

Question 1 [-](#) **Multiple Choice** **0 points**

**Question** The overall objective of financial reporting is to provide information

**Answer**  that is useful for decision making.  
 about an enterprise's assets, liabilities, and owners' equity.  
 about an enterprise's financial performance during a period.  
 that allows owners to assess management's performance.

[Modify](#) [Remove](#)

Question 2 [-](#) **Multiple Choice** **0 points**

**Question** Which of the following is *not* normally an objective of financial reporting?

**Answer**  To provide information about an entity's assets and claims against those assets  
 To provide information that is useful in assessing an entity's sources and uses of cash  
 To provide information that is useful in lending and investing decisions  
 To provide information about an entity's liquidation value

[Modify](#) [Remove](#)

Question 3 [-](#) **Multiple Choice** **0 points**

**Question** Financial accounting is the area of accounting that emphasizes reporting to

**Answer**  management.  
 regulatory bodies.  
 internal auditors.  
 creditors and investors.

[Modify](#) [Remove](#)

Question 4 [-](#) **Multiple Choice** **0 points**

**Question** Management accounting is the area of accounting that emphasizes

**Answer**  reporting financial information to external users.  
 reporting to the SEC.  
 combining accounting knowledge with an expertise in data processing.  
 developing accounting information for use within a company.

[Modify](#) [Remove](#)

Question 5 [-](#) **Multiple Choice** **0 points**

**Question** The responsibility to review the work of the accountants and issue opinions as to the fairness of the financial statements rests with

**Answer**  the external auditor.  
 the board of directors.  
 the internal auditors.  
 management.

[Modify](#) [Remove](#)

Question 6 [-](#) **Multiple Choice** **0 points**

**Question** As independent (or external) auditors, CPAs are primarily responsible for

**Answer**  preparing financial statements in conformity with GAAP.  
 certifying the accuracy of financial statements.  
 expressing an opinion as to the fairness of financial statements.  
 filing financial statements with the SEC.

[Modify](#) [Remove](#)

Question 7 [-](#) **Multiple Choice** **0 points**

**Question** Which of the following is an *internal* user of a company's financial information?

**Answer**  Board of directors  
 Stockholders in the company  
 Holders of the company's bonds  
 Creditors with long-term contracts with the company

[Modify](#) [Remove](#)

Question 8 [-](#) **Multiple Choice** **0 points**

**Question** Prior to 1973, generally accepted accounting principles were established

**Answer**  by the Financial Accounting Foundation.  
 by the Securities and Exchange Commission.  
 under the direction of the American Institute of Certified Public Accountants.  
 by the individual states.

[Modify](#) [Remove](#)

Question 9 [-](#) **Multiple Choice** **0 points**

**Question** Members of the Financial Accounting Standards Board are appointed by the

**Answer**  American Accounting Association.  
 Financial Accounting Foundation.

[Modify](#) [Remove](#)

Securities and Exchange Commission.  
American Institute of Certified Public Accountants.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 10 **Multiple Choice** **0 points**

**Question** The Financial Accounting Foundation oversees the

**Answer**  operations of the AICPA.  
 operations of the FASB.  
 AAA.  
 financial reporting arm of the SEC.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 11 **Multiple Choice** **0 points**

**Question** A major difference between the Financial Accounting Standards Board (FASB) and its predecessor, the Accounting Principles Board (APB), is

**Answer**  all members of the FASB serve full time, are paid a salary, and are independent of any public or private enterprises.  
 over 50 percent of the members of the FASB are required to be Certified Public Accountants.  
 the FASB issues exposure drafts of proposed standards.  
 all members of the FASB possess experience in both public and corporate accounting.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 12 **Multiple Choice** **0 points**

**Question** Which of the following is a characteristic of the Financial Accounting Standards Board?

**Answer**  The FASB is composed of five members.  
 FASB members must come from CPA firms.  
 FASB members are part-time.  
 FASB members may retain their positions with previous employers.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 13 **Multiple Choice** **0 points**

**Question** Documents issued by the FASB include all of the following *except*

**Answer**  Statements of Financial Accounting Standards.  
 Interpretations of Statements of Financial Accounting Standards.  
 Statements of Financial Accounting Concepts.  
 Financial Reporting Releases.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 14 **Multiple Choice** **0 points**

**Question** Primary responsibility for GAAP and public reporting currently rests with the

**Answer**  SEC.  
 FASB.  
 Congress.  
 AICPA.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 15 **Multiple Choice** **0 points**

