency.
- B. Relevance and cost effectiveness.
- C. Reliability and neutrality.
- D. Timeliness and predictive value.

76. Which of the following groups is not among the external users for whom financial statements are prepared?

- A. Customers
- B. Suppliers
- C. Employees
- D. All of these are external users of financial statements.

77. In a recent annual report, Apple Computer reported the following in one of its disclosure notes: "Warranty Expense: The Company provides currently for the estimated cost for product warranties at the time the related revenue is recognized." This note exemplifies Apple's use of:

- A. Conservatism
- B. The matching principle
- C. Realization principle
- D. Full disclosure principle

78. GAAP is an abbreviation for:

- A. Generally authorized accounting procedures.
- B. Generally applied accounting procedures.
- C. Generally accepted auditing practices.
- D. Generally accepted accounting principles.

79. The Security commissions in Canada are responsible for

- A. Accounting Standards.
- B. Overseeing capital market exchanges.
- C. Banking regulations.

D. Setting interest rates.

80. Which of the following is not a primary source of GAAP

- A. FASB pronouncements
- B. CICA handbook
- C. AcSB interpretation guides.
- D. EIC abstracts.

81. When a company charges the entire cost of a small appliance to expense in the year of purchase even though it has an estimated useful life of 3 years, this is an application of:

- A. Matching principle.
- B. Historical cost principle.
- C. Materiality constraint.
- D. full disclosure principle.

82. Identify the traits that make financial information useful:

- A. Comparability and Consistency.
- B. Reliability and relevance
- C. Understandability.
- D. All of the above.

83. The process of identifying, measuring, analyzing and communicating financial information to plan, evaluate and control operations is

- A. Financial Accounting.
- B. Auditing
- C. Tax accounting.
- D. Management Accounting.

84. A firm's comprehensive income is always:

- A. The same as its net income.
- B. Greater than its net income.
- C. Less than its net income.
- D. Could be greater than or less than net income.

85. Which of the following has the authority to set accounting standards in the United States?

- A. FASB
- B. IRS
- C. SEC
- D. AICPA

86. Which of the following is not considered a qualitative characteristic under the Conceptual Framework?

- A. .Relevance
- B. Understandability.
- C. Fair value.
- D. Consistency

87. Accounting standard setting has been characterized as:

- A. A political process.
- B. Using the scientific method.
- C. Pure deductive reasoning.
- D. Pure inductive reasoning.

88. The International Accounting Standards Board:

- A. Was the predecessor to the IASC.
- B. Can overrule the FASB when their policies disagree.
- C. Promotes the use of high-quality, understandable global accounting standards.
- D. Has its headquarters in Geneva.

89. In order to coordinate the provincial securities commissions, the Canadian Securities Administrators was formed and make all filings of Canadian listed companies available through:

- A. SEDAR
- B. EDGAR.
- C. AcSB
- D. IASB.

90. A tradeoff is often required between various degrees of:

- A. Matching and Materiality.
- B. Timeliness and Neutrality.
- C. Consistency and Comparability
- D. Relevance and Reliability.

91. ABC Company charges all of their capital expenditures under \$500 to expense. What principle is this policy based on?

- A. Matching.
- B. Materiality.
- C. Full Disclosure
- D. Comparability.

92. The AcSB consists of a maximum of _____ members

- A. 5
- B. 12
- C. 15
- D. 9

93. Which of the following is not a secondary source of GAAP

- A. FASB
- B. IASB
- C. EIC Abstracts
- D. Approved exposure drafts.

94. A sole proprietor of a convenience store has included his home on the balance sheet of his business. This violates:

- A. Monetary unit assumption
- B. Going Concern Principle.
- C. Periodicity assumption.
- D. Economic entity assumption

95. Corporations provide shareholders quarterly and annual statements. This is an example of:

- A. Going Concern
- B. Monetary Unit.
- C. Periodicity
- D. Relevance

96. The recognition of which of the following expenses exemplifies the application of the matching principle?

- A. President's salary.
- B. Research and development.
- C. Cost of goods sold.
- D. Advertising.

97. The AcSB's conceptual framework's qualitative characteristics of accounting information include:

- A. Historical cost.
- B. Realization.
- C. Reliability.
- D. Full disclosure.

98. The AcSB's conceptual framework's qualitative characteristics of accounting information include:

- A. Full disclosure.
- B. Relevance.
- C. Going concern.
- D. Historical cost.

99. The conceptual framework's qualitative characteristic of relevance includes:

- A. Timeliness.
- B. Verifiability.
- C. Representational faithfulness.
- D. Neutrality.

100. The conceptual framework's qualitative characteristic of reliability includes:

- A. Predictive value.
- B. Neutrality.
- C. Feedback value.
- D. Timeliness.

101. The conceptual framework's recognition and measurement concepts recognize which of the following as an assumption, rather than a principle?

- A. Going concern.
- B. Historical cost.
- C. Full disclosure.
- D. Realization.

102. The conceptual framework's recognition and measurement concepts recognize which of the following as a principle, rather than an assumption?

- A. Periodicity.
- B. Monetary unit.
- C. Conservatism.

D. Full disclosure.

103. To provide information useful to the decision maker, supplementary information could be in the form of:

- A. Comments on face of statements.
- B. Disclosure notes.
- C. Additional detailed statements.
- D. All of the above.

104. Financial accounting information should provide information about:

- A. Resources of an enterprise.
- B. Claims to resources.
- C. The effects of transactions that cause changes in resources.
- D. All of these.

105. For Financial statements to be relevant, they should possess:

- A. Representational faithfulness.
- B. Verifiability.
- C. Predictive value
- D. Neutrality.

106. The main issue in the debate over accounting for employee stock options was:

- A. Which employees should receive options.
- B. The amount of compensation expense that a company should recognize.
- C. How many options should be granted to key executives.
- D. The tax consequences of employee stock options.

107. Net income equals:

- A. Assets minus liabilities.
- B. Revenues minus cost of goods sold.
- C. Revenues minus expenses.
- D. Cash receipts minus cash payments.

108. Financial reporting objectives state that financial statements should be comprehensible to:

- A. Accounting experts.
- B. Those who have a reasonable understanding of business and economic activities and are willing to study the information.
- C. Large investors.
- D. The average investor with average communication skills and average training and experience.

109. Financial reporting objectives do not include providing information:

- A. About resources, obligations, and changes.
- B. To determine market values, assess profit potential, and evaluate management.
- C. To assess the amounts and timing of prospective cash receipts.
- D. To make rational investment, credit, and similar decisions.

110. Primary qualitative characteristics of accounting information are:

- A. Relevance and comparability.
- B. Comparability and consistency.
- C. Reliability and relevance.
- D. Reliability and consistency.

111. Secondary qualitative characteristics of accounting information include:

- A. Relevance and comparability.
- B. Comparability and consistency.
- C. Reliability and relevance.
- D. Reliability and consistency.

112. Gains are:

- A. Inflows from selling a product or service to a customer.
- B. Increases in equity resulting from transfers of assets to the company from owners.
- C. Increases in equity from peripheral transactions of an entity.
- D. None of these.

113. When there is agreement between a measure or description and the phenomenon it purports to represent, information possesses which characteristic?

- A. Verifiability.
- B. Predictive value.
- C. Representational faithfulness.
- D. Timeliness.

114. Surefeet Corporation changed its inventory valuation method. Which characteristic is jeopardized by this change?

- A. Comparability.
- B. Representational faithfulness.
- C. Consistency.
- D. Feedback value.

115. Of the following, the most important objective for financial reporting is to provide information useful for:

- A. Predicting cash flows.
- B. Determining taxable income.
- C. Providing accountability.
- D. Increasing future profits.

116. Independent auditors express an opinion on the:

- A. Fairness of financial statements.
- B. Accuracy of financial statements.
- C. Soundness of a company's future.
- D. Quality of a company's management.

