Financial Reporting – Module 1 Quiz

Here are some easy questions just to test you have understood the main points within this module.

Questions

Question 1
Which of the following statements about the primary purpose of financial reporting is the most correct?

A. Provides information that can help with decision making.
B. The individual needs of users can be satisfied by tailoring of financial reports.
C. Enables accountability since managers would have to account for resources used.
D. Identifies a range of existing and potential users dependant on financial statements to make decisions.

Question 2
Which of the following would not be an example of a user who may rely on general purpose financial reports?

A. Henry who is given $5 000 on his 18th birthday by his grandfather to invest in the share market.
B. Singh who manufactures sugar free muesli bars hopes to secure long term sales contracts with school canteens all over the county.
C. Milly who runs a successful organic food café is keen to expand into the food truck industry by obtaining finance via crowd-funding.
D. Van who owns a fishing and camping store is keen to expand his product range by approaching his suppliers to ask about increasing his credit limit.

Question 3
Which of the following is not a role of The Conceptual Framework (The Framework)?

A. It is the foundation that standard-setters use when developing accounting standards.
B. It enables the external auditors to evaluate compliance with IFRS and then form an opinion.
C. It enables consistency when the existing accounting standards do not provide guidance on a particular issue.
D. It is an alternative to the detailed accounting standards as it is much easier to understand by users of financial statements.
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Question 4
Which of the following is not an objective of The Conceptual Framework?

A. Addresses the common needs of users of financial reports.
B. Enables consistency of qualitative characteristics in financial reports.
C. Enables implementation of one universal set of accounting standards.
D. Provides guidance for transactions not addressed in existing accounting standards.

Question 5
Which of the following are not enhancing qualitative characteristics of useful financial information as identified in The Conceptual Framework?

I. Predictive.
II. Influencing.
III. Comparable.
IV. Relevance.

A. I, II and III only
B. I, II and IV only
C. I, III and IV only
D. II, III and IV only

Question 6
Which of the following statements about enhancing qualitative characteristics of financial statements is not correct?

A. Fair values of assets that cannot be verified in an active market should not be disclosed in the financial statements.
B. The financial statements of similar entities adopting different asset measurement bases can be adequately compared.
C. The value of invoices not yet received from suppliers for services should be estimated at financial year end for reporting purposes.
D. Financial statements should be presented with the assumption that a reasonable and informed third person will know how to analyse financial information.
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Question 7
What effect does a framework have on an accountant’s need to exercise professional judgement?
A Reduces the scope for professional judgement.
B Increases the scope for professional judgement.
C Eliminates the scope for professional judgement.
D Has no impact on the scope for professional judgement.

Question 8
Which of the following statements about the application of IFRS in accordance with The Conceptual Framework is the most correct?
A Entities that are not expected to continue in the foreseeable future are to prepare their accounts on the net realisable value assumption.
B Entities may change the valuation and measurement of assets provided they disclose the change and its effects in the financial report.
C Entities within the scope of the Corporations Act can choose to apply Australian or International accounting standards when preparing their financial reports.
D Entities may prepare financial statements on a cash flow basis provided that they meet the characteristics of comparability, understandability, timeliness and verifiability.

Question 9
Which of the following statements about a departure from IFRS is correct?
A Departure is never permitted.
B Departure is permitted when the financial statement would be unfairly presented because of compliance with IFRS.
C Departure is permitted when management and the external auditor agree on the departure.
D Departure is permitted when the disclosure of the adopted accounting policy is detailed in the notes.
The accountant of Scrub and Shine Ltd identified an aggregate charge of $500 000 (comprising 126 various supplier invoices) of advertising expense for a new microfibre cloth within the entity’s financial records. Should the accountant present this item separately in the financial statements?

A Yes, the aggregate value of this advertising expenditure is material.

B Yes, details of all transactions should be disclosed to assist users make fully informed decisions.

C Possibly. This would depend on the size and nature of the advertising expenditure relative to other items disclosed in the financial report.

D No, the individual values of the invoices comprising this amount are immaterial. The disclosure requirements do not apply to immaterial items.
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Solutions

Question 1: Correct answer is A

Explanation

Option A  The primary purpose of financial reporting is enable proper and informed decision-making by providing relevant information.

Option B  This is an objective of financial reporting whereby financial statements can be tailored to specific information needs of certain users.

Option C  This is an important role of financial reporting but is not the primary purpose.

