Intermediate Accounting Volume 1 (Canadian) 8th edition Beechy Test Bank

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Intermediate Accounting Volume 1 8th Edition by Beechy Ch01

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) The main purpose of financial accounting is to communicate useful financial information to decision-makers both inside and outside of the business organization.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Topic : 01-18 General Purpose Financial Reporting
Bloom's : Remember
Difficulty : Easy

2) The Canadian Business Corporations Act mandates that all incorporated companies in Canada follow IFRS.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-04 Organization
Topic : 01-05 Adopt, Adapt, or Converge?

3) Private companies in Canada may choose between IFRS or ASPE.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-11 Accounting Standards for Canadian Private Enterprises

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4) Canada has adapted its own pre-existing standards for public companies to IFRS, while the U.S has adopted IFRS completely.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-03 IFRS Overview

5) A disclosed basis of accounting (DBA) is acceptable if a company's financial statements are prepared solely for internal use.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-14 Using a Disclosed Basis of Accounting

6) Only publicly traded companies in Canada are required to adopt IFRS.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-04 Organization
Topic : 01-05 Adopt, Adapt, or Converge?

7) Earnings quality is said to be high when most of a company's earnings are the result of its continuing operations.

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◎ true
◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Topic : 01-24 Earnings Quality

8) Income tax deferral is illegal in Canada.

◎ true
◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Topic : 01-17 Objectives of Financial Reporting

9) In Canada, income for tax and accounting purposes may be different.

◎ true
◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Topic : 01-27 Financial Reporting versus Income Tax Reporting

10) External users of a company's financial statements may have conflicting objectives.

◎ true
◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Recognize the financial reporting motivations of preparers.
Learning Objective : 01-05 Recognize the existence of conflicting objectives in financial reporting.
Topic : 01-19 Users
Topic : 01-46 Conflicting Objectives

11) In Canada, IFRS standards were essentially converged with Canadian GAAP.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-03 IFRS Overview

12) A company's functional currency is always the currency in which the financial statements are presented.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-10 Reporting Currency
Difficulty : Medium

13) It is acceptable for publicly traded Canadian companies to report under US GAAP.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-08 Choice of GAAP

14) In Canada, almost all equity financing for both public and private companies is done through private placements.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-12 Using IFRS

15) IFRS standards may be modified to allow for a disclosed basis of accounting (DBA).

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-14 Using a Disclosed Basis of Accounting
Difficulty : Medium

16) Privately held for-profit enterprises with a fiduciary responsibility have a choice between IFRS and ASPE.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-07 Accounting Standards for Canadian Publicly Accountable Enterprises

17) Mutual fund companies, which may be privately held, are deemed to have a fiduciary responsibility and must therefore comply with IFRS.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-07 Accounting Standards for Canadian Publicly Accountable Enterprises

18) Canadian companies must always present their financial results in Canadian dollars.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-10 Reporting Currency
Difficulty : Medium

19) Canadian corporations are prohibited from using U.S. GAAP.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-08 Choice of GAAP

20) A company's reporting currency is the currency in which it conducts most of its business.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-10 Reporting Currency
Difficulty : Medium

21) The disclosed basis of accounting (DBA) refers to the use of Non-GAAP accounting policies by private companies.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-14 Using a Disclosed Basis of Accounting
Difficulty : Medium

22) A company's presentation currency can differ from its functional currency.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-10 Reporting Currency
Difficulty : Medium

23) The accounting standards for private enterprises (ASPE) are essentially a scaled-down version of the CPA Handbook, which is available to all small and medium sized enterprises with no fiduciary responsibility.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-13 Using ASPE
Difficulty : Hard

24) Different stakeholders have different reporting requirements with respect to general-purpose financial statements. A lender will be more interested in a company's cash flows while an investor will likely be more interested in a company's earnings.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Topic : 01-18 General Purpose Financial Reporting
Bloom's : Remember
Difficulty : Hard

25) The influence of tax rules when selecting appropriate accounting treatment for a transaction is particularly strong with public companies.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-26 Income Tax Deferral

26) Due to the excellent work of the ACSB, there are very few choices among alternative accounting policies today.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-01 Accounting Standards in Canada

27) Cash flow prediction is a common internal user reporting objective.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-22 Assessing and Predicting Cash Flows

28) Disclosure notes facilitate the evaluation of enterprise position and performance because they include information, which helps to explain qualitative aspects of earnings.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-04 Recognize the financial reporting motivations of preparers.
Difficulty : Medium
Topic : 01-21 External-User Objectives