117. If an independent auditing firm is satisfied that statements are presented fairly in accordance with GAAP, they will express which of the following:

- A. A clean opinion
- B. An unqualified opinion.
- C. A disqualified opinion.
- D. A rejection of opinion.

118. Constraints on qualitative characteristics of accounting information include:

- A. Timeliness.
- B. Going concern.
- C. Neutrality.
- D. Materiality.

119. Elements of financial statements do not include:

- A. Monetary unit.
- B. Investments by owners.
- C. Comprehensive income.
- D. Losses.

120. According to the conceptual framework, verifiability implies:

- A. Legal evidence.
- B. Logic.
- C. Consensus.
- D. Legal verdict.

121. Land was acquired in 2009 for a future building site at a cost of \$40,000. The assessed valuation for tax purposes is \$27,000, a qualified appraiser placed its value at \$48,000, and a recent firm offer for the land was for a cash payment of \$46,000. The land should be reported in the financial statements at:

- A. \$40,000.
- B. \$27,000.
- C. \$46,000.
- D. \$48,000.

122. Maltec Corporation has started placing its quarterly financial statements on its web page, thereby reducing by ten days the time to get information to investors and creditors. The qualitative concept improved is:

- A. Comparability.
- B. Consistency.
- C. Relevance.
- D. Reliability.

123. Recognizing expected losses immediately, but deferring expected gains, is an example of:

- A. Materiality.
- B. Conservatism.
- C. Cost effectiveness.
- D. Timeliness.

124. Change in equity from nonowner sources is:

- A. Comprehensive income.
- B. Revenues.
- C. Expenses.
- D. Gains and losses.

125. The assumption that in the absence of contrary information a business entity will continue indefinitely is the:

- A. Periodicity assumption.

- B. Entity assumption.
- C. Going concern assumption.
- D. Historical cost assumption.

126. Which of the following Sections of the CICA handbook defines the 8 elements of financial statements?

- A. CICA 1000
- B. CICA 1300, 3855
- C. CICA 1000, 3855
- D. CICA 1000, 1530

127. The possibility that the capital markets' focus on periodic profits may tempt a company's management to bend or even break accounting rules to inflate reported net income is an example of:

- A. An ethical dilemma.
- B. An accounting theory issue.
- C. A technical accounting issue.
- D. None of these is correct.

128. One of the elements that many believe distinguishes a profession from other occupations is the acceptance by its members of a responsibility for the interests of those it serves, often articulated in:

- A. Its conceptual framework.
- B. Its code of ethics.
- C. Federal laws.
- D. State laws.

129. Primecoat could get its annual financial statements two days earlier if it shifted substantial human resources from other operations to the annual report project. Management decided the value of the earlier report was not worth the added commitment of resources. The concept demonstrated is:

- A. Timeliness.
- B. Materiality.
- C. Relevance.
- D. Cost effectiveness.

130. Mega Loan Company has very stringent credit requirements and, accordingly, has negligible losses from uncollectible accounts. The company's independent accountants did not protest when, contrary to GAAP, the company recorded bad debt expense only when specific accounts were determined to be uncollectible, rather than use an allowance for uncollectible accounts. The concept demonstrated is:

- A. Comparability.
- B. Representational faithfulness.
- C. Cost effectiveness.
- D. Materiality.

131. The best argument in support of historical cost information is:

- A. Relevance.
- B. Predictive quality for future cash flows.
- C. Materiality.
- D. Verifiability.

132. If a company has gone bankrupt, its financial statements likely violate:

- A. The matching principle.
- B. The realization principle.
- C. The stable monetary unit assumption.
- D. The going concern assumption.

133. Revenue should not be recognized until:

- A. The earnings process is complete and collection is reasonably assured.
- B. Contracts have been signed and payment has been received.
- C. Work has been performed and customer has been billed.
- D. Collection has been made and warranties have expired.

134. The conceptual framework of accounting should have many positive effects as new accounting standards are developed. Which of the following is not one of those effects?

- A. Financial statements among companies should be more consistent and comparable
- B. Standard setting should be more consistent with the objectives of financial reporting
- C. Management should have greater latitude in choosing among accounting alternatives
- D. Users' understanding in financial statements should increase

135. Disclosure notes to a company's financial statements:

- A. Are relatively unimportant facts that don't belong in the basic financial statements.
- B. Document the source of financial statement facts, like literary footnotes.
- C. Are an integral part of a company's financial statements.
- D. Are irrelevant facts that are immaterial in amount.

136. Which of the following best demonstrates the full disclosure principle:

- A. The multi-step income statement.
- B. The auditors' report.
- C. The company's tax return.
- D. Disclosure notes to financial statements.

137. Four different competent accountants independently agree on the amount and method of reporting an economic event. The concept demonstrated is:

- A. Reliability.
- B. Comparability.
- C. Representational faithfulness.
- D. Verifiability.

138. The matching principle is:

- A. A valuation method.
- B. An expense recognition accounting principle.
- C. A cash basis reporting principle.
- D. An asset classification procedure.

139. To meet the needs of full disclosure, companies use supplemental information, including:

- A. Parenthetical comments or modifying comments placed on the face of the financial statements.
- B. Disclosure notes conveying additional insights about company operations, accounting principles, contractual agreements, and pending litigation.
- C. Supplemental financial statements that report more detailed information than is shown in the primary financial statements.
- D. All of these are correct.

140. Ford Motor Company purchases services from suppliers on account and sells its products to distributors on short-term credit. As a result, do each of these affect net income faster than they affect net operating cash flows?

Purchase Services	Sell Products
A. Yes	Yes
B. Yes	No
C. No	Yes
D. No	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Alpaca Corporation had revenues of \$200,000 in its first year of operations. They have not collected on \$20,000 of their sales, and still owe \$25,000 on \$70,000 of merchandise they purchased. The company paid \$15,000 in salaries. The company had no inventory on hand at the end of the year. Owners invested \$20,000 in the business and \$20,000 was borrowed on a five-year note. The company paid \$2,000 in interest that was the amount owed for the year, and paid \$6,000 for a two-year insurance policy on the first day of business. Alpaca has an effective income tax rate of 40%.

141. Compute net income for the first year for Alpaca Corporation.

142. Compute the cash balance at the end of the first year for Alpaca Corporation.

Tri Fecta, a partnership, had revenues of \$360,000 in its first year of operations. The partnership has not collected on \$35,000 of its sales, and still owes \$40,000 on \$150,000 of merchandise they purchased. There was no inventory on hand at the end of the year. The partnership paid \$25,000 in salaries. The partners invested \$40,000 in the business and \$25,000 was borrowed on a five-year note. The partnership paid \$3,000 in interest that was the amount owed for the year and paid \$8,000 for a two-year insurance policy on the first day of business.

143. Compute net income for the first year for Tri Fecta.

144. Compute the cash balance at the end of the first year for Tri Fecta.

The following information (\$ in millions) comes from the 2006 annual report of Amazon.com, Inc:

Net sales	\$10,711
Total assets	4,363
End of year balance in cash	1,022
Total shareholders' equity	431
Gross profit (Sales – Cost of Sales)	2,456
Net increase in cash for the year	9
Operating expenses	2,067
Net operating cash flow	702
Other income (expense), net	(12)

145. Compute Amazon's balance in cash at the beginning of 2006.

146. Compute Amazon's total liabilities at the end of 2006.

147. Compute the 2006 cost of goods sold for Amazon.

148. Compute the 2006 income before income tax for Amazon.

149. Compare the 2006 net income (loss) for Amazon.com to its net cash flow from operating activities. Why are these amounts different? Briefly explain.

150. For each of the following situations, state whether you agree or disagree with the financial reporting practice employed, and briefly explain the reason for your answer.

