*Student:* ___________________________________________________________________

1. Financial accounting can be considered a process involving the collection and processing of financial information to assist the decision-making needs of parties internal to an organisation.
True False

2. The regulation of accounting can be argued to be necessary to protect the information rights of parties not involved in the day-to-day operations of the organisation.
True False

3. The financial statements and supporting notes included in an annual report presented to shareholders at a company's annual general meeting is an example of general-purpose financial statements.
True False

4. There has been a trend by governments and government departments towards adopting specialised public-sector related standards.
True False

5. Directors could elect not to comply with an accounting standard on the grounds that applying the particular accounting standard would cause the accounts not to present a 'true and fair view'.
True False

6. The Australian Securities and Investment Commission (ASIC) has the responsibility, among other things, to monitor and regulate various investment products and superannuation.
True False

7. The Australian Accounting Standards Board (AASB) issues only one set of accounting standards which have general applicability to the private, public and not-for-profit sectors.
True False

8. The role of the Financial Reporting Council is to provide broad oversight of the process for setting standards in Australia, including the authority to direct the AASB to develop, amend or revoke a particular standard.

True False

9. Accounting cannot be considered to be ‘culture free' because the value systems of accountants may be expected to be related to and derived from the values of the society with special reference to work related values and, as such, impacts on accounting systems.
True False

10. The *Corporations Act* is very specific about what must, and must not, be included in the Directors' Report that is attached to a company's financial statements.
True False

11. The main role of the Financial Reporting Council (FRC) is to develop a new conceptual framework for financial reporting.
True False

12. The main role of the International Financial Reporting Interpretations Committee (IFRIC) is to review accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance.
True False

13. The main role of the Financial Reporting Panel (FRP) is to resolve disputes between ASIC and companies concerning accounting treatments in their financial reports.
True False

14. Corporate governance is the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations.
True False

15. Disclosing entities generally, are entities that have: securities (including debentures) quoted on the ASX; issued securities (including debentures) pursuant to a prospectus or a takeover scheme; and borrowing corporations.
True False

16. The Statements of Accounting Concepts within the Conceptual Framework are developed by the International Accounting Standards Board.
True False

17. What are two key ways management accounting is different from financial accounting?
A. Management accounting provides special-purpose information to people external to the firm and it is highly regulated.
B. Management accounting provides information for the day-to-day running of an organisation and it is governed by the requirements of ASIC.
C. Management accounting is focused on providing information to shareholders who wish to have input into the management of the organisation and it is regulated by generally accepted accounting principles.
D. Management accounting focuses on providing information for internal users and it is largely unregulated.

18. The *Corporations Act* requires which of the following to be included in a Directors' Declaration?
I. State whether in their opinion the financial statements comply with accounting standards and the *Corporations Act*.
II. State whether in their opinion the financial statements give a true and fair view of the financial position and financial performance of the entity.
III. State whether or not in their opinion, when the declaration was made, there were reasonable grounds to believe that the company would be able to pay its debts as they become due.
IV. State details of directors' emoluments.
V. State principal activities of the entity.
A. All of the given answers are correct.
B. I, II and III only
C. I, II, III and IV only
D. IV and V only

19. Pursuant to Corporate Law Economic Reform Program (CLERP) issued in October 2003, which of the following is/are required to provide a written declaration to the board of directors that the annual financial statements are in accordance with the *Corporations Act* and Australian Accounting Standards and that the financial statements present a true and fair view of the entity's financial position and performance?
A. any independent director
B. chief executive officer
C. chief financial officer
D. chief executive officer and chief financial officer

20. AASB are initials that stand for:
A. Australian Accounting Standards Board
B. Accounting & Auditing Standards Bureau
C. Australian Accounting Standards Bureau
D. Accounting & Auditing Supervision Board

21. The AASB's responsibilities include:
    A. developing accounting standards that have the force of law under the *Corporations Act*.
    B. setting ethical guidelines for the accounting profession.
    C. formulating standards to be used by the entities in the public sector.
    D. developing accounting standards that have the force of law under the *Corporations Act* and formulating standards to be used by the entities in the public sector.

22. Standards with the prefix IFRS/IAS:
    A. will require material to be added by the AASB to that which describes the scope and applicability of the standards in the Australian context.
    B. will be adopted in Australia without modification.
    C. are being implemented in Australia to simplify reporting for all entities and to reduce reporting costs.
    D. will not require Australian businesses to make any major alterations to their current accounting practices.

