

## CHAPTER 2: FINANCIAL REPORTING: ITS CONCEPTUAL FRAMEWORK

1. Accounting principles are theories, truths, and propositions that service as the basis for financial accounting and reporting.

- a. True
- b. False

*ANSWER:* True

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.1 - LO: 2.1

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

2. The rules for accounting are based upon concepts, and principles which broad and subject to an interpretation.

- a. True
- b. False

*ANSWER:* False

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.1 - LO: 2.1

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

3. Information is communicated to external users by the management of the company. Those users cannot dictate desired financial results to the company.

- a. True
- b. False

*ANSWER:* True

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.2 - LO: 2.2

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

4. The primary purpose of financial reporting is to provide useful and relevant information to the internal stakeholder's of the company.
- True
  - False

*ANSWER:* False

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.2 - LO: 2.2

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

5. Management's stewardship is to provide information about how a company's cash flows cause changes in the company's resources and claim's.
- True
  - False

*ANSWER:* False

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.2 - LO: 2.2

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

6. Liquidity is positively related to financial flexibility but negatively related to risk and return on investments.
- True
  - False

*ANSWER:* True

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.2 - LO: 2.2

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

7. Relevance and faithful representation are the ultimate objectives of accounting information.

- a. True
- b. False

*ANSWER:* False

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

8. To measure assets, liabilities, revenues, expenses, and other elements of the financial statements with the most relevant and faithful measurement available is the mixed attribute measurement model.

- a. True
- b. False

*ANSWER:* True

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

9. Oil and gas reserves information would be included within the financial statements.

- a. True
- b. False

*ANSWER:* False

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.5 - LO: 2.5

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

10. Management discussion and analysis would be included in the supplementary information to the financial statements.
- True
  - False

*ANSWER:* False

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.5 - LO: 2.5

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

11. The eight phases of the joint FASB and IASB framework project are: 1) objective and qualitative characteristics, 2) elements and recognition, 3) presentation and disclosure, 4) reporting entity, 5) measurement, 6) framework for GAAP hierarchy, 7) applicability to the not-for-profit sector, and 8) any remaining issues needing to be addressed.
- True
  - False

*ANSWER:* True

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.6 -  
LO: 2.1

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

12. Three phases of the convergence project were put on hold they were elements and recognition, measurement, and presentation and disclosure.
- True
  - False

*ANSWER:* False

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.6 -  
LO: 2.1

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

13. Which of the following statements is *not* true with regard to the benefits derived from the FASB's conceptual framework of accounting?
- It serves as a guide in establishing standards for the FASB.
  - The *Statements of Financial Accounting Concepts* is the primary source of GAAP for accountants.
  - It establishes the objectives of financial reporting.
  - It enhances comparability between different company's financial statements.

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.1 - LO: 2.1

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

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**KEYWORDS:** Bloom's: Remembering

14. Which of the following items is NOT included in FASB's conceptual framework of accounting theory?
- qualities of useful accounting information
  - fundamental principles and assumptions that guide financial accounting and reporting
  - objectives of financial reporting
  - All of these choices are included in the conceptual framework

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.1 - LO: 2.1

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**KEYWORDS:** Bloom's: Remembering

15. The first part of the conceptual framework project had to do with establishing which projects?
- elements
  - objectives
  - qualitative characteristics
  - recognition and measurement

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.1 - LO: 2.1

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**KEYWORDS:** Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

16. The accounting projects portion of the FASB's conceptual framework project deals with
- which accounting elements should be reported and how they should be measured
  - which accounting elements should be reported and where the information should be reported
  - how the accounting elements should be measured and how information should be displayed in financial reports
  - when accounting elements should be recognized and how information should be displayed in financial reports

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.1 - LO: 2.1

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**KEYWORDS:** Bloom's: Remembering

17. The accounting projects portion of the FASB's conceptual framework project deals with all of the following *except*
- how elements should be measured
  - when various elements should be reported
  - which accounting elements should be reported
  - how financial reports should be displayed

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.1 - LO: 2.1

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**KEYWORDS:** Bloom's: Remembering

18. What is the goal of FASB and IASB in the creation of the conceptual framework?
- To develop standards that are internally consistent.
  - To develop standards that are internationally converged.
  - To develop standards that lead to financial reporting that provides clear consistent information to capital providers.
  - All of these choices

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.1 - LO: 2.1

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## Chapter 2: Financial Reporting: Its Conceptual Framework

19. The FASB and IASB concluded that the most general objective of financial reporting is to
- provide information useful in the decisions made by external users
  - meet the needs of internal users
  - provide information about an entity's earnings
  - provide information about an entity's cash flows

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.2 - LO: 2.2

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

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**KEYWORDS:** Bloom's: Remembering

20. According to GAAP, which is *not* a specific objective?
- to provide information about an enterprise's cash flows
  - to provide information that is useful to present to potential investors, creditors, and other users in making rational investment, credit, and similar decisions
  - to provide information about an enterprise's comprehensive income and its components
  - to provide information about an enterprise's economic resources, obligations, and owners' equity

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.2 - LO: 2.2

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**KEYWORDS:** Bloom's: Remembering