Option D  This is an objective of general purpose financial reports.

Question 2: Correct answer is B

Explanation

Option A  Henry is a potential investor who would rely on the financial information provided by entities to make his investment choice decisions.

Option B  The user is a potential customer (school canteens) and is not included in the range of users as per the Conceptual Framework.

Option C  The crowd funders are potential lenders who would rely on the financial information provided by Milly in order to make their lending decisions.

Option D  The suppliers are existing creditors who would rely on the financial information provided by Van to assess raising his credit limit.

Question 3: Correct answer is D

Explanation

Option A  This is a role of The Conceptual Framework.

Option B  This is a role of The Conceptual Framework.

Option C  This is a role of The Conceptual Framework.

Option D  Accounting standards are developed using The Framework as guidance. It is not an alternative to the accounting standards.
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Question 4: Correct answer is C

Explanation
Option A The IASB’s Conceptual Framework commences with the objective that financial reporting should provide information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

Option B The objective of general purpose financial reporting forms the foundation of the Conceptual Framework. This includes the qualitative characteristics of useful financial information.

Option C A conceptual framework is not a universal set of accounting standards. It is the framework that is essentially a theory of accounting. The conceptual framework assists in the development of consistent accounting standards.

Option D It enables consistency when the existing accounting standards do not provide guidance on a particular issue.

Question 5: Correct answer is B

Explanation
Option A Comparability is an enhancing characteristic per The Conceptual Framework QC paras 4 and 19.

Option B Predictive and influencing are not enhancing characteristics per The Conceptual Framework. Relevance is a fundamental qualitative characteristic.

Option C Comparability is an enhancing characteristic per The Conceptual Framework QC paras 4 and 19.

Option D Comparability is an enhancing characteristic per The Conceptual Framework QC paras 4 and 19.

Question 6: Correct answer is A

Explanation
Option A This statement is incorrect. Therefore, this is this option is the right answer.

Option B This statement is correct.

Option C This statement is correct

Option D This statement is correct
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**Question 7:** Correct answer is A

**Explanation**

*Option A*  
The development of a framework is an attempt to discourage, among other things, a subjective approach to accounting standard setting.

*Option B*  
The conceptual framework does not increase the scope of professional judgement, because the guidance it provides is likely to limit the scope for creative choices available to an accountant.

*Option C*  
Frameworks are not developed with the intention of eliminating professional judgment.

*Option D*  
Those charged with developing conceptual frameworks are likely to deny any intention to interfere with the judgment of professional accountants. However, despite any such potential denials, the essential point still stands - Conceptual Frameworks aim to reduce diversity in professional judgements.

**Question 8:** Correct answer is B

**Explanation**

*Option A*  
Where an entity is not expected to continue into the foreseeable future, it is required to use another basis for preparing its financial statements. This is usually the liquidation basis that is used.

*Option B*  
Disclosing accounting policies that were used in preparing the financials would improve comparability.

*Option C*  
Where a reporting entity falls within the scope of the Corporations Act, its general purpose financial reports shall apply Australian Accounting Standards. They are also subject to other relevant legislation and should also apply IFRS, as Australia adopted IFRSs for reporting periods commencing on or after 1 January 2005.

*Option D*  
The financial statements should always be prepared on an accrual basis.
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Question 9: Correct answer is B

Explanation
Option A  Departure is permitted when the financial statement would be unfairly presented because of compliance with IFRS.

Option B  In the extremely rare circumstance where compliance with an IFRS would not result in a fair presentation, departure from that IFRS is permitted provided: the regulatory framework permits such departure; and the entity discloses detailed information about the departure (para. 19).

Option C  Departure is permitted when the financial statement would be unfairly presented because of compliance with IFRS.

Option D  IAS 1 makes it clear that adopting an accounting policy that is not permitted by an IFRS and disclosing the details in the notes to the financial statements do not overcome non-compliance with an IFRS (para. 18).

Question 10: Correct answer is C

Explanation
Option A  Materiality needs to be considered in light of the whole financial statements - we cannot know for certain that this item would warrant separate disclosure

Option B  Materiality needs to be considered in light of the whole financial statements - we cannot know for certain that this item would warrant separate disclosure

Option C  Materiality is based on the nature and size of an item. The conceptual framework does not use qualitative materiality thresholds since this would vary from entity to entity.

Option D  Materiality needs to be considered in light of the whole financial statements - we cannot know for certain that this item would not warrant separate disclosure