151. Identify or define the following terms: a. economic entity, b. going concern.

152. List the four financial statements most frequently provided to external users.

153. Explain and show an example of how the AcSB's conceptual framework is needed in formulating standards on controversial topics.

154. What is meant by the term GAAP ?

155. What is the EIC and what is its purpose?

156. Accounting standard setting has been characterized as a political process. Discuss this proposition giving an example.

157. Briefly describe the Benefit versus cost constraint.

158. How does the value of an audit affect financial statements?

159. Compared to financial accounting, what are the major concerns of managerial accounting?-

160. Briefly describe the materiality constraint.

161. Give an example of a violation of the stable monetary unit assumption. How would it affect the quality of financial statement information?

162. Identify or define the following terms: a. periodicity, b. monetary unit.

163. Identify or define the following terms: a. historical cost, b. realization.

164. Discuss in general the due process procedure the AcSB follows in developing accounting standards. Who are the groups which typically have opposing views when it comes to accounting standards, and why?

165. Accounting standards have developed over time to reflect changes in the business world as well as changes in our ability to account for such changes. Using the example of marking assets and liabilities to their fair value, explain why you would expect accounting standards to change.

1 KEY

1. (p. 4) The primary function of financial accounting is to provide relevant financial information to parties external to business enterprises.

TRUE

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #1
Topic: LO 1*

2. (p. 7) Accrual accounting attempts to measure revenues and expenses that occurred during accounting periods so they equal net operating cash flow.

FALSE

*Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #2
Topic: LO 2*

3. (p. 10) The FASB is currently the public sector organization responsible for setting accounting standards in Canada.

FALSE

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #3
Topic: LO 3*

4. (p. 5) Capital markets provide a mechanism to help the economy allocate resources.

TRUE

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #4
Topic: LO 4*

5. (p. 17) A rules-based approach to standard setting stresses professional judgment as opposed to following a list of rules.

FALSE

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #5
Topic: LO 4*

6. (p. 11) The Canadian legislation and securities regulations require companies listed on Canadian stock exchanges to prepare statements that conform to GAAP

TRUE

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #6
Topic: LO 4*

7. (p. 15) The primary responsibility for properly applying GAAP when communicating with investors and creditors through financial statements lies with a firm's auditors.

FALSE

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #7
Topic: LO 4*

8. (p. 16) Auditors play an important role in the resource allocation process by adding credibility to financial statements.

TRUE

*Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #8
Topic: LO 4*

9. (p. 23) Materiality can be affected by the dollar amount of an item, the nature of the item, or both.

TRUE

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #9
Topic: LO 6*

10. (p. 21) Conservatism is a desired qualitative characteristic of accounting information.

TRUE

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #10
Topic: LO 6*

11. (p. 24) Equity is a residual amount representing the owner's interest in the assets of the business.

TRUE

Difficulty: Easy

12. (p. 24) Revenues are inflows or other enhancements of assets or settlements of liabilities from activities that constitute the entity's ongoing operations.

TRUE

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #12
 Topic: LO 6

13. (p. 25) Gains or losses result, respectively, from the disposition of business assets for greater than, or less than, their book values.

TRUE

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #13
 Topic: LO 6

14. (p. 25) Comprehensive income is another term for net income.

FALSE

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #14
 Topic: LO 6

15. (p. 21) Accounting choices should influence the behavior of managers.

FALSE

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #15
 Topic: LO 6

16. (p. 22) Trade offs are often required between relevance and reliability.

TRUE

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #16
 Topic: LO 6

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Comprehensive income
- B. Distribution to owners
- C. Feedback value
- D. Gain
- E. Materiality
- F. Predictive value
- G. Relevance
- H. Reliability
- I. Representational faithfulness
- J. Timeliness

Spiceland - Chapter 01

17. (p. 21) ____ Information is useful in projecting cash flows.

F

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #17
 Topic: LO 6

18. (p. 21) ____ Pertinent to the decision at hand.

G

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #18
 Topic: LO 6

19. (p. 21) ____ Information is available prior to the decision.

J

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #19
 Topic: LO 6

20. (p. 25) ____ Decrease in equity due to transfers to owners.

B

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #20

Topic: LO 6

21. (p. 21) ____ Information confirms expectations.

C

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #21
Topic: LO 6

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Comprehensive income
- B. Distribution to owners
- C. Feedback value
- D. Gain
- E. Materiality
- F. Predictive value
- G. Relevance
- H. Reliability
- I. Representational faithfulness
- J. Timeliness

Spiceland - Chapter 01

22. (p. 21) ____ Along with relevance, a primary decision-specific quality.

H

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #22
Topic: LO 6

23. (p. 25) ____ Results if an asset is sold for more than book value.

D

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #23
Topic: LO 6

24. (p. 21) ____ Agreement between a measure and what it purports to represent.

I

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #24
Topic: LO 6

25. (p. 25) ____ The change in equity from nonowner transactions.

A

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #25
Topic: LO 6

26. (p. 22) ____ Concerns the decision making impact of both the amount and nature of an item.

E

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #26
Topic: LO 6

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term with their phrases by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Comparability
- B. Consistency
- C. Cost effectiveness
- D. Economic entity assumption
- E. Going concern assumption
- F. Monetary unit assumption
- G. Neutrality
- H. Periodicity assumption
- I. Recognition
- J. Verifiability

Spiceland - Chapter 01

27. (p. 22) ____ Important in analysis between firms.

A

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #27
Topic: LO 6

28. (p. 21) ____ Accounting information should be unbiased.

G

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #28
 Topic: LO 6

29. (p. 25) ____ The process of including data in financial statements.

I

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #29
 Topic: LO 6

30. (p. 22) ____ Applying the same accounting practices over time.

B

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #30
 Topic: LO 6

31. (p. 23) ____ Considers the value of using information relative to cost of providing it.

C

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #31
 Topic: LO 6

Listed below are ten terms are followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Comparability
- B. Consistency
- C. Cost effectiveness
- D. Economic entity assumption
- E. Going concern assumption
- F. Monetary unit assumption
- G. Neutrality
- H. Periodicity assumption
- I. Recognition
- J. Verifiability

Spiceland - Chapter 01

32. (p. 21) ____ Implies consensus among different observers.

J

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #32
 Topic: LO 6

33. (p. 26) ____ Assumes all transactions can be identified with a particular entity.

D

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #33
 Topic: LO 6

34. (p. 26) ____ Assumes an entity will continue to operate indefinitely.

E

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #34
 Topic: LO 6

35. (p. 27) ____ Requires reporting the financial life of an entity in discrete time frames.

H

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #35
 Topic: LO 7

36. (p. 27) ____ Ignores the possibility of inflation.

F

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #36
 Topic: LO 7

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. IASB

- B. CICA
- C. Conservatism
- D. AcSB
- E. Full-disclosure principle
- F. Historical cost principle
- G. Matching principle
- H. Materiality
- I. Realization principle
- J. Securities and Exchange Commission

Spiceland - Chapter 01

37. (p. 27) ____ Basis of measurement for based on amount given or received.

F

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #37
Topic: LO 7

38. (p. 28) ____ Recognition of revenue only after certain criteria are satisfied.

I

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #38
Topic: LO 7

39. (p. 28) ____ Guide to expense recognition.

G

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #39
Topic: LO 7

40. (p. 30) ____ Reporting of all information that could affect decisions.

E

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #40
Topic: LO 7

41. (p. 23) ____ Application of GAAP sometimes avoided under this constraint.

H

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #41
Topic: LO 6

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. EIC
- B. CICA
- C. Conservatism
- D. AcSB
- E. Full-disclosure principle
- F. Historical cost principle
- G. Matching principle
- H. Materiality
- I. Realization principle
- J. IASB

Spiceland - Chapter 01

42. (p. 21) ____ It is a practical justification for choosing among alternative accounting methods.