23. What option(s) does a company have when directors are of the view that compliance with accounting standards does not generate a 'true and fair view' financial statements?
    A. Directors may elect not to comply with the standard.
    B. Directors may exercise the 'true and fair view override'.
    C. Directors may disclose the standard in question, the nature of conflict and adjustments made.
    D. All of the given answers are correct.

24. The Australian Accounting Standards Board reports to which body?
    A. the Urgent Issues Group
    B. the Financial Accounting Standards Board
    C. the Financial Reporting Council
    D. the Australian Accounting Standards Review Board

25. A criticism of the way the membership of the Financial Reporting Council has been structured is that:
    A. Groups that are primarily interested in the financial performance of entities are represented while lobby groups with other interests are not.
    B. It has increased the breadth of representation too widely.
    C. The Treasurer does not have sufficient input into the selection process.
    D. It is dominated by professional accountants.

26. The only body with the power to veto a standard recommended by the AASB is:
    A. the Financial Reporting Council.
    B. the Commonwealth Parliament.
    C. the Australian Accounting Standards Review Board.
    D. the Urgent Issues Group.

27. Section 296 of the *Corporations Act* requires (all or in part):
    A. the AASB to follow the broad strategic direction determined by the FRC.
    B. the directors to make a declaration stating whether, in their opinion, the financial statements comply with accounting standards.
    C. the AASB to develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating accounting standards and international standards.
    D. a company's directors to ensure that the company's financial statements for a financial year comply with accounting standards.

28. A company may be exempted from the requirements of s. 296 of The *Corporations Act* if:
    A. It is a small proprietary company within the definition of the Act.
    B. A special meeting of 75 per cent of the shareholders convened under s. 293 agrees to the preparation of financial reports that do not comply with those accounting standards.
    C. The report is prepared in response to a shareholder direction under s. 293 and the direction specifies that the report does not have to comply with those accounting standards.
    D. It is a small proprietary company within the definition of the Act, the report is prepared in response to a shareholder direction under s. 293 and the direction specifies that the report does not have to comply with those accounting standards.

29. Which of the following statement was not identified as a benefit of international harmonisation?
    A. It was likely to increase the comparability of financial reports prepared in different countries.
    B. It was likely to improve the quality of financial reporting in Australia to best international practice.
    C. It was likely to reduce the reporting costs for Australia's not-for-profit entities and local governments.
    D. It was likely to allow more meaningful comparisons of the financial performance and financial position of Australian and foreign public sector reporting entities.

30. Until recently, accounting standards issued by the IASB (formerly IASC) were:
    A. the most well developed set of accounting standards and used widely around the world.
    B. deemed to be 'best practice' and always used as a guide when another country was developing its own standards.
    C. not that important as they were only designed for European economies.
    D. frequently adopted directly by developing countries that did not have their own standard-setting processes.

31. An argument to support the requirement that all companies over a certain size should adhere to accounting standards is:
    A. Larger companies have greater political and economic importance and this increases the demand for financial information about the entity by external users.
    B. Larger companies can afford to pay for complex accounting systems and the experts necessary to design and maintain them.
    C. The Conceptual Framework and accounting standards are designed for larger enterprises.
    D. The Australian Securities and Investment Commission should only be responsible for large enterprises.

32. Which of the following most accurately describes the process of issuing an IASB standard?
    A. An advisory committee may be established to give advice on the project; this may be followed by the development and publication of Discussion Documents. After receiving public feedback, an Exposure Draft may then be issued for further comment. A final IFRS is then issued based on previous feedback along with Basis for Conclusion.
    B. Discussion Documents are developed and published for public comment, then an advisory committee must be established to give advice on the project. After receiving public feedback, an Exposure Draft may then be issued for further comment. A final IFRS is then issued based on previous feedback along with Basis for Conclusion.
    C. An advisory committee may be established to give advice on the project and develop an Exposure Draft, which will be followed by the development and publication of Discussion Documents. After receiving public feedback, a final IFRS is then issued along with Basis for Conclusion.
    D. An advisory committee must be established to give advice on the project; this will be followed by the development and publication of Discussion Documents. After receiving public feedback, an Exposure Draft is required to be issued for further comment. A final IFRS is then issued based on previous feedback along with Basis for Conclusion.

33. Pursuant to sections 298–300A of the *Corporations Act*, the Directors' Report must include:
    A. details of directors' emoluments.
    B. details of all related-party transactions.
    C. a copy of the independent audit report.
    D. details of compliance with the ASX Principles of Good Corporate Governance.

34. The Financial Reporting Panel (FRP) established under the auspices of the Australian Securities and Investments Commission (ASIC) intends to provide:
    A. a timely, efficient and cost-effective way of resolving disputes concerning accounting treatments in financial reports.
    B. the opportunity to be heard by persons with relevant expertise.
    C. a mechanism to alleviate some concerns regarding the use of the courts for adjudication on technical accounting issues.
    D. all of the given answers.