29) A company that chooses to expense development cost instead of capitalizing is perceived to have high-quality earnings.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Topic : 01-24 Earnings Quality
Difficulty : Hard

30) Lending institutions such as banks are most interested in a company's profitability ratios.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Topic : 01-22 Assessing and Predicting Cash Flows

31) Developments in accounting standards have not addressed the problem of using accounting techniques to smooth earnings.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-04 Recognize the financial reporting motivations of preparers.
Difficulty : Medium
Topic : 01-40 Income Smoothing

32) Management will choose policies that focus more on accrual basis of accounting when cash flow assessment and prediction is a key objective.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Hard
Topic : 01-22 Assessing and Predicting Cash Flows
Bloom's : Analyze

33) Private companies can amortize their capital assets using the CCA basis.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Topic : 01-27 Financial Reporting versus Income Tax Reporting
Difficulty : Medium
Bloom's : Analyze

34) A company interested in minimizing the amount of taxes it pays would defer revenue into later years.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Hard
Bloom's : Analyze
Topic : 01-30 Effect on Financial Reporting Choices

35) Tax deferral objective is in the best interest of lenders and creditors but may lead to poorer reported earnings and better cash flow.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-30 Effect on Financial Reporting Choices

36) The CPA Canada Handbook requires that income for tax purposes be equal to a company's accounting income at all times.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-28 Tax-Book Conformity

37) The Accounting Standards Board (ACSB) is an independent group established to promulgate accounting standards for governmental units such as provincial and civic entities.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-02 Authoritative Source of Canadian Standards

38) The International Accounting Standards Board is responsible for the creation of International Financial Reporting Standards used by companies whose securities are traded on international markets.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-02 Authoritative Source of Canadian Standards

39) A company interested in increasing debt-to-equity ratio will prefer to capitalize than expense the development cost.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Hard
Bloom's : Analyze
Topic : 01-32 Effect on Financial Reporting Choices

40) Interperiod allocation makes it easier for financial statement readers to see how management is managing the funds entrusted to its care.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-34 Effect on Financial Reporting Choices

41) A German company uses IFRS when reporting their consolidated results so it is straightforward to compare their IFRS results to a Canadian competitor who also uses IFRS.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-05 Adopt, Adapt, or Converge?
Difficulty : Medium

42) ASPE required companies to report using their functional currency and present using a presentation currency.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-08 Identify differences between ASPE and IFRS related to the framework for fi
Topic : EMPTY

43) The move to IFRS may still incentivize management to take a big bath since IFRS requires assets to be written up if fair value recovers in future years.

- ◎ true
- ◎ false

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-04 Recognize the financial reporting motivations of preparers.
Difficulty : Medium
Topic : 01-43 The "Big Bath"

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

44) If cash flow prediction is a company's primary reporting objective, this would likely result in:

A) Higher earnings.
B) Lower earnings.
C) Poor matching.
D) Fewer accruals and deferrals.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-22 Assessing and Predicting Cash Flows

45) Generally accepted accounting principles currently are promulgated primarily by the:

A) Canadian Business Corporations Act (CBCA).
B) Federal Accounting Standard Board (FASB).
C) International Accounting Standards Board (IASB).
D) Accounting Standards Board (AcSB).

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-02 Authoritative Source of Canadian Standards

46) External decision-makers include all of the following except:

A) manager
B) investor
C) creditor
D) employee

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Bloom's : Remember
Topic : 01-19 Users
Difficulty : Medium

47) The users toward which financial statements are directed:

A) are very sophisticated and experienced in using financial information.
B) are independent Public Accountants.
C) have degrees in accounting and finance.
D) have a reasonable understanding of business and economic activities.
E) are Chartered Financial Analysts.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Bloom's : Remember
Difficulty : Medium
Topic : 01-09 Legal and Regulatory Requirements

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48) General-purpose financial statements report financial information relevant to:

A) investor only.
B) creditor only.
C) government user only.
D) investor, creditor and government user.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Topic : 01-18 General Purpose Financial Reporting
Bloom's : Remember
Difficulty : Medium

49) Users of financial statements can generally be broken down into which of the following two categories:

A) Government and external users.
B) Government and investor.
C) Creditor and Investor.
D) External users and preparers.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Bloom's : Remember
Topic : 01-19 Users
Difficulty : Medium

50) What is the purpose of financial statements?

