Intermediate Accounting Reporting and Analysis 3rd edition Wahlen Test Bank

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TRUE/FALSE

1 : Accounting principles are theories, truths, and propositions that service as the basis for financial accounting and reporting.
A : true
B : false

Correct Answer : A

2 : The rules for accounting are based upon concepts, and principles which broad and subject to an interpretation.
A : true
B : false

Correct Answer : B

3 : Information is communicated to external users by the management of the company. Those users cannot dictate desired financial results to the company.
A : true
B : false

Correct Answer : A

4 : The primary purpose of financial reporting is to provide useful and relevant information to the internal stakeholder's of the company.
A : true
B : false

Correct Answer : B

5 : Management's stewardship is to provide information about how a company's cash flows cause changes in the company's resources and claim's.
A : true
B : false

Correct Answer : B

6 : Liquidity is positively related to financial flexibility but negatively related to risk and return on investments.
A : true
B : false

Correct Answer : A

7 : Relevance and faithful representation are the ultimate objectives of accounting information.
A : true
B : false

Correct Answer : B

8 : To measure assets, liabilities, revenues, expenses, and other elements of the financial statements with the most relevant and faithful measurement available is the mixed attribute

measurement model.
A : true
B : false

Correct Answer : A

9 : Oil and gas reserves information would be included within the financial statements.
A : true
B : false

Correct Answer : B

10 : Management discussion and analysis would be included in the supplementary information to the financial statements.
A : true
B : false

Correct Answer : B

11 : The eight phases of the joint FASB and IASB framework project are: 1) objective and qualitative characteristics, 2) elements and recognition, 3) presentation and disclosure, 4) reporting entity, 5) measurement, 6) framework for GAAP hierarchy, 7) applicability to the not-for-profit sector, and 8) any remaining issues needing to be addressed.
A : true
B : false

Correct Answer : A

12 : Three phases of the convergence project were put on hold they were elements and recognition, measurement, and presentation and disclosure.
A : true
B : false

Correct Answer : B

SHORT RESPONSE

13 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?

Correct Answer : a.concepts, principlesb.rulesc.conceptual frameworkd.generally accepted accounting principles (GAAP)e. qualitative characteristicsf.decision usefulnessg.relevance, faithful representationh.predictive value, confirmatory value, materialityi.completeness, neutrality, free from errorj.comparability,verifiability, timeliness, understandability

14 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?

Correct Answer : ??1.c2.e3.b4.a5.d6.e7. c8. b9.a?

15 : Which of the following is a phase of the joint FASB and IASB conceptual framework

project?

Correct Answer : a.objectivesb.usefulc.faithful representation d.comparability, consistencye.resources, claims

16 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?

Correct Answer : a.Return, investmentb.Riskc.Financial flexibilityd.Liquiditye.Operating capability

17 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?

Correct Answer : a.relevance, faithful representationb.timelinessc.materialityd.predictive value, confirmatory value, materialitye.decision usefulness

18 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?

Correct Answer : 1.b7.a2.j8.e3.h9.f4.d10.k   5.g11.i 6.c

19 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?

Correct Answer : 1.c2.f, c3.d4.b, c, d5.g, d, f

20 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?

Correct Answer : 1.h2.f3.b4.d5.c6.f7.e8.a9.g

21 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?

Correct Answer : a.conservatism, historical cost, revenue recognitionb.reporting entityc.materiality, disclosured.consistency, disclosuree.matching

22 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?

Correct Answer : 1c2d3a4b5d6e7a8b9b10e

23 : Exlain the difference between comparability and consistency.?

Correct Answer : ?Comparability of accounting information enables users to identify similarities and differences between two or more sets of economic facts. Comparability is a quality of the relationship between items of accounting information. Although related to comparability, consistency means that accounting methods and procedures are applied in the same manner from period to period. Consistency is a quality of the accounting process rather than a quality of the account and amounts themselves. Consistency helps to achieve the goal of comparability across periods, but only if the underlying phenomena being reported remains the same.?

24 : ?Discuss the purpose of the Conceptual Framework.

