Modern Advanced Accounting In Canada (Canadian) 10th edition Herauf Test Bank

SKU: 9781260881295-TEST-BANK

Modern Advanced Accounting In Canada 10th Edition by Herauf Ch01

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

1) Rate-regulated companies are permitted to use U.S. GAAP because IASB has not yet developed its own standards.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe how accounting standards in Canada are tailored to different type
Topic : 01-04 GAAP for Publicly Accountable Enterprises
Bloom's : Remember
Difficulty : Easy

2) ASPE is often different than IFRS due to the cost of preparing financial statements to comply with complex standards being greater than the benefit received by users of those statements.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe how accounting standards in Canada are tailored to different type
Bloom's : Remember
Difficulty : Easy
Topic : 01-05 GAAP for Private Enterprises
Topic : 01-06 Differences Between IFRS and ASPE

3) IAS 1 has a mandatory requirement that Canadian companies use the titles balance sheet or income statement for their financial statements.

- ◎ true
- ◎ false

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Describe and apply the conceptual framework for financial reporting.
Topic : 01-01 The Conceptual Framework for Financial Reporting

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

4) In which of the following situations would professional judgment NOT be required in decision making?

A) Recognition of revenue.
B) The making of accounting estimates.
C) Disclosure of information in the notes to the financial statements.
D) Use of IFRS or ASPE for publicly traded companies in Canada.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Describe and apply the conceptual framework for financial reporting.
Topic : 01-02 Professional Judgment

5) Which of the following statements pertaining to generally accepted accounting principles (GAAP) is INCORRECT?

A) The process of developing GAAP is political.
B) If a proposal for a new financial reporting is not accepted by users, it is unlikely to become part of GAAP.
C) If an entity that follows GAAP encounters transactions that are not addressed by the CPA Canada Handbook, it is permitted to adopt accounting practices that are consistent with industry practice.
D) Publicly traded companies are required to submit financial statements that comply with GAAP to the securities commissions under which they are registered.

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Question Details
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Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Describe and apply the conceptual framework for financial reporting.
Topic : 01-01 The Conceptual Framework for Financial Reporting

6) Which of the following examples does NOT demonstrate the interrelationships of financial statement elements?

A) A sale on account will increase assets and equity.
B) Depreciation of equipment will decrease assets and decrease equity.
C) The payment of a payable will decrease liabilities and increase assets.
D) The contribution of capital will increase an asset and increase equity.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-01 Describe and apply the conceptual framework for financial reporting.
Topic : 01-01 The Conceptual Framework for Financial Reporting

7) Which of the following statements pertaining to GAAP for publicly accountable enterprises (PAEs) is correct?

A) PAEs include not-for-profit organizations.
B) Commencing in 2011, most Canadian PAEs are required to elect to report under either IFRS or ASPE on a prospective basis.
C) PAEs include an entity, that as one of its primary businesses, holds assets in a fiduciary capacity for a broad group of outsiders.
D) CPA Canada and the Financial Accounting Standards Board (FASB) harmonized the accounting standards of the United States and Canada for PAEs beginning in 1998.

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Learning Objective : 01-02 Describe how accounting standards in Canada are tailored to different type
Topic : 01-04 GAAP for Publicily Accountable Enterprises
Bloom's : Remember
Difficulty : Easy

8) Which of the following statements pertaining to private enterprises (PEs) is INCORRECT?

A) PEs may adopt either ASPE or IFRS but once a set of standards is adopted, the PEs are not permitted to apply some standards from ASPE and others from IFRS.

B) The accounting standards for a PE are included in a separate part of the CPA Canada Handbook.

C) PEs with annual revenues over $10,000,000, are required to report under IFRS.

D) A PE is a profit-oriented enterprise that has none of its issued and outstanding financial instruments traded in a public market and does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

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Learning Objective : 01-02 Describe how accounting standards in Canada are tailored to different type
Bloom's : Remember
Difficulty : Easy
Topic : 01-05 GAAP for Private Enterprises

9) Which of the following organizations are required to use only the IFRS (Part I) in Canada?

A) All corporations, government agencies and private companies.

B) Public companies and private companies whose shareholders' equity is in excess of $500,000,000 at any particular year-end.

C) Public companies, private companies and not-for-profit organizations.

D) Government business enterprises.

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-03 Identify some of the differences between IFRS and ASPE.
Topic : 01-08 GAPP for Government and Other Government Organizations

10) Which of the following statements pertaining to Not-for-Profit-Organizations (NFPO) is INCORRECT?