**Question** The responsibility of the Emerging Issues Task Force (EITF) is to

**Answer**  issue statements which reflect a consensus of the EITF on how to account for new financial reporting issues where guidance is needed quickly.  
 do research on financial reporting issues that are being addressed by the AICPA.  
 respond to groups lobbying the FASB on issues that affect a particular industry.  
 develop concept statements the AICPA can use as a frame of reference to solve future problems.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 16 **Multiple Choice** **0 points**

**Question** The normal order followed by the FASB in publishing its standards is

**Answer**  statement, discussion memorandum, opinion.  
 discussion memorandum, interpretation, exposure draft, statement.  
 exposure draft, discussion memorandum, statement.  
 discussion memorandum, exposure draft, statement.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 17 **Multiple Choice** **0 points**

**Question** Proper application of accounting principles is most dependent upon the

**Answer**  existence of specific guidelines.  
 oversight of regulatory bodies.  
 external audit function.  
 professional judgment of the accountant.

[Add Question Here](#)

[Modify](#) [Remove](#)

Question 18 **Multiple Choice** **0 points**

**Question** The Governmental Accounting Standards Board

**Answer**  was incorporated into the Financial Accounting Standards Board when the FASB was created.  
 addresses financial reporting issues of U.S. government treaties and treasury rulings.

- ✓ addresses the financial reporting issues related to state and local governments.
- ✓ addresses the governmental reporting activities of the SEC.

[Add Question Here](#)

Question 19 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** The primary current source of generally accepted accounting principles for governmental operations is the

**Answer**

- Financial Accounting Standards Board.
- Securities and Exchange Commission.
- ✓ Governmental Accounting Standards Board.
- Government Accounting Office.

[Add Question Here](#)

Question 20 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** The process of establishing financial accounting standards is

**Answer**

- a democratic process in that a majority of practicing accountants must agree with a standard before it becomes implemented.
- a legislative process based on rules promulgated by government agencies.
- based solely on economic analysis of the effects each standard will have if it is implemented.
- ✓ a social process which incorporates political actions of various interested user groups as well as professional research and logic.

[Add Question Here](#)

Question 21 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Congress

**Answer**

- has legally barred the SEC from interfering with the work of the FASB.
- is restricted from holding hearings concerning the accounting profession.
- ✓ gave the SEC the power to establish accounting principles for corporations whose stock is sold and traded to the general public.
- appoints two of the five members of the FASB.

[Add Question Here](#)

Question 22 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Once the FASB has established an accounting standard, the

**Answer**

- ✓ standard is continually reviewed to see if modification is necessary.
- standard is not reviewed unless the SEC makes a complaint.
- task of reviewing the standard to see if modification is necessary is given to the AICPA.
- principle of consistency requires that no revisions ever be made to the standard.

[Add Question Here](#)

Question 23 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Primary responsibility for the preparation of financial statements in accordance with generally accepted accounting principles rests with

**Answer**

- the internal auditors.
- ✓ management.
- the external auditors.
- the board of directors.

[Add Question Here](#)

Question 24 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Which is the correct historical sequence of accounting rule-making bodies?

**Answer**

- CAP, FASB, APB
- ✓ CAP, APB, FASB
- FASB, APB, CAP
- APB, CAP, FASB

[Add Question Here](#)

Question 25 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** The primary current source of generally accepted accounting principles for nongovernmental operations is the

**Answer**

- American Institute of Certified Public Accountants.
- Securities and Exchange Commission.
- ✓ Financial Accounting Standards Board.
- Governmental Accounting Standards Board.

[Add Question Here](#)

Question 26 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** How many board members serve on the FASB?

**Answer**

- ✓ 5
- 7
- 14
- 20

[Add Question Here](#)

Question 27 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** When the FASB deliberates about an accounting standard, firms whose financial statements would be affected by that standard

- Answer**
- are legally barred from lobbying the FASB.
  - are not allowed to lobby the FASB if the standard would have a negative impact on their financial statements.
  - are not allowed to lobby the FASB if the standard would have a positive impact on their financial statements.
  - ✓ are free to lobby for or against the standard.

[Add Question Here](#)

Question 28 - **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Pronouncements issued by the SEC include

- Answer**
- Accounting Research Bulletins.
  - Statements on Accounting Principles.
  - Financial Accounting Standards.
  - ✓ Financial Reporting Releases.

[Add Question Here](#)

Question 29 - **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The primary purpose of the Securities and Exchange Commission is to

- Answer** ✓
- regulate the issuance and trading of securities.
  - issue accounting and auditing regulations for publicly held companies.
  - prevent the trading of speculative securities.
  - enforce generally accepted accounting principles.

[Add Question Here](#)

Question 30 - **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Form 10-K is submitted to the

- Answer**
- FASB.
  - GASB.
  - IRS.
  - ✓ SEC.

