

1. Award: 10.00 points

The primary focus of financial accounting is on the financial information provided to present and potential investors and creditors.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

2. Award: 10.00 points

Financial reporting refers to the process of providing information to internal and external users.

- True
- False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

3. Award: 10.00 points

The capital markets provide a mechanism to help our economy allocate resources efficiently and are comprised of all investors and creditors.

- True
- False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

4.

Award: 10.00 points

The rate of return generated on the purchase of stock is calculated as the sum of the dividends and share price appreciation divided by the amount of the initial investment.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

5.

Award: 10.00 points

Accrual accounting attempts to measure revenues and expenses that occurred during accounting periods so they equal net operating cash flow.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

6.

Award: 10.00 points

The FASB is currently the public-sector organization responsible for setting accounting standards in the United States.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

7. Award: 10.00 points

The FASB's due process invites various interested parties to indicate their opinions about whether financial accounting standards should be changed.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

8. Award: 10.00 points

Accounting for stock-based compensation is an area in which the FASB has received little political interference.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

9.

Award: 10.00 points

The Public Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) changed the entity responsible for regulating auditors and the types of non-audit services they furnish to clients.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

10.

Award: 10.00 points

A rules-based approach to standard-setting stresses professional judgment as opposed to following a list of rules.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

11.

Award: 10.00 points

Under federal securities laws, the SEC has the authority to set accounting standards in the United States.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

12.

Award: 10.00 points

The primary responsibility for properly applying GAAP when communicating with investors and creditors through financial statements lies with a firm's auditors.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

13. Award: 10.00 points

Auditors play an important role in the resource allocation process by adding credibility to financial statements.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

14. Award: 10.00 points

The purpose of the conceptual framework is to provide a structure and framework for a consistent set of GAAP.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

15.

Award: 10.00 points

In the United States, the conceptual framework indicates GAAP when a more specific accounting standard does not apply.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

16.

Award: 10.00 points

Materiality can be affected by the dollar amount of an item, the nature of the item, or both.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

17.

Award: 10.00 points

According to the FASB's Statements of Financial Accounting Concepts, conservatism is a desired qualitative characteristic of accounting information.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

18.

Award: 10.00 points

Equity is the residual interest in the assets of an entity that remains after deducting its liabilities.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

19.

Award: 10.00 points

Revenues are inflows or other enhancements of assets of an entity or settlements of its liabilities during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

20. Award: 10.00 points

Gains or losses result, respectively, from the disposition of business assets for greater than, or less than, their book values.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

21.

Award: 10.00 points

Comprehensive income is another term for net income.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

22. Award: 10.00 points

The FASB's conceptual framework lists relevance and timeliness as the two fundamental qualitative characteristics of decision-useful information.

- True
- False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

23. Award: 10.00 points

The monetary unit assumption requires that items in financial statements be measured in a particular monetary unit.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

24. Award: 10.00 points

The periodicity assumption requires that present value calculations take into account the number of compounding periods in each year.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

25. Award: 10.00 points

Determining fair value by calculating the present value of future cash flows is a level 1 type of input.

- True
- False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

26. Award: 10.00 points

Current cost is **not** one of the measurement attributes employed in GAAP.

- True
- False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

27.

Award: 10.00 points

The FASB's framework for measuring fair value doesn't change the situations in which fair value is used under current GAAP.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

28. Award: 10.00 points

The revenue/expense approach emphasizes determining the appropriate amounts of revenue and expense in each reporting period.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

29. Award: 10.00 points

The asset/liability approach emphasizes matching to determine what assets and liabilities should be reflected on the balance sheet.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

30. Award: 10.00 points

In IFRS, the conceptual framework indicates appropriate accounting when a more specific accounting standard does not apply.

→ True

False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

31.

Award: 10.00 points

Political pressure never affects the IFRS standard-setting process.

True

→ False

References

True / False

Difficulty: 1 Easy

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

32. Award: 10.00 points

External decision makers would **not** look primarily to financial accounting information to assist them in making decisions relating to:

- Making loans to the company.
- Estimates of the potential for future profits.
- Compensation of company executives.
- The purchase of stocks and bonds.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

33. Award: 10.00 points

The primary focus for financial accounting information is to provide information useful for:

	Investing decisions	Credit decisions
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

- Option c
- Option a
- Option b
- Option d

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

34. Award: 10.00 points

Which of the following groups is **not** among the external users for whom financial statements are prepared?

- Customers, suppliers, and employees are all external users of financial statements
- Employees
- Suppliers
- Customers

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

35. Award: 10.00 points

Which of the following is **not** true about net operating cash flow?

- It is a measure used in accrual accounting and is recognized as the best predictor of future operating cash flows.
- It is the difference between cash receipts and cash disbursements from providing goods and services.
- Over short periods, it may not be indicative of long-run cash-generating ability.
- It is easy to understand and all information required to measure it is factual.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

36. Award: 10.00 points

Which of the following groups is **not** among financial intermediaries?

- Financial analysts
- CPAs
- Credit rating organizations
- Mutual fund managers

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

37.

Award: 10.00 points

An investor provides a company with \$105,000 of cash by purchasing stock at the end of 2022, receives \$1,800 of dividends from the company during 2023, and sells the ownership interest at the end of 2023 for \$122,100. What is the rate of return that will be generated for 2023?

- Cannot be determined from the information supplied.
- 17%
- 1%
- 18%

Share price appreciation = \$122,100 - \$105,000 = \$17,100

Rate of return = (\$1,800 dividends + \$17,100 share price appreciation) ÷ \$105,000 initial investment = 18%

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

38. Award: 10.00 points

An investor provides a company with \$100,000 of cash by purchasing stock at the end of 2022, receives \$1,000 of dividends from the company during 2023, and sells the ownership interest at the end of 2023 for \$120,000. What is the rate of return that will be generated for 2023?

- 21%
- 20%
- Cannot be determined from the information supplied.
- 1%

Share price appreciation = \$120,000 - \$100,000 = \$20,000

Rate of return = (\$1,000 dividends + \$20,000 share price appreciation) ÷ \$100,000 initial investment = 21%

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

39. Award: 10.00 points

Which of the following was the first private-sector entity that set accounting standards in the United States?

- Accounting Principles Board
- Committee on Accounting Procedure
- Financial Accounting Standards Board
- AICPA

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

40. Award: 10.00 points

Which of the following does **not** provide guidance about GAAP for companies that are publicly listed on a stock exchange?

- FASB
- IASB
- GASB
- EITF

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

41.

Award: 10.00 points

Porite Company recognizes revenue in the period in which it records an asset for the related account receivable, rather than in the period in which the account receivable is collected in cash.

Porite's practice is an example of:

- Accrual accounting.
- Economic entity.
- The matching principle.
- Cash basis accounting.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

42. Award: 10.00 points

Which of the following is **not** a potential benefit of accrual accounting, compared to cash-basis accounting?

