

Testbank

to accompany

Contemporary Issues in Accounting

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Chapter 1 Introduction to contemporary issues

Multiple Choice Questions

1. Which of the following statements is correct in relation to the purpose of theory?
- a. all theories do the same thing
 - b. they make suggestions and dictate what action must be taken
 - *c. some theories explain, while others describe what is happening
 - d. theories only make predictions about what will happen in the future

Correct answer: c

Learning Objective 1.1 ~ Define 'theory'.

2. Accounting theory can be described as:
- *a. description, explanation or prediction of accounting practice based on observations and/or logical reasoning
 - b. a set of facts, specific in nature, against which accounting practice can be evaluated
 - c. being based only on observations
 - d. being irrelevant to the development of new practice and procedures

Correct answer: a

Learning Objective 1.1 ~ Define 'theory'.

3. Which of the following statements is correct?
- a. if there is a theory about something, it must be correct
 - b. it is impossible to assess the appropriateness of a particular theory
 - *c. a theory does not have to be correct to be useful
 - d. a theory can only be useful if it is correct

Correct answer: c

Learning Objective 1.2 ~ Explain the role of theory in financial accounting.

4. Is it possible to have different theories on the same topic?
- a. no, it is impossible to have alternative theories on a topic
 - *b. yes, there are often many alternative theories on a topic because there are usually many possible explanations and/or solutions
 - c. yes, but there is usually only one explanation and/or solution
 - d. no, there can only ever be one explanation or solution

Correct answer: b

Learning Objective 1.2 ~ Explain the role of theory in financial accounting.

5. An example of how theory can predict accounting practice is:

- a. capital market theory
- b. asset recognition theory
- *c. agency theory
- d. corporate social responsibility theory

Correct answer: c

Learning Objective 1.2 ~ Explain the role of theory in financial accounting.

6. An example of how theory can help to identify problems and deficiencies with current accounting practice and improve accounting practice is:

- a. the conceptual framework for accounting
- b. agency theory and the conceptual framework for accounting
- c. corporate social responsibility theory
- *d. corporate social responsibility theory and the conceptual framework for accounting

Correct answer: d

Learning Objective 1.2 ~ Explain the role of theory in financial accounting

7. How can theories be of benefit in accounting?

- *a. they assist us to improve accounting practice and they provide principles to take into account when taking action or making decisions
- b. they help to identify problems and deficiencies with current accounting practice but do not assist us in improving accounting practice
- c. they assist us in describing and explaining current accounting practice only
- d. they assist us to predict and improve accounting practice only

Correct answer: a

Learning Objective 1.3 ~ Explain the differences between positive theories and normative theories.

8. Which of the following is an example of a positive theory?
- a. Fair value should be used to measure assets in the financial statements, so as to provide more relevant information
 - b. Cost should be used to measure assets in the financial statements because it is more reliable and accurate
 - c. The conceptual framework for accounting
 - *d. A theory that explains why managers prefer or choose particular accounting methods or policies over others

Correct answer: d

Learning Objective 1.3 ~ Explain the differences between positive theories and normative theories.

9. Deduction can best be described as:
- a. The process of moving from particular instances of something to a general conclusion
 - b. Coming to a conclusion through a process of elimination
 - *c. The process of developing specific predictions from theories
 - d. The process of developing numerous conclusions or theories

Correct answer: c

Learning Objective 1.3 ~ Explain the differences between positive theories and normative theories.

10. Which of the following statements is incorrect, in relation to the scientific method?
- a. It involves starting with a limited number of observations
 - *b. It involves starting with a large number of observations from which a reliable conclusion can be drawn
 - c. It involves analysing observations to derive a theory
 - d. It involves making predictions that are tested by further observations

Correct answer: b

Learning Objective 1.3 ~ Explain the differences between positive theories and normative theories.

11. A normative theory is one which:
- a. Describes or explains what is currently happening
 - b. Predicts what might happen
 - *c. Prescribes or makes recommendations as to what should happen
 - d. Is often referred to as an empirical theory

Correct answer: c

Learning Objective 1.3 ~ Explain the differences between positive theories and normative theories.

12. Which of the following statements is correct in relation to normative theories?
- *a. Normative theories often evolve as a result of research performed in relation to positive theories
 - b. Facts about current accounting practice are not considered in the development of normative theories
 - c. Normative theories are not likely to evolve from the consideration of positive theories
 - d. Normative theories always evolve as a consequence or result of positive theories

Correct answer: a

Learning Objective 1.3 ~ Explain the differences between positive theories and normative theories.

13. A reason why someone may accept a theory without having 'first hand' or direct knowledge of the topic are:
- a. Lack of knowledge regarding the authority of the source of the theory
 - *b. The theory makes sense and fits with personal experiences and beliefs
 - c. Other people choose not to accept the theory
 - d. Evidence exists that refutes the theory

Correct answer: b

Learning Objective 1.3 ~ Explain the differences between positive theories and normative theories.