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A) To disclose the market value of the firm's assets and liabilities.
B) To determine compliance with tax laws.
C) To identify shareholders.
D) To help users make decisions.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Topic : 01-18 General Purpose Financial Reporting
Bloom's : Remember
Difficulty : Easy

51) Choose the correct statement about audits of corporations:

A) Outside auditors are paid by the government for auditing the financial statements of corporations.
B) Revenue Canada performs audits of corporations' financial statements.
C) Public corporations (those whose stock are traded on exchanges) are subject to annual audit as to their compliance with GAAP.
D) It is the employees of the firm being audited who perform the annual audit of the financial statements of that firm.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-03 IFRS Overview
Difficulty : Hard
Topic : 01-02 Authoritative Source of Canadian Standards

52) Which approach did Canada take when they implemented IFRS?

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A) adapt
B) adopt
C) converge
D) All these above
E) None of the above

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-05 Adopt, Adapt, or Converge?
Difficulty : Medium

53) The stewardship function refers to:

A) Disclosing management's use of funds and other financial information to absentee shareholders.
B) A company's corporate citizenship track record.
C) The collection of information for planning the future of the entity, implementing those plans, and for controlling daily operations.
D) The collection of information to help present and potential investor and creditor and other users in assessing the amounts, timing and uncertainty of prospective cash receipts.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Hard
Topic : 01-33 Stewardship

54) The primary responsibility of an independent auditor who is a professional accountant is to:

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A) Prepare or make changes to source documents.
B) Assess whether the management is honest.
C) Evaluate the "fair presentation" of the company's financial reports.
D) Prepare current financial reports for the client.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-37 Role of Auditor

55) Professional accountants need a wide range of knowledge and skills. Which of the following is not an example of such knowledge or skills?

A) An ability to calculate and analyze data, and a facility with numbers.
B) Knowledge of many disciplines such as finance, economics, management, marketing and statistics.
C) An ability to communicate in a concise and understandable manner.
D) Skills derived from prior management experience.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-37 Role of Auditor

56) Which of the following statements regarding cash flows is not accurate?

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A) Before the present cash flow statement standard became effective, companies had a choice of whether to report cash flow from operating activities or working capital from operating activities.

B) Studies have shown that a cash flows report is more relevant to investor decisions than a working capital report.

C) The reported cash flow from operating activities has been found useful in evaluating a firm's ability to make interest payments and repay debt.

D) Information about past cash flows is useful in predicting an entity's future cash flows.

E) Information about the balances of current liabilities, long-term debt and stockholders' equity can be found in the statement of cash flows.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-22 Assessing and Predicting Cash Flows

57) The stewardship function is reflected by:

A) Minimizing interperiod allocations only.
B) Performance evaluation.
C) Full disclosure only.
D) Performance evaluation and minimizing interperiod allocations.
E) Full disclosurei.e transparency and minimizing interperiod allocations.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-33 Stewardship

58) Which of the following is NOT a primary motivator for maximizing net income?

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A) Compliance with debt covenants.
B) To positively influence users' assessment of management performance.
C) To enhance managers' performance-based compensation.
D) To minimize the company's income tax liability.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Hard
Topic : 01-38 Preparer Motivations

59) Which policy would management choose if they're interested in maximizing current earnings?

A) gross revenue accounting instead of accounting revenue on a net basis
B) accruing expense as early as possible
C) write-down of capital assets
D) All these above
E) None of the above

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-04 Recognize the financial reporting motivations of preparers.
Difficulty : Hard
Bloom's : Analyze
Topic : 01-41 Maximizing Earnings

60) Which financial reporting objective is met when management defers expense to a later period instead of expensing immediately?

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A) maximize future income
B) maximize current income tax
C) cash flow prediction
D) All these above
E) None of the above

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Hard
Bloom's : Analyze
Topic : 01-25 Effect on Financial Reporting Choices

61) Which of the following are not users of the financial statements?

A) owners
B) auditors
C) government agencies
D) banks

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-37 Role of Auditor

62) Which of the following helps better predict cash flow?

A) writing off assets down to recoverable amount
B) revalue asset at its fair value
C) recording revenue in line with cash receipt
D) None of the above
E) All these above

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Hard
Bloom's : Analyze
Topic : 01-32 Effect on Financial Reporting Choices

63) Which of the following helps minimize current income tax?

