Question #1 of 28

Question ID: 1457914

Conditions that may cause firms to issue low-quality financial reports are *best* described as:

A) unstable organizational structure and deficient internal controls.

B) inappropriate ethical standards and failing to correct known reportable conditions.

C) opportunity, motivation, and rationalization.

Question #2 of 28

Question ID: 1457904

On a spectrum for assessing financial reporting quality, which of the following represents the highest quality?

A) Reporting is compliant with GAAP but reporting choices and estimates are biased.

B) Reporting is compliant with GAAP and decision useful but earnings are not sustainable.

C) Reporting is not compliant with GAAP but the numbers presented reflect the company's actual activities.

Question #3 of 28

Question ID: 1457901

If a firm's financial reports are of low quality, can users of the reports assess the quality of the firm's earnings?

A) Yes, because if financial reports are of low quality, earnings are also of low quality.

B) Yes, because users can assess earnings quality independently of financial reporting quality.

C) No, because low-quality financial reports are not useful for assessing the quality of earnings.

Question #4 of 28

Question ID: 1457917

Mechanisms that enforce discipline over financial reporting quality *least likely* include:

A) government securities regulators.

B) accounting standard-setting bodies.

C) counterparties to private contracts.

Question #5 of 28

Question ID: 1457905

A spectrum for assessing financial reporting quality should consider:

A) both quality of financial reports and quality of earnings.

B) quality of financial reports only.

C) quality of earnings only.

Question #6 of 28

Question ID: 1457924

Compared to a firm that appropriately expenses recurring maintenance costs, a firm that capitalizes these costs will report greater cash flow from:

A) investing activities.

B) financing activities.

C) operating activities.

Question #7 of 28

Question ID: 1457903

The quality of a company's reported earnings is low when they:

A) do not conform to GAAP.

B) are not sustainable.

C) are lower than for the prior-year period.

Question #8 of 28

Question ID: 1457918

A mechanism to discipline financial reporting quality for securities that trade in the United States that is not typically imposed on security issuers elsewhere is that:

A) financial statements must be audited by an independent party.

B) the firm must provide a signed statement by the person responsible for preparing the financial statements.

C) management must attest to the effectiveness of the firm's internal controls.

Question #9 of 28

Question ID: 1457921

Joe Carter, CFA, believes Triangle Equipment, a maker of large, specialized industrial equipment, has overstated the salvage value of its equipment. This would:

A) overstate earnings.

B) understate earnings.

C) overstate liabilities.

Question #10 of 28

Question ID: 1457920

An IFRS-reporting firm includes in its financial statements a measure that is not defined under IFRS. The firm is *least likely* required to:

A) reconcile this measure with the most comparable IFRS measure.

B) show this measure for all periods presented.

C) define and explain the relevance of this measure.

Question #11 of 28

Question ID: 1457923

Which of the following actions is *least likely* to increase earnings for the current period?

A) Decreasing the salvage value of depreciable assets.

B) Recognizing revenue before fulfilling the terms of a sale.

C) Selling more inventory than is purchased or produced.

Question #12 of 28

Question ID: 1457915

Which of the following is one of circumstances that is conducive to issuing low-quality financial reports?

A) There is a large range of acceptable accounting treatments.

B) Balance sheet values are likely to violate debt covenants.

C) Earnings per share are highly variable from year to year.

Question #13 of 28

Question ID: 1457912

Which of the following is *least likely* to be a motivation for managers to issue financial reports of low quality?

A) Accounting controls are weak within the company.

B) Enhancement of the manager’s career.

C) Keeping earnings above the same period in the prior year.

Question #14 of 28

Question ID: 1457922

If management is manipulating financial reporting to avoid breaching an interest coverage ratio covenant on the firm's debt, they are *most likely* to:

A) capitalize leases.

B) understate assets.

C) overstate earnings.

Question #15 of 28

Question ID: 1457926

A significant increase in days payables above historical levels is *most likely* associated with:

A) an increase in net working capital.

