LO.a: Describe the objective of financial statements and the importance of financial reporting standards in security analysis and valuation.

1. Cat Inc. and Kan Inc. are two companies that prepare financial statements in accordance with IFRS. They have identical transactions in FY 2014-15. The financial statements of the two companies will *most likely* be:
   A. Comparable.
   B. Identical.
   C. Consistent.

2. Financial reports *least likely* provide useful information that is directly used for:
   A. Asset valuation.
   B. Valuing a company or securities a company issues.
   C. Assess an economy's performance.

LO.b: Describe roles and desirable attributes of financial reporting standard-setting bodies and regulatory authorities in establishing and enforcing reporting standards, and describe the role of the International Organization of Securities Commissions.

3. Which of the following statements is *least accurate* with respect to financial reporting requirements?
   A. Standard-setting bodies are typically private sector, self-regulated organizations.
   B. Standard-setting bodies have authority because they are recognized by regulatory authorities.
   C. The requirement to prepare financial reports in accordance with specified accounting standards is the responsibility of standard-setting bodies.

4. Which of the following reports is *least likely* to be filed with the SEC?
   A. Annual report.
   B. Form 10-K.
   C. Proxy statement.

5. The role of International Organization of Securities Commissions (IOSCO) is *most likely* to:
   A. assist in attaining the goal of cross-border cooperation in combating violations of securities laws.
   B. be responsible for regulating financial markets of member nations.
   C. be the oversight body to which the International Accounting Standards Board (IASB) reports.

6. The recognition and enforcement of standards is *least likely* to be conducted by:
   A. Accounting and Corporate Regulatory Authority in Singapore.
   B. International Accounting Standards Board.
   C. Securities and Exchange Commission of Brazil.

7. Which of the following is *least likely* to be filed with the Securities and Exchange Commission?

A. Projected income statements for five years.
B. Proxy statement for annual and special meetings.
C. Securities offerings registration statement.

8. Which of the following statements is *not* true about the desirable attributes of accounting standards boards? Accounting standards boards should:
A. have adequate authority, resources, and competencies to fulfill its responsibilities.
B. have a clearly stated objective, and have clear and consistent processes.
C. operate in cooperation with industry leaders and adhere to their interests.

LO.c: Describe the status of global convergence of accounting standards and ongoing barriers to developing one universally accepted set of financial reporting standards.

9. The goal of establishing one set of universally accepted financial reporting standards can be *best* described as resulting in:
A. convergence of standards.
B. divergence of standards.
C. globalization of standards.

LO.d: Describe the International Accounting Standards Board's conceptual framework, including the objective and qualitative characteristics of financial statements, required reporting elements, and constraints and assumptions in preparing financial statements.

10. According to the IASB Conceptual Framework, the qualitative characteristic that different knowledgeable users agree on the information presented to be a faithful representation of the economic events is *best* described as:
A. comparability.
B. understandability.
C. verifiability.

11. According to the IFRS Conceptual Framework, the *least likely* feature underlying the preparation of financial statements is:
A. accrual basis.
B. matching.
C. materiality.

12. According to the IFRS framework, the qualitative characteristic that makes financial information useful is *least likely* to be:
A. comparability.
B. materiality.
C. understandability.

13. According to the IASB's Conceptual Framework for Financial reporting, the two fundamental qualitative characteristics that make financial information useful are *best* described as:
A. relevance and faithful representation.

B. timeliness and accrual accounting.
C. verifiability and understandability.

14. Under the IFRS Framework for the Preparation and Presentation of Financial Statements, to be recognized as a financial statement element, an element *most likely* needs to:
    A. have a cost or value that can be measured with reliability.
    B. normally be carried at historical cost, current cost or fair market value.
    C. provide certainty that any future economic benefit associated with the item will flow to or from the enterprise.

15. According to the IASB Conceptual Framework, the two fundamental qualitative characteristics that make financial information useful are *best* described as:
    A. timeliness and accrual accounting.
    B. relevance and faithful representation.
    C. understandability and verifiability.

16. The Conceptual Framework (2010) identifies several characteristics that enhance the usefulness of financial information. Which of the following is *least likely* a characteristic?
    A. Transparency.
    B. Understandability.
    C. Verifiability.

17. The amount of cash that could be obtained by selling an asset in an orderly disposal is *least likely* known as:
    A. amortized value.
    B. fair value.
    C. realizable value.

18. Which of the following is *least likely* to be presented on an accrual basis?
    A. Cash flow information.
    B. Net revenue information.
    C. Operating and non-operating expenses.

LO.e: Describe general requirements for financial statements under International Financial Reporting Standards (IFRS).

19. Which of the following is *least likely* a general feature underlying the creation of financial statements?
    A. Fair presentation.
    B. Going concern.
    C. Minimum specified information on the face of financial statements.

20. Which of the following is *most likely* represented as inflows of economic resources to a company under the IFRS framework?
    A. Assets.

B. Equity.
C. Revenues.

21. Under IFRS, which of the following is *least likely* one of the fundamental principles underlying the preparation of financial statements?
A. Consistency.
B. Materiality.
C. Reliability.

LO.f: Compare key concepts of financial reporting standards under IFRS and US generally accepted accounting principles (US GAAP) reporting systems.

22. A security analyst is comparing a company which prepares its financial statements according to IFRS to a company that follows the U.S. GAAP. The analyst is *most likely* to make an adjustment to:
A. realized losses.
B. unrealized gains and losses for trading securities.
C. unrealized gains and losses for available-for-sale securities.