21. Information about comprehensive income is useful to external users for all of the following purposes *except*
- evaluating management's performance
  - examining cash flows for the current period
  - predicting future income
  - assessing the risk of lending to the company

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.2 - LO: 2.2

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**KEYWORDS:** Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

22. In its "Objectives of Financial Reporting by Business Enterprises" the FASB identified a variety of primary users including all of the following *except*
- internal management
  - investors
  - creditors
  - security analysts

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Easy

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.2 - LO: 2.2

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Remembering

23. Which of the following is a specific objective of financial reporting?
- provide information that is useful to investors in making investment decisions
  - provide information useful in assessing the amounts, timing, and uncertainty of prospective cash receipts
  - provide information useful in assessing the amounts, timing, and uncertainty of prospective cash inflows
  - provide information about a company's resources and the claims against the company

**ANSWER:** d

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.2 - LO: 2.2

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**KEYWORDS:** Bloom's: Remembering

24. Accrual accounting relates the financial effects of a company's transactions
- so that the costs of nonoperational events are matched to the balance sheet in the period impacted
  - to the period in which they occur rather than to when the cash receipts or payment occurs
  - so that the revenue impact of every transaction in a period is properly reflected in the income statement
  - so that the impact of every transaction is reflected in the statement of cash flows

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.2 - LO: 2.2

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**KEYWORDS:** Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

25. Which of the following statements regarding financial flexibility is true?
- It is the ability of a company to provide a return on investment.
  - It is the ability of a company to take effective actions to insure the return of capital to the company.
  - It is the ability of a company to take adapt changes in the amounts and timing of cash flows.
  - It is the ability of a company to maintain a given level of operations.

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.2 - LO: 2.2

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

26. Which of the following types of information was specifically identified by the FASB as being useful in assessing the amounts, timing, and uncertainty of a company's future cash flows?
- liquidity
  - return of investment
  - financial capability
  - credit standing

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.2 - LO: 2.2

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

27. When investors and creditors make investment and credit decisions, they need information to assist them in assessing future cash receipts. Their focus is on assessing the potential of generating
- a return *of* investment of capital
  - a return *on* investment of capital
  - both a return *of* and a return *on* investment of capital
  - neither a return *of* nor a return *on* investment of capital

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.2 - LO: 2.2

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

28. Which qualitative characteristic is an ingredient of relevance?

- a. understandability
- b. materiality
- c. neutrality
- d. representational faithfulness

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

29. According to the FASB hierarchy of fundamental qualitative characteristics, the two primary qualities making accounting information useful are

- a. understandability and decision usefulness
- b. relevance and faithful representation
- c. verifiability and neutrality
- d. predictive value and feedback value

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

30. Which fundamental characteristic is an ingredient of faithful representation?

- a. predictive value
- b. confirmatory value
- c. timeliness
- d. Neutrality

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

31. In order to be relevant, accounting information should have
- timeliness
  - verifiability
  - confirmatory value
  - All of these choices

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

32. Which of the following fundamental qualitative characteristics may have to be sacrificed in order to achieve timeliness?
- relevance
  - verifiability
  - comparability
  - predictive value

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

33. What is the ultimate objective of accounting information?
- faithful representation
  - decision usefulness
  - relevance
  - predictive value

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

34. Which of the following are considered enhancing characteristics of accounting information?

- a. verifiability and confirmatory value
- b. predictive value and timeliness
- c. comparability and consistency
- d. representational faithfulness and neutrality

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

35. A constraint mentioned by GAAP on qualitative characteristics is

- a. understandability
- b. timeliness
- c. faithful representation
- d. benefits greater than costs

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

36. Which of the following items would most likely be a violation of the materiality constraint?

- a. A company did not separately report an unusual gain of \$100,000. Its income from operations was \$20,000,000.
- b. A company having reported total assets of \$50,000,000 immediately expensed the purchase of 20 pencil sharpeners that have an estimated useful life of three years.
- c. A \$75,000 illegal bribe by an executive of the company to a foreign official was not separately disclosed in the annual report.
- d. A \$2,000 expenditure to improve a building that originally cost \$10,000,000 was immediately expensed.

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Analysis

## Chapter 2: Financial Reporting: Its Conceptual Framework

37. The IASB and FASB boards have agreed that the objective of general purpose financial reporting is to provide
- financial information about a company that is useful to investors, lenders and other creditors
  - mainly cash flow information about a company that is useful to external users in making decisions in their capacity as capital providers
  - financial information about a company that is useful to internal users in making decisions in their capacity as capital custodians
  - financial information about a company that is used by government regulators for taxation

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

38. Similar to the constraints in the FASB's qualitative characteristics, the joint IASB/FASB boards have identified which constraint
- consistency
  - benefits that justify the costs
  - materiality
  - Objectivity

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

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*KEYWORDS:* Bloom's: Remembering

39. Long Corporation has adopted the policy of charging to expense at the time of purchase all assets having a cost of less than \$200, regardless of the life expectancy of the asset. This policy is most closely related to the
- historical cost principle
  - period-of-time assumption
  - verifiability principle
  - materiality principle