- Better reflecting economic activity
- Timeliness
- Better matching of revenues and expenses
- Periodicity

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

43. Award: 10.00 points

In a recent annual report, Apple Computer reported the following in one of its disclosure notes: "Warranty Expense: The Company provides currently for the estimated cost for product warranties at the time the related revenue is recognized." This note exemplifies Apple's use of:

- Matching.
- Economic entity.
- Conservatism.
- Revenue recognition.

References

Multiple Choice

Learning Objective: 01-07
Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Difficulty: 2 Medium

Learning Objective: 01-08
Describe the four basic assumptions underlying GAAP.

44. Award: 10.00 points

GAAP is an abbreviation for:

- Generally authorized accounting procedures.
- Generally accepted accounting principles.
- Generally accepted auditing practices.
- Generally applied accounting procedures.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

45. Award: 10.00 points

The FASB issues accounting standards in the form of:

- Financial Technical Bulletins.
- Financial Accounting Standards.
- Accounting Research Bulletins.
- Accounting Standards Updates.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

46. Award: 10.00 points

Pronouncements issued by the Committee on Accounting Procedures:

- Were the outcome of research studies and a theoretical framework.
- Originated from congressional studies and SEC directives.
- Dealt with specific accounting and reporting problems.
- Were based on exposure drafts and public comment letters.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

47.

Award: 10.00 points

The FASB's standard-setting process includes, in the correct order:

- Research, exposure draft, discussion paper, Accounting Standards Update.
- Discussion paper, research, exposure draft, Accounting Standards Update.
- Exposure draft, research, discussion paper, Accounting Standards Update.
- Research, discussion paper, exposure draft, Accounting Standards Update.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

48. Award: 10.00 points

Which of the following is **not** a provision of the Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley)? The Act:

- Changed the entity responsible for setting accounting standards.
- Regulates the types of non-audit services that can be performed by auditors for audit clients.
- Requires rotation of the lead partner on an audit every five years.
- Increased accountability of corporate executives.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

49. Award: 10.00 points

CPAs are licensed by:

- State governments.
- The SEC.
- The AICPA.
- The federal government.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

50. Award: 10.00 points

Which of the following has the statutory authority to set accounting standards in the United States?

- AICPA
- FASB
- IRS
- SEC

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

51.

Award: 10.00 points

When a registrant company submits its annual filing to the SEC, it uses:

- Form 10-Q.
- Form 10-K.
- Form 10-A.
- Form S-1.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

52. Award: 10.00 points

The most likely important flaw leading to the demise of the APB was the perceived lack of:

- Independence.
- Importance.
- Competence.
- Confidence.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

53. Award: 10.00 points

Accounting standard-setting has been characterized as:

- Using the scientific method.
- A political process.
- Pure deductive reasoning.
- Pure inductive reasoning.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

54. Award: 10.00 points

The International Accounting Standards Board:

- Promotes the use of high-quality, understandable global accounting standards.
- Can overrule the FASB when their policies disagree.
- Has its headquarters in Geneva.
- Was the predecessor to the IASC.

References

Multiple Choice

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Difficulty: 1 Easy

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

55. Award: 10.00 points

Which of the following is **not** a provision of the Public Company Accounting Reform and investor Protection Act of 2002?

- Corporate executive accountability
- Auditor rotation
- Reporting on adequacy of internal controls
- All of these answer choices are correct.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

56. Award: 10.00 points

The primary professional organization for those accountants working in industry is the:

- AICPA.
- IMA.
- AAA.
- IIA.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

57.

Award: 10.00 points

Regarding convergence of accounting standards, the FASB and IASB:

- Have achieved full convergence with respect to financial instruments.
- Are not likely to achieve full convergence of accounting standards in the near future.
- Do not intend to work together to achieve convergence where possible.
- Have agreed to combine their organizations to form the BUSYB.

References

Multiple Choice

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Difficulty: 1 Easy

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

58. Award: 10.00 points

Which of the following is **not** a concern regarding IFRS adoption by the U.S.?

- The fact that many laws, regulations and private contracts reference U.S. GAAP.
- Geographic dispersion of standard setters makes it unlikely that boards can interact to achieve consensus.
- The high costs to companies of converting to IFRS.
- Need for the U.S. to have strong influence on the standard-setting process and ensure that standards meet U.S. needs.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

59. Award: 10.00 points

The most political issue in the FASB's deliberations and amendments to GAAP with respect to accounting for employee stock options was:

- The disclosure of options-related compensation expense in the notes to the financial statements.
- Accounting for options-related compensation expense relating to options that have not yet been granted to employees.
- The negative effects (especially on the earnings of high-tech companies) if they had to recognize compensation expense in an amount equal to the fair value of the options.
- The negative effects on assets of recognizing options-related compensation expense in equity.

References

Multiple Choice

Difficulty: 3 Hard

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

60. Award: 10.00 points

The private sector has sometimes been forced to change accounting standards because the:

- Difficulties in measurement required by the standard were too great.
- SEC did not agree with a particular standard issued by the private sector.
- Profit-oriented companies withdrew financial support for the private sector body that set the standards.
- Cost of gathering data to comply with a given standard was prohibitive.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

61.

Award: 10.00 points

The most recent example of the political process at work in standard-setting is the controversy surrounding the:

- Implementation of the fair value standard.
- FASB Accounting Standards Codification.
- Creation of the FASB.
- Accounting for employee stock options.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

62. Award: 10.00 points

Independent auditors express an opinion on the:

- Soundness of a company's future.
- Accuracy of financial statements.
- Quality of a company's management.
- Fairness of financial statements.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

63. Award: 10.00 points

The possibility that the capital markets' focus on periodic profits may tempt a company's management to bend or even break accounting rules to inflate reported net income is an example of:

- A technical accounting issue.
- An auditor's responsibility to inform the SEC.
- An accounting theory issue.
- An ethical dilemma.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

64. Award: 10.00 points

One of the elements that many believe distinguishes a profession from other occupations is the acceptance of responsibility by its members for the interests of those it serves, which is often articulated in:

- Its code of ethics.
- State laws.
- Its conceptual framework.
- Federal laws.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

65. Award: 10.00 points

The motivation to behave ethically should come from:

- Codes of ethics.
- Fear of penalties for violating professional codes.
- Frameworks for resolving ethical dilemmas.
- Within oneself.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

66. Award: 10.00 points

SFAC 8 of the conceptual framework focuses on:

- Presentation and disclosure.
- Recognition and measurement.
- Elements of financial statements.
- Objective and qualitative characteristics.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

67.

