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Chapter 2

True / False

1. Accounting principles are fundamental theories that serve as the basis for financial accounting and reporting.
   a. True
   b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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2. 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
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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3. The primary purpose of financial reporting is to provide useful and relevant information to the internal stakeholders of the company.
   a. True
   b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking

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4. Management's stewardship responsibility is to provide information about how a company's cash flows cause changes in the company's resources and claims to those resources.

a. True
b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
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5. Liquidity increases financial flexibility but reduces both risk and return on investments.

a. True
b. False

ANSWER: True
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
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6. Relevance and faithful representation are the ultimate objectives of accounting information.

a. True
b. False

ANSWER: False
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False

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7. 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
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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8. Oil and gas reserves information would be included within the financial statements.
a. True
b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.5 - LO: 2.5
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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9. Management discussion and analysis would be included in the supplementary information to the financial statements.
a. True
b. False
ANSWER: False
POINTS: 1
DIFFICULTY: Easy

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QUESTION TYPE: True / False
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.5 - LO: 2.5
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Multiple Choice

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

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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11. Which of the following items is included in FASB's conceptual framework of accounting theory?
    a. qualities of useful accounting information
    b. fundamental principles and assumptions that guide financial accounting and reporting
    c. objectives of financial reporting
    d. All of these choices are included in the conceptual framework

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
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12. The accounting projects portion of the FASB's conceptual framework project deals with
    a. which accounting elements should be reported and how they should be measured
    b. which accounting elements should be reported and where the information should be reported
    c. how the accounting elements should be measured and how information should be displayed in financial reports
    d. when accounting elements should be recognized and how information should be displayed in financial reports

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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13. The accounting projects portion of the FASB's conceptual framework project deals with all of the following *except*
    a. how elements should be measured
    b. when various elements should be reported
    c. which accounting elements should be reported
    d. how financial reports should be displayed

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
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14. What is the goal of FASB and IASB in the creation of the conceptual framework?
    a. To develop standards that are internally consistent.
    b. To develop standards that are internationally converged.
    c. To develop standards that lead to financial reporting that provides clear consistent information to capital providers.
    d. All of these choices

ANSWER: d

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POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
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15. The FASB and IASB concluded that the most general objective of financial reporting is to
    a. provide information useful in the decisions made by external users
    b. meet the needs of internal users
    c. provide information about an entity's earnings
    d. provide information about an entity's cash flows

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
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16. According to GAAP, which is *not* a specific objective?
    a. to provide information about an enterprise's cash flows
    b. to provide information that is useful to present to potential investors, creditors, and other users in making rational investment, credit, and similar decisions
    c. to provide information about an enterprise's comprehensive income and its components
    d. to provide information about an enterprise's economic resources, obligations, and owners' equity

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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17. Information about comprehensive income is useful to external users for all of the following purposes *except*
    a. evaluating management's performance
    b. examining cash flows for the current period
    c. predicting future income
    d. assessing the risk of lending to the company

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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18. In its "Objectives of Financial Reporting by Business Enterprises" the FASB identified a variety of primary users including all of the following *except*
    a. internal management
    b. investors
    c. creditors
    d. security analysts

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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19. Which of the following is a specific objective of financial reporting?
    a. provide information that is useful to investors in making investment decisions
    b. provide information useful in assessing the amounts, timing, and uncertainty of prospective cash receipts
    c. provide information useful in assessing the amounts, timing, and uncertainty of prospective cash inflows
    d. provide information about a company's resources and the claims against the company

ANSWER: d
POINTS: 1

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DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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20. Accrual accounting measures and reports the financial effects of a company's transactions
    a. so that the costs of nonoperational events are matched to the balance sheet in the period impacted
    b. to the period in which they occur rather than to when the cash receipts or payment occurs
    c. so that the revenue impact of every transaction in a period is properly reflected in the income statement
    d. so that the impact of every transaction is reflected in the statement of cash flows

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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21. Which of the following statements regarding financial flexibility is true?
    a. It is the ability of a company to provide a return on investment.
    b. It is the ability of a company to take effective actions to insure the return of capital to the company.
    c. It is the ability of a company to adapt to change and take advantage of opportunities.
    d. It is the ability of a company to maintain a given level of operations.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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22. Which of the following types of information was *not* specifically identified by the FASB as being useful in assessing the amounts, timing, and uncertainty of a company's future cash flows?

a. liquidity
b. return on investment
c. operating capability
d. credit standing

ANSWER: d
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
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23. Which qualitative characteristic is an ingredient of relevance?