35. A recent noteworthy development in relation to Australian Stock Exchange (ASX)-required disclosures is the establishment of the ASX Corporate Governance Council, and the issue of Principles of Good Corporate Governance and Best Practice Recommendations. In relation to these principles:
   A. All companies governed by the *Corporations Act* 2001 must abide by these principles and recommendations.
   B. The Australian Accounting Standards Board (AASB) has incorporated the principles and recommendations into the Accounting Framework.
   C. All ASX-listed companies are compelled by law to comply in entirety with these principles and recommendations.
   D. All ASX-listed companies must follow these principles and recommendations, and where they have not, they must identify the fact that they have not and give reasons for not following them.

36. The functioning of the Auditing and Assurance Standards Board is overseen by:
   A. the Australian Accounting Research Foundation.
   B. the Australian Accounting Standards Board.
   C. the Financial Reporting Council.
   D. the International Accounting Standards Board.

37. In recent times, the AASB has been reluctant to include alternative options within standards. This means:

   A. Entities within Australia will have the choice as to whether or not they choose to meet the requirements detailed in accounting standards.
   B. The number of options within IFRS-adopted accounting standards is expected to be restricted, although compliance with the AASB standard will mean compliance with the IASB standard.
   C. The number of options within IFRS-adopted accounting standards is expected to be restricted, which means that compliance with the AASB standard will not automatically mean compliance with the IASB standard.
   D. The AASB is in direct conflict with the aims of the Financial Reporting Council in relation to international harmonisation.

38. In adopting International Financial Reporting Standards (IFRSs), the Australian Accounting Standards Board (AASB) has:
   A. embraced the IFRSs without change.
   B. been disbanded as it is no longer required.
   C. used the IFRSs only as a foundation for its own set of standards and has identified where these own standards do not comply with IFRSs.
   D. issued its own standards and ‘re-badged' them as AASBs.

39. A joint Memorandum of Understanding between the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB), published in 2006:
   A. agreed to maintain the status quo and retain international and US accounting standards in the form that they currently exist.
   B. identified a number of options to ensure complete consistency between international and US accounting standards by 2010.
   C. identified an intention to implement actions to identify and remove major accounting differences in specific areas by 2008.
   D. identified an agreement that international standards will be changed to accord with US standards, wherever there were key differences, by 2008.

40. Some of the costs of international convergence of accounting standards include:
   A. costs of educating accountants to adopt a new set of standards.
   B. costs associated with changing data collection systems.
   C. costs associated with changing data reporting systems.
   D. all of the given answers.

41. To determine whether or not information is material, paragraph 9 of AASB 1031 indicates that it is material if its omission, misstatement or non-disclosure has the potential, individually or collectively to:
   A. affect the discharge of accountability by the governing body of the entity.
   B. be greater than 1% of the total assets of the entity.
   C. influence management to make decisions that will affect users of the financial report.
   D. present the financial report in a 'true and fair' manner.

42. The AASB Standards 1–99 Series includes those standards:
   A. where the standard has been developed for domestic application and relates specifically to the public or not-for-profit sectors.
   B. where a standard equivalent to an existing or improved IAS is issued, with the number being used by the IASB being the same as that being used by the AASB (e.g. IAS 1 will be AASB 1).
   C. where a standard equivalent to an existing or improved IAS is issued, with the number being used by the AASB 100 on from that being used by the IASB (e.g. IAS 1 will be AASB 101).
   D. where a new IFRS has been issued by the IASB, with the number being used by the IASB being the same as that being used by the AASB (e.g. IFRS 1 will be AASB 1).

43. The publication of a standard, exposure draft or final SIC interpretation requires approval by:
   A. the chairman of the IASB
   B. a simple majority of the IASB's 14 members
   C. nine of the IASB's 14 members
   D. 12 of the IASB's 14 members

44. The International Accounting Standards Board (IASB) website explains how the IASB believes its relationship with national standards setters should be conducted. It notes that:
   A. There should be close coordination between the due process of the IASB and the process of national standard-setters.
   B. The IASB will inform national standard-setters of directions they should take, projects they should undertake and the outcomes that are expected of them.
   C. The IASB expects national standard-setters to develop all standards of a domestic nature pertaining to the public and non-for-profit sectors, as its standards do not apply to these areas.
   D. National standard setters should cede all responsibility for matters pertaining to accounting standards to the IASB, but retain responsibility for making interpretations on all matters of uncertainty.

