Intermediate Accounting Volume 1 Updated (Canadian) 7th edition Beechy Test Bank

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Chapter 02
Accounting Judgements

True / False Questions

1. The first step in choosing an accounting policy is to understand a company's primary reporting objectives.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Topic: 02-01 Categories of Accounting Concepts
Topic: 02-03 Structure of Accounting Policy Choice

2. Qualitative criteria explain how transactions and events are measured and reported.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Topic: 02-01 Categories of Accounting Concepts

3. Accounting should provide information that is useful in assessing the "value" of an entity; however, accounting information does not necessarily report the actual "value" of the entity.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Topic: 02-02 Limitations of the Concepts

4. Under IFRS, a change in accounting policy must result in information that is more reliable and relevant.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Topic: 02-03 Structure of Accounting Policy Choice

5. The continuity assumption holds that a business will carry on indefinitely.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

6. The going concern principal does not apply if a company is expected to be liquidated in the next 24 months.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

7. An entity is a going-concern if it expects to cease operations within the next 12 months.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

8. The separate entity accounting "boundary" will always correspond with the legal and tax status of an entity.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

9. The time period concept dictates that the reporting period or fiscal period of an entity must be for 12 months.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions
Topic: 02-06 Universal Assumptions

10. The use of historical cost, rather than liquidation value, is supported by the continuity assumption.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions
Topic: 02-07 Entity Specific Assumptions

11. The continuity assumption assumes that a company will have a perpetual life.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions
Topic: 02-07 Entity Specific Assumptions

12. Assuming that the continuity assumption is valid, accrual accounting income and cash based income would be expected to "even out" over the long term.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions
Topic: 02-07 Entity Specific Assumptions

13. The continuity assumption holds that the entity will continue in business for the foreseeable future, but it does not mean that it will be a going concern forever.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions
Topic: 02-07 Entity Specific Assumptions

14. The separate entity assumption has more validity for a larger corporation than it would for a sole proprietorship.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

15. The goal of maximizing shareholder wealth is consistent with the separate entity concept.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

16. Legally, as well as for accounting statement purposes, a corporation is treated as a separate entity apart from its shareholders, whereas a partnership is treated as one entity including the owners.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

17. The separate entity assumption applies only to legally separate entities such as corporations; it does not apply to proprietorships or other unincorporated businesses.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

18. Under the productive capacity capital maintenance approach, a profit is assumed to have been earned only if enough financial capital has been recovered by the end of the year to enable the business to operate at the same level as at the beginning of the year.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-07 Entity Specific Assumptions

19. Under ASPE, capital maintenance can be said to be achieved if a company has maintained or increased its productive capacity.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity Specific Assumptions

20. The nominal dollar capital maintenance approach implicitly recognizes that inflation is under control, and thus ignores inflation in the preparation of financial statements.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity Specific Assumptions

21. The constant dollar capital maintenance approach adjusts for the decline in the asset's productive capacity when reporting earnings.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity Specific Assumptions

22. The nominal dollar capital maintenance approach adjusts for the replacement cost of the assets when reporting earnings.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity Specific Assumptions

23. The nominal dollar capital maintenance approach is the mostly widely used application of the stable currency assumption in North American practice.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Learning Objective: 02-07 Describe the measurement methods used in the accounting standards for private enterprises.
Topic: 02-07 Entity Specific Assumptions

24. Relevance is of primary importance in financial reporting, whereas comparability is of secondary importance.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

25. Materiality is one of the underlying constraints in the application of the IFRS conceptual framework.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

26. Materiality is a component of representational faithfulness under IFRS.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

27. Predictive value is a component of representational faithfulness.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

28. Predictive value contributes to the characteristic of relevance, while confirmatory value contributes to the characteristic of faithful representation.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria
Topic: 02-09 Fundamental Qualitative Characteristics

29. The quality of information that gives assurance that it is reasonably free of error and bias and is a faithful representation is relevance.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

30. The qualitative characteristics follow the same hierarchy under both the IFRS and ASPE Conceptual Frameworks.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

31. Information is reliable when it is in agreement with the actual underlying transactions and events, the agreement is capable of independent verification and the information is reasonably free from error and bias.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

32. Information is neutral when it is free from bias that would lead users towards making decisions that are influenced by the way the information is measured or presented.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