Award: 10.00 points

The FASB's conceptual framework's qualitative characteristics of accounting information include:

- Faithful representation.
- Historical cost.
- Realization.
- Full disclosure.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

68. Award: 10.00 points

The FASB's conceptual framework's qualitative characteristics of accounting information include:

- Full disclosure.
- Historical cost.
- Relevance.
- Going concern.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

69. Award: 10.00 points

The conceptual framework's qualitative characteristic of relevance includes:

- Predictive value.
- Completeness.
- Verifiability.
- Neutrality.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

70. Award: 10.00 points

The conceptual framework's qualitative characteristic of faithful representation includes:

- Neutrality.
- Confirmatory value.
- Predictive value.
- Timeliness.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

71.

Award: 10.00 points

SFAC No.5 focuses on:

- Elements of financial statements.
- Qualitative characteristics of accounting information.
- Objectives of financial reporting.
- Recognition and measurement concepts in accounting.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

72. Award: 10.00 points

The main issue in the debate over accounting for employee stock options was:

- Which employees should receive options.
- The amount of compensation expense that a company should recognize.
- The tax consequences of employee stock options.
- How many options should be granted to key executives.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

73. Award: 10.00 points

Confirmatory value is central to the concept of “earnings quality” because it:

- Helps investors predict a company’s future cash flows.
- Helps investors predict a company’s future earnings.
- Allows investors to compare the performance of a company over time.
- Allows investors to verify or change their prior assessments of a company’s performance.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

74. Award: 10.00 points

A firm's comprehensive income always:

- Is greater than its net income.
- Is the same as its net income.
- Is less than its net income.
- Could be greater than or less than net income.

References

Multiple Choice

Learning Objective: 01-02
Explain the difference between cash and accrual accounting.

Difficulty: 1 Easy

Learning Objective: 01-07
Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

75. Award: 10.00 points

Net income equals:

- Revenues minus expenses.
- Revenues minus cost of goods sold.
- Assets minus liabilities.
- Cash receipts minus cash payments.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

76. Award: 10.00 points

Enhancing qualitative characteristics of accounting information include each of the following **except**:

- Comparability.
- Materiality.
- Timeliness.
- Verifiability.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

77.

Award: 10.00 points

The enhancing qualitative characteristic of understandability means that information should be understood by:

- Those who are experts in the interpretation of financial information.
- CPAs.
- Those who have a reasonable understanding of business and economic activities.
- Financial analysts.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

78. Award: 10.00 points

Fundamental qualitative characteristics of accounting information are:

- Neutrality and consistency.
- Relevance and comparability.
- Comparability and consistency.
- Faithful representation and relevance.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

79.

Award: 10.00 points

Enhancing qualitative characteristics of accounting information include:

- Relevance and comparability.
- Comparability and timeliness.
- Understandability and relevance.
- Neutrality and consistency.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

80. Award: 10.00 points

Gains are:

- Inflows from selling a product or service to a customer.
- Increases in equity resulting from transfers of assets to the company from owners.
- Increases in equity from peripheral transactions of an entity.
- None of these answer choices are correct.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

81.

Award: 10.00 points

When there is agreement between a measure or description and the phenomenon it purports to represent, information possesses which characteristic?

- Faithful representation
- Verifiability
- Timeliness
- Predictive value

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

82. Award: 10.00 points

Surefeet Corporation changed its inventory valuation method. Which characteristic is jeopardized by this change?

- Representational faithfulness
- Feedback value
- Consistency
- Comparability

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

83. Award: 10.00 points

Elements of financial statements do **not** include:

- Losses.
- Comprehensive income.
- Monetary unit.
- Investments by owners.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

84. Award: 10.00 points

Which of the following is true regarding equity?

- It represents the owner's return for investing in the business.
- It represents the residual interest in the assets of an entity that remains after deducting its liabilities.
- It represents how much the owner profits from the business.
- It represents the accumulated earnings of the business over time.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

85. Award: 10.00 points

Cash dividends are an example of which of the following elements?

- Investment by owners
- Expenses
- Distribution to owners
- Equity

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

86. Award: 10.00 points

The primary objective of financial accounting information is to provide useful information about economic activity to:

- Regulators.
- Academicians.
- Management.
- Capital providers.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

87.

Award: 10.00 points

Of the following, the most important objective for financial reporting is to provide information useful for:

- Making decisions.
- Providing accountability.
- Determining taxable income.
- Increasing future profits.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

88. Award: 10.00 points

Management has decided to change the estimated useful life of a machinery but fails to disclose this change in the financial statements. This violation of GAAP can cause the information to be misleading because it lacks:

- Timeliness.
- Completeness.
- Confirmatory value.
- Neutrality.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

89. Award: 10.00 points

Management has recently purchased new equipment but is uncertain about its useful life. For the initial year, management estimated a useful life of 10 years. However, due to a major accident during the first year, management is now uncertain about the equipment's functionality and has revised its estimate to 5 years and included a description of their uncertainty and of this change in estimated useful life in financial statement disclosures. Which of the following is an accurate statement regarding this approach?

- Information contains error because the useful life of the equipment is uncertain.
- Information is free from error because management made the correct decision in revising the estimated useful life of the equipment.
- Information contains error because management changed its estimates on the useful life of the equipment.
- Information is free from error because management has provided enough disclosure regarding the uncertain estimate.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

90. Award: 10.00 points

Roy Wilton is a CPA who recently made a poor investment. When researching the investment, Roy examined the financial statements of the firm, but did not read the accompanying footnotes, and therefore didn't comprehend the broader context underlying those financial statements. Which of the following is true with respect to the enhancing qualitative characteristic of understandability in this case?

- This demonstrates a violation of understandability, as CPAs should be able to rely on the financial statements alone.
- This does not demonstrate a violation of understandability, but rather completeness, as Roy's understanding was incomplete.
- This does not demonstrate a violation of understandability, as Roy did not bother to read the footnotes but could have understood them if he did so.
- This demonstrates a violation of understandability, given that Roy did not comprehend all relevant information.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

91.

Award: 10.00 points

A constraint on qualitative characteristics of accounting information is:

- Neutrality.
- Going concern.
- Cost-effectiveness.
- Timeliness.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

92. Award: 10.00 points

According to the conceptual framework, verifiability implies:

- Logic.
- Legal evidence.
- Consensus.
- Legal verdict.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

93. Award: 10.00 points

Maltec Corporation has started placing its quarterly financial statements on its web page, thereby reducing by 10 days the time to get information to investors and creditors. The qualitative concept improved is:

- Comparability.
- Faithful representation.
- Timeliness.
- Consistency.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

94. Award: 10.00 points

Recognizing expected losses immediately, but deferring expected gains, is an example of:

- Cost-effectiveness.
- Materiality.
- Conservatism.
- Timeliness.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

95. Award: 10.00 points

Change in equity from nonowner sources is:

- Comprehensive income.
- Revenues.
- Expenses.
- Gains and losses.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

96. Award: 10.00 points

Which of the following Statements of Financial Accounting Concepts defines the 10 elements of financial statements?

- SFAC 3
- SFAC 5
- SFAC 6
- SFAC 4

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

97.

