Chap001 The Economic and Institutional Setting for Financial Reporting

**True/False**

[QUESTION]

1. The type of analysis that uses financial statements along with industry and macroeconomic data to forecast future stock movements is technical analysis.

Ans: False

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

2. The best source of information about a company’s current health and prospects for the future is the company’s financial statements.

Ans: True

LO: 1

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

3. One factor that considerably affects the ease with which users employ financial reports is that accounting is an exact science.

Ans: False

LO: 1

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

4. All economic events and activities that affect a company are reflected in a company’s financial statements.

Ans: False

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

5. Investors are uncertain about the quality of each company’s debt or equity offerings because the ultimate return from the security depends on the company’s past performance which is difficult to accurately measure.

Ans: False

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

6. Investors are uncertain about the quality of each company’s debt or equity offerings because the ultimate return from the security depends on future events.

Ans: True

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

7. Taxing authorities sometimes use financial statement information as a basis for establishing tax rules to match accounting rules.

Ans: False

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

8. Investors use financial statements as an analytical tool.

Ans: True

LO: 3

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

9. Sales value of a company’s assets minus its debt owed is a company’s liquidation value.

Ans: True

LO: 1

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

10. The ability to raise additional cash by selling assets, issuing stock, or borrowing more is financial flexibility.

Ans: True

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

11. *Information symmetry* means that management has access to more and better information about the business than do people outside the company.

Ans: False

LO: 1

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

12. Contracts often contain language that refers to financial statement numbers.

Ans: True

LO: 1

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

13. Investors who follow a *fundamental analysis approach* determine the value the company’s assets would yield if sold individually.

Ans: False

LO: 2

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Resource management

Bloom’s: Knowledge

[QUESTION]

14. Companies judged to be high credit risks may be subject to loan covenants.

Ans: True

LO: 2

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Resource management

Bloom’s: Knowledge

[QUESTION]

15. Security analysts are among the most important users of financial statements.

Ans: True

LO: 3

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

16. Because financial fraud is rare, investors and other users of financial statements can safely accept the numbers in financial statements at face value.

Ans: False

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

17. The SEC passed Regulation Fair Disclosure (Reg FD) to ensure that financial statement users have access to all the financial information they need to make decisions.

Ans: False

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

18. Regulators of industries granted monopoly privileges use financial statement data in setting allowable charges for the services these industries provide.

Ans: True

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

19. All financial statements provide a basis for what might occur in the future.

Ans: True

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

20. Various trends and relationships that can be gleaned from a company’s financial statements provide insights into a company’s economic opportunities and risks.

Ans: True

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

21. All of the information needed by professional analysts to give a complete picture of a company is found in the published financial statements.

Ans: False

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

22. Owners and managers have an economic incentive to supply the amount and type of financial information that will enable the company to raise capital at the lowest cost.

Ans: True

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Resource management

Bloom’s: Knowledge

[QUESTION]

23. Accounting improprieties are sometimes designed to meet the expectations and financial targets of Wall Street analysts.

Ans: True

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

24. Besides assessing the general reasonableness of reported numbers in relation to the company’s activities, industry conditions, and business climate, when designing audit procedures the company’s auditor must also assess fraud risk factors that may be present.

Ans: True

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Risk analysis

Bloom’s: Comprehension

[QUESTION]

25. Financial statements are crucial in investment decisions that use **fundamental analysis** to identify mispriced securities (i.e., securities selling for more or less than they seem to be worth).

Ans: True

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

26. Suppliers monitor the financial statements of their customers to protect collection of their accounts receivable.

Ans: True

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

27. An understanding of management’s reporting incentives is sufficient to enable auditors to recognize vulnerable areas where financial reporting abuses are likely to occur.

Ans: False

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Risk analysis

Bloom’s: Comprehension

[QUESTION]

28. Highly profitable but politically vulnerable firms have an incentive to make themselves appear less profitable than they really are.

Ans: True

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Comprehension

[QUESTION]

29. Financial information capable of making a difference in a decision is relevant.

Ans: True

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

30. For information to be relevant it must possess either predictive value or confirmatory value.

Ans: True

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

31. The “quality of information” as applied to financial reporting refers to the degree to which financial statements are grounded in facts and sound judgments and thus are free from distortion.

