

## **Chapter 02**

### **Worldwide Accounting Diversity**

#### **Multiple Choice Questions**

1. What is the equivalent of U.S. balance sheet common stock on the balance sheet of a British company?
  - A) Capital redemption reserve
  - B) Share premium account
  - C) Own shares held
  - D) Called-up share capital

Answer: D Level: Medium LO: 1

2. Which of the following is not a problem caused by accounting diversity?
  - A) Lack of qualified international auditors
  - B) Preparation of consolidated financial statements
  - C) Access to foreign capital markets
  - D) Comparability of financial statements

Answer: A Level: Medium LO: 2

3. Differences in legal systems used in various countries have been cited as one reason for diversity in accounting practice. What are the major types of legal systems?
  - A) commercial law and accounting law
  - B) rules and regulations
  - C) written law and unwritten law
  - D) common law and code law

Answer: D Level: Easy LO: 3

4. The accounting standards in code law countries tend to be:
  - A) very detailed.
  - B) formulated by organizations such as the FASB.
  - C) stated broadly without much guidance on accounting procedures.
  - D) very conservative.

Answer: C Level: Medium LO: 3

5. What is likely to be the source of accounting standards in common law countries?
- A) Tax law
  - B) Non-government entities such as the FASB
  - C) Federal and local legislatures
  - D) The International Accounting Standards Board

Answer: B Level: Medium LO: 3

6. When accounting rules are left up to professional associations rather than being legislated by governmental bodies, what is the likely result?
- A) Very general accounting rules are created, as in code law countries.
  - B) Very detailed rules for practice are created, as in common law countries.
  - C) Very general accounting rules are created, as in common law countries.
  - D) Very detailed rules for practice are created, as in code law countries.

Answer: B Level: Hard LO: 3

7. Relative to accounting standards in countries such as Germany, whose accounting laws are only 47 pages long, accounting practice in the U.S. is often described as being subject to:
- A) standards overload.
  - B) standards minimization.
  - C) the optimal amount of accounting regulation.
  - D) ideal accounting standards.

Answer: A Level: Medium LO: 3

8. In code law countries such as Germany, France, and Japan, tax law and accounting standards tend to be:
- A) unrelated.
  - B) very different.
  - C) similar.
  - D) more confusing than those in the U.S.

Answer: C Level: Medium LO: 3

9. If most of a country's business financing comes from families, banks, and the government what should we expect in terms of information disclosure to the public?
- A) Relatively little because the public isn't a major factor
  - B) A great deal of disclosure because it will be the only way for interested parties to learn about the company
  - C) Complete openness of accounting records
  - D) No disclosure at all

Answer: A Level: Medium LO: 3

10. In countries such as the U. S., there is great demand for public disclosure of accounting information. What is the reason for this?
- A) Corporate management isn't trustworthy.
  - B) Businesses rely heavily on financing through issuance of stock to the public.
  - C) The American populace is better able to read financial statements than people in other countries.
  - D) U.S. government officials are generally members of corporate boards of directors and can get all the information they require.

Answer: B Level: Medium LO: 3

11. Historical cost is the primary basis for asset valuation under U.S. GAAP. Why is historical cost NOT as important in the accounting systems of Latin America as in the U.S.?
- A) Historical costs are too difficult to calculate in the currencies used in Central and South America.
  - B) The countries of Latin America have experienced very high rates of inflation, which would make historical costs meaningless to readers of financial statements.
  - C) There is very little foreign direct investment in the countries of Latin America, so few assets need to be accounted for.
  - D) In Latin America, asset prices are very stable, making historical costs equal to replacement costs, so it doesn't matter which valuation basis is used.

Answer: B Level: Medium LO: 3

12. What does "harmonization" mean in the context of international accounting?
- A) The process of combining the financial statements of foreign subsidiaries into the parent company's financial statements
  - B) Reducing the diversity of accounting standards
  - C) Disclosing the accounting methods used in preparing the financial statements
  - D) Assessing the exposure resulting from inadequate internal controls

Answer: B Level: Medium LO: 2

13. The extent to which hierarchy and unequal authority distribution in institutions and organizations are accepted within a culture is referred to as:
- A) Uncertainty avoidance.
  - B) Masculinity.
  - C) Individualism.
  - D) Power distance.

Answer: D Level: Medium LO: 5

14. A cultural preference for loosely knit social fabric rather than tightly knit social fabric is referred to by the term:
- A) Uncertainty avoidance.
  - B) Masculinity.
  - C) Individualism.
  - D) Power distance.

Answer: C Level: Medium LO: 5

15. A cultural emphasis on values of performance and achievement rather than values of relationships, caring, and nurturing is referred to as:
- A) Uncertainty avoidance.
  - B) Masculinity.
  - C) Individualism.
  - D) Power distance.

Answer: B Level: Medium LO: 5

16. What term is used to refer to a cultural aversion to ambiguous situations?
- A) Uncertainty avoidance.
  - B) Masculinity.
  - C) Power distance.
  - D) Individualism.