33. Relevance and representation faithfulness are the fundamental qualities under IFRS.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

34. The understandability concept states that the information contained in financial statements should be understandable to persons who have a reasonable understanding of business and economic conditions and are willing to study the information with reasonable diligence.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Topic: 02-10 Enhancing Qualitative Characteristics

35. Interperiod comparability is significantly enhanced when two similar companies use the same accounting methods during a single reporting period.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualitative Characteristics

36. Comparability is an enhancing quality under IFRS and ASPE.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualitative Characteristics

37. Verifiability focuses on the correct application of a basis of measurement rather than its appropriateness.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualitative Characteristics

38. Materiality is considered a pervasive constraint under both IFRS and ASPE.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualitative Characteristics

39. The cost/benefit trade-off would explain why Canadian private entities would elect to follow the more simple version of GAAP called ASPE.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-11 Cost Constraint

40. At times, reliability must be sacrificed in order to enhance the relevance of accounting information.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Tradeoff between Enhancing Qualitative Characteristics

41. Timeliness is sometimes sacrificed for verifiability.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Tradeoff between Enhancing Qualitative Characteristics

42. "Substance over form" effectively refers to Representational Faithfulness in the conceptual framework.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

43. The reporting entity and the legal entity must be the same for any set of financial statements prepared in accordance with IFRS.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 The Reporting Entity and Its Financial Statements

44. One of the objectives of financial reporting is to help users assess the amounts, timing and uncertainty of prospective cash flows of the enterprise.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-14 Elements of Financial Statements and Recognition

45. The IASB does not distinguish income between "revenues" and "gains" within their framework.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-16 Elements of the Statement of Comprehensive Income

46. In classifying the elements of financial statements, the primary distinction between revenues and gains is the materiality of the amounts involved.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-16 Elements of the Statement of Comprehensive Income

47. The concept of full disclosure asserts that the financial reports of a business enterprise should disclose all reliable information relating to its economic affairs.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-17 Recognition

48. An example of the full disclosure principle would be a firm signing a major contract in November to construct custom machinery for a client. Work in the current year is nil, yet the notes to the firm's financial statements discuss the nature and dollar amount of the contract.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-17 Recognition

49. Revenue is recognized as each performance obligation is satisfied, permitted collection is probable.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-17 Recognition

50. Recognition requires the measurement of an item for inclusion in the financial statements.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-17 Recognition

51. Deferrals are required when cash flows are received before they affect the income statement, while accruals affect the income statement prior to cash being exchanged.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

52. The use of deferrals and accruals in accounting relates to the Time Period Assumption.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

53. In order to recognize sales revenue, collection of cash from the buyer is not necessary; however, collection must be reasonably assured.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

54. No revenue whatsoever from the performance of a service can be recognized until all of the service has been performed.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization
Topic: 02-19 Expense Recognition and "Matching"

55. Revenues must ultimately lead to cash flows in order to be recognized.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

56. Accounting transactions must always be realized prior to being recognized.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

57. Warranty expense on goods sold should be recognized in the period of the sale, even though the costs to fulfill warranty claims will not be incurred until two or three years later.
TRUE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

58. Recording periodic depreciation on assets such as buildings or machinery is an application of the matching principle.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

59. The matching concept is the name applied to the process of associating expenses with revenues.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

60. The unit of measure assumption holds that all aspects of a company's business operations can be readily quantified.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-21 Measurement

61. The use of fair value rather than historical cost increases both the relevance and verifiability of the financial statements.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-24 Fair Value

62. Under IFRS, Level 1 amounts refer to quoted prices or directly observable amounts.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-24 Fair Value

63. Under IFRS 13, a publicly quoted share price would be an example of a Level 1 Input.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-24 Fair Value

64. Under IFRS 13, Level 3 inputs are deemed to be more reliable than Level 2 inputs.
FALSE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-24 Fair Value

65. Present value is a measurement technique used to determine fair value.
TRUE

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-25 Measurement Technique: Present Value

66. A furniture builder accepts a purchase order from a client to build a customized dresser. The acceptance of this contract on that date is executory in nature and the builder must thus record a liability on that date.
FALSE

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-17 Recognition

Multiple Choice Questions

67. An accountant considering the motivations of managers in any specific situation is exercising:
A. an unethical behaviour.
B. bias towards management intention.
C. an ethical professional judgement.
D. prudence.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-02 Explain the role of ethical professional judgement in accounting.
Topic: 02-04 Ethical Professional Judgement—Part 1