Award: 10.00 points

Primecoat Corporation could disseminate its annual financial statements two days earlier if it shifted substantial human resources from other operations to the annual report project. Management decided the value of the earlier report was not worth the added commitment of resources. The concept demonstrated is:

- Materiality.
- Timeliness.
- Cost-effectiveness.
- Relevance.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

98. Award: 10.00 points

Mega Loan Company has very stringent credit requirements and, accordingly, has negligible losses from uncollectible accounts. The company's independent accountants did not protest when, contrary to GAAP, the company recorded bad debt expense only when specific accounts were determined to be uncollectible, rather than use an allowance for uncollectible accounts. The concept demonstrated is:

- Cost-effectiveness.
- Materiality.
- Comparability.
- Faithful representation.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

99. Award: 10.00 points

Four different competent accountants independently agree on the amount and method of reporting an economic event. The concept demonstrated is:

- Verifiability.
- Completeness.
- Comparability.
- Reliability.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

100. Award: 10.00 points

An important argument in support of historical cost information is:

- Verifiability.
- Relevance.
- Predictive quality for future cash flows.
- Materiality.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

101. Award: 10.00 points

The conceptual framework's recognition and measurement concepts recognize which one of the following as an assumption?

- Realization
- Full disclosure
- Going concern
- Historical cost

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

102. Award: 10.00 points

The assumption that in the absence of contrary information a business entity will continue indefinitely is the:

- Entity assumption.
- Historical cost assumption.
- Going concern assumption.
- Periodicity assumption.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

103. Award: 10.00 points

Long-lived, revenue-producing assets are measured at:

- Depreciation (or amortized) cost.
- Current cost.
- Fair value.
- Present value.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

104. Award: 10.00 points

If a company has declared bankruptcy, its financial statements likely violate the:

- Going concern assumption.
- Stable monetary unit assumption.
- Fair value measurement approach.
- Present value measurement approach.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

105. Award: 10.00 points

Which of the following is typically characterized as a principle, rather than an assumption?

- Full disclosure
- Conservatism
- Periodicity
- Monetary unit

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

106. Award: 10.00 points

Which of the following is **not** an identified valuation technique in GAAP regarding fair value measurement?

- Market approach
- Cost approach
- Cost-benefit approach
- Income approach

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

107. Award: 10.00 points

Disclosure notes to a company's financial statements:

- Document the source of financial statement facts, like literary footnotes.
- Are relatively unimportant facts that don't belong in the basic financial statements.
- Are irrelevant facts that are immaterial in amount.
- Are an integral part of a company's financial statements.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

108. Award: 10.00 points

A cause-and-effect relationship is implicit in:

- Realization.
- The going concern assumption.
- Historical cost.
- Matching.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

109. Award: 10.00 points

The full disclosure principle requires a balance between:

- Relevance and cost-effectiveness.
- Comparability and consistency.
- Timeliness and predictive value.
- Reliability and neutrality.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

110. Award: 10.00 points

The recognition of which of the following expenses exemplifies the application of matching expenses with the revenues they produced?

- Advertising
- Cost of goods sold
- President's salary
- Research and development

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

111.

Award: 10.00 points

Land was acquired in 2024 for a future building site at a cost of \$40,700. The assessed valuation for tax purposes is \$28,300, a qualified appraiser placed its value at \$48,100, and a recent firm offer for the land was for a cash payment of \$45,900. The land should be reported in the financial statements at:

- \$48,100.
- \$45,900.
- \$40,700.
- \$28,300.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

112. Award: 10.00 points

Land was acquired in 2024 for a future building site at a cost of \$40,000. The assessed valuation for tax purposes is \$27,000, a qualified appraiser placed its value at \$48,000, and a recent firm offer for the land was for a cash payment of \$46,000. The land should be reported in the financial statements at:

- \$27,000.
- \$48,000.
- \$46,000.
- \$40,000.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

113. Award: 10.00 points

Revenue should not be recognized until:

- The seller has transferred goods or services to a customer.
- Contracts have been signed and payment has been received.
- Work has been performed and customer has been billed.
- Collection has been made and warranties have expired.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

114. Award: 10.00 points

Which of the following best demonstrates the full disclosure principle?

- Disclosure notes to financial statements
- The multi-step income statement
- The auditors' report
- The company's tax return

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

115. Award: 10.00 points

Matching is a(n):

- Valuation method.
- Asset classification procedure.
- Result of recognizing revenues and expenses that arise from the same transaction.
- Cash basis reporting principle.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

116. Award: 10.00 points

Which of the following best describes the additional information that companies use to meet the requirements of full disclosure in financial statements?

- Supplemental schedules and tables that report more detailed information than is shown in the primary financial statements
- Parenthetical comments or modifying comments placed on the face of the financial statements
- Disclosure notes conveying additional insights about company operations, accounting principles, contractual agreements, and pending litigation
- Comments on the face of the financial statements, and schedules, tables, and narrative disclosures in notes to the financial statements

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

117.

Award: 10.00 points

Ford Motor Company purchases services from suppliers on account and sells its products to distributors on short-term credit. As a result, do each of these events affect net income faster than they affect net operating cash flows?

	Purchase Services	Sell Products
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

- Option c
- Option a
- Option d
- Option b

References

Multiple Choice

Learning Objective: 01-02
Explain the difference between cash and accrual accounting.

Difficulty: 3 Hard

Learning Objective: 01-09
Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

118. Award: 10.00 points

The revenue/expense approach emphasizes:

- Recognition of revenues.
- Recognition of expenses.
- The income statement.
- All of these answer choices are correct.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

119. Award: 10.00 points

The asset/liability approach emphasizes:

- Whether amounts on the balance sheet meet the definitions of assets and liabilities.
- A close relation between the balance sheet and the statement of cash flows.
- The distinction between net assets and gross assets.
- All of these answer choices are correct.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

120. Award: 10.00 points

Under IFRS, the role of the conceptual framework:

- Is less important than in U.S. GAAP.
- Includes serving as a guide for practitioners when a specific standard does not apply.
- Primarily involves guiding standard setters to make sure that standards are consistent with each other.
- Has resulted primarily from a convergence with U.S. GAAP.

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

121. Award: 10.00 points

Under IFRS, the conceptual framework:

- Is not designed to provide guidance to standard setters, but rather only to practitioners.
- Specifies a set of rules that determine what constitutes a true IFRS standard.
- Emphasizes the overarching concept of the financial statements providing a "true and fair representation" of the company.
- Is not designed to provide guidance to practitioners, but rather only to standard setters.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.

122. Award: 10.00 points

Alpaca Corporation had revenues of \$290,000 in its first year of operations. The company has not collected on \$19,300 of its sales and still owes \$25,500 on \$75,000 of merchandise it purchased. The company had no inventory on hand at the end of the year. The company paid \$10,500 in salaries. Owners invested \$13,000 in the business and \$13,000 was borrowed on a five-year note. The company paid \$4,700 in interest that was the amount owed for the year, and paid \$6,300 for a two-year insurance policy on the first day of business. Alpaca has an effective income tax rate of 40%.