Correct Answer : The Conceptual Framework is intended to: guide the FASB in establishing a accounting standard,establish objectives and concepts to guide financial statement preparers and auditors to resolve questions and make appropriate judgments in the preparation of financial statements, even in situations where a standard does not exist,?increase users' understanding of and confidence in financial reporting, andenhance financial statement comparability across companies and overtime.

25 : Information about a company helps external users assess the return a company has earned on its economic resources and form expectations about its future performance. In what ways is the information concerning the company's net income, comprehensive income and their components useful to external users?

Correct Answer : - Evaluating management's performance- Estimating the company's earning power- Predicting future income and net cash inflows- Assessing the risk of investor or lending to the company

26 : What are five types of information that are helpful in accessing the amounts, timing, and uncertainty of future cash flows?

Correct Answer : Return on investmentRiskFinancial flexibilityLiquidityOperating Capability

27 : What are five types of information that are helpful in accessing the amounts, timing, and uncertainty of future cash flows?

Correct Answer : a.A quality of accounting information that would make a difference in decisions made by financial statement users.. b.The ability to form expectations about the future. c.Provides feedback to confirm or correct prior predictions or expectations about accounting information. d.The nature and magnitude of the inclusion or omissions of information in regards to financial statements. This is an entity specific characteristic.

28 : The FASB and IASB describe four characteristics that enhance the decision usefulness of information that is relevant and faithfully represented. What are these characteristics and provide a brief explanation of each.

Correct Answer : ComparabilityInformation must be able to be compared with similar information from other companies. VerifiabilityThat other accountants, or users of the financial information can come to similar conclusions regarding the presentation of the information. TimelinessInformation is presented to users in time to make valid and educated decisions. UnderstandabilityThe information is comprehensible to users who have reasonable knowledge of the business and its economic activities.

29 : List five of the important accounting assumptions that have had an impact on the development of generally accepted accounting principles.

Correct Answer : reporting entitygoing concernperiod of timemonetary unit mixed attribute measurement revenue recognition expense recognitionconservatism

30 : Describe the basic nature of the three expense recognition methods. Provide two examples of each.?

Correct Answer : Cause and effect recognition occurs when some expenses are caused directly in the course of generating revenues. Cause and effect recognition, which is often termed the matching principle, matches the expense to the period in which the economic benefits are consumed by generating revenues. Examples of expenses that are recognized by associating cause and effect are sales commissions and cost of goods sold.??Systematic and rational allocation means that in the absence of a direct means of associating cause and effect, its cost should be allocated to the periods benefited by the expense in a systematic and rational manner. Examples of expenses that are recognized in a systematic and rational manner are depreciation of property and equipment and amortization of intangible assets.?Some costs are immediately expensed because the costs have no discernible future benefits or the allocation among several accounting periods is not considered to serve any useful purpose. Examples include managers'salaries and travel expenses.

31 : The Framework of Financial Accounting Theory and Practice is made up based upon several objectives. Provide a brief summary of one of these objectives.

Correct Answer : Provide financial information about the reporting entity that is useful to existing and potential investors. Provide useful information for decisions by existing and potential investors about buying, selling, or holding equity investments. Provide useful information for decisions by existing and potential lenders about buying, selling, or holding debt instruments. Provide existing and potential investors, lenders, and other creditors with the information to ascertain the amount, timing, and uncertainty of the prospects of future cash flows. Provide information about changes in the company's economic resources and claims to those resources resulting from its financial performance.

32 : Financial statements provide limited information for external users to ascertain the necessary information upon which to base decisions. What are other sources in which companies can disclose financial information to external users?

Correct Answer : Notes to Financial StatementsAccounting policiesContingenciesInventory MethodsSupplementary informationChanging prices disclosuresOil and Gas Reserves InformationOther Means of Financial ReportingManagement discussion and analysisLetters to StockholdersOther InformationAnalyst ReportsEconomic StatisticsNews Articles about the company

MULTIPLE CHOICE

33 : Which of the following statements is not true with regard to the benefits derived from the FASB's conceptual framework of accounting?
A : It serves as a guide in establishing standards for the FASB.
B : The *Statements of Financial Accounting Concepts* is the primary source of GAAP for accountants.
C : It establishes the objectives of financial reporting.
D : It enhances comparability between different company’s financial statements.

