

# **Testbank**

to accompany

# **Financial Reporting**

by

**Loftus et al**

**Prepared by Hong Nee Ang**

# **WILEY**

© John Wiley & Sons Australia, Ltd 2016

## **Chapter 1:**

# **Accounting regulation and the conceptual framework**

### **Multiple Choice Questions**

---

1) Members of the IASB are appointed by:

- a) the Monitoring Board.
- b) the IFRS Advisory Council.
- \*c) the IFRS Foundation Trustees.
- d) the IFRS Interpretations Committee.

*Answer: c*

*Learning Objective 3: Explain the structure, role and processes of the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC)*

2) Which of the following statements is false:

- \*a) Members of the IFRS Interpretations Committee are appointed by the IASB.
- b) The IFRS Advisory Council provides strategic advice to the IASB.
- c) Compliance with IASB standards includes compliance with interpretations issued by IFRS Interpretations Committee.
- d) IFRS Foundation Trustees appoint members of both IASB and IFRS Advisory Council.

*Answer: a*

*Learning Objective 3: Explain the structure, role and processes of the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC)*

3) A conceptual framework consists of a set of principles with the purpose to:

- a) assist users in the interpretation of information in financial statements.
- b) assist preparers of financial statements in the application of accounting standards and in dealing with topics that are not the subject of existing accounting standards.
- c) assist standard setters to develop accounting standards.
- \*d) all of the options are correct.

*Answer: d*

*Learning Objective 4: Explain the key components of the conceptual framework.*

4) Currently the Australian conceptual framework comprises:

- a) the *Framework for the Preparation and Presentation of Financial Statements*.
- b) the *Conceptual Framework for Financial Reporting*.
- \*c) the *Framework for the Preparation and Presentation of Financial Statements* and SAC 1.
- d) the *Conceptual Framework for Financial Reporting*, SAC 1, and SAC 2.

*Answer: c*

*Learning Objective 4: Explain the key components of the conceptual framework*

5) The two fundamental qualitative characteristics of useful information are:

- a) materiality and relevance.
- \*b) relevance and faithful representation.
- c) comparability and verifiability.
- d) timeliness and understandability.

*Answer: b*

*Learning Objective 5: Explain the qualitative characteristics that make information in financial statements useful*

6) Information is considered material if:

- a) it has predictive value.
- \*b) its omission or misstatement could influence users' decision-making.
- c) it includes all information necessary for faithful representation.
- d) it is free from errors.

*Answer: b*

*Learning Objective 5: Explain the qualitative characteristics that make information in financial statements useful*

7) What is the constraint that limits the information provided by financial reporting?

- a) Timeliness.
- b) Materiality.
- c) Comparability.
- \*d) Cost.

*Answer: d*

*Learning Objective 5: Explain the qualitative characteristics that make information in financial statements useful*

8) A quality of information demonstrated when different independent observers could reach the same general conclusions that the information represents what it purports to represent is:

- \*a) verifiability.
- b) comparability.
- c) understandability.
- d) neutrality.

*Answer: a*

*Learning Objective 5: Explain the qualitative characteristics that make information in financial statements useful*

9) Some of the implications of adopting the going concern assumption are shown in the following accounting practices, except:

- a) justification of using historical cost to measure value of assets.
- b) depreciation of non-current assets.
- \*c) liquidation of an entity's operations.
- d) inclusion of goodwill in the statement of financial position.

*Answer: c*

*Learning Objective 6: Discuss the going concern assumption underlying the preparation of financial statements*

10) Which of the following are the three essential criteria in the definition of an asset:

- |      |   |     |                     |
|------|---|-----|---------------------|
| I.   | Future economic benefits                | IV. | Present obligation. |
| II.  | Future sacrifices of economic benefits. | V.  | Control.            |
| III. | Past event.                             | VI. | Ownership           |

- a) I, III, IV.
- b) II, III, V.
- c) I, IV, VI.
- \*d) I, III, V.

*Answer: d*

*Learning Objective 7: Define the basic elements in financial statements — assets, liabilities, equity, income and expenses*

11) The only element in financial statements which has no independent definition under the conceptual framework is:

- a) assets.
- b) liabilities.
- \*c) equity.
- d) expenses.