[Add Question Here](#)

Question 31 - **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** *The Journal of Accountancy* is published by the

- Answer**
- American Accounting Association.
  - ✓ American Institute of Certified Public Accountants.
  - Financial Executives Institute.
  - Financial Accounting Standards Board.

[Add Question Here](#)

Question 32 - **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The International Accounting Standards Board was formed to

- Answer**
- enforce FASB standards in foreign countries.
  - ✓ develop worldwide accounting standards.
  - establish accounting standards for U.S. multinational companies.
  - develop accounting standards for countries that do not have their own standard-setting bodies.

[Add Question Here](#)

Question 33 - **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following items is *not* a modifying convention?

- Answer** ✓
- Matching
  - Materiality
  - Industry practices
  - Conservatism

[Add Question Here](#)

Question 34 - **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Generally accepted accounting principles

- Answer**
- are accounting adaptations based on the laws of economic science.
  - derive their credibility and authority from legal rulings and court precedents.
  - derive their credibility and authority from the federal government through the financial reporting section of the SEC.
  - ✓ derive their credibility and authority from general recognition and acceptance by the accounting profession.

[Add Question Here](#)

Question 35 - **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** A conceptual framework of accounting should

- Answer**
- lead to uniformity of financial statements among companies within the same industry.
  - eliminate alternative accounting principles and methods.
  - guide the AICPA in developing generally accepted auditing standards.
  - ✓ define the basic objectives, terms, and concepts of accounting.

[Add Question Here](#)

Question 36 - **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Accountants prepare financial statements at arbitrary points in time during a company's lifetime in accordance with the accounting concept of

- Answer**
- matching.

- comparability.
- ✔ accounting periods.
- materiality.

[Add Question Here](#)

Question 37 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** The assumed continuation of a business entity in the absence of evidence to the contrary is an example of the accounting concept of

- Answer**
- accrual.
  - consistency.
  - comparability.
  - ✔ going concern.

[Add Question Here](#)

Question 38 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Important constraints underlying the qualitative characteristics of accounting information are

- Answer**
- historical cost and going concern.
  - ✔ materiality, conservatism, and cost-effectiveness.
  - consistency, comparability, and conservatism.
  - verifiability, neutrality, and representational faithfulness.

[Add Question Here](#)

Question 39 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** When a large number of individuals, using the same measurement method, demonstrate that a high degree of consensus can be secured among independent measurers, then the result exhibits the characteristic of

- Answer**
- ✔ verifiability.
  - neutrality.
  - relevance.
  - reliability.

[Add Question Here](#)

Question 40 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Which of the following measurement attributes is *not* currently used in practice?

- Answer**
- Present value
  - Net realizable value
  - Current replacement cost
  - ✔ Inflation-adjusted cost

[Add Question Here](#)

Question 41 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Financial information exhibits the characteristic of consistency when

- Answer**
- accounting procedures are adopted which smooth net income and make results consistent between years.
  - extraordinary gains and losses are shown separately on the income statement.
  - ✔ accounting entities give similar events the same accounting treatment each period.
  - expenditures are reported as expenses and netted against revenue in the period in which they are paid.

[Add Question Here](#)

Question 42 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Historical cost has been the valuation basis most commonly used in accounting because of its

- Answer**
- timelessness.
  - conservatism.
  - ✔ reliability.
  - accuracy.

[Add Question Here](#)

Question 43 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** When financial reports from two different companies have been prepared and presented in a similar manner, the information exhibits the characteristic of

- Answer**
- relevance.
  - reliability.
  - ✔ comparability.
  - consistency.

[Add Question Here](#)

Question 44 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Accounting for inventories by applying the lower-of-cost-or-market is an example of the application of

- Answer**
- ✔ conservatism.
  - comparability.
  - consistency.
  - materiality.

[Add Question Here](#)

Question 45 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** The secondary qualitative characteristics of accounting information are

**Answer**

- relevance and reliability.
- ✓ comparability and consistency.
- understandability and decision usefulness.
- materiality and conservatism.

[Add Question Here](#)

Question 46 - Multiple Choice

0 points

[Modify](#) [Remove](#)

**Question** Which of the following elements of financial statements is *not* a component of comprehensive income?

- Answer**
- Revenues
  - Expenses
  - Losses
  - ✓ Distributions to owners

[Add Question Here](#)

Question 47 - Multiple Choice

0 points

[Modify](#) [Remove](#)

**Question** An item would be considered material and therefore would be disclosed in the financial statements if the

- Answer**
- expected benefits of disclosure exceed the additional costs.
  - impact on earnings is greater than 3 percent.
  - FASB definition of materiality is met.
  - ✓ omission of misstatement of the amount would make a difference to the users.