Compute net income for the first year for Alpaca Corporation.

- \$117,990
- \$116,100
- \$196,650
- \$215,000

Revenues		\$ 290,000
Expenses:		
Cost of goods sold	\$ 75,000	
Salaries	10,500	
Interest	4,700	
Insurance	3,150	93,350
Income before tax		196,650
Income tax at 40%		78,660
Net income		<u><u>\$ 117,990</u></u>

References

Multiple Choice

Difficulty: 3 Hard

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

123. Award: 10.00 points

Alpaca Corporation had revenues of \$260,000 in its first year of operations. The company has not collected on \$19,100 of its sales and still owes \$27,200 on \$97,000 of merchandise it purchased. The company had no inventory on hand at the end of the year. The company paid \$12,900 in salaries. Owners invested \$15,000 in the business and \$15,000 was borrowed on a five-year note. The company paid \$4,000 in interest that was the amount owed for the year, and paid \$8,000 for a two-year insurance policy on the first day of business. Alpaca has an effective income tax rate of 40%. (Assume taxes are paid in the same year).

Compute the cash balance at the end of the first year for Alpaca Corporation.

- \$140,569
- \$119,360
- \$172,569
- \$151,569

Cash receipts:		
Sales revenue	\$ 260,000	
Less: Accounts receivable	19,100	\$ 240,900
Owners' investments		15,000
Note payable		15,000
Total receipts		270,900
Cash disbursements:		
Purchases	97,000	
Less: Accounts payable	27,200	\$ 69,800
Salaries paid		12,900
Interest paid		4,000
Insurance paid		8,000
Estimated taxes paid		56,840
Total cash disbursements		151,540
Ending cash balance		\$ 119,360

Estimated taxes paid = Revenues of \$260,000 less Cost of goods sold of \$97,000 less \$12,900 in salaries less \$4,000 interest less \$4,000 for insurance (\$8,000/2) equals \$142,100. Taxes at 40% are \$56,840.

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

124. Award: 10.00 points

Tri Fecta, a partnership, had revenues of \$372,000 in its first year of operations. The partnership has not collected on \$46,500 of its sales and still owes \$38,700 on \$160,000 of merchandise it purchased. There was no inventory on hand at the end of the year. The partnership paid \$27,100 in salaries. The partners invested \$49,000 in the business and \$23,000 was borrowed on a five-year note. The partnership paid \$2,760 in interest that was the amount owed for the year and paid \$9,400 for a two-year insurance policy on the first day of business.

Compute net income for the first year for Tri Fecta.

- \$184,900
- \$212,000
- \$251,260
- \$177,440

Revenues		\$ 372,000
Expenses:		
Cost of goods sold	\$ 160,000	
Salaries expense	27,100	
Interest expense	2,760	
Insurance expense	4,700	194,560
Net income		<u>\$ 177,440</u>

References

Multiple Choice

Difficulty: 3 Hard

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

125. Award: 10.00 points

Tri Fecta, a partnership, had revenues of \$363,000 in its first year of operations. The partnership has not collected on \$45,400 of its sales and still owes \$39,100 on \$170,000 of merchandise it purchased. There was no inventory on hand at the end of the year. The partnership paid \$28,300 in salaries. The partners invested \$48,000 in the business and \$21,000 was borrowed on a five-year note. The partnership paid \$1,890 in interest that was the amount owed for the year and paid \$9,900 for a two-year insurance policy on the first day of business. Ignore income taxes.

Compute the cash balance at the end of the first year for Tri Fecta.

- \$226,860
- \$260,740
- \$215,610
- \$221,910

Cash receipts:		
Sales revenue	\$ 363,000	
Less: Accounts receivable	45,400	\$ 317,600
Owners' investments		48,000
Notes payable		21,000
Total receipts		<u>386,600</u>
Cash disbursements:		
Purchases	170,000	
Less: Accounts payable	39,100	130,900
Salaries paid		28,300
Interest paid		1,890
Insurance paid		9,900
Total cash disbursements		<u>170,990</u>
Ending cash balance		<u>\$ 215,610</u>

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

126. Award: 10.00 points

The following information (\$ in millions) comes from a recent annual report of Orinoco.com, Incorporated:

Net sales	\$ 10,769
Total assets	4,530
End of year balance in cash	1,055
Total stockholders' equity	392
Gross profit (Sales – Cost of Sales)	2,607
Net increase in cash for the year	10
Operating expenses	2,058
Net operating cash flow	766
Other income (expense), net	\$ (23)

Compute Orinoco's balance in cash at the beginning of the year.

- \$1,055
- \$1,864
- \$1,045
- \$681

Beginning balance in Cash + Net increase in Cash = Ending balance in Cash
Therefore, beginning balance in Cash = Ending balance in Cash – Net increase in Cash
= \$1,055 – \$10 = \$1,045

References

Multiple Choice

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

127. Award: 10.00 points

The following information (\$ in millions) comes from a recent annual report of Orinoco.com, Incorporated:

Net sales	\$ 10,865
Total assets	4,399
End of year balance in cash	1,095
Total stockholders' equity	420
Gross profit (Sales – Cost of Sales)	2,519
Net increase in cash for the year	17
Operating expenses	2,065
Net operating cash flow	788
Other income (expense), net	(22)

Compute Orinoco's total liabilities at the end of the year.

- \$2,303
- \$3,979
- \$3,160
- \$4,399

Total assets = Total liabilities + Total Stockholders' equity
Therefore, Total liabilities = Total assets – Total Stockholders' equity
= \$4,399 – \$420 = \$3,979

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

128. Award: 10.00 points

The following information (\$ in millions) comes from a recent annual report of Orinoco.com, Incorporated:

Net sales	\$ 10,825
Total assets	4,465
End of year balance in cash	1,125
Total stockholders' equity	374
Gross profit (Sales – Cost of Sales)	2,503
Net increase in cash for the year	14
Operating expenses	2,047
Net operating cash flow	788
Other income (expense), net	(18)

Compute Orinoco's cost of goods sold for the year.

- \$8,778
- \$8,322
- \$7,300
- \$5,253

Gross profit = Net sales – Cost of goods sold
Therefore, Cost of goods sold = Net sales – Gross profit
Cost of goods sold = \$10,825 – \$2,503 = \$8,322

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

129. Award: 10.00 points

The following information (\$ in millions) comes from a recent annual report of Orinoco.com, Incorporated:

Net sales	\$ 10,838
Total assets	4,431
End of year balance in cash	1,138
Total stockholders' equity	371
Gross profit (Sales – Cost of Sales)	2,470
Net increase in cash for the year	24
Operating expenses	2,048
Net operating cash flow	617
Other income (expense), net	(30)

Compute the income before income tax for Orinoco.