Ans: True

LO: 1

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

32. The role of financial accounting information is to facilitate economic transactions and to foster efficient allocation of resources among businesses and individuals.

Ans: True

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

33. Financial reports provide information that can reduce investors’ uncertainty about the company’s opportunities and risks, thereby raising the company’s cost of capital.

Ans: False

LO: 1

Difficulty: Medium

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

34. Timeliness is a qualitative characteristic of accounting information that indicates that information should be provided to users before statutory deadlines.

Ans: False

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

35. Using the same accounting methods for a company to record and report similar events from period to period demonstrates faithful representation.

Ans: False

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

36. *Comparability* across companies allows analysts to identify real economic similarities in and differences between underlying economic events because those similarities or differences are not obscured by accounting methods or disclosure practices.

Ans: True

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

37. Management has a responsibility to ensure that the company’s financial information is properly classified, characterized, and presented clearly and concisely in order to make it understandable.

Ans: True

LO: 4

Difficulty: Easy

AACSB: Analytic

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

38. Managers are the stewards of the company’s resources and thus responsible for their efficient use and for protecting them from adversity.

Ans: True

LO: 1

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

39. A mispriced security is a stock or bond that is selling for substantially more—or less—than it seems to be worth.

Ans: True

LO: 2

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

40. Fundamental investors buy undervalued stocks and avoid buying overvalued stocks.

Ans: True

LO: 2

Difficulty: Medium

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

41. To efficient market investors, financial statement data provide a basis for assessing risk, dividend yield, or other firm attributes that are important to portfolio selection decisions.

Ans: True

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

42. When earnings and share price fall below acceptable levels, dissident shareholders may launch a proxy contest to elect their own slate of directors at the next annual meeting.

Ans: True

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

43. Executive compensation contracts seldom contain annual bonus and longer term pay components tied to financial statement results, but instead usually rely on stock options as a means to reward managers in a manner that is less subject to manipulation by management.

Ans: False

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

44. Employees demand financial information to monitor the health of company-sponsored pension plans.

Ans: True

LO: 2

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

45. Lenders monitor financial statement data to ascertain whether borrowers are adhering to, or violating, loan covenants.

Ans: True

LO: 2

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

46. Suppliers assess the financial strength of their customers to determine whether they will be paid for goods shipped.

Ans: True

LO: 2

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

47. Financial statement information can help customers monitor a supplier’s manufacturing processes and thus evaluate the quality of its products.

Ans: False

LO: 2

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

48. Broadly defined, the term “analyst” includes anyone who uses financial statements to make decisions as part of their job.

Ans: True

LO: 2

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

49. Companies have an economic incentive to supply the information investors want.

Ans: True

LO: 3

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

50. The efficient markets hypothesis says that any new development is quickly reflected in a firm’s stock price.

Ans: True

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

51. According to the full disclosure principle, companies create a competitive advantage when they report:

* Details about the company’s strategies, plans and tactics.
* Information about the company’s technological and managerial innovations.
* Detailed information about the company’s operations.

Ans: False

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPABB : Critical Thinking

Bloom’s: Comprehension

[QUESTION]

52. Firms weigh the benefits they may gain from financial disclosures against the costs they incur in making those disclosures.

Ans: True

LO: 3

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

53. Some capital providers possess enough bargaining power to allow them to compel companies to deliver the financial information they need for analysis.

Ans: True

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Comprehension

[QUESTION]

54. When a company’s financial instruments are perceived to be of low quality, there is a cost to the company in the form of lower proceeds from issuing stock or higher interest rates when it borrows funds.

Ans: True

LO: 3

Difficulty: Medium

AACSB: Analytic

AICPA BB: Resource Management

Bloom’s: Knowledge

[QUESTION]

55. Because financial disclosures are regulated, owners and managers have little economic incentive to supply the amount and type of financial information that will enable them to raise capital most cheaply.

Ans: False

LO: 3

Difficulty: Medium

AACSB: Analytic

AICPA BB: Resource Management

Bloom’s: Comprehension

[QUESTION]

56. Politically vulnerable firms with high earnings (like oil companies) are often attacked in the financial and popular media, which alleges that those earnings are evidence of anticompetitive business practices.