[Add Question Here](#)

Question 48 - Multiple Choice

0 points

[Modify](#) [Remove](#)

**Question** What accounting concept justifies the use of accruals and deferrals?

- Answer**
- ✓ Going-concern assumption
  - Corporate form of organization
  - Consistency characteristic
  - Arm's-length transactions

[Add Question Here](#)

Question 49 - Multiple Choice

0 points

[Modify](#) [Remove](#)

**Question** Which of the following is *not* a purpose of the conceptual framework of accounting?

- Answer**
- To provide definitions of key terms and fundamental concepts
  - ✓ To provide specific guidelines for resolving situations not covered by existing accounting standards
  - To assist accountants and others in selecting among alternative accounting and reporting methods
  - To assist the FASB in the standard-setting process

[Add Question Here](#)

Question 50 - Multiple Choice

0 points

[Modify](#) [Remove](#)

**Question** Which of the following is *not* an implication of the going-concern assumption?

- Answer**
- The historical cost principle is credible.
  - Depreciation and amortization policies are justifiable and appropriate.
  - The current/noncurrent classification of assets and liabilities is justifiable and significant.
  - ✓ Amortizing research and development costs over multiple periods is justifiable and appropriate.

[Add Question Here](#)

Question 51 - Multiple Choice

0 points

[Modify](#) [Remove](#)

**Question** The overriding qualitative characteristic of accounting information is

- Answer**
- relevance.
  - understandability.
  - reliability.
  - ✓ decision usefulness.

[Add Question Here](#)

Question 52 - Multiple Choice

0 points

[Modify](#) [Remove](#)

**Question** Which of the following statements concerning the objectives of financial reporting is correct?

- Answer**
- The objectives are intended to be specific in nature.
  - The objectives are directed primarily toward the needs of internal users of accounting information.
  - The objectives were the end result of the FASB's conceptual framework project.
  - ✓ The objectives encompass not only financial statement disclosures, but other information as well.

[Add Question Here](#)

Question 53 - Multiple Choice

0 points

[Modify](#) [Remove](#)

**Question** Recording the purchase price of a pencil sharpener (with an estimated useful life of 10 years) as an expense of the current period is justified by the

- Answer**
- going-concern assumption.
  - ✓ materiality constraint.
  - matching principle.
  - comparability principle.

[Add Question Here](#)

Question 54 - Multiple Choice

0 points

[Modify](#) [Remove](#)

**Question** Which of the following is *not* one of the fundamental criteria for recognition?

- Answer**
- ✓ Timeliness

Measurability  
Relevance  
Reliability

[Add Question Here](#)

Question 55 · **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** According to the FASB's conceptual framework, the process of reporting an item in the financial statements of an entity is  
**Answer**

- realization.
- ✓ recognition.
- matching.
- allocation.

[Add Question Here](#)

Question 56 · **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Conservatism is best described as selecting an accounting alternative that  
**Answer**

- understates assets and/or net income.
- ✓ has the least favorable impact on owners' equity.
- overstates, as opposed to understates, liabilities.
- is least likely to mislead users of financial information.

[Add Question Here](#)

Question 57 · **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** The financial statements that are prepared for the business are separate and distinct from the owners according to the  
**Answer**

- going-concern assumption.
- matching principle.
- ✓ economic entity assumption.
- full disclosure principle.

[Add Question Here](#)

Question 58 · **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** According to Statement of Financial Accounting Concepts No. 2, neutrality is an ingredient of

	<u>Relevance</u>	<u>Reliability</u>
<b>Answer</b>	Yes	Yes
	Yes	No
	No	No
	✓ No	Yes

[Add Question Here](#)

Question 59 · **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** Under Statement of Financial Accounting Concepts No. 2, representational faithfulness is an ingredient of

	<u>Relevance</u>	<u>Reliability</u>
<b>Answer</b>	Yes	Yes
	Yes	No
	No	No
	✓ No	Yes

[Add Question Here](#)

Question 60 · **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** According to the FASB's conceptual framework, predictive and feedback values are ingredients of

	<u>Relevance</u>	<u>Reliability</u>
<b>Answer</b>	✓ Yes	No
	Yes	Yes
	No	Yes
	No	No

[Add Question Here](#)

Question 61 · **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** According to the FASB's conceptual framework, which of the following relates to both relevance and reliability?

	<u>Consistency</u>	<u>Verifiability</u>	
<b>Answer</b>		Yes	Yes
	✓	Yes	No
		No	Yes
		No	No

[Add Question Here](#)

Question 62 · **Multiple Choice** **0 points** [Modify](#) [Remove](#)

**Question** The accrual basis of accounting is based primarily on

- Answer**
- conservatism and revenue realization.
  - conservatism and matching.
  - consistency and matching.
  - ✓ revenue realization and matching.

