Question #1 of 29

Which of the following is *least likely* one of the general requirements for financial statements under IFRS?

A) No offsetting of income against expenses unless a standard permits or requires it.

B) Statements should be prepared at least quarterly.

C) Statements should be prepared under a going concern assumption.

Explanation

IFRS require reporting at least annually. The other two choices are requirements included in IAS No. 1.

(Study Session 6, Module 22.2, LOS 22.e)

Question #2 of 29

Disagreements that inhibit development of a coherent financial reporting framework are *least* likely to involve which of the following?

A) Transparency.

B) Standard setting.

C) Valuation.

Explanation

There is widespread agreement that transparency is desirable in financial reporting. Disagreements that inhibit development of a single framework often arise around issues of measurement, valuation, and standard setting.

(Study Session 6, Module 22.3, LOS 22.g)

Question #3 of 29

Required financial statements, according to International Accounting Standard (IAS) No. 1, include a(n):

A) cash flow statement and auditor's report.

B) balance sheet and explanatory notes.

C) income statement and working capital summary.

Explanation

Financial statements that are required by IAS No. 1 include a balance sheet, a statement of comprehensive income, a cash flow statement, a statement of changes in owners' equity, and explanatory notes that include a summary of the company's accounting policies. IAS No. 1 does not require an auditor's report or a working capital summary.

(Study Session 6, Module 22.2, LOS 22.e)

Question #4 of 29

The term "convergence" is *most* accurately used to describe:

A) the process of developing one universally accepted set of accounting standards.

B) the reduction of the premium on a bond as it nears maturity.

C) when expected return and required return are equal.

Explanation

Moving towards agreement on a single set of accounting standards is referred to as "convergence."

(Study Session 6, Module 22.1, LOS 22.c)

Question #5 of 29

Which of the following statements about financial statements and reporting standards is *least* accurate?

A) Financial statements could potentially take any form if reporting standards didn't exist.

B) The objective of financial statements is to provide economic decision makers with useful information.

C) Reporting standards focus mostly on format and presentation and allow management wide latitude in assumptions.

Explanation

Given the variety and complexity of possible transactions, and the estimates and assumptions a firm must make when presenting its performance, financial statements could potentially take any form if reporting standards didn't exist. Reporting standards ensure that the information is "useful to a wide range of users," including security analysts, by making financial statements comparable to one another and narrowing the range within which management's estimates can be seen as reasonable. Reporting standards limit the range of assumptions management can make.

(Study Session 6, Module 22.1, LOS 22.a)

Question #6 of 29

Which of the following is *least* likely to be considered a characteristic of a coherent financial reporting framework?

A) Comprehensiveness.

B) Stability.

C) Transparency.

Explanation

Financial reporting should be transparent and comprehensive. Stability of accounting information is not a characteristic of a coherent reporting framework.

(Study Session 6, Module 22.3, LOS 22.g)

Question #7 of 29

Which of the following is *least likely* a qualitative characteristic accounting information must possess in order to provide useful information to an analyst, according to the IASB Conceptual Framework?

A) Conservatism.

B) Faithful representation.

C) Relevance.

Explanation

Qualitative characteristics that accounting information must possess according to the IASB Conceptual Framework are relevance and faithful representation, which are enhanced by the characteristics of timeliness, verifiability, understandability, and comparability. Conservatism may be a desirable characteristic, but is not one of the qualitative characteristics specified in the IASB Conceptual Framework.

(Study Session 6, Module 22.2, LOS 22.d)

Question #8 of 29

Which of the following statements about financial reporting standards is *least* accurate? Reporting standards:

A) ensure that the information is "useful to a wide range of users."

B) narrow the range within which management estimates can be seen as reasonable.

C) are disclosed on Form 8K by publicly traded firms in the United States.

Explanation

Reporting standards ensure that the information is "useful to a wide range of users," including security analysts, by making financial statements comparable to one another and narrowing the range within which management's estimates can be seen as reasonable. Securities & Exchange Commission Form 8K addresses acquisitions, divestitures, etc. and not reporting standards.