- \$392
- \$312
- \$512
- \$472

Net income = Gross profit – Operating expenses + Other income (expense), net
= \$2,470 – \$2,048 + \$(30) = \$392

References

Multiple Choice

Difficulty: 1 Easy

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

130. Award: 10.00 points

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

TERM	PHRASE	Term number that matches the phrase.
1. Predictive value	Information is useful in projecting cash flows.	_____
2. Relevance	Pertinent to the decision at hand.	_____
3. Distribution to owners	Information is available prior to the decision.	_____
4. Confirmatory value	Decrease in equity due to transfers to owners.	_____
5. Timeliness	Information confirms expectations.	_____

TERM	PHRASE	Term number that matches the phrase.
1. Predictive value	Information is useful in projecting cash flows.	1
2. Relevance	Pertinent to the decision at hand.	2
3. Distribution to owners	Information is available prior to the decision.	5
4. Confirmatory value	Decrease in equity due to transfers to owners.	3
5. Timeliness	Information confirms expectations.	4

References

Essay

Learning Objective: 01-06
Explain the purpose of the conceptual framework.

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

Difficulty: 2 Medium

Learning Objective: 01-07
Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

131. Award: 10.00 points

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

TERM	PHRASE	Term number that matches the phrase.
1. Gain	Along with relevance, a fundamental decision-specific quality.	_____
2. Materiality	Results if an asset is sold for more than book value.	_____
3. Completeness	Contains all information necessary for faithful representation.	_____
4. Comprehensive income	The change in equity from nonowner transactions.	_____
5. Faithful representation	Concerns the decision-making impact of both the amount and nature of an item.	_____

TERM	PHRASE	Term number that matches the phrase.
1. Gain	Along with relevance, a fundamental decision-specific quality.	5
2. Materiality	Results if an asset is sold for more than book value.	1
3. Completeness	Contains all information necessary for faithful representation.	3
4. Comprehensive income	The change in equity from nonowner transactions.	4
5. Faithful representation	Concerns the decision-making impact of both the amount and nature of an item.	2

References

Essay

Learning Objective: 01-06
Explain the purpose of the conceptual framework.

Difficulty: 2 Medium

Learning Objective: 01-07
Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

132. Award: 10.00 points

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

TERM	PHRASE	Term number that matches the phrase.
1. Neutrality	Important in analysis between firms.	_____
2. Comparability	Accounting information should be unbiased.	_____
3. Consistency	The decision to include an amount in the financial statements.	_____
4. Cost-effectiveness	Applying the same accounting practices over time.	_____
5. Recognition	Considers the value of using information relative to cost of providing it.	_____

TERM	PHRASE	Term number that matches the phrase.
1. Neutrality	Important in analysis between firms.	2
2. Comparability	Accounting information should be unbiased.	1
3. Consistency	The decision to include an amount in the financial statements.	5
4. Cost-effectiveness	Applying the same accounting practices over time.	3
5. Recognition	Considers the value of using information relative to cost of providing it.	4

References

Essay	Learning Objective: 01-06 Explain the purpose of the conceptual framework.	Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.
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Difficulty: 2 Medium

Learning Objective: 01-07
Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

133. Award: 10.00 points

Listed below are five terms are followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct number code for the term.

TERM	PHRASE	Term number that matches the phrase.
1. Monetary unit assumption	Implies consensus among different observers.	_____
2. Verifiability	Assumes all transactions can be identified with a particular entity.	_____
3. Economic entity assumption	Assumes an entity will continue to operate indefinitely.	_____
4. Going concern assumption	Requires reporting the financial life of an entity in discrete time frames.	_____
5. Periodicity assumption	Ignores the possibility of inflation.	_____

TERM	PHRASE	Term number that matches the phrase.
1. Monetary unit assumption	Implies consensus among different observers.	2
2. Verifiability	Assumes all transactions can be identified with a particular entity.	3
3. Economic entity assumption	Assumes an entity will continue to operate indefinitely.	4
4. Going concern assumption	Requires reporting the financial life of an entity in discrete time frames.	5
5. Periodicity assumption	Ignores the possibility of inflation.	1

References

Essay

Learning Objective: 01-07
Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

Difficulty: 2 Medium

Learning Objective: 01-08
Describe the four basic
assumptions underlying GAAP.

134. Award: 10.00 points

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

TERM	PHRASE	Term number that matches the phrase.
1. Historical cost	Basis of measurement for fixed assets.	_____
2. Materiality	Discounts future cash flows.	_____
3. Revenue recognition	Occurs when goods or services are transferred to the customer.	_____
4. Full disclosure	Reporting of all information that could affect decisions.	_____
5. Present value	Application of GAAP sometimes avoided under this constraint.	_____

TERM	PHRASE	Term number that matches the phrase.
1. Historical cost	Basis of measurement for fixed assets.	1
2. Materiality	Discounts future cash flows.	5
3. Revenue recognition	Occurs when goods or services are transferred to the customer.	3
4. Full disclosure	Reporting of all information that could affect decisions.	4
5. Present value	Application of GAAP sometimes avoided under this constraint.	2

References

Essay

Learning Objective: 01-06
Explain the purpose of the conceptual framework.

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

Difficulty: 2 Medium

Learning Objective: 01-07
Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

135. Award: 10.00 points

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

TERM	PHRASE	Term number that matches the phrase.
1. Financial Accounting Standards Board	Undermines representational faithfulness by being inconsistent with neutrality.	_____
2. Accounting Principles Board	It established GAAP before the FASB.	_____
3. Conservatism	Its <i>EITF Issues</i> are GAAP when entered in the Accounting Standards Codification.	_____
4. American Institute of CPAs (AICPA)	It has the authority to set U.S. accounting standards.	_____
5. Securities and Exchange Commission	It is the national organization for CPAs in the United States.	_____

TERM	PHRASE	Term number that matches the phrase.
1. Financial Accounting Standards Board	Undermines representational faithfulness by being inconsistent with neutrality.	3
2. Accounting Principles Board	It established GAAP before the FASB.	2
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4. American Institute of CPAs (AICPA)	It has the authority to set U.S. accounting standards.	5
5. Securities and Exchange Commission	It is the national organization for CPAs in the United States.	4

References

Essay

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

Difficulty: 2 Medium

Learning Objective: 01-05
Explain factors that encourage
high-quality financial reporting.

136. Award: 10.00 points

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

TERM	PHRASE	Term number that matches the phrase.
1. Expenses	Net assets.	_____
2. Equity	Outflows of resources to generate revenues.	_____
3. Distributions to owners	Cash dividends.	_____
4. Investments by owners	Claims of creditors against the assets of a business.	_____
5. Liabilities	Transfers of resources in exchange for common and preferred stock.	_____

TERM	PHRASE	Term number that matches the phrase.
1. Expenses	Net assets.	2
2. Equity	Outflows of resources to generate revenues.	1
3. Distributions to owners	Cash dividends.	3
4. Investments by owners	Claims of creditors against the assets of a business.	5
5. Liabilities	Transfers of resources in exchange for common and preferred stock.	4

References

Essay

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

137. Award: 10.00 points

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct number code for the term.