[Add Question Here](#)

- Question 63 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** The branch of accounting that is concerned primarily with providing information for internal users is called
- Answer**
- auditing.
  - ✓ managerial accounting.
  - financial accounting.
  - income tax accounting.
- [Add Question Here](#)
- 
- Question 64 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** The singularly unique function performed by certified public accountants in United States is
- Answer**
- tax preparation.
  - management advisory services.
  - ✓ the attest function.
  - the preparation of financial statements.
- [Add Question Here](#)
- 
- Question 65 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** The branch of accounting that is concerned with providing information to present and potential creditors of an enterprise is
- Answer**
- auditing.
  - managerial accounting.
  - ✓ financial accounting.
  - income tax accounting.
- [Add Question Here](#)
- 
- Question 66 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Which of the following is true about international accounting standards?
- Answer** ✓ Significant differences exist between U.S. GAAP and GAAP of other countries.  
Few differences exist between U.S. GAAP and GAAP of other countries.  
The IASB is the standards-setting body of France.  
It is unlikely that the differences between U.S. GAAP and GAAP of other countries will diminish over time.
- [Add Question Here](#)
- 
- Question 67 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** The United States Securities and Exchange Commission
- Answer**
- has recognized IASB standards as an acceptable alternative to U.S. GAAP.
  - ✓ requires foreign companies listing their shares on U.S. stock exchanges to restate their financial statements to U.S. GAAP.
  - has barred foreign companies from listing their shares on U.S. stock exchanges.
  - has no jurisdiction in the United States over foreign companies listing their shares on U.S. stock exchanges.
- [Add Question Here](#)
- 
- Question 68 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** For which of the following reporting issues has the FASB adopted substantially the same approach as the IASB?
- Answer**
- Segment reporting
  - ✓ Earnings per share
  - Statement of cash flows
  - Pension plans
- [Add Question Here](#)
- 
- Question 69 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** The journal *Accounting Horizons* is published by which of the following organizations?
- Answer**
- American Institute of Certified Public Accountants (AICPA)
  - ✓ American Accounting Association (AAA)
  - Securities and Exchange Commission (SEC)
  - Financial Accounting Standards Board (FASB)
- [Add Question Here](#)
- 
- Question 70 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Financial statements issued for the use of parties external to the enterprise are the primary responsibility of the
- Answer**
- ✓ management of the enterprise.
  - stockholders of the enterprise.
  - independent auditors of the enterprise.
  - creditors of the enterprise.
- [Add Question Here](#)
- 
- Question 71 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Which of the following is true?
- Answer**
- Form 10-K is required under the FASB Conceptual Framework.
  - Form 10-Q is a quarterly report of significant events required by the SEC.
  - ✓ Form 8-K is a quarterly report of significant events required by the SEC.
  - Form 8-K is the annual report submitted by small businesses to the SEC.
- [Add Question Here](#)
- 
- Question 72 - **Multiple Choice** **0 points** [Modify](#) [Remove](#)
- Question** Which of the following is *not* included in the highest authoritative level of GAAP?

- Answer**
- FASB Statements
  - ✓ AICPA Statements of Position
  - FASB Staff Positions
  - Accounting Principles Board (APB) Opinions

[Add Question Here](#)

Question 73 · **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Disclosure requirements for financial reporting are strictest in

- Answer**
- the United Kingdom.
  - Germany.
  - ✓ the United States.
  - France.

[Add Question Here](#)

Question 74 · **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** Which of the following qualitative characteristics of financial information requires that information *not* be biased in favor of one group of users to the detriment of others?

- Answer**
- Relevance
  - Reliability
  - Verifiability
  - ✓ Neutrality

[Add Question Here](#)

Question 75 · **Multiple Choice** **0 points**

[Modify](#) [Remove](#)

**Question** The primary measurement basis currently used to value assets in external financial statements of an enterprise is the

- Answer**
- current market price if the assets currently held by an enterprise were sold on the open market.
  - current market price if the assets held by an enterprise were purchased on the open market.
  - present value of the cash flows the assets are expected to generate over their remaining useful lives.
  - ✓ market price of the assets held by an enterprise at the date the assets were acquired (although some assets may be valued at their current selling price or net realizable value).

[Add Question Here](#)

Question 76 · **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** In providing information with the qualitative characteristics that render the information useful, the constraint of materiality may affect what is included and excluded from the financial information reported.

Explain the concept of materiality.

