

**Note : no Test bank for Chapter 1**

## **CHAPTER 2 – COMPANIES AND CORPORATE REGULATION**

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### **MULTIPLE CHOICE**

1. Which of the following is NOT a characteristic of the public company?
  - A. Company can raise loans from general public
  - B. Company has no upper limit on the number of shareholders
  - C. Company must have financial reports audited
  - D. Company has a lower limit of five shareholders

ANS: D

The lower limit of shareholders is one. The other requirements are correct under the Corporations Act.

PTS: 1

2. Which of the following requirements is not found in the Corporations Act?
  - A. types of ledger accounts that must be used in particular circumstances
  - B. restrictions on the use of amounts in some ledger accounts
  - C. that accounting records must be kept for seven years
  - D. the headings that must be used in the balance sheet

ANS: D

The formats of the financial statements such as the balance sheet are not found in the Corporations Act. This level of detail, including the headings and sub-headings that must be used, is delegated to the accounting standards, in this case to AASB 101.

PTS: 1

3. Which of the following is NOT a characteristic of the proprietary company?
  - A. There need only be one director
  - B. There is no obligation to hold an annual general meeting
  - C. There must be no more than 50 non-employee shareholders
  - D. Unlike small proprietary companies the proprietary company can advertise in newspapers to obtain loans

ANS: D

A proprietary company is prohibited from soliciting loans by means of general advertising. The same applies to a small proprietary company. The other characteristics A–C are correct under the Corporations Act.

PTS: 1

4. Under the Scheme based on the *Uniform Companies Acts* 1961–2 the court system in New South Wales would have had jurisdiction over a company registered in which of the following locations?
  - A. New Zealand, Great Britain or Tasmania
  - B. Khazakstan, Sierra Leone or Queensland
  - C. South Australia
  - D. None of the above

ANS: D

Under this scheme the courts only had jurisdiction over companies registered in the same state. Companies registered anywhere else, even in another Australian state, were for legal purposes 'foreign companies.' If they were registered in New South Wales as a foreign company, then the court system of New South Wales would have some limited jurisdiction.

PTS: 1

5. The first system of easily registerable companies with limited liability share units tradable on a public stock exchange developed:
- A. in ancient Assyria around 400 BC
  - B. in the Italian city states at the end of the fifteenth century
  - C. in Great Britain in the 1840s and 1850s
  - D. in the United States of America in the 1890s.

ANS: C

After political agitation by the business sector the joint stock company with readily tradable limited liability shares developed as a consequence of two Acts passed in 1844 and 1855. Prior to that incorporation was an unusual business form largely because governments did not trust the concept of private sector corporations with limited liability.

PTS: 1

6. With which of the following sources of authority must Snout Ltd always comply?

ASX Listing Rules | Corporations Act | AASB standards

- A. No | Yes | Yes
- B. No | No | Yes
- C. Yes | Yes | No
- D. Yes | No | No

ANS: A

Snout Ltd is a public company because it only has 'Ltd' in its name. We don't know if Snout is listed on an Australian securities exchange. So we don't know if it has to comply with the ASX Listing Rules. If it was listed it must comply however the ASX only has power to make listed entities comply with its rules. But the Corporations Act applies to all companies, and Snout Ltd is a (public) company, so it must comply. Also, Snout Ltd must comply with the AASB accounting standards under section 296 of the Act (the application of those standards may be limited, for example some only apply to reporting entities).

PTS: 1

7. Winston owns shares in Beaver Mining NL and his friend Neville owns shares in Otter Pty Ltd. In the event of liquidation of both of these companies who would potentially have to pay the most per share?
- A. Neville, because his liability is up to the amount unpaid on his shares and Winston has no such liability
  - B. Neville, because his shares are in an unlisted company and Winston's are in a listed company
  - C. Winston, because his shares are in a mining company that is listed

D. Not able to be answered decisively from the information

ANS: A

If Neville has not fully paid his shares, he has to pay the amount to make them fully paid if the company is liquidated. Beaver Mining NL is a no liability company, so the shareholders have no liability if the company is liquidated. It makes no difference if the company is listed or unlisted. Listing is not the issue – the issue is what type of company it is, i.e. liability limited or no liability.

PTS: 1

8. Under the current structure for accounting standard setting in Australia, accounting standards for public sector entities are made by the:
- A. FRC
  - B. PSASB
  - C. AARF and the PSASB with guidance from the AASB
  - D. AASB

ANS: D

The AASB has responsibility for making standards for both public and private sector entities.

