

# **Testbank**

to accompany

## **Contemporary issues in accounting**

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by  
Rankin et al.

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## Chapter 3: Standard setting

### Multiple choice questions

1. Which of the following is NOT a function of the AASB? standard setting.
- a. Participate in the development of international accounting standards.
  - b. Making accounting standards.
  - c. Promoting international accounting standards.
  - \*d. Enforcing compliance with accounting standards.

*Correct answer: d*

*Learning objective 3.1*

2. The Financial Reporting Council (FRC) are responsible for:
- a. Appointing board members to the AASB.
  - b. Broad oversight of the standard-setting process.
  - c. Providing strategic direction and advice to the AASB.
  - \*d. all of the above.

*Correct answer: d*

*Learning objective 3.1*

3. Which of the following can the AASB NOT do when adopting IFRSs?
- a. Require additional disclosure.
  - \*b. Change or remove requirements that are seen as anti-competitive.
  - c. Change words to take into account Australian legislation.
  - d. Limit the number of optional treatments.

*Correct answer: b*

*Learning objective 3.2*

4. One of the rules-based standard disadvantages can be:
- a. They allow for no manipulation.
  - \*b. They can be very complex.
  - c. They can be very simple.
  - d. None of the above.

*Correct answer: b*

*Learning objective 3.3*

5. Which if the following is an advantage of rules-based accounting standards?
- a. Can cover most situations.
  - b. Reduced complexity of standards.
  - \*c. Reduced opportunities for earnings management through judgements.
  - d. Improve representational faithfulness of financial statements.

*Correct answer: c*

*Learning objective 3.3*

6. Disadvantage of principles-based standards is:
- a. They supply broad guidelines.
  - \*b. They allow managers to select policies that may not reflect the substance of a transaction.
  - c. They allow accountants to use professional judgement.
  - d. All of the above.

*Correct answer: b*

*Learning objective 3.3*

7. One of the advantages of principles-based standard is:
- a. They do not improve representational faithfulness of financial statements.
  - b. They allow for no professional judgement.
  - \*c. They are generally simpler.
  - d. None of the above.

*Correct answer: c*

*Learning objective 3.3*

8. Signalling Theory postulates that:
- \*a. Regulation is largely unnecessary.
  - b. Non-disclosing entities will do better in the market for finance.
  - c. Regulation decreases the cost of capital.
  - d. Financial reporting is a pointless activity.

*Correct answer: a*

*Learning objective 3.4*

9. Which of the following is NOT a key element of regulation?
- \*a. Regulation should be biased.
  - b. An intention to intervene.
  - c. A restriction on choice.
  - d. The exercise of control.

*Correct answer: a*

*Learning objective 3.4*

10. Which of the following is a fundamental assumption of Capture Theory?
- a. Regulation is costly.
  - \*b. People rationally advance their own self-interest.
  - c. Economic markets are fragile.
  - d. The market is an efficient market.

*Correct answer: b*

*Learning objective 3.4*

11. Which of the following is a fundamental assumption of Bushfire theory?
- a. People are not influenced by media when it comes to regulation.
  - b. People are proactive when it comes to regulation.
  - \*c. People are reactive when it comes to regulation.
  - d. People are apathetic when it comes to regulations.

*Correct answer: c*

*Learning objective 3.4*

12. Which of the following is a fundamental assumption of public interest theory?
- a. Regulation is costly.
  - b. People rationally advance their own self-interest.
  - \*c. Economic markets are fragile.
  - d. There is an efficient market.

*Correct answer: c*

*Learning objective 3.4*

13. Which of the following is NOT a disadvantage of regulation?
- a. It can restrict communication.
  - b. It can be difficult to reverse.
  - \*c. It leads to standardisation.
  - d. It can be difficult to determine the optimal regulations.

*Correct answer: c*

*Learning objective 3.4*

14. Which of the following is NOT an advantage of accounting regulation?
- \*a. Reduced lobbying to produce favourable outcomes.
  - b. Increased efficiency in allocating capital.
  - c. Cheaper production of accounting disclosure.
  - d. Increased public confidence.

*Correct answer: a*

*Learning objective 3.4*

15. Research into accounting regulation:

- \*a. Supports capture theory.
- b. Is extensive.
- c. Shows that accounting is independent of political influence.
- d. Looks after the interests of a wide range of stakeholders.

*Correct answer: a*

*Learning objective 3.4*

16. Which of the following groups benefits most from rules based accounting regulation?

- a. Shareholders.
- b. Managers.
- \*c. Auditors.
- d. Accountants.

*Correct answer: c*

*Learning objective 3.5*

17. Which of the following have been blamed for the Global Financial Crisis?

- a. Auditor-Client relationships.
- b. Corporate governance structures.
- c. Accounting standards.
- \*d. All of the above.

*Correct answer: d*

*Learning objective 3.5*

18. Which of the following groups have been criticised for their failure to respond to exposure drafts?

- a. Large Australian companies.
- b. Auditors.
- \*c. Academics.
- d. Analysts.

*Correct answer: c*

*Learning objective 3.5*

19. Which of the following has NOT been identified as a problem with Australia accepting the international harmonisation of its accounting standards?

- \*a. Too few countries have adopted international accounting standards.
- b. IFRS standards tend to be more complex.
- c. Compromises sometimes need to be made when creating standards.
- d. None of the above, they are all problems.

*Correct answer: a*

*Learning objective 3.6*

20. Which of the following was identified as a benefit when Australia accepted the international harmonisation of its accounting standards?
- a. Reporting costs would be lowered.
  - b. International comparability of financial statements would increase.
  - c. The cost of capital would decrease.
  - \*d. All of the above.

*Correct answer: d*

*Learning objective 3.6*