**Answer** An item is material if its inclusion or omission would influence or change the judgment of a reasonable person. The omission of a material item would have an impact on the decision a reasonable person would make.

Materiality varies both with the relative size and relative importance of an item. If an amount is significant when compared with some other financial statement element, then the amount should be included in the financial statements in accordance with the applicable accounting standard involved.

The nature of an item may be an important consideration in determining if the item is material. Amounts that relate to violation of the law or fraudulent transactions may require disclosure. Items that may be important in terms of possible consequences arising from contractual obligations (such as failing to comply with a debt covenant with the result that a material loan may be called) also may require separate disclosure.

The SEC currently is paying particular attention to the concept of materiality. An "immaterial" adjustment, for example, that changes a loss to a profit, helps maintain an earnings trend, or impacts management compensation under a bonus plan may be scrutinized by the Commission. The Commission is particularly interested in adjustments that represent intentional misstatements that individually are immaterial but collectively have a material effect on the financial statements.

[Add Question Here](#)

Question 77 · **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** Many accountants argue that relevance and reliability often require trade-offs.

Define both relevance and reliability and explain what is meant by "trade-offs" between relevance and reliability. Include in your explanation a specific example of where trade-offs could occur.

**Answer** Relevance is the capacity of information to make a difference in a decision by helping users form predictions about the outcome of past, present, and future events or to confirm or correct prior expectations. Reliability is the quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent.

Accounting information must be both relevant and reliable to be useful to decision makers. Attributes relevant to a user's decision process may not always be susceptible to reliable measurement.

For most entities, the use of only cash sales would provide reliable data. Failure to include credit sales, however, makes the revenue figure less relevant than it could be in assessing the entity's financial health. A revenue measure that includes orders for future delivery may be relevant but is less reliable because these future orders may be canceled. Similarly, the current value of the intellectual assets of a high technology company clearly is relevant to many decisions relating to the company. No reliable means of establishing these values may exist, however.

Emphasizing reliability results in long preparation times as information is double-checked. Estimates and forecasts that cloud data with uncertainty are avoided. Relevance, on the other hand, often requires the use of instant information full of uncertainty.

[Add Question Here](#)

Question 78 · **Essay** **0 points**

[Modify](#) [Remove](#)

**Question** The going-concern assumption holds that the business entity will continue its operations long enough to realize its projects, commitments, and ongoing activities. The assumption is that the entity is not expected to be liquidated in the foreseeable future or that the entity will continue for an indefinite period of time.

Explain the relationship between the going-concern assumption and the historical cost principle and the amortization of assets.

**Answer** The going-concern assumption justifies the valuation of assets on a nonliquidation basis. The assumption that the entity will continue its operations long enough to realize its projects, commitments, and activities renders liquidation values irrelevant since assets typically will be held and not sold in the foreseeable future. Fixed assets and intangibles thus are amortized over their

useful life rather than over a shorter period in anticipation of early liquidation.

[Add Question Here](#)

Question 79 · Essay

0 points

[Modify](#) [Remove](#)

**Question** The mission statement of the Financial Accounting Standards Board includes a goal of promoting international comparability of accounting standards. Furthermore, the International Accounting Standards Board has begun over the last 20 years to issue international accounting standards designed to create a common set of international accounting and reporting standards.

Identify reasons why such a set of international accounting standards would be desirable.

**Answer** A common set of international accounting standards would enhance the comparability of the financial information produced by enterprises in countries throughout the world. Comparability would allow United States and foreign companies to better assess their position relative to their competitors. Comparability also would facilitate the management of relationships with customers, suppliers, and others throughout the world. Additionally, comparability would ease the process of raising capital or investing in foreign securities. Foreign companies wishing to list their equity securities on the New York Stock Exchange, for example, must convert their financial statements and accompanying notes to U.S. generally accepted accounting principles. This can be a very costly and time-consuming process. International accounting standards accepted in all countries could eliminate the cost of such a conversion and speed the process of raising capital.

[Add Question Here](#)

Question 80 · Essay

0 points

[Modify](#) [Remove](#)

**Question** The harmonization of world accounting standards is viewed by many accountants, analysts, standard setters, and others as being among the most important issues facing business throughout the world. Advocates of harmonization seek to establish a common set of international accounting and reporting standards. Such a task has proven formidable, however.

Identify factors that would hinder the process of harmonization of accounting standards.