Correct Answer : B

34 : Which of the following items is NOT included in FASB's conceptual framework of accounting theory?
A : qualities of useful accounting information
B : fundamental principles and assumptions that guide financial accounting and reporting
C : objectives of financial reporting
D : All of these choices are included in the conceptual framework

Correct Answer : D

35 : The first part of the conceptual framework project had to do with establishing which projects?

A : elements

B : objectives

C : qualitative characteristics

D : recognition and measurement

Correct Answer : B

36 : The accounting projects portion of the FASB's conceptual framework project deals with

A : which accounting elements should be reported and how they should be measured

B : which accounting elements should be reported and where the information should be reported

C : how the accounting elements should be measured and how information should be displayed in financial reports

D : when accounting elements should be recognized and how information should be displayed in financial reports

Correct Answer : A

37 : The accounting projects portion of the FASB's conceptual framework project deals with all of the following except

A : how elements should be measured

B : when various elements should be reported

C : which accounting elements should be reported

D : how financial reports should be displayed

Correct Answer : D

38 : What is the goal of FASB and IASB in the creation of the conceptual framework?

A : To develop standards that are internally consistent.

B : To develop standards that are internationally converged.

C : To develop standards that lead to financial reporting that provides clear consistent information to capital providers.

D : All of these choices

Correct Answer : D

39 : The FASB and IASB concluded that the most general objective of financial reporting is to

A : provide information useful in the decisions made by external users

B : meet the needs of internal users

C : provide information about an entitys earnings

D : provide information about an entitys cash flows

Correct Answer : A

40 : According to GAAP, which is not a specific objective?

A : to provide information about an enterprises cash flows

B : to provide information that is useful to present to potential investors, creditors, and other users in making rational investment, credit, and similar decisions

C : to provide information about an enterprises comprehensive income and its components

D : to provide information about an enterprises economic resources, obligations, and owners equity

Correct Answer : B

41 : Information about comprehensive income is useful to external users for all of the following purposes except
A : evaluating managements performance
B : examining cash flows for the current period
C : predicting future income
D : assessing the risk of lending to the company

Correct Answer : B

42 : In its "Objectives of Financial Reporting by Business Enterprises" the FASB identified a variety of primary users including all of the following except
A : internal management
B : investors
C : creditors
D : security analysts

Correct Answer : A

43 : Which of the following is a specific objective of financial reporting?
A : provide information that is useful to investors in making investment decisions
B : provide information useful in assessing the amounts, timing, and uncertainty of prospective cash receipts
C : provide information useful in assessing the amounts, timing, and uncertainty of prospective cash inflows
D : provide information about a companys resources and the claims against the company

Correct Answer : D

44 : Accrual accounting relates the financial effects of a company's transactions
A : so that the costs of nonoperational events are matched to the balance sheet in the period impacted
B : to the period in which they occur rather than to when the cash receipts or payment occurs
C : so that the revenue impact of every transaction in a period is properly reflected in the income statement
D : so that the impact of every transaction is reflected in the statement of cash flows

Correct Answer : B

45 : Which of the following statements regarding financial flexibility is true?
A : It is the ability of a company to provide a return on investment.
B : It is the ability of a company to take effective actions to insure the return of capital to the company.
C : It is the ability of a company to take adapt changes in the amounts and timing of cash flows.
D : It is the ability of a company to maintain a given level of operations.

Correct Answer : C

46 : Which of the following types of information was specifically identified by the FASB as being useful in assessing the amounts, timing, and uncertainty of a company's future cash flows?
A : liquidity
B : return of investment
C : financial capability
D : credit standing

Correct Answer : A

47 : When investors and creditors make investment and credit decisions, they need information to assist them in assessing future cash receipts. Their focus is on assessing the potential of generating

A : a return *of* investment of capital

B : a return *on* investment of capital

C : both a return *of* and a return *on* investment of capital

D : neither a return *of* nor a return *on* investment of capital

Correct Answer : C

48 : Which qualitative characteristic is an ingredient of relevance?