(Study Session 6, Module 22.1, LOS 22.a)

Question #9 of 29

Significant accounting choices are most likely to be disclosed in the management commentary under:

A) U.S. GAAP only.

B) IFRS only.

C) both U.S. GAAP and IFRS.

Explanation

Significant accounting policies and estimates that require management judgment must be disclosed in the management commentary (sometimes called Management Discussion and Analysis) under both IFRS and U.S. GAAP.

(Study Session 6, Module 22.3, LOS 22.i)

Question #10 of 29

Which of the following is *least* likely to be considered a stated goal of the International Accounting Standards Board (IASB)?

A) Remain neutral in the debate on the use of global accounting standards to avoid appearance of a conflict of interest.

B) Account for the needs of emerging markets and small firms when implementing global accounting standards.

C) Develop global accounting standards requiring transparency, comparability, and high quality in financial statements.

Explanation

The IASB has four stated goals:

1. Develop global accounting standards requiring transparency, comparability, and high quality in financial statements.
2. Promote the use of global accounting standards.
3. Account for the needs of emerging markets and small firms when implementing global accounting standards.
4. Achieve convergence between various national accounting standards and global accounting standards.

(Study Session 6, Module 22.1, LOS 22.b)

Question #11 of 29

Characteristics of a coherent financial reporting framework are *best* described as:

A) consistency, materiality, and transparency.

B) materiality, comprehensiveness, and aggregation.

C) transparency, consistency, and comprehensiveness.

Explanation

The three characteristics of a coherent financial reporting framework are transparency, comprehensiveness, and consistency. Materiality and aggregation are two of the features for preparing financial statements listed in International Accounting Standard No. 1.

(Study Session 6, Module 22.3, LOS 22.g)

Question #12 of 29

Which of the following is a company *least* likely required to present according to International Accounting Standard (IAS) No. 1?

A) A summary of accounting policies.

B) Statement of changes in owners' equity.

C) Disclosures of material events.

Explanation

International Accounting Standard (IAS) No. 1 defines which financial statements are required and how they must be presented. The required financial statements are:

- Balance sheet.
- Statement of comprehensive income.
- Cash flow statement.
- Statement of changes in equity.
- Explanatory notes, including a summary of accounting policies.

Disclosures of material events that affect the company are required by the Securities and Exchange Commission (Form 8-K) for firms that are publicly traded in the United States.

(Study Session 6, Module 22.2, LOS 22.e)

Question #13 of 29

Management disclosure of the likely impact of implementing recently issued accounting standards is *least* likely to:

A) state that the impact of the standard is impossible to determine.

B) conclude that the standard does not apply.

C) conclude that the standard will not affect the financial statements materially.

Explanation

A disclosure that is required for public companies is the likely impact of implementing recently issued accounting standards. Management can discuss the impact of adopting the standard, conclude that the standard does not apply or will not affect the financial statements materially, or state that they are still evaluating the effects of the new standards. Analysts should be aware of the uncertainty that this last statement implies.

(Study Session 6, Module 22.3, LOS 22.h)

Question #14 of 29

Two underlying assumptions of financial statements, according to the IASB conceptual framework, are:

A) historical cost and going concern.

B) going concern and accrual accounting.

C) accrual accounting and historical cost.

Explanation

The two underlying assumptions of financial statements according to the conceptual framework are accrual accounting and the going concern assumption. Historical cost is one of several measurement bases that may be used for financial reporting.

(Study Session 6, Module 22.2, LOS 22.d)

Question #15 of 29

Professional organizations of accountants and auditors that establish financial reporting standards are called:

A) Standard setting bodies.

B) Regulatory authorities.

C) International organizations of securities commissions.

Explanation

Standard-setting bodies are professional organizations of accountants and auditors that establish financial reporting standards. Regulatory authorities are government agencies that have the legal authority to enforce compliance with financial reporting standards. Regulatory authorities, such as the Securities and Exchange Commission (SEC) in the U.S. and the Financial Services Authority (FSA) in the United Kingdom, are established by national governments. Most national authorities belong to the International Organization of Securities Commissions (IOSCO).