PTS: 1

9. The directors of Corp Ltd agree that to apply all the AASB standards would not provide a true and fair view of Corp Ltd's financial position. They advise their auditors that the financial report will not comply with all AASB standards. Which is correct?
- A. The auditors must state in the audit report that the financial report does not comply with those AASB standards
  - B. The directors are in accordance with the Corporations Act provided that they provide their reason(s) in the financial report
  - C. The directors are in accordance with the Corporations Act provided that they list the standards that have not been complied with
  - D. The auditors should audit the financial statements as they have been prepared and need disclose no information about the non-application of the AASB standards

ANS: A

One of the ways that AASB standards have the force of the Act is because the auditors have to state in their report if the financial report has been made out in accordance with the AASB standards. The directors also have to ensure that the financial report complies even if they genuinely believe that it would not give a true and fair view after they have so complied. They can add extra information if they believe that mere compliance does not result in the requisite true and fair view, but they still have to comply with the AASB standards.

PTS: 1

10. Which of the following statements is **untrue**?
- A. A public company can be a guarantee company with limited liability
  - B. A small proprietary company can have share capital and no liability
  - C. A public company can have share capital and unlimited liability
  - D. A no liability company can not be a guarantee company.

ANS: B

Only a public company can have share capital with no liability.

PTS: 1

11. Which of the following statements is **untrue**?
- A. A public company can be a guarantee company with unlimited liability
  - B. A small proprietary company can have share capital and unlimited liability
  - C. A public company can have share capital and unlimited liability
  - D. A no liability company can not be a guarantee company

ANS: A

Guarantee companies must have limited liability and do not have a share capital.

PTS: 1

12. Which of the following statements is **untrue**?
- A. AAS standards no longer cover all accounting topics
  - B. AAS standards may contain requirements not found in IFRS
  - C. AAS standards may apply to superannuation schemes
  - D. None of the above

ANS: D

A, B and C are all true statements.

PTS: 1

Meteor Pty Ltd owns 100% of the share capital of Satellite Pty Ltd and Meteor Pty Ltd controls Satellite Pty Ltd. The following information is available:

	Meteor Pty Ltd	Meteor Pty Ltd	Satellite Pty Ltd	Satellite Pty Ltd
	20X7	20X8	20X7	20X8
Gross operating revenue	\$26m	\$20m	\$1m	\$6m
Full-time employees at year end	32	10	15	32
Gross assets at year end	\$8m	\$6m	\$6m	\$3m

13. For the 20X8 year would Satellite Pty Ltd have to:

Prepare a financial report?

Lodge the financial report with ASIC?

Distribute the financial report to members?

A. Yes

Yes

Yes

B. No

Yes

No

C. No

No  
No

D. Yes  
No  
No

ANS: C

Satellite Pty Ltd is a small proprietary company because operating revenue is less than \$25 million, the gross assets are less than \$12.5 million and the equivalent full time employees are less than 50, so all of the tests for small proprietary company are satisfied. So, as a general rule, it does not have to prepare a financial report. And if there is no financial report prepared there is nothing to lodge or to distribute.

PTS: 1

14. For the 20X7 year, Meteor Pty Ltd would have to:

Have an audit  
Lodge an audit report with the ASIC  
Distribute the audit report to members

A. Yes  
Yes  
Yes

B. No  
Yes  
No

C. No  
No  
No

D. Yes  
No  
No

ANS: A

Meteor Pty Ltd is a large proprietary company for 20X7 because the consolidated gross operating revenue is more than \$25 million (\$26m + \$1m) and the gross assets at year end is more than \$12.5 million (\$8m + \$6m) on a consolidated basis. The total employees is 47 (32 + 15) but only 2 of the 3 tests need to be satisfied for a large proprietary company. Meteor Pty Ltd must prepare financial statements and have an audit and lodge that audit report with ASIC and distribute it and the financial statements to its members.

PTS: 1

	Gross operating revenue \$ millions	Gross assets \$ millions	Total employees (full time)	Company type
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Company I	2	16	150	Proprietary
Company II	5	14	4	Proprietary
Company III	126	1900	580	Public

15. What type of entity is company II?

	Small proprietary	Large proprietary	Disclosing entity
A. Yes		No	Yes
B. Yes		No	Maybe
C. No		Yes	No
D. No		Yes	Maybe

ANS: B

Company II is a small proprietary company because it satisfies two of the three tests (gross operating revenue less than \$25 million and total employees at year end less than 50). A proprietary company can be a disclosing entity — although not by having its shares listed on the ASX, since that is not possible with a proprietary company.

PTS: 1

16. What type of entity is company I?

	Small proprietary	Large proprietary	Disclosing entity
A. Yes		No	Yes
B. Yes		No	Maybe
C. No		Yes	Yes
D. No		Yes	Maybe

ANS: D

Company I is a large proprietary company because two of the three tests are satisfied (assets more than \$12.5 million and total full-time employees at financial year end more than 50). A proprietary company can be a disclosing entity – although not by having its shares listed on the ASX, since that is not possible with a proprietary company.