68. Ethical professional judgement should not take into account:
A. the users of financial statements, and their specific information needs.
B. the performance targets for the quarter's earnings.
C. the nature of the organization's operations.
D. the organization's reporting constraints.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-02 Explain the role of ethical professional judgement in accounting.
Topic: 02-04 Ethical Professional Judgement—Part 1

69. The underlying assumptions of accounting include all of the following except:
A. unit-of-measure.
B. separate entity.
C. time period.
D. continuity.
E. conservatism.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions

70. The going concern or continuity assumption is critical to financial accounting. The assumption
A. is always maintained for all firms for all years.
B. supports the use of historical cost valuation for assets rather than market values.
C. means that a corporation has a definite ending date.
D. requires that we immediately expense prepaid accounts because they do not represent a future cash inflow.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-01 Categories of Accounting Concepts
Topic: 02-05 Underlying Assumptions

71. Which of the following assumptions are not considered a universal assumption?
A. Continuity
B. Separate entity
C. Unit of measure
D. Time period

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

72. The separate entity assumption:
A. requires periodic income measurement.
B. is applicable to both incorporated and unincorporated businesses.
C. is not applicable to an unincorporated business.
D. recognizes the legal nature of a business organization.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions
Topic: 02-06 Universal Assumptions

73. The assumption that dollars will buy the same quantity of goods and services today as they would have five years ago is the:
A. revenue recognition principle.
B. time period assumption.
C. separate entity assumption.
D. unit-of-measure assumption.
E. continuity assumption.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions
Topic: 02-06 Universal Assumptions

74. The continuity assumption is the basis for the rule that:
A. the income statement should not include material gains and losses that are both unusual and infrequent.
B. treasury stock should not be reported in the balance sheet as an asset.
C. the cost of installing a machine should not be included in the recorded cost of the machine, but rather expensed immediately.
D. the cost of operational assets should be allocated to expense systematically and rationally over their useful lives.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-05 Underlying Assumptions
Topic: 02-07 Entity Specific Assumptions

75. The sales manager of a firm has the use of a blue company-owned automobile to use to visit potential customers. The sales manager also owns her own identical car except that it is red. The manager paid for the red car with funds earned from her employment as sales manager. The firm will report the cost of the blue auto in its balance sheet, but not the red auto. This is an example of:
A. Reliability.
B. Matching.
C. Separate entity.
D. Going concern.
E. None of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

76. Which of the following distinguishes the personal transactions of business owners from business transactions?
A. Unit-of-measure assumption
B. Full-disclosure principle
C. Materiality constraint
D. Separate entity assumption

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

77. J. Green is the sole owner and manager of the ABC Lawn and Grass Service. Green purchased a new station wagon only for personal use. Green uses a dump truck in the business. Which of the following assumptions, principles, or constraints would be violated if Green recorded the cost of the station wagon as an asset of the business?
A. Materiality constraint
B. Conservatism constraint
C. Continuity assumption
D. Full-disclosure principle
E. Separate entity assumption

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

78. The information provided by financial reporting pertains to:
A. individual business enterprises and the economy as a whole, rather than to industries or to members of society as consumers.
B. individual business enterprises, industries and the economy as a whole, rather than to members of society as consumers.
C. individual business enterprises, rather than to industries of the economy as a whole or to members of society as consumers.
D. individual business enterprises and industries rather than to the economy as a whole or to members of society as consumers.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Topic: 02-06 Universal Assumptions

79. The list price of a new van was $30,000 at a local car dealership. However, a customer convinced the dealer to sell the van for $25,000 (the van had cost the dealer $20,000 one year earlier). The van would cost the dealer $24,000 today. Inflation is 5% per year. The amount of profit that would be recognized by the dealer as a result of the sale using the constant dollar financial capital maintenance approach is:
A. $10,000.
B. $4,000.
C. $5,000.
D. $9,000.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity Specific Assumptions

80. The list price of a new van was $30,000 at a local car dealership. However, a customer convinced the dealer to sell the van for $25,000 (the van had cost the dealer $20,000 one year earlier). The van would cost the dealer $24,000 today. Inflation is 5% per year. The amount of profit that would be recognized by the dealer as a result of the sale using the physical capital maintenance approach is:

A. $1,000.
B. $2,500.
C. $5,000.
D. $6,000.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-07 Entity Specific Assumptions

81. The primary qualitative criteria of accounting information include which of the following?

A. Comparability (including consistency).
B. Understandability.
C. Relevance.
D. Verifiability.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

82. Financial information exhibits the characteristic of consistency when:

A. expenses are reported as charges against revenue in the period in which they are paid.
B. accounting entities give "accountable" events the same accounting treatment from period to period.
C. unusual or infrequent gains and losses are not included on the income statement.
D. accounting procedures are adopted which give a consistent rate of net income.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria
Topic: 02-10 Enhancing Qualitative Characteristics

83. Which of the following accounting concepts states that before a transaction is recorded, sufficient evidence must exist to allow two or more knowledgeable individuals to reach essentially the same conclusion about the transaction?
A. Continuity assumption
B. Separate entity assumption
C. Cost principle
D. Verifiability principle
E. Materiality constraint

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria
Topic: 02-10 Enhancing Qualitative Characteristics

84. A firm's accounting policy is to immediately expense the cost of metal wastebaskets it purchases for use by its employees at their desks. The total cost of wastebaskets in any year is $1,000 and the firm has $6 billion in total assets. The firm expects the wastebaskets to last indefinitely. The firm:
A. is violating GAAP.
B. is invoking the materiality concept.
C. is invoking the conservatism constraint.
D. is violating the relevance principle.
E. None of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria
Topic: 02-09 Fundamental Qualitative Characteristics

85. Accounting traditionally has been influenced by conservatism because of the:
A. probability of undetected errors in the financial statements.
B. difficulty in measuring net income on the accrual basis.
C. inherent uncertainties of many accounting measurements.
D. difficulty in making certain calculations.
E. large number of transactions recorded in any one period.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

86. The quality of information that gives assurance that it is reasonably free of error and bias and is a faithful representation is:
A. relevance.
B. reliability.
C. verifiability.
D. neutrality.
E. None of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

87. Which of the following helps achieve comparability?
A. Verifiability
B. Timeliness
C. Consistency
D. Neutrality

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria
Topic: 02-10 Enhancing Qualitative Characteristics

88. Conservatism is a component of reliability under:

	IFRS	ASPE
1	Yes	Yes
2	Yes	No
3	No	Yes
4	No	No

A. Choice 1
B. Choice 2
C. Choice 3
D. Choice 4

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

89. Timeliness is an ingredient of the qualitative criteria of:

	Relevance	Faithful Representation
1	Yes	Yes
2	No	Yes
3	Yes	No
4	No	No

A. Choice 1
B. Choice 2
C. Choice 3
D. Choice 4

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria
Topic: 02-10 Enhancing Qualitative Characteristics

90. Verifiability is an ingredient of the qualitative criteria of:

	Relevance	**Faithful Representation**
1	Yes	No
2	Yes	Yes
3	No	No
4	No	Yes

A. Choice 1
B. Choice 2
C. Choice 3
D. Choice 4

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria
Topic: 02-10 Enhancing Qualitative Characteristics

91. Neutrality is an ingredient of the qualitative criteria of:

	Relevance	Faithful Representation
1	Yes	Yes
2	No	Yes
3	Yes	No
4	No	No

A. Choice 1
B. Choice 2
C. Choice 3
D. Choice 4

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

92. Predictive value is an ingredient of the qualitative criteria of:

	Relevance	Faithful Representation
1	Yes	No
2	Yes	Yes
3	No	No
4	No	Yes

A. Choice 1
B. Choice 2
C. Choice 3
D. Choice 4

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

93. Materiality is a pervasive constraint under:

	IFRS	**ASPE**
1	Yes	Yes
2	No	Yes
3	Yes	No
4	No	No

A. Choice 1
B. Choice 2
C. Choice 3
D. Choice 4

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria

94. Under ASPE, feedback value is an ingredient of:

	Relevance	**Reliability**
1	Yes	Yes
2	Yes	No
3	No	No
4	No	Yes

A. Choice 1
B. Choice 2
C. Choice 3
D. Choice 4

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-03 Apply the universal and entity specific assumptions underlying the foundation of GAAP.
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

