Question #1 of 12

Question ID: 1457214

Which of the following is *least likely* a qualitative characteristic accounting information must possess in order to provide useful information to an analyst, according to the IASB Conceptual Framework?

A) Conservatism.

B) Relevance.

C) Faithful representation.

Explanation

Qualitative characteristics that accounting information must possess according to the IASB Conceptual Framework are relevance and faithful representation, which are enhanced by the characteristics of timeliness, verifiability, understandability, and comparability. While conservatism in accounting has traditionally been viewed as a desirable characteristic, it is not one of the qualitative characteristics specified in the IASB Conceptual Framework.

(Module 17.2, LOS 17.c)

Question #2 of 12

Question ID: 1457209

The objective of financial reporting is *most accurately* described as providing information about a firm that is:

A) complete, neutral, and free from error.

B) compliant with accepted accounting principles.

C) useful to decision makers.

Explanation

According to the Conceptual Framework for Financial Reporting, the objective of financial reporting is to provide information about the firm to current and potential investors and creditors that is useful for making their decisions about investing in or lending to the firm.

(Module 17.1, LOS 17.a)

Question #3 of 12

Question ID: 1457217

Required financial statements, according to International Accounting Standard (IAS) No. 1, include a(n):

A) balance sheet and explanatory notes.

B) cash flow statement and auditor's report.

C) income statement and working capital summary.

Explanation

Financial statements that are required by IAS No. 1 include a balance sheet, a statement of comprehensive income, a cash flow statement, a statement of changes in owners' equity, and explanatory notes that include a summary of the company's accounting policies. IAS No. 1 does not require an auditor's report or a working capital summary.

(Module 17.2, LOS 17.d)

Question #4 of 12

Question ID: 1457220

A firm engages in a new type of financial transaction that has a material effect on its earnings. An analyst should *most likely* be suspicious of the new transaction if:

A) management has not explained its business purpose.

B) no accounting standard exists that applies to the transaction.

C) the transaction is not governed by existing regulations.

Explanation

New types of transactions may emerge that are not covered by existing accounting standards or regulations. Analysts should obtain information from a firm's management about the economic substance of such transactions to ensure that they serve a business purpose and have not been created primarily to manipulate the firm's financial statements.

(Module 17.2, LOS 17.e)

Question #5 of 12

Question ID: 1457219

Which of the following is *least likely* one of the general requirements for financial statements under IFRS?

A) Statements should be prepared under a going concern assumption.

B) Statements should be prepared at least quarterly.

C) No offsetting of income against expenses unless a standard permits or requires it.

Explanation

IFRS require reporting at least annually. The other two choices are requirements included in IAS No. 1.

(Module 17.2, LOS 17.d)

Question #6 of 12

Question ID: 1457211

Two underlying assumptions of financial statements, according to the IASB conceptual framework, are:

A) going concern and accrual accounting.

B) accrual accounting and historical cost.

C) historical cost and going concern.

Explanation

The two underlying assumptions of financial statements according to the conceptual framework are accrual accounting and the going concern assumption. Historical cost is one of several measurement bases that may be used for financial reporting.

(Module 17.2, LOS 17.c)

Question #7 of 12

Question ID: 1462803

Which of the following is *least likely* a fundamental characteristic of financial statements that makes them useful, according to the IASB Conceptual Framework for Financial Reporting?

A) Reliability.

B) Relevance.

C) Faithful representation.

Explanation

The IASB Conceptual Framework names relevance and faithful representation as the two fundamental characteristics that make financial information useful. (Module 17.2, LOS 17.c)

Question #8 of 12

Question ID: 1457213

According to the IFRS framework, timeliness is a characteristic that enhances:

A) only relevance.

B) only faithful representation.

C) both relevance and faithful representation.

Explanation

In the IFRS framework, timeliness, comparability, verifiability, and understandability are characteristics that enhance the two fundamental qualitative characteristics, relevance and faithful representation. Information that is not timely will not be relevant or faithfully represent the activities of a firm over the reporting period.

(Module 17.2, LOS 17.c)

Question #9 of 12

Question ID: 1457218

Which of the following is a company *least* likely required to present according to International Accounting Standard (IAS) No. 1?

A) Disclosures of material events.

B) Statement of changes in owners' equity.

C) A summary of accounting policies.

Explanation

International Accounting Standard (IAS) No. 1 defines which financial statements are required and how they must be presented. The required financial statements are:

- Balance sheet.
- Statement of comprehensive income.
- Cash flow statement.
- Statement of changes in equity.
- Explanatory notes, including a summary of accounting policies.

Disclosures of material events that affect the company are required by the Securities and Exchange Commission (Form 8-K) for firms that are publicly traded in the United States.

(Module 17.2, LOS 17.d)

Question #10 of 12

Question ID: 1457210

Accounting standard setting bodies are *best* described as:

A) government agencies that exercise regulatory authority over financial reporting standards. ✗

B) organizations of securities commissions that establish international financial reporting standards. ✗

C) professional organizations that establish financial reporting standards. ✓

Explanation

Standard-setting bodies are professional organizations of accountants and auditors that establish financial reporting standards. Regulatory authorities are government agencies that have the legal authority to enforce compliance with financial reporting standards. Regulatory authorities, such as the Securities and Exchange Commission in the U.S. and the Financial Conduct Authority in the United Kingdom, are established by national governments. Most national authorities belong to the International Organization of Securities Commissions (IOSCO).

(Module 17.1, LOS 17.b)

Question #11 of 12

Question ID: 1457215

According to the IASB Conceptual Framework for Financial Reporting, one of the qualitative characteristics of financial statements is:

A) faithful representation. ✓

B) going concern. ✗

C) timeliness.

Explanation

In the IASB conceptual framework, the two qualitative characteristics of financial statements are relevance and faithful representation. Timeliness is a characteristic that enhances relevance and faithful representation. Going concern is an underlying assumption of financial statements.

(Module 17.2, LOS 17.c)

Question #12 of 12

Question ID: 1457212

According to the IASB conceptual framework, characteristics that enhance relevance and faithful representation include:

A) comparability, understandability, and thoroughness.

B) assurance, timeliness, and understandability.

C) timeliness, comparability, and verifiability.

Explanation

The four characteristics that enhance relevance and faithful representation are comparability, verifiability, timeliness, and understandability.

(Module 17.2, LOS 17.c)