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

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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24. 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

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25. 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
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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26. In order to be relevant, accounting information should have
    a. timeliness.
    b. verifiability.
    c. confirmatory value.
    d. All of these choices.

ANSWER: c
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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27. Which of the following fundamental qualitative characteristics may have to be sacrificed in order to achieve

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timeliness?

a. relevance
b. verifiability
c. comparability
d. predictive value

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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28. What is the ultimate objective of accounting information?

a. faithful representation
b. decision usefulness
c. relevance
d. predictive value

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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29. Which of the following are considered enhancing characteristics of accounting information?

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

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False

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30. 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
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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31. 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 $7,500,000 payment by an executive of the company to a foreign government to expedite a hostage release 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
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Analyze
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32. The IASB and FASB boards have agreed that the objective of general purpose financial reporting is to provide
    a. financial information about a company that is useful to investors, lenders and other creditors.
    b. mainly cash flow information about a company that is useful to external users in making decisions in their capacity as capital providers.
    c. financial information about a company that is useful to internal users in making decisions in their capacity as capital custodians.
    d. financial information about a company that is used by government regulators for taxation.

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Remember
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33. Similar to the constraints in the FASB's qualitative characteristics, the joint IASB/FASB boards have identified which constraint
    a. consistency.
    b. benefits that justify the costs.
    c. materiality.
    d. objectivity.

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Remember
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34. 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
    a. historical cost principle.
    b. period-of-time assumption.
    c. verifiability principle.
    d. materiality principle.

ANSWER: d

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POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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35. Intracompany comparability would be violated if
    a. a company used LIFO as its inventory cost method while other companies in the same industry used FIFO.
    b. a company changed its bad debts expense estimate from one percent to two percent.
    c. a bank did not classify its assets as current assets and noncurrent assets.
    d. 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
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Analyze
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36. Understandability is a characteristic that is
    a. a secondary and interactive quality.
    b. a threshold for recognition.
    c. an overall quality.
    d. an enhancing quality.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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37. 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

a. financial magnitude of the item.
b. verifiability of the item.
c. neutrality of the item.
d. confirmatory value of the item.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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38. All of the following items are classified as accounting assumptions and conventions *except* for

a. going concern.
b. timeliness.
c. monetary unit.
d. reporting entity.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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KEYWORDS: Bloom's: Remember
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39. The city of Anchorage sold land for its appraised value to the Big Bear Oil Company on June 1, Year 1, that originally cost the city $950,000. On June 1, Year 1, the land was appraised at a value of $1,400,000, and on December 31, Year 1, the land's value was estimated to be $1,450,000. On Big Bear Oil Company's balance sheet at December 31, Year 1, the land should be valued at

a. $1,400,000.
b. $1,450,000.
c. $950,000.

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d. $0.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Comprehension
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Analyze
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40. Using the straight-line method to amortize patents is an application of expense recognition using
a. cause and effect.
b. a systematic and rational allocation over time.
c. immediate consumption.
d. the percentage-of-completion method.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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41. Using an allowance method of accounting to recognize uncollectible accounts receivable is an application of which accounting convention?
a. revenue recognition
b. historical cost
c. matching principle
d. period of time

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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42. 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?

a. going concern
b. verifiability principle
c. entity concept
d. materiality concept

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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43. A company that uses accounting methods in preparing its tax returns that differ from the accounting methods used to prepare its financial statements is

a. in violation of the consistency principle.
b. not necessarily violating either the income tax laws or generally accepted accounting principles.
c. probably guilty of tax evasion.
d. in violation of the relevance assumption.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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44. 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

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b. industry practices
c. reporting entity
d. materiality

ANSWER: c
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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45. 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
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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46. Which of the following sets includes only accounting assumptions?