A) deferring expense to match revenue
B) recording revenue as soon as cash is received
C) deferring revenue to a later period
D) capitalizing cost instead of expensing

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Hard
Topic : 01-26 Income Tax Deferral
Bloom's : Analyze

64) Which of the following financial statements are required for companies adhering to IFRS but not ASPE?

A) Statement of Comprehensive Income
B) Statement of Financial Position
C) Statement of Cash Flows
D) Statement of Retained Earnings

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Medium
Learning Objective : 01-06 List the required financial statements under IFRS.
Topic : 01-47 Required Financial Statements Under IFRS

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65) Which private company would benefit from using ASPE rather than IFRS?

A) company with a control block who owns the majority of the business
B) company with operations internationally
C) company interested in debt/equity financing in the external market
D) company whose parent company is a major public corporation

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Topic : 01-11 Accounting Standards for Canadian Private Enterprises
Difficulty : Hard
Bloom's : Analyze

66) A company will choose straight line than declining balance depreciation because it is interested in the following objective:

A) high earnings quality.
B) tax-book conformity.
C) evaluating management's performance.
D) complying with the covenant to maintain high times-interest-earned ratio.
E) None of the above

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Topic : 01-17 Objectives of Financial Reporting
Difficulty : Hard
Bloom's : Analyze

67) The disclosed basis of accounting refers to

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A) the use of non-GAAP policies by private companies.
B) the use of non-GAAP policies by any company.
C) the use of International Financial Reporting Standards.
D) the practice of disclosing all pertinent accounting policies in a company's annual report.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-14 Using a Disclosed Basis of Accounting
Difficulty : Medium

68) Private placements refer to:

A) funds not disclosed by private companies.
B) debt or equity securities issued to individuals or organizations without being listed with a securities commission.
C) shares that form part of a control block.
D) indirect negotiation with the one or more creditors.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-13 Using ASPE

69) Which of the following statement(s) is(are) correct?

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A) Companies that use the disclosed basis of accounting are in effect using differential reporting.

B) Companies that use the disclosed basis of accounting are NOT allowed to use differential reporting.

C) When used, the disclosed basis of accounting must comply with GAAP.

D) Both "companies that use the disclosed basis of accounting are NOT allowed to use differential reporting" and "when used, the disclosed basis of accounting must comply with GAAP" are correct.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-45 Expanded Disclosure

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

70) Please explain the accounting framework to be used by public, private and publicly accountable enterprises. Why would companies choose one framework over the other?

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Difficulty : Medium
Topic : 01-08 Choice of GAAP
Bloom's : Apply

71) Please explain the concept of functional and presentation currency and whether the requirements are the same/different under IFRS and ASPE.

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-10 Reporting Currency
Difficulty : Medium
Bloom's : Apply

72) Discuss the reasons why a corporation would have the motive or the tendency to adopt the same accounting practices for financial reporting purposes as for tax reporting.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Hard
Topic : 01-28 Tax-Book Conformity
Bloom's : Apply

73) What kind of forces shape a company's financial reporting objectives and why are they important consideration?

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Topic : 01-17 Objectives of Financial Reporting
Difficulty : Medium
Bloom's : Apply

74) Please provide examples of the various types of key financial reporting objectives and which users would those objectives be aligned with?

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-05 Recognize the existence of conflicting objectives in financial reporting.
Difficulty : Hard
Topic : 01-26 Income Tax Deferral
Topic : 01-22 Assessing and Predicting Cash Flows
Topic : 01-33 Stewardship
Bloom's : Apply
Topic : 01-31 Contract Compliance
Topic : 01-35 Performance Evaluation

75) Give two examples of conflicting motivation between various users. Why is it important to pay attention to the conflict in objectives?

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-05 Recognize the existence of conflicting objectives in financial reporting.
Topic : 01-46 Conflicting Objectives
Difficulty : Medium
Bloom's : Apply

76) Creditors and analysts who attempt to assess and predict future cash flows tend to prefer earnings measures that are supported by operating cash flows taken from the Cash Flow Statement. What comparisons do they use in assessing the entity's strength in respect of operating cash flows?

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Topic : 01-10 Reporting Currency
Difficulty : Medium
Bloom's : Apply

77) Give examples of provisions, known as maintenance tests or covenants which are often contained in debt contracts or agreements.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe the objectives of financial reporting.
Difficulty : Medium
Bloom's : Apply
Topic : 01-06 Translations and Authority

78) Instead of maximizing reported earnings, management may wish to minimize reported earnings an ongoing endeavour. Besides income tax minimization, what are some of the reasons why management would want to minimize earnings?

