Testbank

to accompany

Applying IFRS® Standards 4e

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CHAPTER 1

The IASB and its *Conceptual Framework*

Learning Objectives

1.1 Describe the organisational structure of the key players in setting International Financial Reporting Standards (IFRSs)

1.2 Describe the purpose of a conceptual framework – who uses it and why

1.3 Explain the qualitative characteristics that make information in financial statements useful

1.4 Discuss the going concern assumption underlying the preparation of financial statements

1.5 Define the basic elements in financial statements – assets, liabilities, equity, income and expenses

1.6 Explain the principles for recognising the elements of financial statements

1.7 Distinguish between alternative bases for measuring the elements of financial statements

1.8 Outline concepts of capital.

Multiple Choice Questions

1. Which of the following statements is INCORRECT?
Learning Objective 1.1 Describe the organisational structure of the key players in setting IFRSs:
    - *a. The International Accounting Standards Board was replaced by the International Standards Committee in 2001.
    - b. The International Accounting Standards Board is funded by the IASC Foundation.
    - c. The responsibility for issuing International Financial Reporting Standards lies with the International Accounting Standards Board.
    - d. Members of the International Accounting Standards Board are appointed by the IFRS Foundation.

2. Which of the following bodies report to the IFRS Foundation?
Learning Objective 1.1 Describe the organisational structure of the key players in setting IFRSs:
    - a. The IASB and AASB
    - b. The IASB, AASB and the IFRS Advisory Council
    - c. The IASB and the FASB
    - *d. The IASB and the IFRS Advisory Council

3. Which of the following statements is INCORRECT?
Learning Objective 1.2 Describe the purpose of a conceptual framework – who uses it and why
    - a. The Framework identifies the qualitative characteristics that make information in financial statements useful.
    - *b. The Framework defines principles for accounting recognition, measurement and disclosure.
    - c. The Framework defines the objective of financial statements.
    - d. The Framework defines the basic elements of financial statements and the concepts for recognizing and measuring them in financial statements.

4. Which of the following statements is CORRECT?
   Learning Objective 1.2 Describe the purpose of a conceptual framework – who uses it and why
   *a. IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors* requires that The Framework be followed in the absence of a specific standard or interpretation.
   b. IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors* recommends, but does not require The Framework to be followed in the absence of a specific standard or interpretation.
   c. The Framework is used solely by the IASB when considering new accounting issues.
   d. The Framework is non-binding guidance which does not have to be followed by preparers of financial statements.

5. The Framework focuses on:
   Learning Objective 1.2 Describe the purpose of a conceptual framework – who uses it and why
   a. privately owned business entities only.
   *b. business entities only, including private and state owned business entities.
   c. business entities, although the concepts may be applied to other types of entities, such as not-for profit entities.
   d. all types of entities, including business entities, government and not-for profit entities.

6. General Purpose Financial Statements:
   Learning Objective 1.2 Describe the purpose of a conceptual framework – who uses it and why
   a. are only necessary for users who do not have the power to obtain information in addition to that contained within the General Purpose Financial Statement.
   b. provide all the information that users may need to make economic decisions.
   c. focus on disclosing information relevant to assessing the ability of an entity to generate future cash flows.
   *d. meet the information needs that are common to all users.

7. Which of the following statements is INCORRECT in relation to the preparation of financial statements?
Learning Objective 1.2 Describe the purpose of a conceptual framework – who uses it and why
a. General Purpose Financial Statements must be prepared in accordance with accounting standards.
b. General Purpose Financial Statements are reports intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to specifically meet all their information needs.
*c. The sole objective of a General Purpose Financial Statement is to serve an economic decision making objective.
d. The objective of a General Purpose Financial Statement is to provide information useful to users for making and evaluating decisions about the allocation of scarce resources.

8. Which of the following statements is INCORRECT?
Learning Objective 1.2 Describe the purpose of a conceptual framework – who uses it and why
a. Information about the variability of profits helps in forecasting future cash flows from an entity's existing resources.
*b. Performance of an entity is determined solely through examination of the Statement of Profit or Loss and Other Comprehensive Income of an entity.
c. An entity's Statement of Cash Flows provides insight into changes in assets and liability balances during an accounting period.
d. The Statement of Financial Position presents information relating to economic resources, the financial structure of an entity, liquidity and solvency and capacity to adapt to changes in an entity's environment.