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, reporting entity, going concern, and recognition

ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4

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47. The use of the historical cost principle is justified because the resulting information has the qualitative characteristics of

a. neutrality and materiality.
b. neutrality and verifiability.
c. timeliness and relevance.
d. verifiability and predictive value.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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48. What additional supplementary information should be included as part of the financial statements under GAAP?

a. Economic statistics
b. Required disclosures
c. Letters to Stockholders
d. Management Discussion and Analysis

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.5 - LO: 2.5
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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49. FASB's financial reporting model identifies which specific financial statements?

a. Statement of Shareholder's Equity
b. Statements of Net Income and Comprehensive Income

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c. Statement of Financial Position
d. All of these choices

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.5 - LO: 2.5
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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50. What sources of information used by external decision making are directly affected by existing FASB standards?
a. Accounting Policies
b. Management Discussion and Analysis
c. Economic Statistics
d. Letters to Stockholders

ANSWER: a
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.5 - LO: 2.5
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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51. What three phases were active under the Joint FASB and IASB convergence project but were put on hold to focus on other convergence topics?
a. Reporting entity, measurement, and presentation and disclosure
b. Framework for a GAAP hierarchy, elements and recognition , and objective and qualitative characteristics
c. Elements and recognition, measurement, presentation and disclosure
d. Measurement, reporting entity, and elements and recognition

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.6 - LO: 2.6
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking

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52. How many phases of the FASB / IASB convergence project are there?

a. 6
b. 8
c. 3
d. over 10

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.6 - LO: 2.6
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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53. The IASB and FASB joint boards have identified the primary user groups of financial information as all of the following *except*

a. equity investors.
b. labor groups.
c. lenders.
d. other creditors (capital providers).

ANSWER: b
POINTS: 1
DIFFICULTY: Easy
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.6 - LO: 2.6
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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54. The joint IASB and FASB boards identified several "enhancing" decision useful characteristics of financial information including

a. comparability, verifiability, timeliness, and understandability.
b. materiality, verifiability, timeliness, and understandability.

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c. comparability, verifiability, timeliness, and materiality.

d. comparability, relevance, timeliness, and understandability.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.6 - LO: 2.6
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Understand
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55. Decision usefulness is the ultimate objective of accounting information. The fundamental characteristics that make accounting information useful for decision making are

a. relevance and faithful representation.

b. relevance and timeliness.

c. comparability and timeliness.

d. faithful representation and verifiability.

ANSWER: a
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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56. Which of the following statements does not describe liquidity?

a. Refers to how quickly a company can convert assets into cash.

b. Comes from a company’s ability to adapt operations to increase net operating cash inflows.

c. Arises from cash inflows in the normal course of business operations.

d. Refers to marketability in noncurrent operating assets.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking

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57. Which of the following statements accurately describes operating capability?

a. Operating capability is a measure of overall company performance for equity shareholders, indicated by a quantity of goods or services in a given period.
b. Operating capability refers to the ability of a company to efficiently produce goods and services for customers and may be indicated by the productive capacity of long-lived assets.
c. Operating capability refers to the uncertainty of the future profitability of a company and is caused by factors such as technological, political, and economic change.
d. Operating capability may be indicated by the efficiency of the production process and comes from a company's ability to raise new capital.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Understand
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58. Which of the following statements accurately describes return on investment?

a. Return on investment provides a measure of overall company performance for equity shareholders, who receive a return on capital from dividends as well as the appreciation of their shares.
b. Return on investment describes the ability of a company to efficiently produce goods and services for customers and is indicated by the productive capacity of long-lived assets.
c. Return on investment is the uncertainty of the future profitability of a company, caused by factors such as technological, political, and economic change.
d. Return on investment refers to how quickly a company can convert assets into cash.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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59. Which of the following statements accurately describes financial flexibility?
    a. Financial flexibility is the ability of a company to efficiently produce goods and services for customers and is indicated by the productive capacity of long-lived assets.
    b. Financial flexibility comes from a company's ability to obtain cash by selling assets without disrupting operations and its ability to efficiently produce goods and services for customers.
    c. Financial flexibility refers to how quickly a company can convert assets into cash.
    d. Financial flexibility is the ability of a company to use its financial resources to adapt to change and comes from a company's ability to raise new capital.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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60. The Conceptual Framework establishes
    a. the usefulness of information.
    b. the resources and claims of a company.
    c. the objectives of financial reporting.
    d. faithful representation.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Understand
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61. Accounting information that is complete, neutral, and free from error is:
    a. material.
    b. predictive.
    c. a faithful representation.
    d. consistent.