TERM	PHRASE	Term number that matches the phrase.
1. Losses	Net outflows from peripheral transactions.	_____
2. Assets	Increases in equity from the sale of goods and/or services.	_____
3. Revenues	Results if an asset is sold for more than book value.	_____
4. Comprehensive income	All changes in equity except owner transactions.	_____
5. Gains	Probable future economic benefits controlled by an entity.	_____

TERM	PHRASE	Term number that matches the phrase.
1. Losses	Net outflows from peripheral transactions.	1
2. Assets	Increases in equity from the sale of goods and/or services.	3
3. Revenues	Results if an asset is sold for more than book value.	5
4. Comprehensive income	All changes in equity except owner transactions.	4
5. Gains	Probable future economic benefits controlled by an entity.	2

References

Essay

Difficulty: 1 Easy

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

138. Award: 10.00 points

Listed below are 10 organizations followed by a list of phrases that describe or characterize the organizations. Match each phrase with the correct organization by placing the number designating the best term in the space provided by the phrase.

TERM	PHRASE	Term number that matches the phrase.
1. SEC	Establishes auditing standards in the U.S. for public companies.	_____
2. FASB	Primary national organization of accountants working in industry.	_____
3. IASB	Sets accounting standards in the United States.	_____
4. AICPA	Provides timely responses to financial reporting issues.	_____
5. EITF	The FASB's parent organization.	_____
6. PCAOB	Advises the FASB.	_____
7. IMA	FASB's predecessor.	_____
8. FASAC	Regulates the financial reporting for public companies.	_____
9. APB	National organization of certified public accountants.	_____
10. FAF	Sets global accounting standards.	_____

TERM	PHRASE	Term number that matches the phrase.
1. SEC	Establishes auditing standards in the U.S. for public companies.	6
2. FASB	Primary national organization of accountants working in industry.	7
3. IASB	Sets accounting standards in the United States.	2
4. AICPA	Provides timely responses to financial reporting issues.	5
5. EITF	The FASB's parent organization.	10
6. PCAOB	Advises the FASB.	8
7. IMA	FASB's predecessor.	9
8. FASAC	Regulates the financial reporting for public companies.	1
9. APB	National organization of certified public accountants.	4
10. FAF	Sets global accounting standards.	3

References

Essay

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

Difficulty: 2 Medium

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

139. Award: 10.00 points

Compare net income (loss) for the year to net cash flow from operating activities. Why are these amounts different? Briefly explain.

These amounts are different because of the differences between cash and accrual accounting. As opposed to cash flows from operations, net income includes both revenues and expenses the timing of which differs from the timing of certain cash receipts and payments. Examples would be credit sales in which the revenues are recorded before the collection of cash and cost of goods sold in which the expense often is recorded later than the cash payment to the supplier for the merchandise.

References**Essay**

Difficulty: 2 Medium

Learning Objective: 01-02 Explain the difference between cash and accrual accounting.

140. Award: 10.00 points

For each of the following situations, state whether you agree or disagree with the financial reporting practice employed, and briefly explain the reason for your answer.

1. Cantor Corporation's accountant increased the book value of a patent from its original cost of \$1 million to its recently appraised value of \$6 million.
2. Stanton Corporation paid for the personal travel of its chief financial officer and charged travel expense.
3. At the end of its 2021 fiscal year, Dower, Incorporated, received an order from a customer for \$60,000. The merchandise will ship early in 2022. Because the sale was made to a long-time customer and the invoice was paid in 2021, the controller recorded the sale in 2021.
4. In the middle of its 2021 fiscal year, Sanguinetti, Incorporated paid \$12,000 to its insurance company for one-year comprehensive insurance coverage. Sanguinetti recorded the entire expenditure as an expense in 2021.
5. The Churchill Pharmaceutical Company included a note in its financial statements that described a pending lawsuit against the company.
6. The Daily Corporation, a company whose securities are publicly traded, prepares monthly, quarterly, and annual financial statements for internal use but disseminates to external users only the annual financial statements.

1. Disagree. This is a violation of the historical cost (original transaction value) principle.
2. Disagree. This is a violation of the economic entity assumption.
3. Disagree. The seller has not satisfied its obligation to deliver goods.
4. Disagree. This is a violation of matching.
5. Agree. The company is conforming to the full disclosure principle.
6. Disagree. This is a violation of the periodicity assumption.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

141. Award: 10.00 points

Identify or define the following terms: economic entity, going concern.

Economic entity: All economic events can be identified with a particular economic entity.

Going concern: In the absence of information to the contrary, it is anticipated that a business entity will continue to operate indefinitely.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

142. Award: 10.00 points

List the four financial statements most frequently provided to external users.

Balance sheet, Income statement, Statement of cash flows, Statement of shareholders' equity.

References

Essay

Difficulty: 1 Easy

Learning Objective: 01-01 Describe the function and primary focus of financial accounting.

143. Award: 10.00 points

Explain and show an example of how the FASB's conceptual framework is needed in formulating standards on controversial topics.

In order to provide consistency, a conceptual framework (a map clearly defining beliefs or structure) must be provided. This is the foundation for a strong, logical, and fair system. For example, in debating accounting for stock-based compensation, the FASB's conceptual framework explains the rationale for treating stock options as an expense. By relating the accounting for such compensation to the purpose of financial statements and their qualitative characteristics, the FASB can defend its positions without the bias inherent in such controversial issues.

References

Essay

Difficulty: 3 Hard

Learning Objective: 01-06 Explain the purpose of the conceptual framework.

144. Award: 10.00 points

What is the SEC and how is it involved with accounting standard-setting?

The Securities and Exchange Commission is a federal agency that has the authority to set accounting standards. However, the SEC has always relied on a private-sector body, such as the current FASB, to accomplish that task.

References

Essay

Difficulty: 1 Easy

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

145. Award: 10.00 points

What is the EITF and what is its purpose?

The Emerging Issues Task Force (EITF) acts as a filter for the FASB. It includes 15 individuals from public accounting and private industry along with a representative from the FASB and an SEC observer. The task force focuses on emerging issues and attempts to reach a consensus, speeding up the standard-setting process.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-03 Define generally accepted accounting principles (GAAP) and discuss the historical development of accounting standards, including convergence between U.S. and international standards.

146. Award: 10.00 points

Accounting standard-setting has been characterized as a political process. Discuss this proposition giving an example.

Changes in GAAP can have significant differential effects on companies, investors, creditors, and other interest groups. The FASB must gauge the economic consequences of a change in accounting standards. The process by which financial accounting standards are created includes public comment and sometimes hearings. Ultimately, a vote must be taken to pass a proposed change in GAAP. Accounting for stock-based compensations (options) and postretirement health care benefits are examples where accounting practices have been affected by political influences on GAAP.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-04 Explain why establishing accounting standards is characterized as a political process.