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-03 Recognize the financial reporting needs of external users.
Difficulty : Medium
Topic : 01-09 Legal and Regulatory Requirements
Bloom's : Apply

79) Briefly explain how the CRA's (Revenue Canada) view differs from most GAAP based policies in terms of revenue recognition

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Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Learning Objective : 01-05 Recognize the existence of conflicting objectives in financial reporting.
Difficulty : Medium
Topic : 01-26 Income Tax Deferral
Topic : 01-01 Accounting Standards in Canada
Bloom's : Apply

80) Do you think that most companies in the oil sector would adopt expanded disclosure policies or simply adhere to minimum compliance requirements? Explain.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-04 Recognize the financial reporting motivations of preparers.
Difficulty : Medium
Topic : 01-45 Expanded Disclosure
Bloom's : Apply
Topic : 01-44 Minimum Compliance

81) Explain the differences between the adoption, adaption and convergence of accounting standards.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-01 Identify the various accounting standards used by Canadian entities.
Topic : 01-05 Adopt, Adapt, or Converge?
Difficulty : Medium
Bloom's : Apply

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82) Give two reasons why managers may have a bias toward smoothing earnings, and give two examples stating how this is achieved in practice.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-04 Recognize the financial reporting motivations of preparers.
Difficulty : Medium
Topic : 01-40 Income Smoothing
Bloom's : Apply

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Intermediate Accounting Volume 1 8th Edition by Beechy Ch01
Answer Key

Test name: Ch01

1) TRUE
2) FALSE
3) TRUE
4) FALSE
5) TRUE
6) FALSE
7) TRUE
8) FALSE
9) TRUE
10) TRUE
11) FALSE
12) FALSE
13) TRUE
14) FALSE
15) FALSE
16) FALSE
17) TRUE
18) FALSE
19) FALSE
20) FALSE
21) TRUE
22) TRUE
23) TRUE
24) TRUE
25) FALSE

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26) FALSE
27) FALSE
28) TRUE
29) TRUE
30) FALSE
31) FALSE
32) FALSE
33) TRUE
34) TRUE
35) TRUE
36) FALSE
37) TRUE
38) TRUE
39) FALSE
40) FALSE
41) FALSE
42) FALSE
43) FALSE
44) D
45) D
46) A
47) D
48) D
49) D
50) D
51) C
52) A
53) A
54) C
55) D

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56) E
57) E
58) D
59) E
60) E
61) B
62) C
63) C
64) A
65) A
66) D
67) A
68) B
69) B
70) Public companies and publicly accountable enterprises must comply with IFRS.
Private companies have the option of using IFRS, ASPE or disclosed basis of accounting. They may choose to use IFRS instead of ASPE as:

- The company is a subsidiary of a public parent
- The company may intend to issue shares or debt to the public in the future
- The controlling shareholders any intend to sell the company in the near future

Disclosed basis of accounting might be useful when the company is preparing non-GAAP statements for a limited set of users.

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71) Under IFRS, functional currency is the currency in which most of a company's transactions are conducted. Presentation currency is the currency in which the financial statements are presented. Both currencies do not have to be the same so a company that mostly transact in US dollar can use US dollar as its functional currency. It can use Canadian dollar as its reporting currency if it's more useful to the users. IFRS requires companies to report using their functional currency and specify that they must present using a presentation currency.
ASPE does not have either concepts.

72) The term used to for adopting the same accounting practices for financial reporting purposes as for tax reporting is book-tax conformity. Many accountants feel that disclosure of variations between tax and book reporting on the tax return is a "red flag" for Revenue Canada and invites a tax audit. Examples would include the deferral of revenues and the acceleration of expense recognition. Revenue Canada generally takes a dim view of a corporation's recognizing revenue in the income statement while deferring recognition for tax purposes.

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73) These are the forces that shape a company's financial reporting objectives:

• The *facts* of the company's operations—for example, the sources of its capital; whether it is a public or private enterprise; the length of its operating cycle; the volatility (and predictability) of its revenues and costs.
• The financial reporting *constraints* facing the company—for example, whether an audit is required; whether the audit report must have an unqualified opinion; whether there are regulatory or statutory requirements to meet.
• The *power* of the users—for example, the ability of users such as securities regulators, major lenders, or shareholders to enforce their needs over those of other users or the managers.
• The needs of the financial statement *users*—for example, cash flow prediction; contract compliance; management performance.
• The motivations or objectives of the *preparers* (i.e., the managers)—for example, to minimize current taxes payable; to reveal as little about the company as possible; to show a smooth growth in earnings.
It is important to keep these factors in mind because to be useful to the users, the financial statements must convey information that is useful for their decision making purposes. These purposes may vary widely, and information suitable for one purpose might not be suitable for another. The choices of accounting policy, estimates and disclosures are impacted by the financial reporting objective(s) chosen by preparers of the financial statements, who will consider their key users in making that assessment/determination.