C

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #42
Topic: LO 6

43. (p. 10) ____ Set up by AcSB to provide more timely responses to emerging financial reporting issues.

A

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #43
Topic: LO 1

44. (p. 10) ____ Responsible for establishing accounting standards for Canadian companies.

D

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #44
Topic: LO 1

45. (p. 15) ____ Group dedicated to developing a single set of global accounting standards.

J

*Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #45
Topic: LO 2*

46. (p. 10) ____ It is the national organization for CAs in the Canada.

B

*Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #46
Topic: LO 1*

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Assets
- B. Comprehensive income
- C. Distributions to owners
- D. Equity
- E. Expenses
- F. Gains
- G. Investments by owners
- H. Liabilities
- I. Losses
- J. Revenues

Spiceland - Chapter 01

47. (p. 24) ____ Net assets.

D

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #47
Topic: LO 6*

48. (p. 25) ____ Outflows of resources to generate revenues.

E

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #48
Topic: LO 6*

49. (p. 24) ____ Cash dividends.

C

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #49
Topic: LO 6*

50. (p. 23) ____ Claims of creditors against the assets of a business.

H

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #50
Topic: LO 6*

51. (p. 24) ____ Transfers of resources in exchange for common and preferred stock.

G

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #51
Topic: LO 6*

Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:

- A. Assets
- B. Comprehensive income
- C. Distributions to owners
- D. Equity
- E. Expenses
- F. Gains
- G. Investments by owners
- H. Liabilities
- I. Losses
- J. Revenues

Spiceland - Chapter 01

52. (p. 25) ____ Net outflows from peripheral transactions.

I

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #52
 Topic: LO 6

53. (p. 24) ____ Increases in equity from the sale of goods and/or services.

J

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #53
 Topic: LO 6

54. (p. 25) ____ Net inflows generally reported as part of nonoperating income.

F

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #54
 Topic: LO 6

55. (p. 25) ____ All changes in equity except owner transactions.

B

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #55
 Topic: LO 6

56. (p. 24) ____ Probable future economic benefits controlled by an entity.

A

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #56
 Topic: LO 6

Listed below are basic assumptions, underlying principles and constraints. Match each phrases with the correct assumption, principle or constraint.

Organization:

- A. Economic Entity assumption
- B. Going Concern assumption
- C. Periodicity assumption
- D. Monetary unit assumption
- E. Historical Cost principle
- F. Revenue recognition principle
- G. Matching principle
- H. Full disclosure principle
- I. Benefit versus cost
- J. Materiality

Spiceland - Chapter 01

57. (p. 28) ____ Revenue is recognized only after certain criteria are met

F

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #57
 Topic: LO 7

58. (p. 30) ____ Information that could affect decision making should be reported

H

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #58
 Topic: LO 7

59. (p. 29) ____ Cause and effect relationship between revenues and expenses

G

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #59
 Topic: LO 7

60. (p. 27) ____ The basis for measurement for many assets and liabilities.

E

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #60
 Topic: LO 7

61. (p. 27) ____ T Relates to the qualitative characteristic of timeliness.

C

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #61
 Topic: LO 7

62. (p. 28) ____ All economic events can be identified with a particular entity.

A

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #62
 Topic: LO 7

63. (p. 22) ____ . The benefits of providing accounting information should exceed the costs of doing so.

I

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #63
 Topic: LO 6

64. (p. 22) ____ A consequence is that GAAP need not be followed in all situations.

J

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #64
 Topic: LO 6

65. (p. 26) ____ Assumes the entity will continue indefinitely.

B

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #65
 Topic: LO 6

66. (p. 27) ____ Inflation causes a violation of this assumption.

D

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #66
 Topic: LO 7

67. (p. 4) External decision makers would not look primarily to financial accounting information to assist them in making decisions on:

- A. Granting credit.
- B. Capital budgeting.**
- C. Selecting stocks.
- D. Mergers and acquisitions.

Difficulty: Easy
 Level of Learning: Comprehension
 Spiceland - Chapter 01 #67
 Topic: LO 1

68. (p. 6) Corporations issue their shares to the investing public in the:

	Primary Market	Secondary Market
A.	Yes	Yes
B.	No	Yes
C.	Yes	No
D.	No	No

- A. Option A
- B. Option B
- C. Option C**
- D. Option D

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #68
 Topic: LO 1

69. (p. 4) The primary focus for financial accounting information is to provide information useful for:

	Investing decisions	Credit decisions
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

- A. Option A**
- B. Option B
- C. Option C
- D. Option D

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #69
 Topic: LO 1

70. (p. 7) Which of the following is not true about net operating cash flow?

- A. It is the difference between cash receipts and cash disbursements from providing goods and services.
- B.** It is a measure used in accrual accounting and is recognized as the best predictor of future operating cash flows.
- C. Over short periods of time, it may not be indicative of long-run cash-generating ability.
- D. It is easy to understand and all information required to measure it is factual.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #70
Topic: LO 2*

71. (p. 5) Which of the following groups is not among financial intermediaries?

- A. Mutual fund managers
- B. Financial analysts
- C.** CICA
- D. Credit rating organizations

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #71
Topic: LO 1*

72. (p. 10) Which of the following is responsible for setting accounting standards in Canada?

- A. IASB
- B.** AcSB
- C. FASB
- D. AICPA

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #72
Topic: LO 3*

73. (p. 6) Which of the following does not apply to secondary markets?

- A. Transactions are important to the efficient allocation of resources in our economy.
- B.** New resources are provided when shares of a company are sold by the corporation to the initial owners.
- C. Transactions help to establish market prices for additional shares that may be issued in the future.
- D. Many investors might be unwilling to provide resources to corporations if there is no available mechanism for the future sale of their stocks and bonds to others.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #73
Topic: LO 2*

74. (p. 29) A cause-and-effect relationship is implicit in the:

- A. Realization principle.
- B. Historical cost principle.
- C.** Matching principle.
- D. Going concern assumption.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #74
Topic: LO 7*

75. (p. 30) The full disclosure principle requires a balance between:

- A. Comparability and consistency.
- B.** Relevance and cost effectiveness.
- C. Reliability and neutrality.
- D. Timeliness and predictive value.

*Difficulty: Medium
Level of Learning: Comprehension
Spiceland - Chapter 01 #75
Topic: LO 7*

76. (p. 5) Which of the following groups is not among the external users for whom financial statements are prepared?

- A. Customers
- B. Suppliers
- C. Employees
- D.** All of these are external users of financial statements.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #76
Topic: LO 1*

77. (p. 29) In a recent annual report, Apple Computer reported the following in one of its disclosure notes: "Warranty Expense: The Company provides currently for the estimated cost for product warranties at the time the related revenue is recognized." This note exemplifies Apple's use of:

- A. Conservatism
- B.** The matching principle
- C. Realization principle
- D. Full disclosure principle

*Difficulty: Medium
Level of Learning: Synthesis
Spiceland - Chapter 01 #77
Topic: LO 7*

78. (p. 9) GAAP is an abbreviation for:

- A. Generally authorized accounting procedures.
- B. Generally applied accounting procedures.
- C. Generally accepted auditing practices.
- D.** Generally accepted accounting principles.

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #78
Topic: LO 3*

79. (p. 11) The Security commissions in Canada are responsible for

- A. Accounting Standards.
- B.** Overseeing capital market exchanges.
- C. Banking regulations.
- D. Setting interest rates.

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #79
Topic: LO 3*

80. (p. 11) Which of the following is not a primary source of GAAP

- A.** FASB pronouncements
- B. CICA handbook
- C. AcSB interpretation guides.
- D. EIC abstracts.

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #80
Topic: LO 3*

81. (p. 23) When a company charges the entire cost of a small appliance to expense in the year of purchase even though it has an estimated useful life of 3 years, this is an application of:

- A. Matching principle.
- B. Historical cost principle.
- C.** Materiality constraint.
- D. full disclosure principle.