95. Accounting information is considered to be relevant when it:
A. can be depended on to represent the economic conditions and events that it is intended to represent.
B. is capable of making a difference to a decision-maker.
C. is understandable by reasonably informed users of accounting information.
D. is verifiable and neutral.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

96. A large international corporation immediately expenses the $50 cost of a small item of office equipment. This is an example of:
A. reliability.
B. conservatism.
C. materiality.
D. an accounting error.
E. None of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

97. When a $30 asset with a six-year estimated useful life is recorded as an expense at the date of purchase, this is an application of the:
A. matching principle.
B. cost principle.
C. unit-of-measure assumption.
D. materiality constraint.
E. None of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

98. If accounting information is timely and has predictive and feedback value, then it can be characterized as:
A. Verifiable.
B. Qualitative.
C. Reliable.
D. Relevant.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

99. Materiality:
A. is only relevant when preparing annual financial statements as opposed to quarterly statements.
B. is applicable only for low-cost items that cost less than, say, $500.
C. is the only defence for gross negligence by an independent accountant.
D. does not necessarily imply that an immaterial amount can be ignored for accounting purposes.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

100. An item is not material if:
A. the accounting equation (A = L + OE) does not include the item.
B. it decreases the qualitative usefulness of the financial statements, but not the quantitative usefulness.
C. its cost is less than $25.
D. its omission will not influence the judgement of a reasonable person.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

101. Charging off the cost of a calculator with an estimated useful life of 10 years as an expense of the period when purchased is an example of the application of the:
A. consistency characteristic.
B. matching principle.
C. materiality concept.
D. historical cost principle.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

102. A firm does not know exactly how long its equipment will last. The firm decides to use shorter rather than longer useful lives for amortizing the equipment. This is an example of:
A. Reliability.
B. Materiality.
C. Conservatism.
D. Unit of measure.
E. None of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

103. Neutral financial statements should not contain overstatements or understatements. This characteristic is supported by the concept of:
A. prudence.
B. freedom from material error.
C. substance over form.
D. conservatism.
E. management bias.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-09 Fundamental Qualitative Characteristics

104. If, in year 1, a company used LIFO; year 2, FIFO; and in year 3, moving average cost for inventory valuation, which of the following assumptions, constraints, or principles would be violated?
A. Cost.
B. Time period.
C. Matching.
D. Consistency.
E. Materiality.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualitative Characteristics

105. Which of the following is not an enhancing qualitative characteristic for useful financial information?
A. Neutrality
B. Understandability
C. Comparability
D. Timeliness
E. Verifiability

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-08 Qualitative Criteria
Topic: 02-10 Enhancing Qualitative Characteristics

106. The underlying concept that the value of accounting information must exceed the expenditures incurred to provide it is called the:
A. substance over form.
B. cost/benefit trade-off.
C. conservatism.
D. full-disclosure principle.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-11 Cost Constraint

107. The recognition of periodic amortization expense on company-owned automobiles requires estimating both salvage or residual value, and the useful life of the vehicles. The use of estimates in this case is an example of:
A. Conservatism.
B. Maintaining consistency.
C. Invoking the materiality constraint rather than the cost benefit constraint.
D. Providing relevant data at the expense of reliability.
E. None of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-12 Tradeoff between Enhancing Qualitative Characteristics

108. Under ASPE (Private Entity GAAP), which of the following is an ingredient of reliability?
A. Predictive value
B. Materiality
C. Understandability
D. Verifiability

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-10 Enhancing Qualitative Characteristics
Topic: 02-31 Looking Forward

109. The objective of financial reporting is:
A. to provide the market value of a firm at a point in time.
B. to provide the total market value of its common stock.
C. to provide information useful for decision making by investors and creditors.
D. to require all companies to comply with GAAP.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Topic: 02-13 The Reporting Entity and Its Financial Statements

110. Preparation of financial statements with adequate notes is primarily based on the:
A. separate entity assumption.
B. completeness concept.
C. cost principle.
D. cost/benefit constraint.
E. reliability quality.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 The Reporting Entity and Its Financial Statements

111. S Corporation offered to issue 5,000 shares of its no par value common shares to another company in exchange for a building at a time when there were 1,000,000 shares already outstanding and were selling for $4.00 per share at the time. The owner of the building had the opportunity to sell it to a competing buyer for $26,000. However, because the seller wanted the S Corporation shares, S's offer was accepted. At what amount should the building be reported in S's financial statements?
A. $26,000
B. $10,000
C. $20,000
D. $16,000