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

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## Chapter 2: Financial Reporting: Its Conceptual Framework

40. Intracompany comparability would be violated if
- a company used LIFO as its inventory cost method while other companies in the same industry used FIFO
  - a company changed its bad debts expense estimate from one percent to two percent
  - a bank did not classify its assets as current assets and noncurrent assets
  - a company expenses all expenditures of less than \$500 even if the expenditures result in probable future economic benefit

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPORG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Analysis

41. Understandability is a characteristic that is
- a secondary and interactive quality
  - a threshold for recognition
  - an overall quality
  - an enhancing quality

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

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*KEYWORDS:* Bloom's: Remembering

42. The materiality of an item of financial information refers to the likelihood that its omission or misstatement would affect the decisions of those relying on that information and thus make differing choices if the information had been presented. This concept most closely relates to the
- financial magnitude of the item
  - verifiability of the item
  - neutrality of the item
  - confirmatory value of the item

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

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*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

43. All of the following items are classified as accounting assumptions and conventions *except* for
- going concern
  - timeliness
  - monetary unit
  - reporting entity

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.4 - LO: 2.4

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**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Remembering

44. The city of Anchorage sold land for its appraised value to the Big Bear Oil Company on June 1, 2014, that originally cost the city \$950,000. On June 1, 2014, the land was appraised at a value of \$1,400,000, and on December 31, 2014, the land's value was estimated to be \$1,450,000. On Big Bear Oil Company's balance sheet at December 31, 2014, the land should be valued at
- \$1,400,000
  - \$1,450,000
  - \$950,000
  - \$0

**ANSWER:** a

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.4 - LO: 2.4

**NATIONAL STANDARDS:** United States - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Analysis

45. Using the straight-line method to amortize patents is an application of expense recognition using
- cause and effect
  - a systematic and rational allocation over time
  - immediate consumption
  - the percentage-of-completion method

**ANSWER:** b

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.4 - LO: 2.4

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

46. Using an allowance method of accounting to recognize uncollectible accounts receivable is an application of which accounting convention?
- revenue recognition
  - historical cost
  - matching principle
  - period of time

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

47. The state legislature is currently debating a bill that, if passed, would require the Roberts Company to go out of business. Which of the following principles or assumptions related to the preparation of Roberts financial statements is most directly affected by this impending vote of the legislature?
- going concern
  - verifiability principle
  - entity concept
  - materiality concept

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

48. A company that uses accounting methods in preparing its tax returns that differ from the accounting methods used to prepare its financial statements is
- in violation of the consistency principle
  - not necessarily violating either the income tax laws or generally accepted accounting principles
  - probably guilty of tax evasion
  - in violation of the relevance assumption

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

49. Which one of the following assumptions or principles most logically supports the preparation of a single set of consolidated financial statements that combines the financial information of several wholly owned but separately identifiable businesses?

- a. historical cost
- b. industry practices
- c. reporting entity
- d. Materiality

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

50. Expenses are recognized and matched against revenues on the basis of three principles. Which of the following is *not* one of these principles?

- a. immediate consumption
- b. associating cash flows
- c. systematic and rational allocation over time
- d. cause and effect

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

51. Which of the following sets includes only accounting assumptions and conventions?

- a. timeliness, prudence, historical cost, and neutrality
- b. matching, comparability, period of time, and faithful representation
- c. monetary unit, going concern, relevance, and materiality
- d. monetary unit, entity, going concern, and recognition

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

52. The use of the historical cost principle is justified because the resulting information has the qualitative characteristics of
- neutrality and materiality
  - neutrality and verifiability
  - timeliness and relevance
  - verifiability and predictive value

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

53. What additional supplementary information should be included as part of the financial statements under GAAP?
- Economic statistics
  - Notes to financial statements
  - Letters to Stockholder's
  - Management Discussion and Analysis

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.5 - LO: 2.5

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

54. FASB's financial reporting model identifies which specific financial statements?
- Statement of Shareholder's Equity
  - Statements of Net Income and Comprehensive Income
  - Statement of Financial Position
  - All of these choices

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.5 - LO: 2.5

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

55. What sources of information used by external decision making are directly affected by existing FASB standards?
- Accounting Policies
  - Management Discussion and Analysis
  - Economic Statistics
  - Letters to Stockholders

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.5 - LO: 2.5

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

56. What three phases were active under the Joint FASB and IASB convergence project but were put on hold to focus on other convergence topics?
- Reporting entity, measurement, and presentation and disclosure
  - Framework for a GAAP hierarchy, elements and recognition, and objective and qualitative characteristics
  - Elements and recognition, measurement, presentation and disclosure
  - Measurement, reporting entity, and elements and recognition

*ANSWER:* d

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.6 -  
LO: 2.1

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

57. How many phases of the FASB / IASB convergence project are there?
- 6
  - 8
  - 3
  - over 10

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.6 -  
LO: 2.1

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

58. The IASB and FASB joint boards have identified the primary user groups of financial information as all of the following *except*
- equity investors
  - labor groups
  - lenders
  - other creditors (capital providers)