45. Which body reviews, on a timely basis within the context of existing International Accounting Standard (IASB) and the IASB Framework, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance?
   A. International Accounting Standards Board (IASB).
   B. International Financial Reporting Interpretations Committee (IFRIC).
   C. International Interpretations and Issues Group (IIIG).
   D. Urgent Issues Group (UIG).

46. The main benefits of international harmonisation are said to include:
   A. increasing the comparability of financial reports prepared in different countries so that capital ultimately flows to entities that can use it the most productively.
   B. reducing the financial reporting costs for Australian multinational companies.
   C. removing barriers to international capital flows by reducing differences in financial reporting requirements and so increasing understanding by foreign investors of Australian reports.
   D. all of the given answers

47. The *Corporations Act* requires which of the following statements to be included in a Directors' Declaration?
    A. whether in their opinion the financial statements comply with accounting standards and the *Corporations Act*
    B. whether in their opinion the financial statements give a true and fair view of the financial position and financial performance of the entity
    C. whether or not in their opinion, when the declaration was made, there were reasonable grounds to believe that the company would be able to pay its debts as they become due
    D. All of the given answers should be included.

48. Under the *Corporations Act*, which of the following types of companies must comply with Australian accounting standards?
    I. disclosing entities
    II. publicly listed companies
    III. large proprietary companies
    IV. small proprietary companies
    A. all of the given answers
    B. II only
    C. II and III only
    D. I, II and III only.

49. In accordance with AASB 101 Presentation of Financial Statements, a financial report comprises:
    A. a statement of financial position, an income statement and cash flow statement
    B. a statement of financial position, an income statement, a statement of changes in equity and a cash flow statement
    C. a statement of financial position, an income statement, a statement of changes in equity, a cash flow statement and notes to the accounts
    D. a statement of financial position, an income statement, a cash flow statement and notes to the accounts

50. In accordance with *Corporations Act*, which of the following companies *will* be required to conform to the Australian Accounting Standards in the preparation of their financial reports?
    I. proprietary company with gross operating revenues of $12 million, gross assets of $4 million and number of employees totalling 80
    II. proprietary company with gross operating revenues of $6 million, gross assets of $4 million and number of employees totalling 60
    III. company listed on the stock exchange
    IV. company that issued a public debt
    V. reporting entities
    A. I, II, III, and IV only
    B. I, III, IV and V only
    C. I, III and IV only
    D. III, IV and V only

51. Which of the following statement(s) is/are true with respect to the differences between IFRS and US generally accepted accounting principles (GAAP)?
    A. There are no differences between IFRS and US GAAP.
    B. There are only slight differences between IFRS and US GAAP.
    C. There was a decision made by both the IASB and the US Financial Accounting Standards Board (FASB) to pursue an intensification of the convergence program designed to bring a number of short-term fixes between the two sets of accounting standards.
    D. There are only slight differences between IFRS and US GAAP and there was a decision made by both the IASB and the US Financial Accounting Standards Board (FASB) to pursue an intensification of the convergence program designed to bring a number of short-term fixes between the two sets of accounting standards.

52. Some of the perceived barriers to the harmonisation process (for the harmonisation of accounting standards globally) include:
    A. different business environments.
    B. different legal systems.
    C. different cultures.
    D. all of the given answers.

53. Responsibility for the preparation of the financial information of a company rests with:
    A. the auditors.
    B. management.
    C. the auditors and management jointly.
    D. the auditors and the board of directors jointly.

54. In the absence of regulation, for auditing to be an effective strategy for reducing the costs of attracting funds, the auditor must:
    A. be perceived to be truly independent and the accounting methods employed must be sufficiently well-defined.
    B. have been auditing the company for at least the last five years.
    C. be formally registered under the Registered Auditors Act 1998.
    D. belong to one of the major ('Big 4') global accounting firms.

55. Arguments against the regulation of accounting information include:
    A. Mandated disclosures are cheap to provide and by their nature will devalue the worth of the information being provided.
    B. By making so many choices of accounting methods available under the standards, the efficiency with which the information is provided will be enhanced.
    C. Companies will be motivated to disclose good news but not disclose bad news if they are not forced to make certain mandated disclosures (the 'lemons' argument).
    D. Managers of the organisation are in the best place to determine what information should be produced to increase the confidence of external stakeholders.

56. The idea that accounting information can be used by people without paying for it, and pass it on, defines accounting information as being:
    A. worthless.
    B. a free good.
    C. a public good.
    D. a cheap good.