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 The Reporting Entity and Its Financial Statements

112. C Corporation exchanged 20,000 shares of its nonconvertible preferred shares for land owned by B Corporation. A competing buyer previously had offered $150,000 cash for the land. Because of tax consequences, the cash offer was not accepted, and the lot was exchanged for the shares. C Corporation previously had sold only 100 shares of its preferred shares at $9 per share several months ago. Based on the cost principle, at what amount should the land be reported on C's financial statements?
A. $180,000
B. $165,000
C. $150,000
D. $160,000

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 The Reporting Entity and Its Financial Statements

113. A primary objective of financial reporting is to:
A. assist investors in predicting prospective cash flows.
B. assist investors in analyzing the economy.
C. assist suppliers in determining an appropriate discount to offer a particular company.
D. enable banks to determine an appropriate interest rate for their commercial loans.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Topic: 02-13 The Reporting Entity and Its Financial Statements

114. A firm signs a major contract in December to construct custom machinery for a client. No work is begun the current year, yet the notes to the firm's financial statements discuss the nature and dollar amount of the contract. This is an example of:
A. Reliability.
B. Full disclosure.
C. Historical cost.
D. Conservatism.
E. None of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-14 Elements of Financial Statements and Recognition

115. The inclusion of notes and supporting schedules in the financial statements reflect application of the:
A. time period assumption.
B. industry peculiarities constraint.
C. relevance quality.
D. full-disclosure principle.
E. comparability characteristic.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-14 Elements of Financial Statements and Recognition
Topic: 02-30 Application Steps to Prepare Fair Financial Information

116. At the date of purchase of a service which is not immediately used up, the cost of such unused service is a(n):
A. revenue.
B. liability.
C. asset.
D. expense.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-04 Apply the fundamental and enhancing qualities and pervasive constraints of financial reporting.
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-15 Elements of the Statement of Financial Position
Topic: 02-18 Recognition versus Realization

117. Increases in equity (net assets) from peripheral or incidental transactions of an entity are called:
A. revenues.
B. gains.
C. net income.
D. economic benefits.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-16 Elements of the Statement of Comprehensive Income

118. Which of the following is NOT a time when revenue may be recognized?
A. At time of sale of goods.
B. At receipt of cash from sale of goods.
C. During production of goods.
D. Sale of Property of a manufacturing company.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-17 Recognition

119. Which of the following accounting concepts best justifies the use of accruals and deferrals?
A. Cost/benefit constraint
B. Unit-of-measure assumption
C. Continuity assumption
D. Materiality constraint

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

120. Adjusting entries are needed because an entity:
A. has earned revenue during the period by selling products from its central operations.
B. has expenses.
C. uses the accrual basis of accounting.
D. uses the cash basis of accounting rather than the accrual basis.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

121. Under which of the following will revenues and expenses most likely be reported in the period they are earned or incurred?
A. Cash basis accounting
B. A combination of accrual and cash basis accounting
C. Single entry accounting
D. Accrual basis accounting

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

122. Revenues and expenses often are recognized in income statement accounts even though no cash has been received or paid. This is primarily a result of applying the:
A. full-disclosure concept.
B. continuity assumption.
C. revenue recognition principle.
D. accrual basis of accounting.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

123. The use of deferrals and accruals is a direct result of the:
A. unit-of-measure assumption.
B. time period assumption.
C. cost/benefit constraint.
D. separate entity assumption.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

124. Revenue is recognized when:
A. it is collected in cash.
B. service is rendered.
C. performance obligations are satisfied, and collection is probable.
D. the contract is signed.
E. the customer places the order.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Easy
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

125. A corporation reports the sale of some of its shares to a shareholder in its financial statements, and the shareholder reports the same transaction as an investment. Therefore,
A. the revenue recognition principle has been violated.
B. the separate entity assumption has been violated.
C. the double entry accounting concept has been violated.
D. no accounting concept has been violated.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-18 Recognition versus Realization

126. Certain costs of doing business are capitalized when incurred and then amortized over subsequent accounting periods to:
A. aid management in decision-making.
B. match the costs incurred with revenues earned.
C. conform to the conservatism constraint.
D. conform to the comparability characteristic.
E. reduce the income tax.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

127. Accrual accounting is essentially an application of:
A. the conservatism principle.
B. the historical cost principle.
C. the materiality constraint.
D. the matching principle.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