(Study Session 6, Module 22.1, LOS 22.b)

Question #16 of 29

Which of the following financial reporting choices is permitted under IFRS but not under U.S. GAAP?

A) Excluding actuarial gains and losses from balance sheet pension items.

B) Revaluing plant and equipment upward.

C) Netting deferred tax assets with deferred tax liabilities.

Explanation

Upward revaluation of long-lived assets is permitted under IFRS. Under U.S. GAAP, most assets (other than certain financial instruments) may not be revalued upward. Neither netting deferred tax assets with deferred tax liabilities nor excluding actuarial gains and losses from balance sheet pension items is permitted under IFRS or U.S. GAAP.

(Study Session 6, Module 22.2, LOS 22.f)

Question #17 of 29

An analyst is *least* likely to use disclosures of accounting policies and estimates to evaluate:

A) what policies are likely to be modified in future periods.

B) what policies are discussed.

C) whether the disclosures have changed since the prior period.

Explanation

Companies that prepare financial statements under IFRS or U.S. GAAP must disclose their accounting policies and estimates in the footnotes and Management's Discussion and Analysis. An analyst should use these disclosures to evaluate what policies are discussed, whether they cover all the relevant data in the financial statements, which policies required management to make estimates, and whether the disclosures have changed since the prior period.

(Study Session 6, Module 22.3, LOS 22.i)

Question #18 of 29

An analyst can find a company's accounting policies that require significant judgement or estimates in:

A) only the footnotes.

B) both the footnotes to the financial statements and Management's Discussion and Analysis.

C) both the footnotes and in the auditor's opinion.

Explanation

Companies that prepare financial statements under IFRS or U.S. GAAP must disclose their accounting policies and estimates in the footnotes and address those policies and estimates where significant judgment was required in Management's Discussion and Analysis. The auditor's opinion discusses whether policies have been applied appropriately, but does not include the estimates and policies themselves.

(Study Session 6, Module 22.3, LOS 22.i)

Question #19 of 29

According to the IFRS framework, timeliness is a characteristic that enhances:

A) only faithful representation.

B) only relevance.

C) both relevance and faithful representation.

Explanation

In the IFRS framework, timeliness, comparability, verifiability, and understandability are characteristics that enhance the two fundamental qualitative characteristics, relevance and faithful representation. Information that is not timely will not be relevant or faithfully represent the activities of a firm over the reporting period.

(Study Session 6, Module 22.2, LOS 22.d)

Question #20 of 29

When a publicly traded U.S. company prepares a proxy statement for its shareholders prior to the annual meeting or other shareholder vote, it also files the statement with the SEC as Form:

A) 8-K.

B) 144

C) DEF-14A.

Explanation

Form DEF-14A: When a company prepares a proxy statement for its shareholders prior to the annual meeting or other shareholder vote, it also files the statement with the SEC as Form DEF-14A.

Form 8-K: Companies must file this form to disclose material events including significant asset acquisitions and disposals, changes in management or corporate governance, or matters related to its accountants, financial statements, or the markets on which its securities trade.

Form 144: A company can issue securities to certain qualified buyers without registering the securities with the SEC, but must notify the SEC that it intends to do so.

(Study Session 6, Module 22.1, LOS 22.b)

Question #21 of 29

Under which framework for financial reporting systems are the financial statement elements related to performance defined as revenues, expenses, gains, losses, and comprehensive income?

A) Both IASB and FASB frameworks.

B) IASB framework.

C) FASB framework.

Explanation

The FASB framework lists revenues, expenses, gains, losses, and comprehensive income as elements related to performance. In the IASB framework, elements related to performance are income and expenses.

(Study Session 6, Module 22.2, LOS 22.f)

Question #22 of 29

The process of developing one universally accepted set of accounting standards is *best* described as:

A) unification.

B) convergence.

C) IASB.

Explanation

Developing one universally accepted set of accounting standards is referred to as "convergence." The IASB is an accounting standard setting body involved in the process.