LO.g: Identify characteristics of a coherent financial reporting framework and the barriers to creating such a framework.

23. Which of the following is *most likely* a characteristic of an effective financial reporting framework?
A. Comparability.
B. Comprehensiveness.
C. Understandability.

24. Which of the following is *least likely* a characteristic of an effective financial reporting framework?
A. Comparability.
B. Comprehensiveness.
C. Consistency.

25. An objective oriented standard setting approach is *most likely* to:
A. provide a broad financial reporting system with focus on principles.
B. provide a list of yes-or-no rules for classifying transactions.
C. include a framework of principles and rules for guidance.

26. The barriers to creating a single coherent financial reporting standard framework *least likely* include:
A. Comprehensiveness.
B. Standard-setting approach.
C. Valuation.

LO.h: Describe implications for financial analysis of differing financial reporting systems and the importance of monitoring developments in financial reporting standards.

27. The areas analysts need to be aware with respect to developments in financial reporting standards *least likely* include:
    A. New products or types of transactions.
    B. Company disclosures.
    C. Effect of evolving standards in the preparation of financial statements.

LO.i: Analyze company disclosures of significant accounting policies.

28. An analyst is reviewing disclosures of significant accounting policies of a company. He is *least likely* to analyze:
    A. Significant balances on the financial statements.
    B. Changes in disclosures from one year to the next.
    C. Policies that do not require significant estimates.

Solutions

1. A is correct. They need not be identical and not necessarily consistent.

2. C is correct.

3. C is correct. The requirement to prepare financial reports in accordance with specified accounting standards is the responsibility of regulatory authorities such as the SEC.

4. A is correct. The annual report is not a requirement of the SEC.

5. A is correct. The IOSCO is not a regulator of financial markets. To ensure consistent application of international financial standards, it is important to have uniform regulation and enforcement across national boundaries. IOSCO assists in attaining this goal of uniform regulation as well as cross-border co-operation in combating violations of securities and derivatives laws.

6. B is correct. The International Accounting Standards Board is a standard-setting body that sets the standards. The Accounting and Corporate Regulatory Authority and the Securities and Exchange Commission are regulatory bodies that recognize and enforce these standards.

7. A is correct. The projected income statements are not filed with the Securities and Exchange Commission.

8. C is correct. Accounting standards boards should operate independently and not succumb to external forces.

9. A is correct. The standards seem to be converging so as to result in a universally accepted set of standards. This is called convergence of standards.

10. C is correct. Under the International Accounting Standards Board's Conceptual Framework, verifiability is the qualitative characteristic that means that different knowledgeable and independent users would agree that the information presented faithfully represents the economic events that it is intended to represent.

11. B is correct. The IFRS Conceptual Framework specifies a number of general features underlying the preparation of financial statements, including materiality and accrual basis. Matching is not one of those general features; it is a general principle of expense recognition.

12. B is correct. The four principal qualitative characteristics that make financial information useful are understandability, relevance, reliability and comparability. Materiality relates to the level of detail of the information needed to achieve relevance – whether the omission or misstatement of the information would impact the decision maker's decision.

13. A is correct. Relevance and faithful representation are the two fundamental qualitative characteristics that make financial information useful, according to the IASB Conceptual Framework.

14. A is correct. For recognition in the financial statements, an element must have a cost or value that can be measured with reliability; certainty is not a requirement for economic benefits associated with an item to flow to or from the enterprise: all that is required is that it is probable that they will.

15. B is correct. Relevance and faithful representation are the two fundamental qualitative characteristics that make financial information useful according to the IASB Conceptual Framework.

16. A is correct. Transparency is not one of the characteristics. The characteristics are relevance, faithful presentation, comparability, timeliness, understandability and verifiability.

17. A is correct. Amortized value is based on the original cost and the amortization schedule.

18. A is correct. All financial statements should be presented on an accrual basis, except cash flow information.

19. C is correct. Fair presentation and going concern are features underlying the creation of financial statements. Minimum specified information on the face of financial statements falls under 'Structure and Content', and not under 'General Features'.

20. C is correct. The financial statement elements under International Financial Reporting Standards (IFRS) are: assets, liabilities, owners' equity, revenue, and expenses. Revenues are inflows of economic resources. Assets are economic resources, but not inflows.

21. C is correct. Based on International Accounting Standard (IAS), general requirements for financial statements, fundamental principles include fair presentation, going concern, accrual basis, consistency and materiality.

22. C is correct. IFRS makes a distinction between unrealized gains and losses on available-for-sale debt securities that arise as a result of exchange rate movements and requires these changes in value to be recognized in the income statement, whereas U.S. GAAP does not make this distinction.

23. B is correct. The characteristics of an effective financial reporting framework are transparency, comprehensiveness, and consistency. Comparability and understandability are general features of financial statements.

24. A is correct. The three characteristics of an effective financial reporting framework are transparency, comprehensiveness, and consistency.

25. C is correct. An objective oriented standard setting approach combines the principles and rules based approach, which includes a framework of principles as well as rules for guidance.

26. A is correct. The barriers to creating a coherent single financial reporting framework are valuation, standard-setting approach, and measurement. Transparency, comprehensiveness, and consistency are characteristics of the framework.

27. C is correct because it is from an accountant's perspective and not that of an analyst.

28. C is correct. Policies that require significant judgments and estimates are disclosed in MD&A and must be analyzed.