Ans: True

LO: 3

Difficulty: Medium

AACSB: Analytic

AICPA BB: Industry

Bloom’s: Comprehension

[QUESTION]

57. Because the supply of financial information is guided by the costs of producing and disseminating it and the benefits it will provide to the company, regulatory groups have little influence over the amount and type of financial information that companies disclose.

Ans: False

LO: 3

Difficulty: Medium

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

58. The SEC issued regulation FD to help level the playing field between individual and institutional investors.

Ans: True

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

59. Financial reporting regulatory requirements are designed to ensure that companies meet certain minimum levels of financial disclosure.

Ans: True

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

60. When a company restates its financial statements due to some accounting irregularity, shareholder lawsuits are often filed against the company and its management.

Ans: True

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Legal

Bloom’s: Comprehension

[QUESTION]

61. Fair value accounting is widely touted as a means to avoid future financial crises as it will prevent banks from collapsing.

Ans: False

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

62. Under certain circumstances, it is permissible to issue financial statements that contain a material departure from GAAP.

Ans: True

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

63. The convention in accounting that strives to ensure business risks and uncertainties are adequately reflected in the financial statements is conservatism.

Ans: True

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

64. The degree to which the accounting actually represents the underlying economic events is faithful representation.

Ans: True

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA: Critical Thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

65. GAAP frequently requires financial statement users to accept a compromise that favors reliability over faithful representation.

Ans: True

LO: 4

Difficulty: Medium

AACSB: Analytic

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

66. Companies can smooth reported income by strategically timing the recognition of revenue and expenses to dampen the normal ups and downs of business activity.

Ans: True

LO: 4

Difficulty: Medium

AACSB: Analytic

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

67. Although the SEC has the legal authority to set accounting principles in the U.S., it has looked to private-sector organizations (e.g., the FASB) to establish and enforce these principles.

Ans: False

Feedback: The SEC retains enforcement authority over financial reporting in the U.S.

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Legal

Bloom’s: Knowledge

[QUESTION]

68. Generally accepted accounting principles are set by the Securities and Exchange Commission.

Ans: False

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Legal

Bloom’s: Knowledge

[QUESTION]

69. The Financial Accounting Standards Board has the sole responsibility for setting generally accepted auditing standards.

Ans: False

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

70. Management has considerable discretion over the particular accounting procedures used in the statements and over the details contained in supplemental footnotes and related disclosures.

Ans: True

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPABB: Measurement

Bloom’s: Comprehension

[QUESTION]

71. GAAP financial reports in the U.S. are intended to reflect the economic condition and performance of the reporting entity.

Ans: True

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

72. Companies can change accounting methods, but the changes are restricted to situations where it can be persuasively argued that the newly adopted accounting method is preferable to the old one.

Ans: True

LO: 4

Difficulty: Medium

AACSB: Analytic

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

73. Financial statements follow rigid guidelines that require adherence to specific procedures.

Ans: False

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

74. The network of conventions, rules, guidelines, and procedures used by the accounting profession is known as generally accepted auditing standards.

Ans: False

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

75. The accounting standards codification was created by the IASB to harmonize U.S. and international GAAP.

Ans: False

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical thinking

Bloom’s: Knowledge

[QUESTION]

76. Accounting standard-setting in the U.S. is a technical process and thus little affected by political considerations.

Ans: False

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Legal

Bloom’s: Comprehension

[QUESTION]

77. In the United States, the accounting rules that businesses use for external financial reporting purposes differ from the accounting rules required for taxation purposes.

Ans: True

LO: 5

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

78. Some countries’ philosophy of financial reporting differs from GAAP because their financial reports are required to conform to tax law.

Ans: True

LO: 5

Difficulty: Medium

AACSB: Diversity

AICPA BB: Legal

Bloom’s: Comprehension

[QUESTION]

79. While until recently accounting standards were developed by home-country organizations for use by domestic companies, countries in (at least) the European Union based their standards on a common philosophy and shared financial reporting objectives.

Ans: False

LO: 5

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

80. For years, two widely divergent financial reporting approaches existed in the world (the economic performance approach and the commercial and tax law approach).

Ans: True

LO: 5

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

81. In countries where capital is typically provided by a broad base of external investors, financial reporting practices tend to be different from those found in countries where capital is primarily provided by banks or the government.

Ans: True

LO: 5

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

82. A major factor underlying the rise of IFRS is that companies needing to seek global sources of capital are at a disadvantage when they only produce financial statements based on the commercial and tax law approach.