Answer: A Level: Medium LO: 5

17. A cultural preference for accounting systems that rely on compliance with legal requirements is called:
- A) Professionalism.
  - B) Uniformity.
  - C) Statutory control.
  - D) Optimism.

Answer: C Level: Medium LO: 5

18. Countries such as the U.S. tend to value self-regulation of accounting. What term is used to define this subculture?
- A) Uniformity
  - B) Flexibility
  - C) Conservatism
  - D) Professionalism

Answer: D Level: Medium LO: 5

19. What does “transparency” mean in accounting?
- A) An emphasis on confidentiality
  - B) Restricted disclosure of accounting information
  - C) Flexibility in the application of accounting standards
  - D) Openness of accounting information

Answer: D Level: Easy LO: 5

20. What term is used to describe accounting standards that encourage risk-taking in financial reporting?
- A) Optimism
  - B) Conservatism
  - C) Professionalism
  - D) Transparency

Answer: A Level: Medium LO: 5

21. Which of the following countries tends to have a relatively high degree of transparency in their companies' financial statements?
- A) Germany
  - B) Switzerland
  - C) United Kingdom
  - D) Saudi Arabia

Answer: C Level: Hard LO: 5

22. Which of the following countries tends to show a relatively high preference for conservative accounting standards?
- A) Norway
  - B) United Kingdom
  - C) United States of America
  - D) Japan

Answer: D Level: Hard LO: 5

23. Optimism is a value of accounting standards that would most likely be found in which country?
- A) Japan
  - B) Australia
  - C) Mexico
  - D) Brazil

Answer: B Level: Hard LO: 5

24. In Gray's framework for accounting system development, the cultural dimensions of individualism, power distance, uncertainty avoidance and masculinity directly affect:
- A) accounting systems.
  - B) accounting values.
  - C) external influences.
  - D) institutional consequences.

Answer: B Level: Hard LO: 5

25. Individualism, power distance, uncertainty avoidance, and masculinity are examples of:
- A) accounting values.
  - B) ecological factors.
  - C) cultural dimensions.
  - D) external forces.

Answer: C Level: Medium LO: 5

26. How are the concepts of professionalism, uniformity, conservatism, and secrecy classified in Gray's framework for accounting system development?
- A) Accounting values
  - B) Accounting systems
  - C) Institutional consequences
  - D) Cultural dimensions

Answer: A Level: Medium LO: 5

27. According to Gray's framework for accounting system development, which of the following are directly affected by ecological influences, such as geography, demography, and technology?
- A) Accounting values
  - B) Accounting systems
  - C) Institutional consequences
  - D) Cultural dimensions

Answer: D Level: Hard LO: 5

28. According to Gray's framework for accounting system development, the counterpart to (i.e. opposite of) the value of "secrecy" is:
- A) professionalism.
  - B) transparency.
  - C) optimism.
  - D) flexibility.

Answer: B Level: Medium LO: 5

29. In their 1993 paper, Douppnik and Salter found that countries tended to cluster in terms of the similarities or differences of their accounting systems. These researchers attribute the large cluster around Great Britain to:
- A) the superiority of the Anglo accounting model.
  - B) the predominant influence of Great Britain in the world economy.
  - C) the colonial influence of Great Britain on accounting development.
  - D) the fact that more of the world's people speak English than any other language.

Answer: C Level: Medium LO: 5

30. The 1993 study by Douppnik and Salter found that a cluster of Latin American countries indicated that the similarity of their accounting systems was related to:
- A) a common currency.
  - B) the effect of persistent inflation.
  - C) the colonial influence of Spain.
  - D) the colonial influence of the United States of America.

Answer: B Level: Medium LO: 5

31. It is generally believed that the 1997 financial crisis in East Asia was partly due to accounting factors in that part of the world. Which of the following accounting values was lacking in that part of the world, and thereby contributed to the crisis?
- A) Professionalism
  - B) Statutory control
  - C) Uniformity
  - D) Transparency

Answer: D Level: Hard LO: 2, 5

32. In the Nobes classification of accounting systems, micro-based accounting systems are derived from:
- A) government models.
  - B) business models.
  - C) tax laws.
  - D) code law.

Answer: B Level: Hard LO: 4

33. According to the research of Christopher Nobes, the most relevant factor in determining the purpose of financial reporting is:
- A) the way a country finances businesses.
  - B) religious differences across countries.
  - C) the population of the country.
  - D) the strength of the country's accounting profession.

Answer: A Level: Medium LO: 4

34. According to the research of Christopher Nobes, what is the primary determinant of the accounting systems in developing countries?
- A) The nature of their financing system
  - B) The accounting system of countries that dominate their culture
  - C) The size of their capital market
  - D) The strength of their tax code

Answer: B Level: Medium LO: 4



35. The term “Class A Accounting” as it is used by the researcher Christopher Nobes refers to:
- A) preferred accounting systems.
  - B) the most efficient accounting systems.
  - C) accounting systems that primarily serve external shareholders.
  - D) accounting systems that were developed primarily for creditors and taxing authorities.