A) A government NFPO has the choice to follow either the 4200 series of the CPA Canada *Public Sector Accounting (PSA) Handbook* or *the PSA Handbook* without the 4200 series.

B) A non-government NFPO has a choice to follow Part I (IFRS) or Part III of *the CPA Canada Handbook*.

C) A government NFPO has a choice to follow Part I (IFRS) of the *CPA Canada Handbook* or the CPA Canada *Public Sector Accounting Handbook*.

D) A non-government NFPO that applies Part III of the *CPA Canada Handbook* will also apply relevant sections from Part II (ASPE) of the *CPA Canada Handbook*.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-03 Identify some of the differences between IFRS and ASPE.
Topic : 01-07 GAAP for Not-For-Profit Organizations

11) For which of the following types of organizations does the *CPA Canada Handbook* NOT provide specific accounting standards?

A) Publicly accountable enterprises.
B) Private enterprises.
C) Not-for-profit organizations.
D) Proprietorships.

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Question Details
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Bloom's : Remember
Difficulty : Easy
Topic : 01-05 GAAP for Private Enterprises
Topic : 01-06 Differences Between IFRS and ASPE
Learning Objective : 01-03 Identify some of the differences between IFRS and ASPE.
Topic : 01-07 GAAP for Not-For-Profit Organizations

12) Which of the following is NOT a reason why a Canadian private company would elect to report under IFRS?

A) The company is planning to go public in the near future.
B) The company seeks comparability with public companies of a similar size.
C) It is likely to be less expensive than reporting under ASPE.
D) The company is a subsidiary of a Canadian public company.

Question Details
Accessibility : Keyboard Navigation
Learning Objective : 01-02 Describe how accounting standards in Canada are tailored to different type
Bloom's : Remember
Difficulty : Easy
Topic : 01-05 GAAP for Private Enterprises

13) The current ratio measures:

A) liquidity.
B) solvency.
C) profitability of assets.
D) profitability of owners' investment.

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-08 GAPP for Government and Other Government Organizations
Learning Objective : 01-04 Analyze and interpret financial statements to assess the impact of differe

14) The formula for the current ratio is:

A) current assets - current liabilities
B) current assets/current liabilities
C) total debt/shareholders' equity
D) net income/shareholders' equity

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Topic : 01-08 GAPP for Government and Other Government Organizations
Learning Objective : 01-04 Analyze and interpret financial statements to assess the impact of differe

15) The debt-to-equity ratio measures:

A) liquidity.
B) solvency.
C) profitability of assets.
D) profitability of owners' investment.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
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16) Which three major skills must be demonstrated to be successful as an accountant?

A) Knowledge, creativity and organization.
B) Creativity, mathematical skills and adaptability.
C) Knowledge, critical thinking and organization.
D) Creativity, professionalism and interpersonal skills.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 (Appendix A) Apply the case analysis framework to solve accounting and rep
Topic : 01-10 A Generic Approach to Case Analysis

17) A generic framework for case analysis is recommended not only for integration and analysis cases in an academic setting but can also be applied to business decision-making situations. Which of the following steps in a case analysis would NOT be appropriate?

A) Identifying the needs of the users.
B) Identifying and ranking the issues that must be addressed.
C) Creating a list of alternatives that are relevant and viable to the situation.
D) Providing all identified alternatives to the users in the final report.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-05 (Appendix A) Apply the case analysis framework to solve accounting and rep
Topic : 01-10 A Generic Approach to Case Analysis

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

18) Explain the purpose or use of "The Conceptual Framework for Financial Reporting" (*Conceptual Framework)* in relation to International Financial Reporting Standards (IFRS).

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Question Details
Accessibility : Keyboard Navigation
Difficulty : Easy
Learning Objective : 01-05 (Appendix A) Apply the case analysis framework to solve accounting and rep
Topic : 01-10 A Generic Approach to Case Analysis
Bloom's : Understand

19) X Inc. and Y Inc. are virtually identical companies with identical cost structures and very similar business practices operating in the same lines of business. X Inc. and Y Inc. are both public companies based in Canada and follow IFRS. The following are the condensed income statements for both companies:

	X Inc.	**Y Inc.**
Sales:	$1,000,000	$2,000,000
Less:		
Cost of Goods Sold	500,000	1,600,000
Gross Margin	$500,000	$400,000
Administrative Expenses	200,000	300,000
Net Income	$300,000	$100,000

Required:

Given the information provided, what are some possible causes for the differing results of these companies?