9. The purpose of the notes to the financial statements is to:
Learning Objective 1.2 Describe the purpose of a conceptual framework – who uses it and why
a. explain any resources and obligations not recognised in the Statement of Financial Position
b. provide information meeting the disclosure requirements under national laws or regulations.
c. disclose risks and uncertainties affecting the entity.
*d. all of the above.

10. Which category of user is most likely to be interested primarily in the Statement of Profit or Loss and Other Comprehensive Income of an entity?
Learning Objective 1.2 Describe the purpose of a conceptual framework – who uses it and why
a. suppliers and trade creditors
*b. shareholders
c. employees
d. lending institutions

11. The qualitative qualitative characteristics that make information in financial statements useful to investors identified within The Framework are:
Learning Objective 1.3 Explain the qualitative characteristics that make information in financial statements useful
a. Relevance, faithful representation, timeliness and comparability
b. Relevance and faithful representation
*c. Relevance, faithful representation, comparability, verifiability, timeliness and understandability
d. Comparability, verifiability, timeliness and understandability

12. Information that is able to confirm or correct past evaluations that have been made by users of financial information is an example of information that satisfies which of the following characteristics of financial information identified in The Framework?
Learning Objective 1.3 Explain the qualitative characteristics that make information in financial statements useful
a. Understandability
*b. Relevance
c. Verifiability
d. Comparability

13. An asset is defined in the conceptual framework as:
Learning Objective 1.3 Explain the qualitative characteristics that make information in financial statements useful concepts in the IASB Framework.
a. a resource controlled by the entity as a result of past events
b. a resource controlled by the entity as a result of future events and from which possible future economic benefits may flow to the entity.
c. a resource controlled by the entity from which future economic benefits are expected to flow to the entity.
*d. a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

14. A liability is defined in conceptual framework as:
Learning Objective 1.3 Explain the qualitative characteristics that make information in financial statements useful concepts in the IASB Framework.
a. possible obligation of the entity, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
b. a possible obligation of the entity expected to arise from future events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
*c. a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
d. a present obligation of the entity arising from past events, the settlement of which is expected to result in an inflow to the entity of resources embodying economic benefits.

15. The fundamental qualitative characteristics that make financial information useful for decision-making are:
Learning Objective 1.3 Explain the qualitative characteristics that make information in financial statements useful.

	I	II	III	IV
comparability	Yes	Yes	No	No
relevance	Yes	Yes	No	Yes
understandability	Yes	No	No	No
faithful representation	Yes	No	No	Yes

a. I;
b. II;
c. III;
*d. IV.

16. The enhancing qualitative characteristics that make financial information useful for decision-making are:
Learning Objective 1.3 Explain the qualitative characteristics that make information in financial statements useful.

	I	II	III	IV
comparability	Yes	Yes	No	No
verifiability	Yes	Yes	No	Yes
timeliness	Yes	No	No	No
understandability	Yes	No	No	Yes

*a. I;
b. II;
c. III;
d. IV.

17. The going concern assumption underlying the preparation of financial statements is also know as:
Learning Objective 1.4 Discuss the going concern assumption underlying the preparation of financial statements

*a. the continuity assumption
b. the matching principle
c. the prudence principle
d. the historical cost measurement basis

18. If management intends to liquidate the entity's operations, financial statements are prepared on the basis of
Learning Objective 1.4 Discuss the going concern assumption underlying the preparation of financial statements

a. Historical cost
b. Historical cost with a note that the entity is about to liquidate
*c. Expected liquidation values
d. Financial statements do not have to be prepared.

19. The IASB conceptual framework for financial reporting describes the basic concepts that underlie financial statements and defines:
Learning Objective 1.5 Define the basic elements in financial statements – assets, liabilities, equity, income and expenses.
a. the principles for measurement;
b. disclosure principles;
*c. the elements of financial statements
d. accounting recognition criteria.