*ANSWER:* b

*POINTS:* 1

*DIFFICULTY:* Easy

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.6 -  
LO: 2.1

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

59. The joint IASB and FASB boards identified several "enhancing" decision useful characteristics of financial information including
- comparability, verifiability, timeliness, and understandability
  - materiality, verifiability, timeliness, and understandability
  - comparability, verifiability, timeliness, and materiality
  - comparability, relevance, timeliness, and understandability

*ANSWER:* a

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.6 -  
LO: 2.1

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

60. Which of the following is a phase of the joint FASB and IASB conceptual framework project?
- a. going-concern assumption
  - b. mixed attribute measurement
  - c. elements and recognition
  - d. period of time assumption

*ANSWER:* c

*POINTS:* 1

*DIFFICULTY:* Moderate

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.6 -  
LO: 2.1

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

61. A list of statements follows:

- a. Standards are applications of \_\_\_\_\_ and \_\_\_\_\_ to differing types of transactions.
- b. \_\_\_\_\_ are specific implementation procedures.
- c. The intent of the \_\_\_\_\_ is to establish objectives and fundamental concepts that are the basis for development of financial accounting and reporting guidance.
- d. \_\_\_\_\_ are the methods and practices that U.S. companies are required to use in preparing and reporting accounting information in financial statement used by external stakeholders.
- e. *Statement of Financial Accounting Concepts No. 8* describes the relations between \_\_\_\_\_ and decision-useful information.
- f. \_\_\_\_\_ is the ultimate objective of accounting information.
- g. The fundamental characteristics of decision-useful information are \_\_\_\_\_ and \_\_\_\_\_.
- h. Information is relevant if it has \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.
- i. Accounting information is a faithful representation of the underlying situation if it has \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.
- j. Enhancing characteristics include \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.

### Required:

Fill in the words necessary to complete the statements.

- ANSWER:**
- a. concepts, principles
  - b. rules
  - c. conceptual framework
  - d. generally accepted accounting principles (GAAP)
  - e. qualitative characteristics
  - f. decision usefulness
  - g. relevance, faithful representation
  - h. predictive value, confirmatory value, materiality
  - i. completeness, neutrality, free from error
  - j. comparability, verifiability, timeliness, understandability

**POINTS:** 1

**DIFFICULTY:** Challenging

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.1 - LO: 2.1

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

62. The primary objective of financial reporting is to provide information that is useful to external decision makers. The following is a list of types of information that are helpful in assessing expected future cash flows and statements describing those types of information..

- a. Liquidity
- b. Operating capability
- c. Risk
- d. Return on investment
- e. Financial Flexibility

- \_\_\_\_\_ 1. The uncertainty of the future profitability of a company
- \_\_\_\_\_ 2. The ability of a company to use its financial resources to adapt to change.
- \_\_\_\_\_ 3. The ability of a company to efficiently produce goods and services for customers.
- \_\_\_\_\_ 4. Refers to how quickly a company can convert assets into cash.
- \_\_\_\_\_ 5. A measure of overall company performance for equity shareholders.
- \_\_\_\_\_ 6. Comes from a company's ability to raise new capital.
- \_\_\_\_\_ 7. Caused by factors such as technological, political, and economic change.
- \_\_\_\_\_ 8. Indicated by the productive capacity of long-lived assets.
- \_\_\_\_\_ 9. Negatively related to risk.

### Required:

Match each type of information with the appropriate statement by placing the appropriate letter in the space provided.

ANSWER:

- 1. c
- 2. e
- 3. b
- 4. a
- 5. d
- 6. e
- 7. c
- 8. b
- 9. a

POINTS:

1

DIFFICULTY:

Challenging

LEARNING OBJECTIVES: ACCT.WHAL.16.2.1 - LO: 2.1

NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling

KEYWORDS:

Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

63. A list of statements follows:

- a. The Conceptual Framework establishes \_\_\_\_\_ of financial reporting.
- b. Financial reporting should, above all, provide information that is \_\_\_\_\_ to external decision makers.
- c. Accounting information is a \_\_\_\_\_ if it is complete, neutral, and free from error.
- d. \_\_\_\_\_ of accounting information enables users to identify similarities and differences between two sets of facts, while \_\_\_\_\_ means that accounting methods are applied in the same way from period to period.
- e. A specific objective of financial reporting is to provide information about a company's economic \_\_\_\_\_ and \_\_\_\_\_ against the company..

### Required:

Fill in the words necessary to complete the statements.

*ANSWER:*

- a. objectives
- b. useful
- c. faithful representation
- d. comparability, consistency
- e. resources, claims

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.1 - LO: 2.1  
ACCT.WHAL.16.2.2 - LO: 2.2

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

64. A list of statements follows:

- a. \_\_\_\_\_ on \_\_\_\_\_ provides a measure of overall company performance for equity shareholders..
- b. \_\_\_\_\_ is the uncertainty or unpredictability of the future results of a company.
- c. \_\_\_\_\_ is the ability of a company to take effective actions to change the amounts and timing of cash flows.
- d. \_\_\_\_\_ is the term used to describe how quickly a company can convert its assets into cash to pay a liability.
- e. \_\_\_\_\_ refers to the ability of a company to maintain a given physical level of operations.