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74) - Assess and predict cash flow - helpful for investor and creditor who are most interested in predicting the ability of the company to earn sufficient income and generate sufficient cash flows in the future to be able to pay the company's obligations and to provide a return to shareholders.
- Income tax deferral - mostly used by private company/owner-manager who have independent sources of information about the company. This objective may be in the interest of bankers and creditors but they must recognize that the reporting earnings under this objective will look poorer even though the cash flow will be better
- Contract compliance - for investor and creditor to assess the company's ability to comply with the requirements of the contracts
- Stewardship - if there is a government or another body who have entrusted the financial statements in the care of management
- Performance evaluation - if management's bonus is dependent on this
- Earnings management - maximize earnings if management's bonus is dependent on it; minimize earnings to detract competitors to enter the business/prevent hostile bid/takeover; big bath when management wants to maximize a loss in one year to maximize earnings in another year

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75) Two examples:

- Management wants to maximize net income for bonus but may want to minimize net income to pay less tax to the CRA
- Management may be incentivized to minimize earnings to discourage takeover bids but owners may want to maximize earnings if they're interested to sell the companies to the highest bidder.

It is important to pay attention to the various users and preparers of the financial statements as their objectives may be desirable on its own but they will conflict. The choice of financial reporting objectives will have implication on the accounting policy chosen. It will also impact estimates/disclosures, for which there is a need to exercise judgement. Therefore, it is very important to pay attention to the conflict to make sure that the financial statements are presented fairly.

76) Creditors and analysts often use the reported cash flow from operations to calculate cash flow per share. They compare the operating cash flow per share with the earnings per share and conclude that if there is a higher degree of correspondence between the two measures, the company has high quality earnings. If there is a wide disparity between the two, then the company is said to have low quality earnings.

77) a) maximum debt: equity ratio
b) a maximum percentage of dividend pay-out
c) a minimum times-interest-earned ratio
d) a minimum level of shareholders' equity

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78) a) to avoid public embarrassment by reducing a high level of reported earnings.
b) to avoid attracting competitors into a very lucrative business.
c) to discourage hostile take-over bids.
d) to avoid the scrutiny of regulators or politicians; or
e) to discourage large wage claims (or to justify initiatives for wage reductions and cutbacks).

79) Most GAAP-based policies recognize revenues as they are earned. In general, CRA takes the view that revenues are to be taxed when they are collected, while expenses are deductible for tax purposes when paid. Essentially, CRA works on the "cash basis" while most GAAP policies are "accrual" based.

80) Students' answers are sure to vary here, and for this reason this would be a good question for class-discussion purposes. While many responses may be valid, it can be argued that oil companies would be under enormous pressure to disclose as much information about their activities as possible. Rightly or wrongly, oil companies are often thought to be exploiting the environment for their own benefit. Moreover, many consumers still believe that they are being "gouged" by these companies. As a result, companies in the oil sector are not viewed favourably by many people. As a result of these negative perceptions, these companies would feel pressured to provide expanded disclosures in their annual reports, to show that they are good corporate citizens.

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81) Adoption refers to the acceptance of a new set of accounting standards, as is, without modification or an intervening approvals process. Canada took this approach when adopted IFRS in 2011. The IFRS standards effectively became Part I of the CICA Handbook. Adaption is similar to adoption with one exception. While a new set of standards may be adopted, certain standards may be changed or modified (adapted) to suit the specific environment of the nation that is endorsing these standards. Convergence is the process whereby a nation modifies its own standards to be consistent with an international standard. While the U.S did not "officially" adopt IFRS, many U.S. GAAP standards are now the same as (converged with) their IFRS counterparts.

82) Income smoothing is performed:

a. To reduce a company's perceived risk due to earnings volatility.
b. To try to show a smooth upward trend in earnings.
Income smoothing may be accomplished by accruing or deferring revenues and expenses (recognizing revenues and systematically over time). Income smoothing may also be accomplished by adjusting estimates upwards or downwards within an acceptable range.

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