14. A theory can be proven to be true:
- a. If we are certain there are enough observations that fit or confirm the theory
 - b. Regardless of how many observations fit or confirm the theory
 - c. In some cases, but often there are not enough observations that fit or confirm the theory
 - *d. Under no circumstances, because we can never be certain that enough observations have been made that fit or confirm the theory

Correct answer: d

Learning Objective 1.4 ~ Explain the reasons for evaluating and testing theories.

15. What is the best way to use observation to test a theory?
- a. Try and find observations that confirm the theory
 - *b. Search for instances that do not fit with or disprove the theory
 - c. Try to find instances that both confirm and disprove the theory and work out which outweighs the other
 - d. Make as many observations as possible

Correct answer: b

Learning Objective 1.4 ~ Explain the reasons for evaluating and testing theories.

16. Which of the following statements is true in relation to research?
- *a. By searching over and over again, each study should contribute to our understanding of the issue
 - b. Most research studies will provide definitive answers to the problem examined
 - c. Often, searching or investigating a topic more than once, may detract from our understanding of the issue
 - d. Some research studies will not provide definitive answers to the problem, in which case further investigation should be postponed

Correct answer: a

Learning Objective 1.5 ~ Explain the reasons for evaluating and testing theories.

17. The relationship between theory and research can best be described as:
- a. Research must come before a theory is formed and is associated with both positive and normative theories
 - b. Research must come after a theory is formed and is only associated with positive theories
 - c. Research is only associated with normative theories and can come before or after a theory is formed
 - *d. Research can be associated with both positive and normative theories and can come before or after a theory is formed

Correct answer: d

Learning Objective 1.5 ~ Describe the role of research in accounting.

18. Research is conducted in the form of an experiment where the relative usefulness of historical cost and fair value measures are considered, and it is found that better decisions are made using fair values. This may suggest:
- a. A positive theory that fair value should be used to measure the items in the financial statements
 - *b. A normative theory that fair value should be used to measure the items in the financial statements
 - c. A positive theory that historical cost is not useful and should not be used at all to measure items in the financial statements
 - d. A normative theory that historical cost should be used to measure the items in the financial statements

Correct answer: b

Learning Objective 1.5 ~ Describe the role of research in accounting.

19. Research can be categorised as:
- *a. 'Research of or about accounting' or 'research in accounting'
 - b. Positive or normative
 - c. 'Research of accounting' or 'research about accounting'
 - d. Positive or critical

Correct answer: a

Learning Objective 1.5 ~ Describe the role of research in accounting.

20. Research of or about accounting would not consider the following question:
- a. Should accountability or decision usefulness be the key goal of accounting
 - b. What impact does culture have on accounting
 - c. What role has accounting played in environmental degradation
 - *d. What impact do changes in specific accounting policies have on share prices

Correct answer: d

Learning Objective 1.5 ~ Describe the role of research in accounting.

21. Which of the following statements is incorrect in relation to critical accounting?
- a. It aims to develop a critical understanding of the role of accounting processes and practices in the functioning of society and organisations
 - b. A critical understanding of the role that accounting plays can be used to engage in change
 - *c. It aims to critically analyse inefficient accounting practices
 - d. It aims to develop a critical understanding of the role of the accounting profession in the functioning of society and organisations

Correct answer: c

Learning Objective 1.5 ~ Describe the role of research in accounting.

22. Research in accounting focuses on:
- a. Issues related to accounting at a macro level
 - b. Questions such as, what role has accounting played in the rise of capitalism
 - *c. Issues within accounting at the more micro level
 - d. The bigger picture

Correct answer: c

Learning Objective 1.5 ~ Describe the role of research in accounting.

23. Research in accounting would not consider the following question:
- a. What measurements are being used
 - b. What impact do changes in specific accounting policies have on share prices
 - c. What measures should be used
 - *d. Should accountability or decision usefulness be the key goal of accounting

Correct answer: d

Learning Objective 1.5 ~ Describe the role of research in accounting.

24. Which of the following statements are incorrect in relation to capital market research?
- a. It was founded by Ball & Brown, and Beaver
 - b. It is a stream of positive accounting research
 - *c. It is a stream of normative accounting research
 - d. It investigated the use of accounting information by capital markets

Correct answer: c

Learning Objective 1.6 ~ identify some of the research areas in accounting.

25. Research that attempts to explain the motivations behind the accounting choices made by managers is:
- a. Capital market research
 - b. Critical accounting research
 - *c. Accounting policy choice research
 - d. International accounting research

Correct answer: c

Learning Objective 1.6 ~ Identify some of the research areas in accounting.

26. Which of the following statements is correct in relation to International accounting research?
- a. This research area declined in the second half of the twentieth century due to harmonisation
 - b. Agency or contracting theory underlies much of this research
 - c. It often adopts a social welfare perspective
 - *d. It includes research into differences in accounting practices and also considers contextual and cultural influences on financial accounting

Correct answer: d

Learning Objective 1.6 ~ Identify some of the research areas in accounting.