### Required:

Fill in the words necessary to complete the statements.

*ANSWER:*

- a. Return, investment
- b. Risk
- c. Financial flexibility
- d. Liquidity
- e. Operating capability

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.2 - LO: 2.2

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

65. A list of statements follows:

- a. GAAP states that the two primary qualitative characteristics that make accounting information useful for decision-making purposes are \_\_\_\_\_ and \_\_\_\_\_.
- b. Corporations prepare quarterly financial statements in order to help achieve \_\_\_\_\_, an ingredient of the primary quality of relevance.
- c. Expensing the purchase of waste paper baskets that have a three-year estimated useful life at the date of acquisition is a permissible procedure according to the \_\_\_\_\_ constraint.
- d. The three components of relevance are \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_.
- e. \_\_\_\_\_ is the overall qualitative characteristic to be used in judging the quality of accounting information.

### Required:

Fill in the words necessary to complete the statements.

- ANSWER:*
- a. relevance, faithful representation
  - b. timeliness
  - c. materiality
  - d. predictive value, confirmatory value, materiality
  - e. decision usefulness

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

66. Below is a list of the qualitative characteristics identified by GAAP. Following the list is a series of descriptive phrases.

- |                        |                                  |
|------------------------|----------------------------------|
| a. feedback value      | g. verifiability                 |
| b. relevance           | h. consistency                   |
| c. decision usefulness | i. representational faithfulness |
| d. reliability         | j. timeliness                    |
| e. comparability       | k. neutrality                    |
| f. predictive value    |                                  |

- \_\_\_ 1. When information can make a difference in a decision.
- \_\_\_ 2. Making information available when it is needed.
- \_\_\_ 3. When accounting policies and procedures are unchanged from period to period.
- \_\_\_ 4. When information is verifiable and neutral.
- \_\_\_ 5. Occurs when the measurement results can be duplicated.
- \_\_\_ 6. The overall qualitative characteristic accounting information should possess.
- \_\_\_ 7. When information enables decision makers to confirm prior expectations.
- \_\_\_ 8. When accounting information is reported the same way by different companies.
- \_\_\_ 9. Accounting information should help users form expectations about the future.
- \_\_\_ 10. Does **not** give the appearance of biased information.
- \_\_\_ 11. The information must be complete and free from errors.

### Required:

Match each characteristic with the appropriate phrase.

- ANSWER:*
- |      |       |
|------|-------|
| 1. b | 7. a  |
| 2. j | 8. e  |
| 3. h | 9. f  |
| 4. d | 10. k |
| 5. g | 11. i |
| 6. c |       |

*POINTS:*

1

*DIFFICULTY:*

Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:*

Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

67. List of principles and assumptions followed by a series of descriptions of inappropriate accounting procedures.

- a. full disclosure
- b. historical cost
- c. revenue recognition
- d. conservatism
- e. monetary-unit assumption
- f. matching principle
- g. period of time

- \_\_\_\_\_ 1. The company signs a contract to produce four machines according to the customer's specifications. On the date of the contract, the customer pays one half of the total contract price, and the company records the cash receipt as a sale. The machines will be manufactured and delivered during the next year.
- \_\_\_\_\_ 2. The company delayed issuing its annual financial statements in order to include a large sale expected early in the next year.
- \_\_\_\_\_ 3. The market value of the company's inventory declined sharply. The president, optimistically predicting a rise in value, insisted that the inventory be reported at its historical cost.
- \_\_\_\_\_ 4. The market value of the company's large inventory rose sharply. The inventory was reported on the balance sheet at current market value.
- \_\_\_\_\_ 5. Although the company can estimate its uncollectible accounts receivable, it does not recognize the bad debts expense until it determines that an account receivable is uncollectible.

### Required:

Indicate which item (or items) on the list was (were) violated in each description by placing the appropriate letter(s) in the space provided.

*ANSWER:*

- 1. c
- 2. f, c
- 3. d
- 4. b, c, d
- 5. g, d, f

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

68. Below is a list of accounting assumptions, and principles followed by a series of descriptive statements.

- a. reporting entity assumption
- b. historical cost principle
- c. going-concern assumption
- d. conservatism
- e. monetary-unit assumption
- f. matching principle
- g. realization
- h. recognition

- \_\_\_ 1. A company records sales on account when providing a service.
- \_\_\_ 2. A company recognizes as expense the portion of its prepaid rent that has expired.
- \_\_\_ 3. A company purchased land in 1990 for \$500,000 and reports the land at the same amount on its 2016 balance sheet.
- \_\_\_ 4. A company reports its inventories on the balance sheet at the lower of cost or market.
- \_\_\_ 5. An entity is preparing its five-year strategic plan.
- \_\_\_ 6. A company amortizes its patent, an intangible asset, over its useful life.
- \_\_\_ 7. All financial statements are prepared without the assumption of inflation.
- \_\_\_ 8. The financial statements of the company are prepared separate from the owners.
- \_\_\_ 9. Revenue is recognized at the time the product is sold, shipped, or delivered.

### Required:

Match each item in the list with its descriptive statement by placing the appropriate letter(s) in the space provided.