A : understandability

B : materiality

C : neutrality

D : representational faithfulness

Correct Answer : B

49 : According to the FASB hierarchy of fundamental qualitative characteristics, the two primary qualities making accounting information useful are

A : understandability and decision usefulness

B : relevance and faithful representation

C : verifiability and neutrality

D : predictive value and feedback value

Correct Answer : B

50 : Which fundamental characteristic is an ingredient of faithful representation?

A : predictive value

B : confirmatory value

C : timeliness

D : neutrality

Correct Answer : D

51 : In order to be relevant, accounting information should have

A : timeliness

B : verifiability

C : confirmatory value

D : All of these choices

Correct Answer : C

52 : Which of the following fundamental qualitative characteristics may have to be sacrificed in order to achieve timeliness?

A : relevance

B : verifiability

C : comparability

D : predictive value

Correct Answer : B

53 : What is the ultimate objective of accounting information?

A : faithful representation
B : decision usefulness
C : relevance
D : predictive value

Correct Answer : B

54 : Which of the following are considered enhancing characteristics of accounting information?
A : verifiability and confirmatory value
B : predictive value and timeliness
C : comparability and consistency
D : representational faithfulness and neutrality

Correct Answer : C

55 : A constraint mentioned by GAAP on qualitative characteristics is
A : understandability
B : timeliness
C : faithful representation
D : benefits greater than costs

Correct Answer : D

56 : Which of the following items would most likely be a violation of the materiality constraint?
A : A company did not separately report an unusual gain of $100,000. Its income from operations was $20,000,000.
B : A company having reported total assets of $50,000,000 immediately expensed the purchase of 20 pencil sharpeners that have an estimated useful life of three years.
C : A $75,000 illegal bribe by an executive of the company to a foreign official was not separately disclosed in the annual report.
D : A $2,000 expenditure to improve a building that originally cost $10,000,000 was immediately expensed.

Correct Answer : C

57 : The IASB and FASB boards have agreed that the objective of general purpose financial reporting is to provide
A : financial information about a company that is useful to investors, lenders and other creditors
B : mainly cash flow information about a company that is useful to external users in making decisions in their capacity as capital providers
C : financial information about a company that is useful to internal users in making decisions in their capacity as capital custodians
D : financial information about a company that is used by government regulators for taxation

Correct Answer : A

58 : Similar to the constraints in the FASB's qualitative characteristics, the joint IASB/FASB boards have identified which constraint
A : consistency
B : benefits that justify the costs
C : materiality
D : objectivity

Correct Answer : B

59 : Long Corporation has adopted the policy of charging to expense at the time of purchase all assets having a cost of less than $200, regardless of the life expectancy of the asset. This policy is most closely related to the

A : historical cost principle

B : period-of-time assumption

C : verifiability principle

D : materiality principle

Correct Answer : D

60 : Intracompany comparability would be violated if

A : a company used LIFO as its inventory cost method while other companies in the same industry used FIFO

B : a company changed its bad debts expense estimate from one percent to two percent

C : a bank did not classify its assets as current assets and noncurrent assets

D : a company expenses all expenditures of less than $500 even if the expenditures result in probable future economic benefit

Correct Answer : B

61 : Understandability is a characteristic that is

A : a secondary and interactive quality

B : a threshold for recognition

C : an overall quality

D : an enhancing quality

Correct Answer : D

62 : The materiality of an item of financial information refers to the likelihood that its omission or misstatement would affect the decisions of those relying on that information and thus make differing choices if the information had been presented. This concept most closely relates to the

A : financial magnitude of the item

B : verifiability of the item

C : neutrality of the item

D : confirmatory value of the item

Correct Answer : A

63 : All of the following items are classified as accounting assumptions and conventions except for

A : going concern

B : timeliness

C : monetary unit

D : reporting entity

Correct Answer : B

64 : The city of Anchorage sold land for its appraised value to the Big Bear Oil Company on June 1, 2014, that originally cost the city $950,000. On June 1, 2014, the land was appraised at a value of $1,400,000, and on December 31, 2014, the land's value was estimated to be $1,450,000. On Big Bear Oil Company's balance sheet at December 31, 2014, the land should be valued at