20. Which of the following income and expense items is NOT recorded initially directly in equity?
Learning Objective 1.5 Define the basic elements in financial statements – assets, liabilities, equity, income and expenses
*a. The impairment of goodwill in accordance with IAS 36 *Impairment of Assets*, where the entity is confident that the factors giving rise to the impairment will reverse in a future period.
b. An increase in the fair values of land & buildings, where the revaluation method is used to account for land & buildings in accordance with IAS 16 *Property, Plant and Equipment*.
c. Foreign currency translation adjustments arising on the translation of a foreign operations financial statements from their functional currency in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*.
d. None of the above.

21. Which of the following statements in relation to income is true?
Learning Objective 1.6 Explain the principles for recognising the elements of financial statements
*a. Gains are normally reported separately from revenue in the Statement of Profit or Loss and Other Comprehensive Income due to the different probabilities attached to that type of income.
b. The Framework requires that all items of income are reported on a net basis.
c. Gains and revenue are different in nature and therefore are recognised as separate elements of the financial statements per The Framework.

d. The Framework defines income as an increase in economic benefits which results in an increase in equity.

22. Which of the following statements is INCORRECT in relation to the recognition criteria for elements of the financial statements?
Learning Objective 1.6 Explain the principles for recognising the elements of financial statements
a. Assets are recognised when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably.
b. Because equity is the arithmetic difference between assets and liabilities, a separate recognition criteria for equity is not needed in The Framework.
c. Liabilities are recognised when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which settlement will take place can be measured reliably.
*d. Income is recognised when an increase in future economic benefits related to a decrease in an asset or an increase in a liability that has arisen can be measured reliably.

23. In relation to the concept of recognition of an item in the financial statements:
Learning Objective 1.6 Explain the principles for recognising the elements of financial statements
a. Items of equity must satisfy both the probability and measurement criteria before they can be recognised.
b. Assets can only be recognised where there is a high probability of future economic benefits flowing to the entity.
c. Expenses are recognised when a decrease in a future economic benefit related to an increase in an asset or a decrease in a liability has arisen that can be measured reliably.
*d. For items to qualify for recognition in the financial statements as liabilities or income they must first satisfy the definition of an element, and then meet both the probability and measurement requirements in relation to recognition.

24. In accordance with the conceptual framework, income is recognised in the statement of profit or loss and other comprehensive income when:
Learning Objective 1.6 Explain the principles for recognising the elements of financial statements.
a. an decrease in future economic benefits relating to an decrease in an asset or an increase in a liability can be measured reliably.
*b. an increase in future economic benefits relating to an increase in an asset or a decrease in a liability can be measured reliably.
c. an increase in future economic benefits relating to an increase in an asset can be measured reliably.
d. an increase in future economic benefits relating to an decrease in an asset or an increase in a liability can be measured reliably.

25. Expenses are recognised in the statement of profit or loss and other comprehensive

income when:
Learning Objective 1.6 Explain the principles for recognising the elements of financial statements.

a. increase in future economic benefits related to a increase in an asset or an increase in a liability can be measured reliably.
*b. a decrease in future economic benefits related to a decrease in an asset or an increase in a liability can be measured reliably.
c. a decrease in future economic benefits related to a decrease in an asset or a decrease in a liability can be measured reliably.
d. none of the options are correct.

26. In relation to measurement of the elements of financial statements
Learning Objective 1.7 Distinguish between alternative bases for measuring the elements of financial statements

*a. The Framework acknowledges that a variety of measurement bases are used to different degrees and in varying combinations in financial statements.
b. The Framework includes detailed concepts and principles for selecting which measurement basis should be used for particular elements of financial statements.
c. Net realisable value is the preferred basis for measurement of assets.
d. The Framework adopts a mixed attribute accounting model

27. The measurement method most commonly used in the preparation of financial statements is:
Learning Objective 1.7 Distinguish between alternative bases for measuring the elements of financial statements:

a. present value;
b. current cost;
c. realisable value;
*d. historical cost.