Ans: True

LO: 5

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global, Resource management

Bloom’s: Knowledge

[QUESTION]

83. Currently, publicly traded companies located in the European Union must adopt IFRS for financial reporting in consolidated statements.

Ans: True

LO: 6

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

84. IFRS consists of a set of rigid standards that are now in use in over 100 countries worldwide.

Ans: False

LO: 6

Difficulty: Easy

AACSB: Diversity

AICPA: Global

Bloom’s: Knowledge

[QUESTION]

85. The IASB and FASB are working together to develop a single set of high-quality, compatible accounting standards that can be used for both domestic and cross-border financial reporting.

Ans: True

LO: 6

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

86. Foreign companies registered with the SEC that use IFRS no longer have to reconcile their financial statements to U.S. GAAP.

Ans: True

LO: 6

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

87. Compared to U.S. GAAP, IASB standard generally allow firms more latitude.

Ans: True

LO: 6

Difficulty: Easy

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

88. IFRS often permits different accounting treatments for similar business transactions and events.

Ans: True

LO: 6

Difficulty: Easy

AACSB: Diversity

AICPA BB: Global

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

89. IFRS are frequently much more detailed than their U.S. GAAP counterpart standards.

Ans: False

LO: 6

Difficulty: Easy

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

90. U.S. GAAP has been criticized as being too “rules-based” thus allowing managers to invent “loopholes” that conform to the letter of a standard but simultaneously violate its spirit.

Ans: True

LO: 6

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

91. The FASB endeavors to draft pronouncements that clearly identify the accounting objective, explain the accounting principle(s) being applied, avoid bright-line rules, and provide enough implementation guidance for consistent application.

Ans: True

LO: 6

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

92. The goal of the growing movement toward international convergence of accounting standards is a single set of accounting standards accepted worldwide and superior to the choices presently available.

Ans: True

LO: 6

Difficulty: Easy

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

93. U.S. GAAP and IFRS are both grounded in the same economic performance philosophy.

Ans: True

LO: 6

Difficulty: Easy

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

**Multiple Choice**

[QUESTION]

94. A company’s financial statements reflect information about

a. future projections of sales, expenses, and other future economic events.

b. product information and competitive positions.

c. the general economy of the industry in which the company operates.

d. economic events that affect a company that can be translated into accounting numbers.

Ans: d

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

95. All financial statements:

a. provide a picture of the company at a moment in time.

b. describe changes that took place over a period of time.

c. help to evaluate what happened in the past.

d. contain the most up to date information about the company.

Ans: c

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

96. A firm’s financial statements contain trends that give users insight into the firm’s

a. future market share.

b. position within its industry.

c. profitability, productivity, and liquidity.

d. current market price for common and preferred stock.

Ans: c

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

97. The ability to raise additional cash by selling assets, issuing stock, or borrowing more is

a. financial flexibility.

b. a credit risk indicator.

c. a stock price predictor.

d. one way to project earnings.

Ans: a

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Resource management

Bloom’s: Knowledge

[QUESTION]

98. Creditors assess credit risk by comparing a firm’s required principal and interest payments to estimates of the firm’s current and future

a. net assets.

b. gross income.

c. net income.

d. cash flows.

Ans: d

LO: 2

Difficulty: Medium

AACSB: Analytic

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

99. Professional analysts need information on a company’s future earnings and cash flow to evaluate audit vulnerabilities, to assess debt repayment prospects and to

a. certify good values in the stock market.

b. indemnify creditors against losses.

c. certify that no fraud exists in the company.

d. value its equity securities.

Ans: d

LO: 1

Difficulty: Medium

AACSB: Analytic

AICPA BB: Industry

Bloom’s: Knowledge

[QUESTION]

100. The costs of providing financial information is ultimately borne by

a. management.

b. shareholders.

c. auditors.

d. professional analysts.

Ans: b

LO: 3

Difficulty: Medium

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

101. Companies that have projected operating cash flows that are more than sufficient to meet debt payments are

a. financially flexible.

b. good credit risk companies.

c. undervalued.

d. overvalued.

Ans: b

LO: 2

Difficulty: Medium

AACSB: Analytic

AICPA BB: Resource management

Bloom’s: Comprehension

[QUESTION]

102. Investors who compare a firm’s discounted future cash flows to the current market price of a stock are using the

a. efficient market hypothesis.

b. market-to-market approach.

c. fundamental analysis approach.

d. technical analysis approach.