B) an unsustainable increase in reported earnings.

C) low quality of the cash flow statement.

Question #16 of 28

Question ID: 1462856

While motivation and opportunity both can lead to low quality of financial reporting, a third important contributing factor is:

A) poor financial controls.

B) rationalization of the actions.

C) pressure to meet earnings expectations.

Question #17 of 28

Question ID: 1462857

An analyst would *most likely* suspect that the quality of a company's earnings is deteriorating if the company:

A) has an operating cash flow to net income ratio greater than one.

B) increases the estimated useful lives and salvage values of several physical assets.

C) has substantial changes in management's commentary every reporting period.

Question #18 of 28

Question ID: 1457927

Which of the following accounting warning signs is *most likely* to indicate manipulation of reported operating cash flows?

A) Higher estimated salvage values than are typical in a firm's industry.

B) Capitalizing purchases that comparable firms typically expense.

C) More aggressive revenue recognition methods than comparable firms.

Question #19 of 28

Question ID: 1457906

Which of the following is *least likely* one of the combinations of the quality of financial reporting and quality of reported earnings along the spectrum of financial report quality?

A) Reporting is not compliant with GAAP, although reported earnings are sustainable and adequate.

B) Reporting is not compliant and includes numbers that are fictitious or fraudulent.

C) Reporting is compliant with GAAP, but the amount of earnings is actively managed to smooth earnings.

Question #20 of 28

Question ID: 1457902

Which of the following is *most accurately* described as a characteristic of a firm's quality of earnings?

A) Completeness.

B) Sustainability.

C) Relevance.

Question #21 of 28

Question ID: 1457913

Samantha Cameron, CFA, is analyzing the financial reporting quality of Redd Networks. Cameron examines how the company is responding to strict debt covenants and investigates executives' holdings of stock and options in the firm, which are believed to be quite high. Which condition that may lead to low-quality financial reporting is Cameron investigating?

A) Rationalization.

B) Opportunity.

C) Motivation.

Question #22 of 28

Question ID: 1457919

With regard to a firm's financial reporting quality, an analyst should *most likely* interpret as a warning sign a focus by management on an increase in the firm's:

A) cash from operations.

B) asset turnover ratios.

C) pro forma earnings.

Question #23 of 28

Question ID: 1457909

Management is *most likely* to be motivated to produce low-quality financial reports when:

A) managers' compensation is unrelated to the firm's share price.

B) earnings are less than analysts expect.

C) the firm is not required to abide by loan covenants.

Question #24 of 28

Question ID: 1457925

If a firm's management wants to use its discretion over accounting choices to increase operating income in the next period, they are *most likely* to:

A) write up plant and equipment from depreciated cost to its fair market value.

B) increase the assumed residual values of plant and equipment.

C) decrease the assumed useful lives of plant and equipment.

Question #25 of 28

Question ID: 1457910

In which of the following situations is management *most likely* to make conservative choices and estimates that reduce the quality of financial reports?

A) The firm must meet accounting benchmarks to comply with debt covenants.

B) Management's compensation is closely tied to near-term performance of the firm's stock.

C) Earnings for a period will be higher than analysts' expectations.

Question #26 of 28

Question ID: 1457911

Which of the following requirements are *most likely* to create incentives for management to manipulate earnings?

A) Debt covenants.

B) Disclosure regulations.

C) Audit requirements.

Question #27 of 28

Question ID: 1457908

With regard to the goal of neutrality in financial reporting, accounting standards related to research costs and litigation losses should be viewed as:

A) promoting neutral financial reporting.

B) biased toward aggressive financial reporting.

C) biased toward conservative financial reporting.

Question #28 of 28

Question ID: 1457907

Aggressive accounting choices by management are *most likely* to:

A) comply with generally accepted accounting principles.

B) produce decision-useful financial reporting.

C) report sustainable earnings.