PTS: 1

17. What type of entity is company III?

	Disclosing entity	Reporting entity
A. No		Likely
B. No		Unlikely
C. Maybe		Likely
D. Maybe		Unlikely

ANS: C

Company III could be a disclosing entity if, for example, its shares were listed on the ASX, but we are not told this in the question. Based on its financial characteristics, it is likely to be a reporting entity.

PTS: 1

18. Complete the following sentence:

The \_\_\_\_\_ is responsible for prosecuting companies for breaches of AASB standards.

- A. ASIC
- B. AARF
- C. AASB
- D. ASX

ANS: A

ASIC is given primary responsibility for enforcement. AASB is responsible for the development and making of accounting standards. The AASB itself does not have an enforcement power. ASX polices its own listing rules. AARF provided technical support to the AASB (and its predecessors such as the ASRB, PSASB and AcSB), it had no enforcement role. While the ASX has the power to enforce its listing rules (including those requiring information lodged to comply with accounting standards) it cannot prosecute a company if it fails to do so; it can only take action to enforce its listing rules; that is enforce the contract between the ASX and the company.

PTS: 1

- I Companies with enhanced disclosure securities on offer
- II Public companies
- III Wholly Australian-owned large proprietary companies
- IV Wholly Australian-owned small proprietary companies

19. As a general rule, under the Corporations Act, which of the following types of companies must prepare a financial report for a financial year?

- A. I only
- B. I, II and III only
- C. II and III only
- D. II, III and IV only

ANS: B

Companies with enhanced disclosure securities on offer are disclosing entities and are required to prepare a financial report for a financial year.

Public companies are required to prepare annual financial reports.

Large proprietary companies (whether or not wholly Australian owned) are required to prepare a financial report for the financial year.

Small proprietary companies that are wholly Australian owned are exempted from preparing a financial report for the financial year unless specifically requested by shareholders holding 5% of the voting shares, or by the Australian Securities and Investments Commission (ASIC).

PTS: 1

20. As a general rule, under the Corporations Act, which of the following types of companies must have their financial report audited for a financial year?

- A. I only
- B. I, II and III only

- C. II and III only
- D. II, III and IV only

ANS: B

Companies with enhanced disclosure securities on offer are disclosing entities and are required to prepare a financial report for a financial year and have it audited.

Public companies are required to prepare annual financial reports and have them audited.

Large proprietary companies (whether or not wholly Australian owned) are required to prepare a financial report for the financial year and have it audited.

Small proprietary companies that are wholly Australian owned are exempted from preparing a financial report for the financial year unless specifically requested by shareholders holding 5% of the voting shares, or by the Australian Securities and Investments Commission (ASIC).

PTS: 1

21. Which answer best describes the following corporate governance system in Australia: 'legislation based in the states, with state-based legal jurisdiction, separate state-based regulators and a body of laws originally designed to be similar across the states, but in practical effect they were not always exactly the same.'
- A. Scheme based on *Uniform Companies Acts* 1961–2
  - B. National Co-operative Scheme 1981–89
  - C. Scheme based on *Corporations Act* 1989
  - D. Scheme commonly known as the 'Corporations Law' that commenced in 1991

ANS: A

The schemes mentioned in answers B to D all have Commonwealth based legislation as their main focus and also the existence of a Commonwealth regulator.

PTS: 1

22. Which body has the power to make accounting standards under the Corporations Act?
- A. ASIC
  - B. AASB
  - C. ICAA
  - D. AARF

ANS: B

Under the Corporations Act, the power to make accounting standards that have the force of law is vested in the AASB. ASIC, ICAA and the AARF (before its demise) have no such power.

PTS: 1

23. Which of the following is not one of the functions of the Financial Reporting Council (FRC)?
- A. Appoint members of the AASB
  - B. Adjust errors in the drafting of accounting standards
  - C. Organise funding for the AASB
  - D. Make decisions about adoption of IFRS's by Australia

ANS: B

While the FRC has a broad supervisory role it does not deal with the actual drafting of accounting standards nor their later amendments. These latter are the responsibility of the AASB alone.



PTS: 1

24. The International Accounting Standards Board (IASB) is:
- A. a profit making body registered in Panama
  - B. a committee of the US Securities and Exchange Commission
  - C. an independent not for profit body headquartered in London
  - D. a body of the United Nations

ANS: C

The IASB (then called IASC) ‘...was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland and the United States, and these countries constituted the Board of IASC at that time.’: see

**Error! Hyperlink reference not valid.** According to 2008 Annual Report of the International Standards Committee Foundation, it is ‘Incorporated in the State of Delaware, USA, on 6 February 2001, the International Accounting Standards Committee Foundation (IASC Foundation) is a not-for-profit charitable organisation with its primary operations based in London.’.