Ans: c

LO: 1

Difficulty: Medium

AACSB: Analytic

AICPA BB: Resource Management

Bloom’s: Comprehension

[QUESTION]

103. A company’s financial statements can be used for all of the following purposes **except**

a. as a scorecard on the company’s social responsibility.

b. as a management report card.

c. as an early warning signal.

d. as a measure of accountability.

Ans: a

LO: 1

Difficulty: Medium

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

104. The market analysis known as *fundamental* analysis

a. predicts future trends in the financial drivers of a company’s success or failure.

b. relies on price and volume movement of stock.

c. has no insights about company value beyond current market price.

d. uses microeconomic data to forecast stock values.

Ans: a

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Resource management

Bloom’s: Comprehension

[QUESTION]

105. Investors who follow a fundamental analysis approach

a. determine the value the company’s assets would yield if sold individually.

b. estimate the value of a stock by assessing the amount, timing, and uncertainty of future cash flows that will accrue to the issuing company.

c. assess the company’s ability to meet its debt-related financial obligations.

d. assess the company’s ability to raise additional cash by selling assets, issuing stock, or borrowing more.

Ans: b

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Resource management

Bloom’s: Comprehension

[QUESTION]

106. Analytical review procedures include all of the following **except**

a. simple ratio and trend analysis.

b. complex statistical techniques.

c. general reasonableness tests.

d. comparison of the company’s reported financial results to benchmarks established by the SEC.

Ans: d

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

107. Relevant financial information

a. is free from bias and error.

b. is measured in a similar manner among different companies.

c. can be independently verified.

d. is capable of making a difference in a decision.

Ans: d

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

108. To achieve faithful representation, the financial information must be

a. consistent, unbiased, and relevant.

b. relevant, comparable, and timely.

c. relevant, consistent, and timely.

d. complete, neutral, and free from material error.

Ans: d

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

109. Financial information that is provided to decision makers before it loses its capacity to influence their decisions is

a. neutral.

b. verifiable.

c. timely.

d. consistent.

Ans: c

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

110. Financial information that does **not** favor one set of interested parties over another is

a. relevant.

b. verifiable.

c. neutral.

d. faithfully represented.

Ans: c

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

111. When independent measurers get similar results when using the same accounting measurement methods, the financial information is

a. relevant.

b. verifiable.

c. timely.

d. faithfully represented.

Ans: b

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

112. Being verifiable and neutral is part of what makes financial information

a. useful.

b. consistent.

c. comparable.

d. relevant.

Ans: a

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

113. If a company fails to disclose information about a lawsuit because it might be embarrassing to the company, it is violating

a. relevance.

b. verifiability.

c. neutrality.

d. timeliness.

Ans: c

LO: 4

Difficulty: Hard

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

114. Financial information capable of making a difference in a decision is

a. relevant.

b. verifiable.

c. consistent.

d. neutral.

Ans: a

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

115. Business enterprises enter into many different types of contracts. Examples of such contracts that often contain language that refers to verifiable financial statement numbers include all of the following **except**

a. royalty contracts with inventors.

b. sales contracts with customers.

c. compensation contracts with managers.

d. debt contracts with bankers.

Ans: b

LO: 1

Difficulty: Medium

AACSB: Analytic

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

116. The type of analysis that uses financial statements to assess valuation of current market price is

a. valuation analysis.

b. efficient market analysis.

c. fundamental analysis.

d. technical analysis.

Ans: c

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Resource management

Bloom’s: Comprehension

[QUESTION]

117. When financial statements are used to evaluate the performance of a company’s top executives it is referred to as the \_\_\_\_\_\_\_\_\_\_\_\_\_ function of financial reports.

a. proxy.

b. fundamental.

c. technical.

d. stewardship.

Ans: d

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Resource management

Bloom’s: Comprehension

[QUESTION]

118. Investors who presume that they have no insights about company value beyond the current market price and use financial statement data to assess firm-specific variables believe in the

a. market-to-market hypothesis.

b. efficient market hypothesis.

c. fundamental market hypothesis.

d. technical market hypothesis.