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #81
Topic: LO 6*

82. (p. 19) Identify the traits that make financial information useful:

- A. Comparability and Consistency.
- B. Reliability and relevance
- C. Understandability.
- D.** All of the above.

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #82
Topic: LO 6*

83. (p. 5) The process of identifying, measuring, analyzing and communicating financial information to plan, evaluate and control operations is

- A. Financial Accounting.
- B. Auditing
- C. Tax accounting.
- D.** Management Accounting.

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #83
Topic: LO 1*

84. (p. 25) A firm's comprehensive income is always:

- A. The same as its net income.
- B. Greater than its net income.
- C. Less than its net income.
- D.** Could be greater than or less than net income.

*Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #84
Topic: LO 6*

85. (p. 10) Which of the following has the authority to set accounting standards in the United States?

- A. FASB
- B. IRS
- C.** SEC
- D. AICPA

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #85*

Topic: LO 3

86. (p. 33) Which of the following is not considered a qualitative characteristic under the Conceptual Framework?

- A. Relevance
- B. Understandability.
- C. Fair value.**
- D. Consistency

Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #86
Topic: LO 7

87. (p. 12) Accounting standard setting has been characterized as:

- A. A political process.**
- B. Using the scientific method.
- C. Pure deductive reasoning.
- D. Pure inductive reasoning.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #87
Topic: LO 4

88. (p. 15) The International Accounting Standards Board:

- A. Was the predecessor to the IASC.
- B. Can overrule the FASB when their policies disagree.
- C. Promotes the use of high-quality, understandable global accounting standards.**
- D. Has its headquarters in Geneva.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #88
Topic: LO 4

89. (p. 11) In order to coordinate the provincial securities commissions, the Canadian Securities Administrators was formed and make all filings of Canadian listed companies available through:

- A. SEDAR**
- B. EDGAR.
- C. AcSB
- D. IASB.

Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #89
Topic: LO 3

90. (p. 22) A tradeoff is often required between various degrees of:

- A. Matching and Materiality.
- B. Timeliness and Neutrality.
- C. Consistency and Comparability
- D. Relevance and Reliability.**

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #90
Topic: LO 6

91. (p. 23) ABC Company charges all of their capital expenditures under \$500 to expense. What principle is this policy based on?

- A. Matching.
- B. Materiality.**
- C. Full Disclosure
- D. Comparability.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #91
Topic: LO 7

92. (p. 10) The AcSB consists of a maximum of _____ members

- A. 5
- B. 12
- C. 15
- D. 9**

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #92
Topic: LO 3

93. (p. 11) Which of the following is not a secondary source of GAAP

- A. FASB
- B. IASB
- C. EIC Abstracts**
- D. Approved exposure drafts.

Difficulty: Easy
Level of Learning: Knowledge

94. (p. 26) A sole proprietor of a convenience store has included his home on the balance sheet of his business. This violates:

- A. Monetary unit assumption
- B. Going Concern Principle.
- C. Periodicity assumption.
- D. Economic entity assumption**

Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #94
Topic: LO 7

95. (p. 27) Corporations provide shareholders quarterly and annual statements. This is an example of:

- A. Going Concern
- B. Monetary Unit.
- C. Periodicity**
- D. Relevance

Difficulty: Medium
Level of Learning: Comprehension
Spiceland - Chapter 01 #95
Topic: LO 7

96. (p. 29) The recognition of which of the following expenses exemplifies the application of the matching principle?

- A. President's salary.
- B. Research and development.
- C. Cost of goods sold.**
- D. Advertising.

Difficulty: Medium
Level of Learning: Comprehension
Spiceland - Chapter 01 #96
Topic: LO 7

97. (p. 20) The AcSB's conceptual framework's qualitative characteristics of accounting information include:

- A. Historical cost.
- B. Realization.
- C. Reliability.**
- D. Full disclosure.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #97
Topic: LO 6

98. (p. 20) The AcSB's conceptual framework's qualitative characteristics of accounting information include:

- A. Full disclosure.
- B. Relevance.**
- C. Going concern.
- D. Historical cost.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #98
Topic: LO 6

99. (p. 21) The conceptual framework's qualitative characteristic of relevance includes:

- A. Timeliness.**
- B. Verifiability.
- C. Representational faithfulness.
- D. Neutrality.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #99
Topic: LO 6

100. (p. 21) The conceptual framework's qualitative characteristic of reliability includes:

- A. Predictive value.
- B. Neutrality.**
- C. Feedback value.
- D. Timeliness.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #100
Topic: LO 6

101. (p. 27) The conceptual framework's recognition and measurement concepts recognize which of the following as an assumption, rather than a principle?

- A. Going concern.**
- B. Historical cost.
- C. Full disclosure.
- D. Realization.

Difficulty: Easy

Level of Learning: Knowledge
Spiceland - Chapter 01 #101
Topic: LO 7

102. (p. 30) The conceptual framework's recognition and measurement concepts recognize which of the following as a principle, rather than an assumption?
- A. Periodicity.
 - B. Monetary unit.
 - C. Conservatism.
 - D. Full disclosure.**

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #102
Topic: LO 7

103. (p. 30) To provide information useful to the decision maker, supplementary information could be in the form of:
- A. Comments on face of statements.
 - B. Disclosure notes.
 - C. Additional detailed statements.
 - D. All of the above.**

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #103
Topic: LO 7

104. (p. 19) Financial accounting information should provide information about:
- A. Resources of an enterprise.
 - B. Claims to resources.
 - C. The effects of transactions that cause changes in resources.
 - D. All of these.**

Difficulty: Medium
Level of Learning: Comprehension
Spiceland - Chapter 01 #104
Topic: LO 6

105. (p. 21) For Financial statements to be relevant, they should possess:
- A. Representational faithfulness.
 - B. Verifiability.
 - C. Predictive value**
 - D. Neutrality.

Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #105
Topic: LO 6

106. (p. 5) The main issue in the debate over accounting for employee stock options was:
- A. Which employees should receive options.
 - B. The amount of compensation expense that a company should recognize.**
 - C. How many options should be granted to key executives.
 - D. The tax consequences of employee stock options.

Difficulty: Medium
Level of Learning: Comprehension
Spiceland - Chapter 01 #106
Topic: LO 2

107. (p. 24) Net income equals:
- A. Assets minus liabilities.
 - B. Revenues minus cost of goods sold.
 - C. Revenues minus expenses.**
 - D. Cash receipts minus cash payments.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #107
Topic: LO 6

108. (p. 20) Financial reporting objectives state that financial statements should be comprehensible to:
- A. Accounting experts.
 - B. Those who have a reasonable understanding of business and economic activities and are willing to study the information.**
 - C. Large investors.
 - D. The average investor with average communication skills and average training and experience.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #108
Topic: LO 6

109. (p. 20) Financial reporting objectives do not include providing information:
- A. About resources, obligations, and changes.
 - B. To determine market values, assess profit potential, and evaluate management.**
 - C. To assess the amounts and timing of prospective cash receipts.
 - D. To make rational investment, credit, and similar decisions.

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #109
 Topic: LO 6

110. (p. 21) Primary qualitative characteristics of accounting information are:

- A. Relevance and comparability.
- B. Comparability and consistency.
- C. Reliability and relevance.**
- D. Reliability and consistency.

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #110
 Topic: LO 6

111. (p. 22) Secondary qualitative characteristics of accounting information include:

- A. Relevance and comparability.
- B. Comparability and consistency.**
- C. Reliability and relevance.
- D. Reliability and consistency.

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #111
 Topic: LO 6

112. (p. 25) Gains are:

- A. Inflows from selling a product or service to a customer.
- B. Increases in equity resulting from transfers of assets to the company from owners.
- C. Increases in equity from peripheral transactions of an entity.**
- D. None of these.