**Answer** Accounting standards throughout the world exhibit a great breadth of scope, complexity, and rigidity. Some countries currently have in place standards that are relatively weak when compared with those of the United States, for example. The United States typically is viewed as having the most highly developed and rigid accounting standards in the world. The rigidity, completeness, and complexity of U.S. standards is due in no small part to the role of the Securities and Exchange Commission (SEC). The SEC is a government agency that has the right (granted to it by the United States Congress) to set accounting standards in the United States, but has delegated this standards setting process to the private sector. This does not mean, however, that the SEC is not involved in the process of standard setting.

The SEC assumes an active role in the establishment of accounting standards. Any set of international accounting standards must be accepted by the SEC if such standards are to be allowed for non-U.S. companies seeking to sell securities in U.S. capital markets. The SEC has a history of demanding strict accounting standards. A set of international accounting standards likely will not be as strict as existing U.S. standards as a result of the need for compromise among various nations who have different standard-setting philosophies. These compromises likely will result in the SEC rejecting such international standards.

National pride is another issue that will complicate the harmonization of accounting standards. The leaders and citizens of many countries would not welcome a set of international standards heavily based on the U.S. model, for example. Finally, the question of the degree of uniformity of accounting standards arises. The degree of uniformity may be limited by the differences in the economies and cultures of the nations of the world.

[Add Question Here](#)

Question 81 · Essay

0 points

[Modify](#) [Remove](#)

**Question** Much of the controversy surrounding the Enron scandal centered on the use of special purpose entities by Enron management.

Briefly explain what a special purpose entity is and identify two ways in which Enron abused the accounting rules for SPEs.

**Answer** A special purpose entity (SPE) is a thinly capitalized entity created by an existing company (the transferor) as an entity into which certain assets or liabilities of the transferor are placed for some specific reason (e.g., outsourcing of certain services). A major issue related to SPEs is whether the transferor retains control over the assets or responsibility for the liabilities and should therefore be required to include the assets or liabilities of the SPE in its (the transferor's) financial statements. Substantive equity investments by entities or individuals other than the transferor would suggest that an SPE is independent of the transferor. An SPE must be independent from the transferor or the SPE must be included in the financial statements of the transferor.

Enron violated the concept of an independent SPE in two ways. First, a number of Enron's SPEs were not independent from Enron. High-ranking executives of Enron owned and managed many of the SPEs. Second, the transactions between Enron and many of its SPEs suggested that the SPEs were created by the management of Enron specifically for the purpose of engaging in transactions that were deceptive, illegal, or both.

[Add Question Here](#)

Question 82 · Essay

0 points

[Modify](#) [Remove](#)

**Question** Panelco Company is a medium-sized company that produces wall paneling. Panelco is a wholly-owned subsidiary of a holding company called United, Inc. Both Panelco and United are owned by the same individuals as principal shareholders.

Panelco has fallen on hard times due to a downturn in the construction industry in the primary market area the company serves. Sales of the company have declined and net losses have occurred for each of the last three years. The company is in dire need of cash but the owners of the United and Panelco know that additional financing from a bank or other source is unlikely due to the company's weakened financial condition.

The owners of United and Panelco believe that the downturn in construction will eventually reverse and that Panelco will return to profitability when conditions improve. Based on these beliefs, the owners have proposed to the independent auditors a plan whereby the holding company (United) would obtain a loan from a bank and then make an intercompany loan to Panelco. Under this plan, the owners would sell their personal residences to United. Lease agreements between United and the owners would be drafted. These lease agreements would allow the owners to continue to occupy their homes. Title to the homes would pass to United. United would become involved in property management in addition to holding the stock of Panelco. United would have no additional properties other than the personal residences of the owners. The acquisition of additional properties by United is unlikely.

Required:

Assume that you are the partner in the public accounting firm performing the audit of United and Panelco. Prepare your response to the owners of United and Panelco regarding the plan to obtain additional financing. Include references to the Conceptual Framework and underlying assumptions of accounting in your response.

**Answer** As partner of the public accounting firm performing the audit of United and Panelco, you should reject the plan advanced by the owners. The owners are attempting to emphasize form over substance. The terms of the plan would violate the economic entity assumption by mixing the personal assets of the owners with the assets of the business entities. The transfer of title to the personal residences to United is merely a means of strengthening United's balance sheet in order to obtain financing. The substance of the transaction is that the owners will still occupy their homes and maintain control over the use of their homes. The homes are the assets of the owners and not United. United has no plans nor does it have the financial strength to engage in legitimate property management activities.

[Add Question Here](#)

## Question 83 - Essay

0 points

[Modify](#) [Remove](#)

**Question** Financial statements should provide information that is both relevant and reliable. The current model upon which financial statements are based is the historical cost model. Over the past fifty years, however, various individuals and groups have advocated the implementation of current value models of accounting. One such model represents the amount of cash for which an asset might be sold or a liability might be refinanced, sometimes referred as the current-exit-price approach. The current exit price is generally agreed to correspond (1) to the selling price under conditions of orderly rather than forced liquidation, and (2) to the selling price at the time of measurement. All assets and liabilities are thus revalued at their exit prices at each reporting date.