A : $1,400,000

B : $1,450,000
C : $950,000
D : $0

Correct Answer : A

65 : Using the straight-line method to amortize patents is an application of expense recognition using
A : cause and effect
B : a systematic and rational allocation over time
C : immediate consumption
D : the percentage-of-completion method

Correct Answer : B

66 : Using an allowance method of accounting to recognize uncollectible accounts receivable is an application of which accounting convention?
A : revenue recognition
B : historical cost
C : matching principle
D : period of time

Correct Answer : C

67 : The state legislature is currently debating a bill that, if passed, would require the Roberts Company to go out of business. Which of the following principles or assumptions related to the preparation of Roberts financial statements is most directly affected by this impending vote of the legislature?
A : going concern
B : verifiability principle
C : entity concept
D : materiality concept

Correct Answer : A

68 : A company that uses accounting methods in preparing its tax returns that differ from the accounting methods used to prepare its financial statements is
A : in violation of the consistency principle
B : not necessarily violating either the income tax laws or generally accepted accounting principles
C : probably guilty of tax evasion
D : in violation of the relevance assumption

Correct Answer : B

69 : Which one of the following assumptions or principles most logically supports the preparation of a single set of consolidated financial statements that combines the financial information of several wholly owned but separately identifiable businesses?
A : historical cost
B : industry practices
C : reporting entity
D : materiality

Correct Answer : C

70 : Expenses are recognized and matched against revenues on the basis of three principles. Which of the following is not one of these principles?
A : immediate consumption
B : associating cash flows
C : systematic and rational allocation over time
D : cause and effect

Correct Answer : B

71 : Which of the following sets includes only accounting assumptions and conventions?
A : timeliness, prudence, historical cost, and neutrality
B : matching, comparability, period of time, and faithful representation
C : monetary unit, going concern, relevance, and materiality
D : monetary unit, entity, going concern, and recognition

Correct Answer : D

72 : The use of the historical cost principle is justified because the resulting information has the qualitative characteristics of
A : neutrality and materiality
B : neutrality and verifiability
C : timeliness and relevance
D : verifiability and predictive value

Correct Answer : B

73 : What additional supplementary information should be included as part of the financial statements under GAAP?
A : Economic statistics
B : Notes to financial statements
C : Letters to Stockholder's
D : Management Discussion and Analysis

Correct Answer : B

74 : FASB's financial reporting model identifies which specific financial statements?
A : Statement of Shareholder's Equity
B : Statements of Net Income and Comprehensive Income
C : Statement of Financial Position
D : All of these choices

Correct Answer : D

75 : What sources of information used by external decision making are directly affected by existing FASB standards?
A : Accounting Policies
B : Management Discussion and Analysis
C : Economic Statistics
D : Letters to Stockholders

Correct Answer : A

76 : What three phases were active under the Joint FASB and IASB convergence project but were put on hold to focus on other convergence topics?
A : Reporting entity, measurement, and presentation and disclosure
B : Framework for a GAAP hierarchy, elements and recognition , and objective and qualitative characteristics
C : Elements and recognition, measurement, presentation and disclosure
D : Measurement, reporting entity, and elements and recognition

Correct Answer : D

77 : How many phases of the FASB / IASB convergence project are there?
A : 6
B : 8
C : 3
D : over 10

Correct Answer : B

78 : The IASB and FASB joint boards have identified the primary user groups of financial information as all of the following except
A : equity investors
B : labor groups
C : lenders
D : other creditors (capital providers)

Correct Answer : B

79 : The joint IASB and FASB boards identified several "enhancing" decision useful characteristics of financial information including
A : comparability, verifiability, timeliness, and understandability
B : materiality, verifiability, timeliness, and understandability
C : comparability, verifiability, timeliness, and materiality
D : comparability, relevance, timeliness, and understandability