Difficulty: Easy
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #112
 Topic: LO 6

113. (p. 21) When there is agreement between a measure or description and the phenomenon it purports to represent, information possesses which characteristic?

- A. Verifiability.
- B. Predictive value.
- C. Representational faithfulness.**
- D. Timeliness.

Difficulty: Easy
 Level of Learning: Synthesis
 Spiceland - Chapter 01 #113
 Topic: LO 6

114. (p. 22) Surefeet Corporation changed its inventory valuation method. Which characteristic is jeopardized by this change?

- A. Comparability.
- B. Representational faithfulness.
- C. Consistency.**
- D. Feedback value.

Difficulty: Easy
 Level of Learning: Synthesis
 Spiceland - Chapter 01 #114
 Topic: LO 6

115. (p. 20) Of the following, the most important objective for financial reporting is to provide information useful for:

- A. Predicting cash flows.**
- B. Determining taxable income.
- C. Providing accountability.
- D. Increasing future profits.

Difficulty: Medium
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #115
 Topic: LO 6

116. (p. 15) Independent auditors express an opinion on the:

- A. Fairness of financial statements.**
- B. Accuracy of financial statements.
- C. Soundness of a company's future.
- D. Quality of a company's management.

Difficulty: Medium
 Level of Learning: Knowledge
 Spiceland - Chapter 01 #116
 Topic: LO 4

117. (p. 16) If an independent auditing firm is satisfied that statements are presented fairly in accordance with GAAP, they will express which of the following:

- A. A clean opinion**
- B. An unqualified opinion.
- C. A disqualified opinion.

D. A rejection of opinion.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #117
Topic: LO 4*

118. (p. 23) Constraints on qualitative characteristics of accounting information include:

- A. Timeliness.
- B. Going concern.
- C. Neutrality.
- D. Materiality.**

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #118
Topic: LO 6*

119. (p. 24) Elements of financial statements do not include:

- A. Monetary unit.**
- B. Investments by owners.
- C. Comprehensive income.
- D. Losses.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #119
Topic: LO 6*

120. (p. 21) According to the conceptual framework, verifiability implies:

- A. Legal evidence.
- B. Logic.
- C. Consensus.**
- D. Legal verdict.

*Difficulty: Medium
Level of Learning: Synthesis
Spiceland - Chapter 01 #120
Topic: LO 6*

121. (p. 27) Land was acquired in 2009 for a future building site at a cost of \$40,000. The assessed valuation for tax purposes is \$27,000, a qualified appraiser placed its value at \$48,000, and a recent firm offer for the land was for a cash payment of \$46,000. The land should be reported in the financial statements at:

- A. \$40,000.**
- B. \$27,000.
- C. \$46,000.
- D. \$48,000.

*Difficulty: Medium
Level of Learning: Application
Spiceland - Chapter 01 #121
Topic: LO 7*

122. (p. 21) Maltec Corporation has started placing its quarterly financial statements on its web page, thereby reducing by ten days the time to get information to investors and creditors. The qualitative concept improved is:

- A. Comparability.
- B. Consistency.
- C. Relevance.**
- D. Reliability.

*Difficulty: Medium
Level of Learning: Synthesis
Spiceland - Chapter 01 #122
Topic: LO 6*

123. (p. 21) Recognizing expected losses immediately, but deferring expected gains, is an example of:

- A. Materiality.
- B. Conservatism.**
- C. Cost effectiveness.
- D. Timeliness.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #123
Topic: LO 6*

124. (p. 25) Change in equity from nonowner sources is:

- A. Comprehensive income.**
- B. Revenues.
- C. Expenses.
- D. Gains and losses.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #124
Topic: LO 4*

125. (p. 27) The assumption that in the absence of contrary information a business entity will continue indefinitely is the:

- A. Periodicity assumption.
- B. Entity assumption.
- C.** Going concern assumption.
- D. Historical cost assumption.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #125
Topic: LO 7*

126. (p. 24) Which of the following Sections of the CICA handbook defines the 8 elements of financial statements?

- A. CICA 1000
- B. CICA 1300, 3855
- C. CICA 1000, 3855
- D.** CICA 1000, 1530

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #126
Topic: LO 6*

127. (p. 31) The possibility that the capital markets' focus on periodic profits may tempt a company's management to bend or even break accounting rules to inflate reported net income is an example of:

- A.** An ethical dilemma.
- B. An accounting theory issue.
- C. A technical accounting issue.
- D. None of these is correct.

*Difficulty: Medium
Level of Learning: Synthesis
Spiceland - Chapter 01 #127
Topic: LO 7*

128. (p. 31) One of the elements that many believe distinguishes a profession from other occupations is the acceptance by its members of a responsibility for the interests of those it serves, often articulated in:

- A. Its conceptual framework.
- B.** Its code of ethics.
- C. Federal laws.
- D. State laws.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #128
Topic: LO 7*

129. (p. 23) Primecoat could get its annual financial statements two days earlier if it shifted substantial human resources from other operations to the annual report project. Management decided the value of the earlier report was not worth the added commitment of resources. The concept demonstrated is:

- A. Timeliness.
- B. Materiality.
- C. Relevance.
- D.** Cost effectiveness.

*Difficulty: Medium
Level of Learning: Application
Spiceland - Chapter 01 #129
Topic: LO 6*

130. (p. 23) Mega Loan Company has very stringent credit requirements and, accordingly, has negligible losses from uncollectible accounts. The company's independent accountants did not protest when, contrary to GAAP, the company recorded bad debt expense only when specific accounts were determined to be uncollectible, rather than use an allowance for uncollectible accounts. The concept demonstrated is:

- A. Comparability.
- B. Representational faithfulness.
- C. Cost effectiveness.
- D.** Materiality.

*Difficulty: Medium
Level of Learning: Application
Spiceland - Chapter 01 #130
Topic: LO 6*

131. (p. 28) The best argument in support of historical cost information is:

- A. Relevance.
- B. Predictive quality for future cash flows.
- C. Materiality.
- D.** Verifiability.

*Difficulty: Easy
Level of Learning: Comprehension
Spiceland - Chapter 01 #131
Topic: LO 7*

132. (p. 27) If a company has gone bankrupt, its financial statements likely violate:

- A. The matching principle.
- B. The realization principle.
- C. The stable monetary unit assumption.

D. The going concern assumption.

*Difficulty: Medium
Level of Learning: Synthesis
Spiceland - Chapter 01 #132
Topic: LO 7*

133. (p. 28) Revenue should not be recognized until:

- A.** The earnings process is complete and collection is reasonably assured.
- B. Contracts have been signed and payment has been received.
- C. Work has been performed and customer has been billed.
- D. Collection has been made and warranties have expired.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #133
Topic: LO 7*

134. (p. 17) The conceptual framework of accounting should have many positive effects as new accounting standards are developed. Which of the following is not one of those effects?

- A. Financial statements among companies should be more consistent and comparable
- B. Standard setting should be more consistent with the objectives of financial reporting
- C.** Management should have greater latitude in choosing among accounting alternatives
- D. Users' understanding in financial statements should increase

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #134
Topic: LO 4*

135. (p. 30) Disclosure notes to a company's financial statements:

- A. Are relatively unimportant facts that don't belong in the basic financial statements.
- B. Document the source of financial statement facts, like literary footnotes.
- C.** Are an integral part of a company's financial statements.
- D. Are irrelevant facts that are immaterial in amount.

*Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #135
Topic: LO 7*

136. (p. 30) Which of the following best demonstrates the full disclosure principle:

- A. The multi-step income statement.
- B. The auditors' report.
- C. The company's tax return.
- D.** Disclosure notes to financial statements.

*Difficulty: Medium
Level of Learning: Synthesis
Spiceland - Chapter 01 #136
Topic: LO 7*

137. (p. 21) Four different competent accountants independently agree on the amount and method of reporting an economic event. The concept demonstrated is:

- A. Reliability.
- B. Comparability.
- C. Representational faithfulness.
- D.** Verifiability.