- ANSWER:*
- 1. h
  - 2. f
  - 3. b
  - 4. d
  - 5. c
  - 6. f
  - 7. e
  - 8. a
  - 9. g

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

69. Presented below are five inappropriate accounting procedures that are being used by the Playground Equipment Corporation.

- a. On the year-end balance sheet, Playground Equipment Corporation reported its inventory at market value, which was greater than cost. As a result of this procedure, a gain was recognized on the company's income statement.
- b. Mrs. Devlin, the president of the company, purchased an automobile for her son using the company's money. The company's accountant recorded the expenditure as salaries expense.
- c. Playground Equipment Corporation reported income from operations of \$5,000,000 for the current year. During the year, Devlin settled and paid a \$5,000,000 class action lawsuit against the company resulting from damages incurred from the sale of defective products. The settlement was reported as a miscellaneous expense with no footnotes provided.
- d. Playground Equipment is going to issue additional common stock next year. In order to improve its income, the company switched from the LIFO inventory cost flow method to FIFO. The company did not disclose the accounting change. Comparative financial statements were prepared.
- e. The company made \$3,000,000 of expenditures to expand a building that originally cost \$5,000,000. The expenditures are expected to benefit operations over the building's remaining useful life of ten years. The expenditures were expensed as maintenance.

### Required:

For each of the above items, list the accounting assumption(s), or principle(s) that is (are) being violated.

*ANSWER:*

- a. conservatism, historical cost, revenue recognition
- b. reporting entity
- c. materiality, disclosure
- d. consistency, disclosure
- e. matching

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.4 - LO: 2.4

*NATIONAL STANDARDS:* United States - BUSPORG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Analysis

## Chapter 2: Financial Reporting: Its Conceptual Framework

70. Below are the sources of information used in external decision making.

- a. Financial Statements
- b. Notes to Financial Statements
- c. Supplementary Information
- d. Other means of financial reporting
- e. Other Information

- \_\_\_\_\_ 1. Changing prices disclosures
- \_\_\_\_\_ 2. Letters to stockholders
- \_\_\_\_\_ 3. Statement of Shareholders' Equity
- \_\_\_\_\_ 4. Accounting policies
- \_\_\_\_\_ 5. Management discussion and analysis
- \_\_\_\_\_ 6. News article about the company
- \_\_\_\_\_ 7. Statement of Financial Position
- \_\_\_\_\_ 8. Inventory Methods
- \_\_\_\_\_ 9. Number of shares of stock outstanding
- \_\_\_\_\_ 10. Analyst reports

### Required:

Match each element with the appropriate statement by placing the appropriate letter in the space provided.

*ANSWER:*

1	c
2	d
3	a
4	b
5	d
6	e
7	a
8	b
9	b
10	e

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.5 - LO: 2.5

*NATIONAL STANDARDS:* United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

71. Explain the difference between comparability and consistency.

**ANSWER:** Comparability of accounting information enables users to identify similarities and differences between two or more sets of economic facts. Comparability is a quality of the relationship between items of accounting information. Although related to comparability, consistency means that accounting methods and procedures are applied in the same manner from period to period. Consistency is a quality of the accounting process rather than a quality of the account and amounts themselves. Consistency helps to achieve the goal of comparability across periods, but only if the underlying phenomena being reported remains the same.

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.6 -  
LO: 2.1

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Understanding

72. Discuss the purpose of the Conceptual Framework.

**ANSWER:** The Conceptual Framework is intended to:

- guide the FASB in establishing a accounting standard,
- establish objectives and concepts to guide financial statement preparers and auditors to resolve questions and make appropriate judgments in the preparation of financial statements, even in situations where a standard does not exist,
- increase users' understanding of and confidence in financial reporting, and
- enhance financial statement comparability across companies and overtime.

**POINTS:** 1

**DIFFICULTY:** Challenging

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.2 - LO: 2.2

**NATIONAL STANDARDS:** United States - NAT: - BUSPROG: Reflective Thinking

**LOCAL STANDARDS:** United States - OH - Default - AICPA - FN-Decision Modeling

**KEYWORDS:** Bloom's: Analyzing

## Chapter 2: Financial Reporting: Its Conceptual Framework

73. Information about a company helps external users assess the return a company has earned on its economic resources and form expectations about its future performance. In what ways is the information concerning the company's net income, comprehensive income and their components useful to external users?

**ANSWER:**

- Evaluating management's performance
- Estimating the company's earning power
- Predicting future income and net cash inflows
- Assessing the risk of investor or lending to the company

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.2 - LO: 2.2

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Understanding

74. What are five types of information that are helpful in accessing the amounts, timing, and uncertainty of future cash flows?

**ANSWER:**

- Return on investment
- Risk
- Financial flexibility
- Liquidity
- Operating
- Capability

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.2 - LO: 2.2

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

75. Define the following terms as they relate to decision usefulness, the ultimate objective of accounting information.

- a. Relevance
- b. Predictive value
- c. Confirmatory value
- d. Materiality

**ANSWER:**

- a. A quality of accounting information that would make a difference in decisions made by financial statement users.
- b. The ability to form expectations about the future.
- c. Provides feedback to confirm or correct prior predictions or expectations about accounting information.
- d. The nature and magnitude of the inclusion or omissions of information in regards to financial statements. This is an entity specific characteristic.