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ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Understand
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62. Return on investment
    a. is the uncertainty or unpredictability of the future profitability of a company.
    b. is the ability of a company to take effective actions to change the amounts and timing of cash flows.
    c. provides a measure of overall company performance for equity shareholders.
    d. refers to how quickly a company can convert its assets into cash to meet short-term obligations and cover costs.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Understand
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63. Which statement best describes financial flexibility?
    a. It provides a measure of overall company performance for equity shareholders.
    b. It is the uncertainty or unpredictability of the future profitability of a company.
    c. It is the ability of a company to take effective actions to change the amounts and timing of cash flows.
    d. It refers to how quickly a company can convert its assets into cash to meet short-term obligations and cover costs.

ANSWER: c
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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KEYWORDS: Bloom's: Understand
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64. GAAP states that the two primary qualitative characteristics that make accounting information useful for decision-making purposes are

a. timeliness and materiality.
b. relevance and faithful representation.
c. predictive value and confirmatory value.
d. decision usefulness and materiality.

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Understand
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65. Corporations prepare quarterly financial statements in order to help achieve

a. timeliness.
b. faithful representation.
c. confirmatory value.
d. materiality.

ANSWER: a
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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66. Expensing the purchase of wastepaper baskets that have a three-year estimated useful life at the date of acquisition is a permissible procedure according to the constraint of

a. timeliness.
b. faithful representation.
c. predictive value.

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d. materiality.

ANSWER: d
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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KEYWORDS: Bloom's: Understand
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67. A company has purchased land in Year 1 for $500,000 and reports the land at the same amount on its Year 30 balance sheet. Which principle of accounting is being illustrated?

a. Reporting entity assumption
b. Historical cost principle
c. Conservatism
d. Matching principle

ANSWER: b
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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KEYWORDS: Bloom's: Understand
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68. On their year-end balance sheet, Playground Equipment Corporation has reported its inventory at market value, which is greater than cost. As a result of this procedure, a gain is recognized on the company's income statement. Which accounting assumptions and/or principles have been violated?

a. Conservatism, historical cost, revenue recognition
b. Reporting entity, disclosure
c. Matching, consistency, historical cost
d. Materiality, consistency

ANSWER: a
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4

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69. Mrs. Devlin, the president of ABC Industries, has purchased an automobile for her son using the company's money. The company's accountant records the expenditure as a salary expense. Which accounting assumptions and/or principles have been violated?

a. Disclosure, matching
b. Reporting entity
c. Consistency
d. Matching, conservatism

ANSWER: b
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Analyze
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70. Playground Equipment Corporation has reported income from operations of $5,000,000 for the current year. During the year, the CEO 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 is reported as a miscellaneous expense with no footnotes provided. Which accounting assumptions and/or principles have been violated?

a. Revenue recognition, conservatism
b. Historical cost, matching
c. Materiality, disclosure
d. Materiality, reporting entity

ANSWER: c
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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71. Playground Equipment is going to issue additional common stock next year. In order to improve its income, the company has switched from the LIFO inventory cost flow method to FIFO. The company has not disclosed the accounting change. Comparative financial statements were prepared. Which accounting assumptions and/or principles have been violated?

a. Consistency, disclosure
b. Materiality, historical cost
c. Consistency, reporting entity
d. Conservatism, revenue recognition

ANSWER: a
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Analyze
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72. J&S Development Company has spent $3,000,000 in 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 have been expensed as maintenance. Which accounting assumptions and/or principles have been violated?

a. Historical cost, reporting entity
b. Materiality, disclosure
c. Conservatism
d. Matching

ANSWER: d
POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Multiple Choice
HAS VARIABLES: False
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS: Bloom's: Analyze
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Subjective Short Answer

73. GAAP identifies the main qualitative characteristics of useful accounting information as Relevance, Faithful Representation, and Enhancing Characteristics. For each of the descriptive phrases given below, identify if the situation would be classified as Relevance, Faithful Representation, or Enhancing Characteristics.

1. Information is made available to decision makers in time to influence their decisions.

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2. Measurement results can be independently duplicated.
3. Accounting information should help users form expectations about the future.
4. Accounting policies and procedures remain unchanged from period to period.
5. Accounting information is reported the same way by different companies.
6. Information is complete and free from errors.
7. Information is verifiable.

ANSWER: 1. Enhancing characteristics
2. Enhancing characteristics
3. Relevance
4. Enhancing characteristics
5. Enhancing characteristics
6. Faithful representation
7. Enhancing characteristics

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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74. For each inappropriate accounting procedure below, determine which principle(s) or assumption(s) has been/have been violated.

a. 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.
b. The company has delayed issuing its annual financial statements in order to include a large sale expected early in the next year.
c. The market value of the company's inventory has declined sharply. The president, optimistically predicting a rise in value, insists that the inventory be reported at its historical cost.
d. The market value of the company's large inventory has risen sharply. The inventory is reported on the balance sheet at current market value.