*Difficulty: Medium
Level of Learning: Comprehension
Spiceland - Chapter 01 #137
Topic: LO 6*

138. (p. 29) The matching principle is:

- A. A valuation method.
- B.** An expense recognition accounting principle.
- C. A cash basis reporting principle.
- D. An asset classification procedure.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #138
Topic: LO 7*

139. (p. 30) To meet the needs of full disclosure, companies use supplemental information, including:

- A. Parenthetical comments or modifying comments placed on the face of the financial statements.
- B. Disclosure notes conveying additional insights about company operations, accounting principles, contractual agreements, and pending litigation.
- C. Supplemental financial statements that report more detailed information than is shown in the primary financial statements.
- D.** All of these are correct.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #139
Topic: LO 7*

140. (p. 7) Ford Motor Company purchases services from suppliers on account and sells its products to distributors on short-term credit. As a result, do each of these affect net income faster than they affect net operating cash flows?

Purchase Services	Sell Products
A. Yes	Yes
B. Yes	No
C. No	Yes
D. No	No

- A. Option A
 B. Option B
 C. Option C
 D. Option D

*Difficulty: Difficult
 Level of Learning: Analysis
 Spiceland - Chapter 01 #140
 Topic: LO 2*

Alpaca Corporation had revenues of \$200,000 in its first year of operations. They have not collected on \$20,000 of their sales, and still owe \$25,000 on \$70,000 of merchandise they purchased. The company paid \$15,000 in salaries. The company had no inventory on hand at the end of the year. Owners invested \$20,000 in the business and \$20,000 was borrowed on a five-year note. The company paid \$2,000 in interest that was the amount owed for the year, and paid \$6,000 for a two-year insurance policy on the first day of business. Alpaca has an effective income tax rate of 40%.

Spiceland - Chapter 01

141. (p. 8) Compute net income for the first year for Alpaca Corporation.

Revenues		\$200,000
Expenses:		
Cost of goods sold	70,000	
Salaries	15,000	
Interest	2,000	
Insurance	<u>3,000</u>	<u>90,000</u>
Income before tax		110,000
Income tax at 40%		<u>44,000</u>
Net income		<u>\$66,000</u>

*Difficulty: Difficult
 Level of Learning: Application
 Spiceland - Chapter 01 #141
 Topic: LO 2*

142. (p. 7) Compute the cash balance at the end of the first year for Alpaca Corporation.

Cash receipts:		
Sales Revenue	\$200,000	
Less: Accounts receivable	<u>20,000</u>	\$180,000
Owners' investments		20,000
Note payable		<u>20,000</u>
Total receipts		<u>220,000</u>
Cash disbursements:		
Purchases	70,000	
Less: Accounts payable	<u>25,000</u>	\$ 45,000
Salaries paid		15,000
Interest paid		2,000
Insurance paid		6,000
Estimated taxes paid		<u>44,000</u>
Total cash disbursements		<u>112,000</u>
Ending cash balance		<u>\$ 108,000</u>

*Difficulty: Difficult
 Level of Learning: Application
 Spiceland - Chapter 01 #142
 Topic: LO 2*

Tri Fecta, a partnership, had revenues of \$360,000 in its first year of operations. The partnership has not collected on \$35,000 of its sales, and still owes \$40,000 on \$150,000 of merchandise they purchased. There was no inventory on hand at the end of the year. The partnership paid \$25,000 in salaries. The partners invested \$40,000 in the business and \$25,000 was borrowed on a five-year note. The partnership paid \$3,000 in interest that was the amount owed for the year and paid \$8,000 for a two-year insurance policy on the first day of business.

Spiceland - Chapter 01

143. (p. 8) Compute net income for the first year for Tri Fecta.

Revenues		\$360,000
Expenses:		
Cost of Goods Sold	\$150,000	
Salaries	25,000	
Interest	3,000	
Insurance	<u>4,000</u>	<u>182,000</u>
Net income		<u>\$178,000</u>

*Difficulty: Difficult
 Level of Learning: Application
 Spiceland - Chapter 01 #143
 Topic: LO 2*

144. (p. 7) Compute the cash balance at the end of the first year for Tri Fecta.

Cash receipts:		
Sales Revenue	\$360,000	
Less: Accounts receivable	<u>35,000</u>	\$325,000
Owners' investments		40,000
Note payable		<u>25,000</u>
Total receipts		<u>390,000</u>
Cash disbursements:		
Purchases	150,000	
Less: Accounts payable	<u>40,000</u>	\$ 110,000
Salaries paid		25,000
Interest paid		3,000
Insurance paid		<u>8,000</u>
Total cash disbursements		<u>146,000</u>
Ending cash balance		<u>\$ 244,000</u>

Difficulty: Difficult
Level of Learning: Application
Spiceland - Chapter 01 #144
Topic: LO 2

The following information (\$ in millions) comes from the 2006 annual report of Amazon.com, Inc:

Net sales	\$10,711
Total assets	4,363
End of year balance in cash	1,022
Total shareholders' equity	431
Gross profit (Sales – Cost of Sales)	2,456
Net increase in cash for the year	9
Operating expenses	2,067
Net operating cash flow	702
Other income (expense), net	(12)

Spiceland - Chapter 01

145. (p. 7) Compute Amazon's balance in cash at the beginning of 2006.

Beginning balance in Cash + Net increase in Cash = Ending balance in Cash

Therefore, beginning balance in Cash = Ending balance in Cash – Net increase in Cash = \$1,022 – 9 = \$1,013

Difficulty: Difficult
Level of Learning: Application
Spiceland - Chapter 01 #145
Topic: LO 2

146. (p. 7) Compute Amazon's total liabilities at the end of 2006.

Total assets = Total liabilities + Total Stockholders' equity

Therefore, Total liabilities = Total assets – Total Stockholders' equity = \$4,363 – 431 = \$3,932

Difficulty: Difficult
Level of Learning: Application
Spiceland - Chapter 01 #146
Topic: LO 2

147. (p. 8) Compute the 2006 cost of goods sold for Amazon.

Gross profit = Net sales – Cost of goods sold

Therefore, Cost of goods sold = Net sales – Gross profit = \$10,711 – 2,456 = \$8,255

Difficulty: Difficult
Level of Learning: Application
Spiceland - Chapter 01 #147
Topic: LO 2

148. (p. 8) Compute the 2006 income before income tax for Amazon.

Net income = Gross profit – Operating expenses + Other income (expense), net = \$2,456 – 2,067 + (12) = \$377

Difficulty: Difficult
Level of Learning: Application
Spiceland - Chapter 01 #148
Topic: LO 2

149. (p. 8) Compare the 2006 net income (loss) for Amazon.com to its net cash flow from operating activities. Why are these amounts different? Briefly explain.

These amounts are different because of the differences between cash and accrual accounting. As opposed to cash flows from operations, net income includes both revenues and expenses the timing of which differs from the timing of certain cash receipts and payments. Examples would be credit sales in which the revenues are recorded before the collection of cash and cost of goods sold in which the expense often is recorded later than the cash payment to the supplier for the merchandise.

Difficulty: Difficult
Level of Learning: Comprehension
Spiceland - Chapter 01 #149
Topic: LO 2

150. (p. 26) For each of the following situations, state whether you agree or disagree with the financial reporting practice employed, and briefly explain the reason for your answer.

1. Cantor Corporation's accountant increased the book value of a patent from its original cost of \$1 million to its recently appraised value of \$6 million.
2. Stanton Corporation paid for the personal travel of its chief financial officer and charged travel expense.
3. At the end of its 2009 fiscal year, Dower, Inc. received an order from a customer for \$60,000. The merchandise will ship early in 2010.