57. If a company does not comply with the Australian Securities Exchange Listing Rules, Chapter 3 and 4, it may be:
    A. fined.
    B. removed from the board.
    C. liquidated.
    D. delisted and deregistered.

58. A general purpose financial statements means:
    A. a financial report intended to meet the information needs of users who are unable to command the preparation of special purpose reports
    B. a financial report prepared by the company for the needs of any user
    C. a financial report intended to meet the information needs of preparers
    D. a financial report intended to meet the information needs of users who are able to command the preparation of reports to satisfy all of their information needs

59. AASB elected not to adopt the IASB's approach to differential reporting because of the:
   A. additional costs of training and education in preparing two sets of standards at professional and education level.
   B. burden placed on some subsidiaries to prepare financial information based on the requirements of full IFRSs for the purposes of the parent entity consolidation.
   C. loss of comparability across all types of Australian entities financial statements.
   D. all the given answers.

60. Differential reporting is based on:
   A. small and large proprietary companies having the same requirements to comply with accounting standards in the preparation of financial reports.
   B. the burden of additional reporting for some organisations in situations where there were questionable benefits to report preparers.
   C. the difference between the ability of shareholders in ‘small' and those in ‘large' companies to request information to satisfy their specific needs.
   D. none of the given answers.

61. The objective of the International Financial Reporting Interpretations Committee (IFRIC) is to:
   A. achieve consistent interpretations of IFRS by IFRS-adopters internationally.
   B. address accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching consensus on the appropriate accounting treatment.
   C. address issues of reasonably widespread importance, and not issues of concern only to a small set of enterprises.
   D. All the given answers are correct.

62. The process of issuing accounting standards by the IASB is:
   A. establish an Advisory Committee, develop and publish Discussion Documents, develop and publish an Exposure Draft; and issue a final International Financial Reporting Standard.
   B. establish an Advisory Committee, develop and publish Discussion Documents, develop and publish an Exposure Draft; issue a final International Financial Reporting Standard; and publish a Basis for Conclusions.
   C. establish an Advisory Committee, develop and publish Discussion Documents, develop and publish an Exposure Draft; issue a final International Financial Reporting Standard; and publish a Basis for Conclusions; and publish dissenting opinions.
   D. none of the given answers.

63. Audits are typically required for:
   A. all public companies, large proprietary companies and a limited number of small proprietary companies only.
   B. Commonwealth and state government departments, statutory authorities, government companies and business undertakings and municipalities.
   C. A and B
   D. none of the given answers.

64. The Australian accounting profession is dominated by which bodies?
   A. CPA Australia, PriceWaterhouseCoopers Australia, the Institute of Chartered Accountants in Australia, and the Institute of Public Accountant
   B. the Institute of Chartered Accountants in Australia, the Institute of Public Accountant, CPA Australia
   C. the Institute of Chartered Accountants in Australia, the Institute of Public Accountant, Ernst & Young Australia
   D. CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountant

65. Enumerate the sources of accounting regulation in Australia and briefly discuss how each may affect corporate financial reporting.

66. Discuss the purpose of audit reports in financial reporting.

67. Before the release of AASB accounting standards, or the release of statements of accounting concepts, the contents of the proposed releases are subject to critical review. Detail and discuss this process of critical review.

68. The impact of adopting International Financial Reporting Standards (IFRSs) in Australia has led to a number of significant changes in the accounting for several items. Outline and discuss five of these significant changes.

69. Those in favour of regulating the provision of financial accounting argue that accounting is a public good and that without regulation, there is a problem of ‘free-riders'. Explain what is meant by the notions of public good and free-riders and why proponents of regulation use them to support their views.

70. One of the main benefits of international harmonisation is the increase in the comparability of financial reports prepared in different countries yet differences persist that could have significant implications for profit comparisons. Discuss.

# 1 Key

1. FALSE

2. TRUE

3. TRUE

4. FALSE

5. FALSE

6. TRUE

7. TRUE

8. FALSE

9. TRUE

10. FALSE

11. FALSE

12. TRUE

13. TRUE

14. TRUE

15. FALSE

16. TRUE

17. D

18. B

19. D

20. A

21. D

22. A

23. C

24. C

25. A

26. B

27. D

28. D

29. C

30. D

31. A

32. A

33. A

34. D

35. D

36. C

37. B

38. D

39. C

40. D

41. A

42. D

43. C

44. A

45. B

46. D

47. D

48. D

49. C

50. D

51. C

52. D

53. B

54. A

55. D

56. C

57. B

58. A

59. D

60. C

61. D

62. C

63. C

64. D

65.

66.

67.

68.

69.

70.

# 1 Summary

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| Difficulty: Medium | 35 |
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