PTS: 1

25. Which statement is **incorrect**:
- A. The EU has adopted IFRS for limited purposes from 1 January 2005
  - B. A nineteen person panel of trustees appoints the IASB members
  - C. IASB members are appointed jointly by the US and UK governments
  - D. The IASB’s predecessor the IASC commenced operations in 1973

ANS: C

The panel of trustees that appoints the IASB is independent of any government though in practice is more influenced by US and UK government and economic interests than by the interests of other regions.

PTS: 1

26. Which statement is incorrect? AASB standards apply by force of law to:
- A. all entities regulated by the Corporations Act
  - B. entities required to comply with AASB accounting standards by other legislation
  - C. entities required to comply with AASB accounting standards by ministerial directive
  - D. all of the above

ANS: D

All of A, B and C are correct statements.

PTS: 1

27. Complete the following sentence:

The \_\_\_\_\_ is primarily responsible for the broad direction of policy (for example, the adoption of IFRS) concerning Australian accounting standards.

- A. ASIC
- B. AARF
- C. AASB
- D. FRC

ANS: D

ASIC is given primary responsibility for enforcement. AASB and AARF made inputs to policy but the 'broad direction' (for example, the adoption of IFRS) is primarily the Financial Reporting Council's responsibility.

PTS: 1

28. Complete the following sentence:

The \_\_\_\_\_ is responsible for appointing AASB board members.

- A. ASIC
- B. AARF
- C. ASX
- D. FRC

ANS: D

The Financial Reporting Council appoints the members (but not the chair) of the AASB (ASIC Act, s 225(2)(a)).

PTS: 1

29. The role of the Urgent Issues Group was:

- A. to provide timely guidance on urgent financial reporting issues
- B. to report breaches of the Corporations Act to the Auditor-General
- C. to report breaches of the Corporations Act to ASIC
- D. to investigate attempts at company take-over on the Australian Securities Exchange (ASX)

ANS: A

The UIG functions are now incorporated into the AASB.

PTS: 1

30. The Urgent Issues Group was:

- A. A sub committee of CPA Australia
- B. A sub committee of the AASB
- C. A joint committee of CPA Australia and the Institute of Chartered Accountants in Australia
- D. A committee that reports directly to the Auditor-General of Australia

ANS: B

Immediately before its disbandment, the UIG was a sub committee of the AASB.

PTS: 1

## TRUE/FALSE

1. No-liability companies are confined to the mining sector and must not have a share capital.

ANS: F

No-liability companies are confined to the mining sector but they **MUST** have a share capital.

PTS: 1

2. In a limited liability share company, once the price of the share is fully paid the shareholder has no further liability.

ANS: T

Liability is limited to the cost of buying the share itself. If the share is payable in instalments, liability is limited to the amount remaining unpaid on the cost of buying the share.

PTS: 1

3. EU countries like France have had traditionally a greater emphasis on flexibility and presentation of financial statements at fair value than have Anglo countries like Great Britain and the USA.

ANS: F

EU countries like France are traditionally more orientated to rigid, historical cost principles because of the greater degree of debt financing of companies, the lower importance of shareholders and the emphasis on collection of macroeconomic information used in central economic planning and control.

PTS: 1

4. AASB standards apply by force of law to managed investment schemes and to unit trusts regulated under the Corporations Act.

ANS: T

The Corporations Act specifies a number of entities other than companies to which AASB standards also apply.

PTS: 1

5. Members of the Financial Reporting Council (FRC) are jointly appointed by the Business Council of Australia and the Australian Shareholders' Association.

ANS: F

FRC members are appointed by a Federal Government Minister, presently the Treasurer. The Minister may appoint a person by specifying an organisation or body that is to choose the person who is appointed.

PTS: 1

6. Domestic companies in the USA are required to use IFRS.

ANS: F

US companies must use US GAAP, which is quite different to IFRS. However, a convergence process is under way which may result in entities registered with the United States Securities and Exchange Commission using IFRS.

PTS: 1

7. IFRS standards adopted for use in Australia cover all Australian accounting standard topics.

ANS: F

Some IFRS have been considered, to date, not suitable for Australian use. An example is accounting for superannuation, for which an Australian-devised standard, AAS 25, is still used.

PTS: 1

8. The adoption of IFRS in Australia was preceded by a lengthy public consultation process.

ANS: F

There was no public consultation before the FRC announced the adoption of IFRS.

PTS: 1

9. Governments including the Australian government have direct control over the determination of IFRS content.

ANS: F

Governments have no direct control over IASB activities, they can only make recommendations and 'lobby' over the IFRS content.

PTS: 1

10. CPA Australia was a founding member of the IASB's forerunner organisation, the IASC.

ANS: T

CPA Australia and other professional bodies from around the world were instrumental in first organising the IASC.

PTS: 1