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Topic : 01-04 GAAP for Publicly Accountable Enterprises
Bloom's : Remember
Learning Objective : 01-04 Analyze and interpret financial statements to assess the impact of differe
Bloom's : Understand
Topic : 01-03 Accounting Standards in Canada
Topic : 01-09 Analysis and Interpretation of Financial Statements
Difficulty : Medium

20) Briefly discuss the external users need for high-quality financial information.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Analyze and interpret financial statements to assess the impact of differe
Bloom's : Understand
Topic : 01-09 Analysis and Interpretation of Financial Statements

21) Explain ways that management can mispresent the financial situation of a company.

Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Learning Objective : 01-04 Analyze and interpret financial statements to assess the impact of differe
Topic : 01-09 Analysis and Interpretation of Financial Statements
Difficulty : Medium
Bloom's : Analyze

22) Provide the procedures used to analyze a company's financial statements to determine its future prospects.

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Question Details
Accessibility : Keyboard Navigation
Bloom's : Remember
Difficulty : Easy
Learning Objective : 01-04 Analyze and interpret financial statements to assess the impact of differe
Topic : 01-09 Analysis and Interpretation of Financial Statements

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Answer Key

Test name: Ch01

1) TRUE
2) TRUE
3) FALSE
Although the titles balance sheet or income statement is recommended in IAS 1, it is not mandatory. Titles such as the statement of financial position or statement of profit or loss are permitted.

4) D
5) C
6) C
7) C
8) C
9) D
10) C
11) D
12) C
13) A
14) B
15) B
16) A
17) D
The final report would not have a discussion of alternatives for each issue unless the issue was very contentious. Furthermore, if an alternative was dismissed or determined to be inappropriate, it would be redundant to provide arguments to the users in the final report.

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18) In 2006, CPA Canada decided to harmonize the CPA Canada Handbook with IFRS for publicly accountable enterprises. In most cases, the IFRS Standards were similar to Canadian GAAP prior to the adoption of the international standards; however, in some cases, there were differences because the IFRS were not based on the *Conceptual Framework*. These IFRS were not accepted.

The *Conceptual Framework* is referenced to assist the International Accounting Standards Board (IASB) to develop IFRS to ensure they are based on consistent concepts and so that similar transactions are treated the same way to provide useful information for investors, lenders and other creditors.

In addition, if no IFRS Standards apply to a particular transaction, the *Conceptual Framework* is used by companies to develop an accounting policy. Furthermore, on a broader basis, helps stakeholders to understand and interpret the Standards.

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19) There could be many possible explanations for these differing results.

Y Inc.'s net income is $100,000, compared to X Inc.'s $300,000. Conversely, Y Inc.'s sales are twice those of X Inc. What is particularly noteworthy is Y Inc.'s 20% gross margin compared to X Inc.'s 50% gross margin. This could be due to the accelerated depreciation (double-declining versus straight-line) on Y Inc.'s depreciable properties. Y Inc. could have also accelerated revenue recognition.

Smoothing practices may have been applied to reduce Y Inc.'s income, and of course, its tax liability. Y Inc.'s income may have been further reduced by higher estimates (for example, bad debt expense, warranty costs, etc.) which are not necessarily be indicative of economic conditions.

If Y Inc. has attempted to distort the real situation, it is possible that Y Inc. may have reported sales that never occurred or reported inventory that does not exist.

Note: The above analysis is not exhaustive. Students may be able to identify other valid differences.

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20) External users require high-quality financial information to enable them to assess the likelihood of making a reasonable return with an acceptable level of risk. It is important that the quality of the financial statements provide useful and reliable information to assess the prospects of future cash flows or future earnings.
The users want the information to accurately represent what has happened during the past period. Distorting the real situation is not a faithful representation of the actual situation. The result is the external users are not able to make appropriate decisions as to whether to increase, decrease or maintain their level of participation with the reporting entity in their capacity as investor, creditor, supplier and/or customer.

21) Management can represent the financial situation of a company by
• using an accounting method that does not match the actual situation,
• managing earnings by increasing profits by recognizing revenue earlier than usual or delaying the recognition of an expense to a later period,
• not following GAAP for certain transactions or
• reporting fictious transactions.
Note: Students may be able to provide other methods not listed above.

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22) Procedures to analyze a company's financial statements:

Perform common-size analysis and interpret the results.
Review the accounting policies and estimates used by the company to ensure that they are appropriate.
Adjust the financial statements, as necessary, to use appropriate accounting policies and estimates.
Calculate the ratios for one or more periods.
Compare the ratios to relevant benchmarks.
Interpret the results of the analysis to determine whether they are better, worse or the same as the benchmark.
Decide whether to increase, decrease or maintain the level of participation with the reporting entity.

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