Because the sale was made to a long-time customer and the invoice was paid in 2009, the controller recorded the sale in 2009.

4. In the middle of its 2009 fiscal year, Sanguinetti, Inc. paid \$12,000 to its insurance company for one-year comprehensive insurance coverage. Sanguinetti recorded the entire expenditure as an expense in 2009.

5. The Churchill Pharmaceutical Company included a note in its financial statements that described a pending lawsuit against the company.

6. The Daily Corporation, a company whose securities are publicly traded, prepares monthly, quarterly, and annual financial statement for internal use but disseminates to external users only the annual financial statements.

1. Disagree — This is a violation of the historical cost (original transaction value) principle.

2. Disagree — This is a violation of the economic entity assumption.

3. Disagree — This is a violation of the realization (revenue recognition) principle.

4. Disagree — This is a violation of the matching principle.

5. Agree — The company is conforming to the full disclosure principle.

6. Disagree — This is a violation of the periodicity assumption.

Difficulty: Difficult
Level of Learning: Application
Spiceland - Chapter 01 #150
Topic: LO 7

151. (p. 26) Identify or define the following terms: a. economic entity, b. going concern.

Economic entity - All economic events can be identified with a particular economic entity.

Going concern - In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely.

Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #151
Topic: LO 7

152. (p. 4) List the four financial statements most frequently provided to external users.

Balance sheet, Income statement, Cash flow Statement, Statement of Retained earnings

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #152
Topic: LO 1

153. (p. 12) Explain and show an example of how the AcSB's conceptual framework is needed in formulating standards on controversial topics.

There are many possible examples here. For example, in debating accounting for stock-based compensation, the AcSB's conceptual framework explains the rationale for treating stock options as an expense. By relating the accounting for such compensation to the purpose of financial statements and their qualitative characteristics, the AcSB can defend its positions without the bias inherent in such controversial issues.

Difficulty: Difficult
Level of Learning: Comprehension
Spiceland - Chapter 01 #153
Topic: LO 4

154. (p. 9) What is meant by the term GAAP ?

GAAP (Generally Accepted Accounting Principles) used to facilitate comparisons of financial information so investors can make resource allocation decisions. GAAP are a dynamic set of both broad and specific guidelines that companies should follow when measuring and reporting information in their financial statements and disclosure notes.

Difficulty: Easy
Level of Learning: Knowledge
Spiceland - Chapter 01 #154
Topic: LO 3

155. (p. 10) What is the EIC and what is its purpose?

The Emerging Issues Committee (EIC) is a group set up by the AcSB. Its main focus is to identify financial reporting issues and attempt to resolve them without involving the AcSB. The goal is to provide a timely response to emerging financial reporting issues.

Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #155
Topic: LO 3

156. (p. 12) Accounting standard setting has been characterized as a political process. Discuss this proposition giving an example.

Changes in standards can have significant differential effects on companies, investors, creditors, and other interest groups. AcSB must gauge the economic consequences of a change in accounting standards. The process by which financial accounting standards are created includes public comment and sometimes hearings. Ultimately, a vote must be taken to pass a standard. Accounting for stock-based compensations (options) and post-retirement health care benefits are examples where accounting practices have been affected by political influences on GAAP. Students examples will vary.

Difficulty: Medium
Level of Learning: Synthesis
Spiceland - Chapter 01 #156
Topic: LO 4

157. (p. 23) Briefly describe the Benefit versus cost constraint.

Information should be provided only if the perceived benefit of increased decision usefulness (which should improve the resource allocation process) will exceed the anticipated costs of providing that information. An example is disaggregated information companies argued that disclosing this information could lead to a competitive disadvantage. Costs are higher than benefits of including data.

Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #157
Topic: LO 6

158. (p. 16) How does the value of an audit affect financial statements?

Outside auditors add credibility to financial statements, increasing the confidence of capital market participants who rely on financial statements in making investment and credit decisions and recommendations.

*Difficulty: Difficult
Level of Learning: Comprehension
Spiceland - Chapter 01 #158
Topic: LO 4*

159. (p. 4) Compared to financial accounting, what are the major concerns of managerial accounting?-

Management accounting is concerned with preparing and analyzing information for the exclusive use of management for decision-making, planning, employee motivation, and internal performance evaluation. The level of detail is much greater and the basis of accountability may differ from that presented in the organization's financial statement

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #159
Topic: LO 1*

160. (p. 23) Briefly describe the materiality constraint.

Materiality - Information is material if it can have an effect on a decision made by a user. If an item is not material, GAAP need not be followed. For example, if a large corporation purchased a water cooler for one of its common areas for \$120, the amount could be expensed rather than recorded as an asset even though the cooler will be useful for several years. Materiality is a judgment call. Materiality is concerned with both the dollar amount of an item and/or the nature of an item. It would probably be material if Microsoft received \$1,000,000 in bribes from the Chinese for its technology. A \$1,000,000 write-off of old equipment would probably be immaterial for Microsoft. Students examples will vary.

*Difficulty: Difficult
Level of Learning: Comprehension
Spiceland - Chapter 01 #160
Topic: LO 6*

161. (p. 27) Give an example of a violation of the stable monetary unit assumption. How would it affect the quality of financial statement information?

In a place or time in which a country experiences severe inflation, this would violate the assumption that dollar amounts are constantly valued. This would limit the usefulness of adding numbers in financial statements, because (for instance) costs at different times are not comparable without adjusting for changes in purchasing power.

*Difficulty: Difficult
Level of Learning: Comprehension
Spiceland - Chapter 01 #161
Topic: LO 7*

162. (p. 27) Identify or define the following terms: a. periodicity, b. monetary unit.

Periodicity - The life of a company can be divided into artificial time periods to provide timely information to external users.

Monetary unit - In the U.S., financial statement elements should be measured in terms of the U.S. dollar. It assumes that the value of a dollar is stable over time.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #162
Topic: LO 7*

163. (p. 27) Identify or define the following terms: a. historical cost, b. realization.

Historical cost - Asset and liability measurements should be based on the amount given or received in an exchange transaction.

Realization - Revenue should be recognized only after the earnings process is virtually complete and there is reasonable certainty of collecting the asset to be received from the customer.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #163
Topic: LO 7*

164. (p. 14) Discuss in general the due process procedure the AcSB follows in developing accounting standards. Who are the groups which typically have opposing views when it comes to accounting standards, and why?

After identifying an issue of interest, the AcSB writes a project proposal which defines the terms of reference, the need and scope of the issue, and those affected. A task force is made up to monitor the issue to its conclusion. An issues paper may be prepared to help the AcSB members to appreciate the problems. A statement of principles is usually prepared to outline the basic response to the issues raised. Input is then sought on a private and confidential basis to fine-tune the issues. After AcSB approval, an exposure draft is developed and circulated to all interested parties and input is requested. Revisions may result in a re-exposure draft being circulated again for further public input. The two groups with frequently opposing views are the preparers (reporting companies) and the investment community. Reporting companies base their arguments for or against a standard on how their interests might be affected by a new standard. The investment community typically wants expanded disclosure to enable the best possible decisions concerning resource allocation, and favours neutral reporting. The AcSB prefers neutral financial accounting principles to principles which would have a goal of influencing particular types of economic activity or government regulation.

*Difficulty: Medium
Level of Learning: Knowledge
Spiceland - Chapter 01 #164
Topic: LO 4*

165. (p. 28) Accounting standards have developed over time to reflect changes in the business world as well as changes in our ability to account for such changes. Using the example of marking assets and liabilities to their fair value, explain why you would expect accounting standards to change.

Historically, financial accounting relied on transaction amounts (historical cost) as the fundamental measurement approach for reporting assets and liabilities. As markets have matured, it is more relevant and feasible to report some assets and liabilities at their fair values, particularly if such items have a ready market that is active.

Difficulty: Medium

1 Summary

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