Ans: b

LO: 2

Difficulty: Medium

AACSB: Analytic

AICPA BB: Resource management

Bloom’s: Comprehension

[QUESTION]

119. The amounts of executive compensation and bonuses are often determined by

a. auditor’s recommendations.

b. evaluations by subordinates.

c. company contracts.

d. industry guidelines.

Ans: c

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

120. Employees demand financial statement information because the firm’s performance is often linked to all of the following **except**

a. negotiated increases in union contracts.

b. social security benefits.

c. pension plan benefits.

d. employee profit sharing.

Ans: b

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

121. When a borrower violates a loan covenant that requires minimum achievement of an accounting measure in the financial statements, the lender can

a. immediately seize the loan collateral.

b. fire the chief operating officer of the borrower.

c. report the borrower to the IRS.

d. call for immediate repayment of the loan.

Ans: d

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Resource management

Bloom’s: Knowledge

[QUESTION]

122. Investors and analysts are sometimes urged to ignore traditional GAAP numbers and instead focus on nonstandard “pro forma” numbers because

a. the political compromises made to achieve consensus when issuing FASB pronouncements lead to inaccurate portrayals of underlying events.

b. management believes the pro forma numbers portray the company in a better light.

c. the pro forma numbers are closer to those reported under international reporting standards.

d. pro forma numbers are easier to understand.

Ans: b

LO: 1

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

123. GAAP’s goals are to ensure that financial statements

a. do not contain any representation that could jeopardize management.

b. provide stockholders all of the information they need to assess management’s performance.

c. are accurate and free from fraud.

d. clearly reflect the economic condition and performance of the company.

Ans: d

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

124. Timeliness is a qualitative characteristic of accounting information that indicates that information should be provided to users

a. within one month after the close of the books.

b. before it loses its capacity to influence their decisions.

c. before statutory deadlines.

d. every month.

Ans: b

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

125. Which one of the following types of disclosure costs is the cost of disclosing the company’s pricing strategies?

a. Political cost

b. Litigation cost

c. Competitive disadvantage cost

d. Information collection, processing, and dissemination cost

Ans: c

LO: 3

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

126. If the financial reporting environment were unregulated, disclosure would occur voluntarily

a. as long as other companies in the reporting company’s industry voluntarily disclosed financial information.

b. only to analysts that the company believes will report favorably on the company’s prospects.

c. only when managers wanted to raise additional capital.

d. as long as the incremental benefits to the company from supplying financial information exceeded the incremental costs of providing the information.

Ans: d

LO: 3

Difficulty: Medium

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

127. Companies offering higher risk securities have incentives to mask their true condition by

a. supplying overly optimistic financial information.

b. not having their financial statements audited.

c. listing on foreign exchanges where reporting requirements are less stringent than those in the U.S.

d. including testimonials from well known executives in their financial statements.

Ans: a

LO: 3

Difficulty: Medium

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

128. One financial disclosure cost is the possibility that competitors may use the information to harm the company providing the disclosure. All of the following disclosures might create a competitive disadvantage **except**

a. detailed information about company operations, such as sales and cost figures for individual product lines.

b. information about the company’s technological and managerial innovations.

c. information on the company’s level of spending on research and development.

d. details about the company’s strategies, plans and tactics.

Ans: c

LO: 3

Difficulty: Medium

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

129. It is common for shareholders to initiate litigation when

a. the company reports record profits, but does not declare dividends.

b. there’s a sudden drop in stock price.

c. the company introduces new products that are found to be harmful to the environment.

d. rumors about the company appear in the media that, if true, would result in slower growth in future profits.

Ans: b

LO: 3

Difficulty: Hard

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

130. Using the same accounting methods to record and report similar events from period to period demonstrates

a. consistency.

b. comparability.

c. neutrality.

d. faithful representation.

Ans: a

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

131. Which one of the following has statutory authority to determine accounting rules?

a. American Institute of Certified Public Accountants

b. State Boards of Accountancy

c. Securities and Exchange Commission

d. Financial Accounting Standards Board

Ans: c

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA BB: Legal

Bloom’s: Knowledge

[QUESTION]

132. The growth of global investing has spurred development of worldwide accounting standards that are written by the

a. American Institute of Certified Public Accountants.

b. Institute of Global Auditors.

c. Global Committee on Accounting Standards.

d. International Accounting Standards Board.