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.3 - LO: 2.3

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Remembering

76. The FASB and IASB describe four characteristics that enhance the decision usefulness of information that is relevant and faithfully represented. What are these characteristics and provide a brief explanation of each.

**ANSWER:**

Comparability	Information must be able to be compared with similar information from other companies.
Verifiability	That other accountants or users of the financial information can come to similar conclusions regarding the presentation of the information.
Timeliness	Information is presented to users in time to make valid and educated decisions.
Understandability	The information is comprehensible to users who have reasonable knowledge of the business and its economic activities.

**POINTS:** 1

**DIFFICULTY:** Challenging

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.3 - LO: 2.3

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

77. List five of the important accounting assumptions that have had an impact on the development of generally accepted accounting principles.

**ANSWER:** reporting entity  
going concern  
period of time  
monetary unit  
mixed attribute measurement  
revenue recognition  
expense recognition  
conservatism

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.4 - LO: 2.4

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Remembering

78. Describe the basic nature of the three expense recognition methods. Provide two examples of each.

**ANSWER:** Cause and effect recognition occurs when some expenses are caused directly in the course of generating revenues. Cause and effect recognition, which is often termed the matching principle, matches the expense to the period in which the economic benefits are consumed by generating revenues. Examples of expenses that are recognized by associating cause and effect are sales commissions and cost of goods sold.

Systematic and rational allocation means that in the absence of a direct means of associating cause and effect, its cost should be allocated to the periods benefited by the expense in a systematic and rational manner. Examples of expenses that are recognized in a systematic and rational manner are depreciation of property and equipment and amortization of intangible assets.

Some costs are immediately expensed because the costs have no discernible future benefits or the allocation among several accounting periods is not considered to serve any useful purpose. Examples include managers' salaries and travel expenses.

**POINTS:** 1

**DIFFICULTY:** Moderate

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.4 - LO: 2.4

**NATIONAL STANDARDS:** United States - NAT: - BUSPROG: Reflective Thinking

**LOCAL STANDARDS:** United States - OH - Default City - AICPA - FN-Decision Modeling

**KEYWORDS:** Bloom's: Remembering

## Chapter 2: Financial Reporting: Its Conceptual Framework

79. The Framework of Financial Accounting Theory and Practice is made up based upon several objectives. Provide a brief summary of one of these objectives.

**ANSWER:** Provide financial information about the reporting entity that is useful to existing and potential investors.

Provide useful information for decisions by existing and potential investors about buying, selling, or holding equity investments.

Provide useful information for decisions by existing and potential lenders about buying, selling, or holding debt instruments.

Provide existing and potential investors, lenders, and other creditors with the information to ascertain the amount, timing, and uncertainty of the prospects of future cash flows.

Provide information about changes in the company's economic resources and claims to those resources resulting from its financial performance.

**POINTS:**

1

**DIFFICULTY:**

Challenging

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.4 - LO: 2.4

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:**

Bloom's: Understanding

80. Financial statements provide limited information for external users to ascertain the necessary information upon which to base decisions. What are other sources in which companies can disclose financial information to external users?

**ANSWER:** Notes to Financial Statements  
Accounting policies  
Contingencies  
Inventory Methods  
Supplementary information  
Changing prices disclosures  
Oil and Gas Reserves Information  
Other Means of Financial Reporting  
Management discussion and analysis  
Letters to Stockholders  
Other Information  
Analyst Reports  
Economic Statistics  
News Articles about the company

**POINTS:**

1

**DIFFICULTY:**

Challenging

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.5 - LO: 2.5

**NATIONAL STANDARDS:** United States - BUSPROG: Reflective Thinking - BUSPROG: Analytic

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:**

Bloom's: Understanding

## Chapter 2: Financial Reporting: Its Conceptual Framework

81. At lunch recently, two accountants were discussing the merits of the FASB's conceptual framework project, which resulted in the publication of seven *Statements of Financial Accounting Concepts* and required more than ten years of effort. One accountant thought the effort was a waste of resources, since accounting was unlike physics, chemistry, and biology, where natural laws apply. The other accountant thought the effort was very valuable. He stated that "accounting, like any other discipline, benefits from having a coherent theory."

### Required:

Write a brief essay that discusses the advantages that are derived from the existence of a conceptual framework for financial accounting and reporting.

**ANSWER:** The FASB's conceptual framework should result in the following advantages. It should "(1) guide the FASB in establishing accounting standards, (2) provide a framework for resolving accounting questions in situations where a standard doesn't currently exist, (3) determine the bounds for judgment in the preparation of financial statements, (4) increase users' understanding of and confidence in financial reporting, and (5) enhance comparability."

**POINTS:** 1

**DIFFICULTY:** Challenging

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.1 - LO: 2.1

**NATIONAL STANDARDS:** United States - BUSPROG: Communication

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Applying

82. The task of developing the conceptual framework was so enormous that the FASB had to divide it into several projects.