(Study Session 6, Module 22.1, LOS 22.c)

Question #23 of 29

A firm engages in a new type of financial transaction that has a material effect on its earnings. An analyst should *most likely* be suspicious of the new transaction if:

A) management has not explained its business purpose.

B) no accounting standard exists that applies to the transaction.

C) the transaction is not governed by existing regulations.

Explanation

New types of transactions may emerge that are not covered by existing accounting standards or regulations. Analysts should obtain information from a firm's management about the economic substance of such transactions to ensure that they serve a business purpose and have not been created primarily to manipulate the firm's financial statements.

(Study Session 6, Module 22.3, LOS 22.h)

Question #24 of 29

Desirable attributes of accounting standard-setting bodies *least likely* include:

A) operating independently of interested stakeholders.

B) having clear and consistent standard-setting processes.

C) making decisions that are in the public interest.

Explanation

Although standard-setting bodies should not be compromised by special interests, seeking input from stakeholders is considered a desirable attribute.

(Study Session 6, Module 22.1, LOS 22.b)

Question #25 of 29

Which description of the objective of financial statements is *most* accurate? The objective of financial statements is:

A) to provide securities analysts with objective data about a firm’s financial prospects.

B) to provide a wide range of users with information about a firm’s financial prospects.

C) to provide economic decision makers with useful information about a firm’s financial performance and changes in financial position.

Explanation

The objective of financial statements is to provide economic decision makers with useful information about a firm's financial performance and changes in financial position. Assessing its prospects is the responsibility of analysts. Financial statements fall under the purview of the FASB in the US, not the IASB. The SEC does not set the objectives of financial statements, it is a regulatory authority.

(Study Session 6, Module 22.1, LOS 22.a)

Question #26 of 29

Which of the following statements about the elements of financial statements under the FASB and IASB frameworks is *least* accurate?

A) The IASB framework lists income and expenses as the elements related to performance.

B) The IASB framework does not allow the values of assets to be adjusted upward.

C) The word "probable" is used by the FASB to define assets and liabilities.

Explanation

Differences in financial statement elements include: (1) The IASB framework lists income and expenses as the elements related to performance, while the FASB framework uses revenues, expenses, gains, losses, and comprehensive income. (2) FASB defines an asset as a future economic benefit, where IASB defines it as a resource from which a future economic benefit is expected. (3) The word "probable" is used by the FASB to define assets and liabilities. (4) The FASB framework does not allow the values of most assets to be adjusted upward.

(Study Session 6, Module 22.2, LOS 22.f)

Question #27 of 29

Which of the following is *most* likely to be considered a barrier to developing one universally recognized set of reporting standards?

A) GATT already requires sufficient agreement.

B) Different standard-setting bodies of different countries disagree on the best treatment of a particular issue.

C) Reluctance of firms to adhere to a single set of reporting standards.

Explanation

A principal obstacle to agreement on a single set of reporting standards is that various standard-setting bodies and regulatory authorities disagree on what the standards should be. Firms generally support the idea because it would reduce the cost of reporting. GATT is the General Agreement on Tariffs and Trade and does not relate to financial reporting.

(Study Session 6, Module 22.1, LOS 22.c)

Question #28 of 29

According to the IASB conceptual framework, characteristics that enhance relevance and faithful representation include:

A) assurance and understandability.

B) comparability and thoroughness.

C) timeliness and verifiability.

Explanation

The four characteristics that enhance relevance and faithful representation are comparability, verifiability, timeliness, and understandability.

(Study Session 6, Module 22.2, LOS 22.d)

Question #29 of 29

According to the IASB Conceptual Framework for Financial Reporting, one of the qualitative characteristics of financial statements is:

A) timeliness.

B) going concern.

C) faithful representation.

Explanation

In the IASB conceptual framework, the two qualitative characteristics of financial statements are relevance and faithful representation. Timeliness is a characteristic that enhances relevance and faithful representation. Going concern is an underlying assumption of financial statements.

(Study Session 6, Module 22.2, LOS 22.d)