Ans: d

LO: 4

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

133. The organization responsible for establishing auditing standards and inspecting and investigating auditing practices of public accounting firms is

a. Congress under the authority of the Sarbanes-Oxley Act (SOX).

b. the American Institute of Certified Public Accountants (AICPA).

c. the Securities and Exchange Commission (SEC).

d. the Public Company Accounting Oversight Board (PCAOB).

Ans: d

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

134. In 2009, the FASB completed a five-year effort to distill the existing GAAP literature into a single database known as

a. the accounting standards database.

b. international financial reporting standards.

c. the converged accounting standards.

d. the accounting standards codification.

Ans: d

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Research

Bloom’s: Knowledge

[QUESTION]

135. The ASC uses a structure in which the FASB’s authoritative accounting guidance is organized into all of the following **except**

a. chapters.

b. topics.

c. sections.

d. paragraphs.

Ans: a

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Research

Bloom’s: Knowledge

[QUESTION]

136. ASC content is organized

a. alphabetically by topic.

b. in chronological order based on the issue date of the major pronouncement on which the content is based.

c. without regard to the original standard from which the content was derived.

d. in the manner prescribed by the IASB.

Ans: c

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Research

Bloom’s: Knowledge

[QUESTION]

137. GAAP’s flexibility in its reporting standards allows companies to

a. smooth reported earnings over several reporting periods.

b. change accounting estimates to meet target sales or earnings.

c. change accounting principles to improve reported earnings.

d. avoid adopting specific accounting techniques and reporting procedures.

Ans: a

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Comprehension

[QUESTION]

138. Financial statements follow

a. rigid guidelines that require specific adherence to regulated procedures.

b. generally accepted guidelines that allow management to choose among different procedures.

c. general guidelines with little choice among different procedures.

d. legal requirements for uniform presentation and disclosure.

Ans: b

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

139. A company manages a large portfolio of marketable securities and sells only stocks with substantial gains in poor income years or sells only stocks with substantial losses in good income years. This strategy is an indication of

a. securities fraud.

b. unstable portfolio management.

c. income smoothing.

d. violating security trading laws.

Ans: c

LO: 4

Difficulty: Medium

AACSB: Analytic

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

140. Identify the correct order of the three steps constituting the FASB’s “due process” procedure.

a. Public-hearing stage, exposure-draft stage, and voting stage.

b. Discussion-memorandum stage, public-hearing stage, and voting stage.

c. Exposure-draft stage, discussion-memorandum stage, and voting stage.

d. Discussion-memorandum stage, exposure-draft stage, and voting stage.

Ans: d

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Legal

Bloom’s: Knowledge

[QUESTION]

141. The Securities and Exchange Act of 1934 required all publicly traded firms to

a. purchase insurance against corporate bankruptcy.

b. register with an authorized stock exchange.

c. provide annual financial statements audited by independent accountants.

d. file balance sheets, income statements, and statements of cash flow with the SEC each year.

Ans: c

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Legal

Bloom’s: Knowledge

[QUESTION]

142. The Financial Accounting Standards Board has responsibility for the establishment of U. S. accounting standards and

a. full statutory power to enforce compliance with GAAP.

b. authority from the SEC to enforce compliance with GAAP.

c. no authority or responsibility to enforce compliance with GAAP.

d. responsibility imposed by AICPA to enforce compliance with GAAP.

Ans: c

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Legal

Bloom’s: Knowledge

[QUESTION]

143. When financial information is measured and reported in a similar manner across different companies in the same industry it is

a. consistent.

b. comparable.

c. neutral.

d. faithfully represented.

Ans: b

LO: 4

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Knowledge

[QUESTION]

144. When a company changes from straight-line to the declining balance method of accounting for depreciation, the financial statements lack

a. comparability.

b. consistency.

c. neutrality.

d. faithful representation.

Ans: b

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

145. The network of conventions, rules, guidelines, and procedures used by the accounting profession is known as generally accepted

a. auditing standards.

b. accounting procedures.

c. accounting principles.

d. auditing principles.

Ans: c

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

146. When a financial statement contains omissions or misstatements that would alter the judgment of a reasonable person, it violates

a. neutrality.

b. consistency.

c. conservatism.

d. materiality.