ANSWER:
a. Revenue recognition
b. Revenue recognition and matching principle
c. Conservatism
d. Historical cost, revenue recognition, and conservatism

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4

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75. For each type of information used in external decision making listed below, determine the most likely source from the following options: financial statements, notes to financial statements, supplementary information, or other sources.

1.Changing prices disclosures
2. Statement of Shareholders' Equity
3. Accounting policies
4. News article about the company
5. Statement of Financial Position
6. Inventory methods
7. Analyst reports

ANSWER:	1. Supplementary information 2. Financial statements 3. Notes to financial statements 4. Other sources 5. Financial statements 6. Notes to financial statements 7. Other sources
POINTS:	1
DIFFICULTY:	Challenging
QUESTION TYPE:	Subjective Short Answer
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	ACCT.WAHL.24.2.5 - LO: 2.5
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS:	United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS:	Bloom's: Understand
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76. 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
QUESTION TYPE:	Subjective Short Answer

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HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default City - AICPA: FN-Decision Modeling
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77. Discuss the purpose of the Conceptual Framework.
ANSWER: The Conceptual Framework is intended to:

- guide the FASB in establishing an 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
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
NATIONAL STANDARDS: United States - NAT: - BUSPROG: Reflective Thinking
LOCAL STANDARDS: United States - OH - Default - AICPA - FN-Reporting
KEYWORDS: Bloom's: Analyze
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78. 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 investing in, or lending to, the company

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
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79. 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
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.2 - LO: 2.2
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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KEYWORDS: Bloom's: Understand
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80. 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 regard to financial statements. This is an entity specific characteristic.
POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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81. 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
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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82. 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
accrual accounting
conservatism

POINTS: 1
DIFFICULTY: Moderate
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
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83. 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.

Immediate consumption means that 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
QUESTION TYPE: Subjective Short Answer
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.4 - LO: 2.4
NATIONAL STANDARDS: United States - NAT: - BUSPROG: Reflective Thinking
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84. The Framework of Financial Reporting 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

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LEARNING OBJECTIVES:	ACCT.WAHL.24.2.4 - LO: 2.4
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85. 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
QUESTION TYPE:	Subjective Short Answer
HAS VARIABLES:	False
STUDENT ENTRY MODE:	Basic
LEARNING OBJECTIVES:	ACCT.WAHL.24.2.5 - LO: 2.5
NATIONAL STANDARDS:	United States - BUSPROG: Reflective Thinking - BUSPROG: FN: Reflective Thinking
LOCAL STANDARDS:	United States - OH - Default City - AICPA: FN-Decision Modeling
KEYWORDS:	Bloom's: Understand
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Essay

86. 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, stating that "accounting, like any other discipline, benefits from having a coherent theory."

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Chapter 2

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
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
NATIONAL STANDARDS: United States - BUSPROG: Communications
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87. 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
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.1 - LO: 2.1
ACCT.WAHL.24.2.2 - LO: 2.2
ACCT.WAHL.24.2.3 - LO: 2.3
ACCT.WAHL.24.2.4 - LO: 2.4
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Chapter 2

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88. 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
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
NATIONAL STANDARDS: United States - BUSPROG: Communications
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89. The Conceptual Framework includes two "fundamental qualitative characteristics" that must be present for financial reporting information to be useful.

Required:

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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, and materiality.

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
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.3 - LO: 2.3
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90. 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 well-being of the company. The model also suggests areas in which investors, creditors, and lenders can find additional company information.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
LEARNING OBJECTIVES: ACCT.WAHL.24.2.5 - LO: 2.5
NATIONAL STANDARDS: United States - BUSPROG: Communications
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Chapter 2

91. Your CEO believes there is little use for accounting figures based on historical costs and that fair values are of far more significance to the board of directors than "out-of-date costs."

Required:

Present some arguments to convince your CEO 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.
- Ccomparison with other companies is facilitated if cost is employed.
- The costs of obtaining fair values may outweigh the benefits derived.

POINTS: 1
DIFFICULTY: Challenging
QUESTION TYPE: Essay
HAS VARIABLES: False
STUDENT ENTRY MODE: Basic
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