128. Which of the following is the incorrect basis for recognizing the expense indicated?
A. Sales commissions expense on the basis of relationship with sales.
B. Administrative salaries expense recognized as incurred.
C. Amortization expense on the basis of time.
D. Cost of goods sold expense on a subjective or arbitrary basis.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

129. Estimating bad debt expense for the period is based primarily on the:
A. cost principle.
B. conservatism constraint.
C. full-disclosure principle.
D. revenue recognition principle.
E. matching principle.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

130. The matching concept:
A. requires that a debit is matched or posted for every credit.
B. treats all costs as being directly related to revenue generation.
C. treats all costs as expenses.
D. is the name applied to the process of associating expenses with revenues.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

131. A firm purchased $40,000 of supplies in its first year of operations but used up only $30,000 of the supplies during the year. Therefore,
A. under the relevance characteristic, the firm should expense $40,000.
B. the firm should record $40,000 of supplies in the balance sheet at the end of the year, as the firm is a going concern.
C. under the matching concept, the firm should report $30,000 of expense.
D. under the materiality constraint, it makes no difference what the firm does with respect to accounting for supplies.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

132. Recording periodic depreciation on assets such as buildings or machinery is an application of the:
A. cost principle.
B. materiality constraint.
C. unit-of-measure assumption.
D. matching principle.
E. conservatism constraint.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

133. A corporation made the following entries:

A	Prepaid insurance	900	
	Cash		900
B	Depreciation expense	10,000	
	Accumulated depreciation		10,000
C	Wages payable	3,000	
	Cash		3,000
D	Inventory of Merchandise	4,000	
	Accounts payable		4,000

Which entry must have been made as a direct result of the matching principle?
A. A
B. B
C. C
D. D

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-06 Discuss the criteria for recognizing business events and transactions in the financial records.
Topic: 02-19 Expense Recognition and "Matching"

134. Which of the following qualities does the cost principle primarily support?
A. Predictive value
B. Conservatism
C. Verifiability
D. Timeliness

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-21 Measurement

135. The list price of a new van was $30,000 at a local car dealership. However, a customer convinced the dealer to sell the van for $25,000 (the van had cost the dealer $20,000 one year earlier). The van would cost the dealer $24,000 today. Inflation is 5% per year. The amount of profit that would be recognized by the dealer as a result of the sale using the nominal dollar approach is:
A. $10,000.
B. $2,500.
C. $5,000.
D. $6,000.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-21 Measurement

136. The measurement conventions of accounting include all of the following except:
A. continuity.
B. full-disclosure.
C. historical cost.
D. matching.
E. revenue recognition.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-21 Measurement

137. A corporation needed a new warehouse; a contractor quoted a $250,000 price to construct it. The corporation believed that it could build the warehouse for $215,000 and decided to use company employees to construct the warehouse. The final construction cost incurred by the corporation was $240,000 but the asset was recorded at $250,000. This is in violation of the:

A. cost principle.
B. time period assumption.
C. matching principle.
D. revenue recognition principle.
E. None of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-21 Measurement

138. When a corporation buys a portion of its own common shares, the recording must conform to the:

A. matching principle.
B. cost principle.
C. revenue recognition principle.
D. accrual principle.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-21 Measurement

139. Valuing assets at their liquidation values rather than their cost is inconsistent with the:

A. time period assumption.
B. matching principle.
C. materiality constraint.
D. historical cost principle.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-22 Historical Cost

140. When assets are acquired, they should be recorded in the accounts in conformity with the:
A. cost principle.
B. full-disclosure concept.
C. materiality constraints.
D. separate entity assumption.
E. matching principle.

Accessibility: Keyboard Navigation
Blooms: Remember
Difficulty: Medium
Learning Objective: 02-05 Describe the measurement methods available within GAAP.
Topic: 02-22 Historical Cost

141. The organization created to develop accounting standards in Canada, the AcSB, is LEAST concerned with:
A. reported cash flows.
B. reported earnings.
C. reported comparability of results.
D. reporting financial position.
E. all of these answers are correct.

Accessibility: Keyboard Navigation
Blooms: Understand
Difficulty: Medium
Learning Objective: 02-01 Understand the concepts involved in constructing financial statements.
Topic: 02-30 Application Steps to Prepare Fair Financial Information