Required:

Evaluate the historical cost and current-exit-price models in terms of relevance and reliability.

**Answer** The historical cost model generally is viewed as strong in terms of reliability and weak in terms of relevance. Historical cost is seen as objective and verifiable. Historical cost may not be relevant to many decisions, however.

Accounting information must be capable of making a difference in a decision if it is to be relevant. The acquisition cost of an asset may have much less relevance to a decision than the price at which the asset would currently command in the market.

The current-exit-price model would provide values with greater relevance but perhaps less reliability. Establishing the selling prices of some assets might be difficult or even impossible unless the asset were actually sold. Further, business enterprises that prepare monthly financial statements would be faced with the burden of determining current selling prices on a monthly basis. Such a process could be time consuming and expensive thus resulting in the cost of the process exceeding the value of the benefit derived.

[Add Question Here](#)

## Question 84 - Essay

0 points

[Modify](#) [Remove](#)

**Question** Users require a variety of information about the financial position and performance of a firm in order to make decisions. Users cannot wait until the life of the business is completed. Accordingly, the accounting period assumption requires that financial reports depicting changes in wealth of an enterprise be prepared periodically.

Required:

Explain the relationship between the accounting period assumption and accrual basis accounting.

**Answer** The accounting period assumption states that an enterprise should provide periodic, short-term financial reports, thus requiring the use of accruals and deferrals in order to identify revenues, expenses, gains, and losses with specific time periods. The use of accruals and deferrals represents the primary difference between the accrual basis of accounting and the cash basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned (not when cash is received) and expenses are recognized when incurred (not when cash is disbursed). Each period, accruals and deferrals are used for items such as prepaid expenses, uncollected revenues, unpaid wages, and depreciation expense. The use of accruals requires that judgments and estimates be made, rendering financial reports more arbitrary and imprecise. These drawbacks are offset by the significance of periodic financial report to users in making decisions.

[Add Question Here](#)

## Question 85 - Essay

0 points

[Modify](#) [Remove](#)

**Question** In *Statement of Financial Accounting Concepts No. 1*, "Objectives of Financial Reporting by Business Enterprises," the Financial Accounting Standards Board presents the objectives of financial reporting.

Required:

Identify the three major objectives of financial reporting and explain the interrelationships that exist between these objectives.

**Answer** The three major objectives of financial reporting are:

1. To provide information useful in investment, credit, and similar decisions.
2. To provide information useful in assessing the amounts and timing of cash flows.
3. To provide information about enterprise resources, claims to those resources, and changes in them.

The first objective is the most general and states that financial information must be useful in making decisions. The two subsequent objectives are progressively narrower in scope.

The second objective indicates that in order to be useful, information provided must assist users in determining the probability of receiving cash flows from the enterprise and the amounts and timing of these cash flows.

The third objective identifies the general nature of the information needed by users in assessing the prospects of cash flows occurring.

[Add Question Here](#)

## Question 86 - Essay

0 points

[Modify](#) [Remove](#)

**Question** The term "due process" is used in various settings to describe the steps taken to ensure that an administrative matter receives the consideration required to adequately protect the interests of those involved. Due process is an integral part of the legal and legislative processes, for example.

The Financial Accounting Standards Board (FASB) also uses a set of due process procedures to ensure that the interests of its constituents are considered in the development of accounting standards.

Required:

Identify the steps in the set of due process procedures used by the FASB.

**Answer** The following represent the steps that the FASB uses in its due process procedures:

1. Identify and study a problem. The problem may be brought to the FASB's attention through the Emerging Issues Task Force, from communications with constituents, from the staff of the FASB as a result of their monitoring the business press, or through SEC recommendations.
2. Decide to add the problem to the Board's agenda. Questions asked include:  
Does the problem affect a large number of business entities or only a specific industry?  
Is the problem susceptible to solution?
3. Create a task force--a group of experts who will study the problem and perhaps issue a Discussion Memorandum.
4. Issue a Discussion Memorandum that identifies the issues associated with the problem and various approaches to the problem.
5. Designate a public comment period on the Discussion Memorandum.
6. Hold a public hearing or hearings to allow the members of the Board to gain additional knowledge regarding the problem at hand.
7. Issue an Exposure Draft of a proposed pronouncement.
8. Designate a public comment period on the Exposure Draft.
9. Hold additional public hearings as a result of issues that arise from the public comment period.
10. Issue a standard.