Correct Answer : A

80 : Which of the following is a phase of the joint FASB and IASB conceptual framework project?
A : going-concern assumption
B : mixed attribute measurement
C : elements and recognition
D : period of time assumption

Correct Answer : C

ESSAY

81 : At lunch recently, two accountants were discussing the merits of the FASB's conceptual framework project, which resulted in the publication of seven Statements of Financial Accounting Concepts and required more than ten years of effort. One accountant thought the effort was a waste of resources, since accounting was unlike physics, chemistry, and biology, where natural laws apply. The other accountant thought the effort was very valuable. He stated

that "accounting, like any other discipline, benefits from having a coherent theory."Required:Write a brief essay that discusses the advantages that are derived from the existence of a conceptual framework for financial accounting and reporting.

Correct Answer : The FASB's conceptual framework should result in the following advantages. It should "(1) guide the FASB in establishing accounting standards, (2) provide a framework for resolving accounting questions in situations where a standard doesn't currently exist, (3) determine the bounds for judgment in the preparation of financial statements, (4) increase users' understanding of and confidence in financial reporting, and (5) enhance comparability."

82 : The task of developing the conceptual framework was so enormous that the FASB had to divide it into several projects.?Required:?A specific objective of financial reporting is to provide information about a company's economic resources and the claims on the company. In what ways is this information useful to external users?

Correct Answer : This information is useful to external users for the following reasons: to identify the company's resources, obligations, financial strengths and weaknesses, and to assess its liquidity and solvency to specify the types of resources in which the company has invested, as well as the types of the claims on the company to indicate the potential future cash flows from the conpany's resources and the ability of the resources to satisfy the claims on the company

83 : The task of developing the conceptual framework was so enormous that the FASB had to divide it into several projects.?Required:?A specific objective of financial reporting is to provide information about a company's economic resources and the claims on the company. In what ways is this information useful to external users?

Correct Answer : ??a.Relevance is defined as information that is capable of making a difference in the decision-making process. Relevant information helps users predict the outcomes of past, present, and future events or confirms or corrects prior expectations and is of the nature and magnitude that would influence judgment of a reasonable person relying on the information. The ingredients of relevance are (1) predictive value, (2) confirmitory value, and (3) materiality. To be a faithful representation, information must be (1) complete, (2) neutral and (3) free from error. b.(1)The use of historical cost in financial accounting is an example of a sacrifice of relevance for reliability. Historical cost is reliable information, but it may not be as relevant as current cost information. (2)When a private company provides its own estimate of the fair value of its' stock. The value is relevant, but might not be a faithful representation of the stock's actual value.?

84 : The Conceptual Framework includes two "fundamental qualitative characteristics" that must be present for financial reporting information to be useful.?Required:?List and describe the two fundamental characteristics of usefulness.

Correct Answer : 1.Information must have the quality of relevance. Relevant information must be capable of making a difference in the decisions made by external users in their capacity as capital providers. To be relevant, information must have predictive value, confirmatory value, or both. 2.Information must have the quality of faithful representation. Faithful representation of economic phenomena occurs when the related information is complete, neutral, and free from material error.

85 : Discuss the financial reporting model in the FASB Conceptual Framework.

Correct Answer : FASB financial reporting model requires the five basic financial statements as listed below.??balance sheetincome statementcomprehensive income statementstatement of cash flowsstatement of shareholder's equityUnder GAAP the financial statements should contain notes to explain the different methodologies used to calculate estimates and policies. The statements should also contain supplementary items necessary to make an informed decision about the health and well being of the company. The model also suggests areas in which investors, creditors, and lenders can find additional company information.

86 : Your CEO has told you that she has little use for accounting figures based on historical costs. She believes that fair values are of far more significance to the board of directors than " out-of-date costs."?Required:? Present some arguments to convince her that accounting data should still be based on historical costs.

Correct Answer : Arguments supporting the use of historical cost include:Cost is definite and reliable; other values would have to be determined somewhat arbitrarily and there would be disagreement as to the amounts to be used.Amounts determined by other methods would have to be revised frequently.comparison with other companies is facilitated if cost is employed.The costs of obtaining fair values may outweigh the benefits derived.?