Answer: C Level: Medium LO: 6

36. The term “Class B Accounting” as it is used by the researcher Christopher Nobes refers to:
- A) less preferred accounting systems
  - B) less efficient accounting systems.
  - C) accounting systems that primarily serve external shareholders.
  - D) accounting systems that were developed primarily for creditors and taxing authorities.

Answer: D Level: Medium LO: 6

37. Which financial statement is provided by virtually all corporations worldwide?
- A) Statement of Cash Flows
  - B) Statement of Changes in Financial Position
  - C) Balance Sheet
  - D) Statement of Changes in Non-current Assets

Answer: C Level: Medium LO: 7

38. Which of the following statements is NOT universally included in annual reports worldwide?
- A) Balance Sheet
  - B) Cash Flow Statement
  - C) Income Statement
  - D) All of the above statements are included in annual reports worldwide.

Answer: B Level: Easy LO: 7

39. International accounting diversity can be found in terms of:
- A) terminology used in the financial statements.
  - B) the amount of information disclosed in the financial statements.
  - C) the order of items in the financial statements.
  - D) All of the above are evidence of accounting diversity.

Answer: D Level: Easy LO: 7

40. What term is used to refer to the decision about whether to report an item in the financial statements?
- A) Capitalization
  - B) Recognition
  - C) Realization
  - D) Conservatism

Answer: B Level: Easy LO: 7

41. What method of fixed asset valuation would most likely be used in countries that regularly experience high rates of inflation?
- A) Historical cost
  - B) Net realizable value
  - C) Fair value
  - D) Net present value

Answer: C Level: Medium LO: 7

42. Under U.S. GAAP, fixed assets are generally reported on the balance sheet at their:
- A) historical cost.
  - B) net realizable value.
  - C) fair value.
  - D) market value.

Answer: A Level: Easy LO: 7

43. Until 2008 Mexico used which of the following bases for fixed asset valuation?
- A) Historical cost
  - B) Historical cost later restated in terms of GPP
  - C) Current replacement cost
  - D) Net realizable value

Answer: B Level: Hard LO: 7

44. Which country includes a social report in the notes to financial statements?
- A) Japan
  - B) Israel
  - C) Brazil
  - D) Germany

Answer: C Level: Hard LO: 7

45. IFRS allows for which two methods for valuing property, plant and equipment?
- A) Historic cost and general purchasing power
  - B) Historic cost and fair value
  - C) Fair value and general purchasing power
  - D) Fair value and inflation-adjusted

Answer: B Level: Medium LO: 7

46. In terms of level of detail provided in the individual financial statements, the U.S. tends to:
- A) emphasize more line items on the face of the financial statements.
  - B) rely less on footnote disclosure.
  - C) condense the amount of line items and supplement with more footnote detail.
  - D) use footnotes only when absolutely required by GAAP.

Answer: C Level: Medium LO: 7

47. Which of the following is found in a Mexican income statement in the “Comprehensive Financing Result” section?
- A) the depreciation expense on capital leases
  - B) purchasing power gain or loss during inflationary periods
  - C) income taxes
  - D) operating lease rent expense

Answer: B Level: Hard LO: 7

48. In the United States, conformity between financial statement presentation and tax treatment is required only for:
- A) goodwill.
  - B) depreciation.
  - C) gains or losses on securities.
  - D) the use of the LIFO inventory cost flow assumption.

Answer: D Level: Medium LO: 3

49. In some countries, financial accounting and tax accounting are so closely related that there is very little need to account for deferred income taxes. Of the countries listed below, which has a financial accounting system that is most different from its tax laws?
- A) United States of America
  - B) Japan
  - C) Germany
  - D) France

Answer: A Level: Medium LO: 3

50. In some countries, financial institutions operate under Shariah, which also gives guidance about accounting practice in these institutions. What is “Shariah?”
- A) Shariah is the financial accounting standards board in Saudi Arabia.
  - B) Shariah is the law governing human conduct that is derived from the Koran.
  - C) Shariah is the codification of banking regulations in the European Union.
  - D) Shariah is a political system used in South American countries.

Answer: B Level: Medium LO: 5

51. Assets are commonly shown in order of their liquidity, or in reverse order of their liquidity. What does “liquidity” mean?
- A) Liquidity refers to how easily the assets are converted to cash.
  - B) Liquidity means that assets are inflation-adjusted.
  - C) Liquidity refers to whether the asset is depreciable or not.
  - D) Liquidity means that the assets are closely matched to specific liabilities.

Answer: A Level: Easy LO: 7

Chapter 02 - Worldwide Accounting Diversity

52. The “Fair Presentation/Full Disclosure Model” is a classification scheme used by:
- A) Germany
  - B) Japan
  - C) the United States and the United Kingdom
  - D) Brazil

Answer: C Level: Medium LO: 4