*Answer: c*

*Learning Objective 7: Define the basic elements in financial statements — assets, liabilities, equity, income and expenses*

12) The definition of equity as given in the conceptual framework shows that:

- a)  $\text{Equity} = \text{Assets} - \text{Expenses}$ .
- \*b)  $\text{Equity} = \text{Assets} - \text{Liabilities}$ .
- c)  $\text{Equity} = \text{Income} - \text{Expenses}$ .
- d)  $\text{Equity} = \text{Assets} - \text{Liabilities} - \text{Expenses}$ .

*Answer: b*

*Learning Objective 7: Define the basic elements in financial statements — assets, liabilities, equity, income and expenses*

13) Which of the following satisfy the definition of expenses:

- a) Cash withdrawal by owner.
- b) Payment of dividends to shareholders.
- c) Purchase of equipment.
- \*d) Payment of salaries to employees.

*Answer: d*

*Learning Objective 7: Define the basic elements in financial statements — assets, liabilities, equity, income and expenses*

14) The definition of income encompasses the following criteria, except:

- a) increases in economic benefits.
- b) control of increases in economic benefits by the entity.
- \*c) including capital contributions from owners.
- d) results in increases in equity.

*Answer: c*

*Learning Objective 7: Define the basic elements in financial statements — assets, liabilities, equity, income and expenses*

15) Which of the following are the recognition criteria of elements of financial statements:

- |     |                                |      |                       |
|-----|--------------------------------|------|-----------------------|
| I.  | Existence of economic benefits | III. | Probable occurrence   |
| II. | Reliable measurement           | IV.  | Control by the entity |

- a) I and II.
- \*b) II and III.
- c) II and IV.
- d) I and III.

*Answer: b*

*Learning Objective 8: Explain the principles for recognising the elements of financial statements*

16) Ice-cream R Us Ltd just purchased a block of land, on which it will build a new factory for its operations. Ice-cream R Us paid \$500 000 cash to the land owner. An independent evaluation reveals that the land is worth \$550 000. Using historical cost as a measurement base, how should Ice-cream R Us recognise the land purchase in its financial statements?

- \*a) \$500 000 recognised as an asset (land).
- b) \$550 000 recognised as an asset (land).
- c) \$500 000 recognised as an asset (land) and \$50 000 as a liability.
- d) The land should not be recognised as an asset as it cannot be measured with reliability.

*Answer: a*

*Learning Objective 9: Distinguish between alternatives bases for measuring the elements of financial statements*

17) According to the Australian Accounting Standards, the following assets can be recorded initially at historical cost, except for:

- a) land.
- \*b) inventories.
- c) equipment.
- d) motor vehicle.

*Answer: b*

*Learning Objective 9: Distinguish between alternatives bases for measuring the elements of financial statements*

18) Which measurement base uses the discounted future net cash inflows or net cash savings that are expected to arise in the normal course of business in measuring the value of an asset?

- a) Historical cost.
- b) Current cost.
- \*c) Present value.
- d) Realisable value.

*Answer: c*

*Learning Objective 9: Distinguish between alternatives bases for measuring the elements of financial statements*

19) Which of the following statements about the *Conceptual Framework's* definition of income is correct:

- a) Income is always in the form of enhancements of assets.
- b) Income results in decreases in equity.
- c) Income includes contributions from owners.
- \*d) Income includes gains from non-ordinary business activities.

*Answer: d*

*Learning Objective 7: Define the basic elements in financial statements — assets, liabilities, equity, income and expenses*

20) Which of the following statements is incorrect about financial capital concept:

- a) The general price level accounting system follows financial capital concept.
- b) Capital is calculated as total assets less total liabilities.
- \*c) Profit is earned after an entity's capital is sufficient to maintain the operating capability of the entity's assets.
- d) Capital is determined as the purchasing power of equity recorded.

*Answer: c*

*Learning Objective 10: Outline concepts of capital maintenance*



21) Kwik Kut Hairdressing rents a small shop located in Melbourne CBD to operate its hairdressing business. In accordance with the *Conceptual Framework*, Kwik Kut Hairdressing should recognise monthly payment for the shop rental as:

- a) a decrease in assets and an increase in equity.
- b) an increase in income and a decrease in liabilities.
- c) a decrease in assets and a decrease in income.
- \*d) a decrease in assets and an increase in expense.

*Answer: d*

*Learning Objective 7: Define the basic elements in financial statements — assets, liabilities, equity, income and expenses*