Ans: d

LO: 4

Difficulty: Easy

AACSB: Reflective thinking

AICPA FN: Measurement

Bloom’s: Knowledge

[QUESTION]

147. Some countries’ philosophy of financial reporting differs from U.S. GAAP because their financial reports are required to

a. be verifiable.

b. conform to tax and/or commercial law.

c. be reported and measured in a similar manner across companies.

d. use the same accounting methods for similar events period to period.

Ans: b

LO: 5

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

148. Differences between IFRS and U.S. GAAP include all of the following **except**

a. Reversal of inventory write-downs.

b. Extraordinary items.

c. Lease capitalization.

d. Research and development costs.

Ans: c

LO: 5

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

149. Financial reporting philosophies differ across countries. These philosophies evolve from and reflect several factors including all of the following **except**

a. the language(s) spoken in the country.

b. the specific political institutions within the country.

c. the specific financial institutions within the country.

d. the country’s social customs.

Ans: a

LO: 5

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

150. Companies needing to access new and ever larger sources of capital in response to increased international competitiveness face a severe disadvantage if their financial reporting

a. is in accordance with IFRS.

b. is in accordance with U.S. GAAP.

c. is based on a commercial and tax law approach.

d. is based on an economic performance approach.

Ans: c

LO: 5

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global, Resource management

Bloom’s: Comprehension

[QUESTION]

151. International accounting rules are currently established by the

a. IASC.

b. IASB.

c. FASB.

d. PCAOB.

Ans: b

LO: 6

Difficulty: Easy

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

[QUESTION]

152. IFRS frequently

a. upon issue are automatically approved for any foreign listed company.

b. permit only one accounting treatment for similar business transactions and events to promote comparability.

c. allow firms less latitude when compared to U.S. GAAP.

d. follow a more generalized overview approach than do U.S. GAAP counterpart standards.

Ans: d

LO: 6

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Comprehension

[QUESTION]

153. IFRS are

a. built on broad principles.

b. rules-based.

c. narrowly defined, detailed standards.

d. seldom different than those issued by the FASB.

Ans: a

LO: 6

Difficulty: Easy

AACSB: Diversity

AICPA: Global

Bloom’s: Knowledge

[QUESTION]

154. Which of the following statements regarding IFRS is **incorrect**?

a. All companies listed on the London Stock Exchange must use IFRS.

b. The SEC-required Form 20-F must be filed with the SEC by foreign issuers within 30 days.

c. The European Commission must “endorse” IFRS for required use by EU companies.

d. The SEC has expressed concern that transitioning to IFRS might be prohibitively expensive and might lessen U.S. influence over standard setting.

Ans: b

LO: 6

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global

Bloom’s: Knowledge

**Essay Questions**

[QUESTION]

155. Stock markets are common in many countries and economies. Explain the need for and use of a stock market in an economy.

Ans: A stock market enables an efficient allocation of capital. It serves as a market place for buyers and sellers to meet and provides liquidity.

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

156. A tremendous amount of time, money, and effort are spent on the compilation of quarterly and yearly financial reports. Correspondingly, they attract a lot of attention and scrutiny. Explain the role and importance of financial reports in capital markets.

Ans: Financial reports provide relevant information on companies’ financial condition and performance to current and potential stakeholders; this, in turn, facilitates efficient decision making.

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

157. Financial reporting is arguably one of the most heavily regulated areas of business activity. Provide the main reasons why accounting information is so heavily regulated. In your answer try to address the intended consequences of such regulation.

Ans: Accounting information is regulated with the intention of increasing efficiency, preventing market failure, and preventing abuse given that the incentives of information producers are not necessarily aligned with those of users. Regulation also promotes reliability and comparability.

LO: 2

Difficulty: Medium

AACSB: Reflective thinking

AICPA BB: Critical Thinking

Bloom’s: Comprehension

[QUESTION]

158. Briefly explain the forces behind the rise of IFRS.

Ans: Global economic expansion fueled a need for companies to access new and ever larger sources of capital. Global capital formation, however, is hampered when significant financial reporting variation exists as potential investors find it hard to compare the risks and potential rewards of investment alternatives in different countries. The IASB intends to solve this problem by issuing high quality, understandable, enforceable, and globally accepted international financial reporting standards.

LO: 6

Difficulty: Medium

AACSB: Diversity

AICPA BB: Global, Resource management

Bloom’s: Comprehension