### Required:

A specific objective of financial reporting is to provide information about a company's economic resources and the claims on the company. In what ways is this information useful to external users?

**ANSWER:** This information is useful to external users for the following reasons:

- to identify the company's resources, obligations, financial strengths and weaknesses, and to assess its liquidity and solvency
- to specify the types of resources in which the company has invested, as well as the types of the claims on the company
- to indicate the potential future cash flows from the company's resources and the ability of the resources to satisfy the claims on the company

**POINTS:** 1

**DIFFICULTY:** Challenging

**LEARNING OBJECTIVES:** ACCT.WHAL.16.2.1 - LO: 2.1

ACCT.WHAL.16.2.2 - LO: 2.2

ACCT.WHAL.16.2.3 - LO: 2.3

ACCT.WHAL.16.2.4 - LO: 2.4

**NATIONAL STANDARDS:** United States - BUSPROG: Communication

**LOCAL STANDARDS:** United States - OH - Default City - AICPA: FN-Decision Modeling

**KEYWORDS:** Bloom's: Applying

## Chapter 2: Financial Reporting: Its Conceptual Framework

83. GAAP lists and describes the qualitative characteristics that make accounting information useful for decision-making purposes. The FASB viewed the characteristics as a hierarchy of qualities that make accounting information useful. The FASB stated that accounting information must possess both relevance and faithful representation qualities to be useful, but it was noted that relevance and faithful representation may conflict with each other in some instances. For example, to increase relevance, faithful representation may have to be sacrificed, or vice versa.

### Required:

- a. Define "relevance" and "faithful representation" and list the components or "ingredients" of each quality.
- b. Give an example in financial accounting that illustrates the following tradeoffs:
  - (1) Relevance is sacrificed in order to make accounting information more reliable.
  - (2) Faithful representation is sacrificed in order to make accounting information more relevant.

### ANSWER:

- a. Relevance is defined as information that is capable of making a difference in the decision-making process. Relevant information helps users predict the outcomes of past, present, and future events or confirms or corrects prior expectations and is of the nature and magnitude that would influence judgment of a reasonable person relying on the information. The ingredients of relevance are (1) predictive value, (2) confirmatory value, and (3) materiality.

To be a faithful representation, information must be (1) complete, (2) neutral and (3) free from error.

- b.
  - (1) The use of historical cost in financial accounting is an example of a sacrifice of relevance for reliability. Historical cost is reliable information, but it may not be as relevant as current cost information.
  - (2) When a private company provides its own estimate of the fair value of its' stock. The value is relevant, but might not be a faithful representation of the stock's actual value.

*POINTS:* 1

*DIFFICULTY:* Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Communication

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Applying

## Chapter 2: Financial Reporting: Its Conceptual Framework

84. The Conceptual Framework includes two "fundamental qualitative characteristics" that must be present for financial reporting information to be useful.

**Required:**

List and describe the two fundamental characteristics of usefulness.

- ANSWER:*
1. Information must have the quality of relevance. Relevant information must be capable of making a difference in the decisions made by external users in their capacity as capital providers. To be relevant, information must have predictive value, confirmatory value, or both.
  2. Information must have the quality of faithful representation. Faithful representation of economic phenomena occurs when the related information is complete, neutral, and free from material error.

*POINTS:*

1

*DIFFICULTY:*

Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.3 - LO: 2.3

*NATIONAL STANDARDS:* United States - BUSPROG: Communication

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Applying

85. Discuss the financial reporting model in the FASB Conceptual Framework.

*ANSWER:* FASB financial reporting model requires the five basic financial statements as listed below.

- balance sheet
- income statement
- comprehensive income statement
- statement of cash flows
- statement of shareholder's equity

Under GAAP the financial statements should contain notes to explain the different methodologies used to calculate estimates and policies. The statements should also contain supplementary items necessary to make an informed decision about the health and wellbeing of the company. The model also suggests areas in which investors, creditors, and lenders can find additional company information.

*POINTS:*

1

*DIFFICULTY:*

Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.5 - LO: 2.5

*NATIONAL STANDARDS:* United States - BUSPROG: Communication

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:* Bloom's: Applying

## Chapter 2: Financial Reporting: Its Conceptual Framework

86. Your CEO has told you that she has little use for accounting figures based on historical costs. She believes that fair values are of far more significance to the board of directors than "out-of-date costs."

### **Required:**

Present some arguments to convince her that accounting data should still be based on historical costs.

*ANSWER:*

Arguments supporting the use of historical cost include:

- Cost is definite and reliable; other values would have to be determined somewhat arbitrarily and there would be disagreement as to the amounts to be used.
- Amounts determined by other methods would have to be revised frequently.
- comparison with other companies is facilitated if cost is employed.
- The costs of obtaining fair values may outweigh the benefits derived.

*POINTS:*

1

*DIFFICULTY:*

Challenging

*LEARNING OBJECTIVES:* ACCT.WHAL.16.2.5 - LO: 2.5

*NATIONAL STANDARDS:* United States - BUSPROG: Communication

*LOCAL STANDARDS:* United States - OH - Default City - AICPA: FN-Decision Modeling

*KEYWORDS:*

Bloom's: Applying