147. Award: 10.00 points

What are the key provisions of the Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act of 2002?

The Act requires the regulation of auditors and the types of services they furnish to clients, increases accountability of corporate executives, addresses conflicts of interest for auditors and securities analysts, and requires that companies document and report on the adequacy of their internal controls. It also requires auditors to express an opinion on management's assessment of internal controls, and the auditors must also express their own opinion on company internal controls.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

148. Award: 10.00 points

What is the value of a company having financial statements audited by an independent auditor?

Outside auditors add credibility to financial statements, increasing the confidence of capital market participants who rely on financial statements in making investment and credit decisions and recommendations.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

149. Award: 10.00 points

What responsibilities do auditors have with respect to reporting critical audit matters (CAMs)?

Starting in 2019, audit reports include descriptions of Critical audit matters (CAMs), including discussion of how the CAM was addressed in the audit.

References

Essay

Difficulty: 1 Easy

Learning Objective: 01-05 Explain factors that encourage high-quality financial reporting.

150. Award: 10.00 points

Briefly describe how materiality is featured in the conceptual framework.

Materiality—Information is material if it can have an effect on a decision made by a user. Thus, materiality is an aspect of relevance. If an item is not material, GAAP need not be followed. For example, if a large corporation purchased a water cooler for one of its common areas for \$120, the amount could be expensed rather than recorded as an asset even though the cooler will be useful for several years. Materiality is a judgment call. Materiality is concerned with both the dollar amount of an item and/or the nature of an item. It would probably be material if Microsoft received \$1,000,000 in bribes from a Chinese company for its technology. A \$1,000,000 write-off of old equipment would probably be immaterial for Microsoft.

References

Essay

Difficulty: 3 Hard

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

151.

Award: 10.00 points

What are the fundamental qualitative characteristics that are necessary for financial information to be useful, according to the FASB's conceptual framework? Define each, including their key components or aspects.

Relevance and Faithful Representation. Relevance requires that information have predictive and confirmatory value, and that it be material. Faithful representation requires that there is agreement between a measure and a real-world phenomenon that the measure is supposed to represent. It requires that the information be complete, neutral, and free from error.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-07 Identify the objective and qualitative characteristics of financial reporting information and the elements of financial statements.

152. Award: 10.00 points

Give an example of a violation of the stable monetary unit assumption. How would it affect the quality of financial statement information?

If a country experiences severe inflation, this would violate the assumption that dollar amounts are constantly valued. This would limit the usefulness of adding numbers in financial statements, because (for instance) costs at different times are not comparable without adjusting for changes in purchasing power.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

153. Award: 10.00 points

Identify or define the following terms: periodicity, monetary unit.

Periodicity—The life of a company can be divided into artificial periods to provide timely information to external users.

Monetary unit—In the United States, financial statement elements should be measured in terms of the U.S. dollar. It assumes that the value of a dollar is stable over time.

References

Essay

Difficulty: 1 Easy

Learning Objective: 01-08 Describe the four basic assumptions underlying GAAP.

154. Award: 10.00 points

Identify or define the following term: historical cost.

Historical cost—A measurement attribute under which asset and liability measurements are based on the amount given or received in an exchange transaction.

References

Essay

Difficulty: 1 Easy

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

155. Award: 10.00 points

How does GAAP define fair value?

Fair value is defined as the price that would be received to sell assets or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

156. Award: 10.00 points

Over time, accounting standards have developed to reflect changes in the business world as well as changes in our ability to account for such changes. Using the example of marking assets and liabilities to their fair value, explain why you would expect accounting standards to change.

Historically, financial accounting relied on transaction amounts (historical cost) as the fundamental measurement approach for reporting assets and liabilities. As markets have matured, it is more relevant and feasible to report some assets and liabilities at their fair values, particularly if such items have a ready market that is active.

References

Essay

Difficulty: 2 Medium

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

157. Award: 10.00 points

List and briefly describe the five measurement attributes used commonly in current GAAP.

- a. Historical cost: the amount given or received in an exchange transaction.
- b. Net realizable value: the net amount of cash into which an asset is expected to be converted in the ordinary course of business.
- c. Current cost: the cost that would be incurred to purchase or reproduce an asset.
- d. Present value: the sum of future cash flows discounted for the time value of money.
- e. Fair value: the price that would be received to sell assets or transfer liabilities in an orderly market transaction.

References

Essay

Difficulty: 3 Hard

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

158. Award: 10.00 points

List and briefly describe the three levels of inputs described in the fair value measurement hierarchy.

- a. Quoted market prices in active markets for identical assets or liabilities.
- b. Inputs other than quoted prices that are observable for the asset or liability. These inputs include quoted prices for similar assets or liabilities in active or inactive markets and inputs that are derived principally from or corroborated by observable related market data.
- c. Unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

References

Essay

Difficulty: 3 Hard

Learning Objective: 01-09 Describe the recognition, measurement, and disclosure concepts that guide accounting practice.

159. Award: 10.00 points

Contrast the asset/liability and revenue/expense approaches to accounting standard setting.

Under the revenue/expense approach, we emphasize principles for recognizing revenues and expenses, with some assets and liabilities recognized as necessary to make the balance sheet reconcile with the income statement. Much of our accounting for revenues and expenses follows this revenue/expense approach.

Under the asset/liability approach, on the other hand, we first recognize and measure the assets and liabilities that exist at a balance sheet date and, secondly, recognize and measure the revenues, expenses, gains, and losses needed to account for the changes in these assets and liabilities from the previous measurement date. Therefore, we should try to recognize and measure assets and liabilities appropriately, and as a result will also capture their inflows and outflows in a manner that provides relevant and representationally faithful information about revenues and expenses.

References

Essay

Difficulty: 3 Hard

Learning Objective: 01-10 Contrast a revenue/expense approach and an asset/liability approach to accounting standard setting.

160. Award: 10.00 points

Contrast the role of the conceptual framework in U.S. GAAP and IFRS.

The conceptual frameworks in U.S. GAAP and IFRS are very similar and are converging even more with ongoing efforts by the FASB and IASB. However, in U.S. GAAP, the conceptual framework primarily provides guidance to standard setters to help them develop high-quality standards. In IFRS the conceptual framework guides standard setting, but in addition it is supposed to provide a basis for practitioners to make accounting judgments when another IFRS standard does not apply. Also, IFRS emphasizes the overarching concept of the financial statements providing a "true and fair representation" of the company. U.S. GAAP does not include a similar requirement, but U.S. auditing standards require this consideration.

References

Essay

Difficulty: 3 Hard

Learning Objective: 01-11 Discuss the primary differences between U.S. GAAP and IFRS with respect to the development of accounting standards and the conceptual framework underlying accounting standards.