

Testbank

to accompany

Contemporary issues in accounting

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by
Rankin et al.

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Chapter 3: Standard setting

Multiple choice questions

1. Which of the following is NOT a function of the AASB? standard setting.
- a. Participate in the development of international accounting standards.
 - b. Making accounting standards.
 - c. Promoting international accounting standards.
 - *d. Enforcing compliance with accounting standards.

Correct answer: d
Learning objective 3.1

2. The Financial Reporting Council (FRC) are responsible for:
- a. Appointing board members to the AASB.
 - b. Broad oversight of the standard-setting process.
 - c. Providing strategic direction and advice to the AASB.
 - *d. all of the above.

Correct answer: d
Learning objective 3.1

3. Which of the following can the AASB NOT do when adopting IFRSs?
- a. Require additional disclosure.
 - *b. Change or remove requirements that are seen as anti-competitive.
 - c. Change words to take into account Australian legislation.
 - d. Limit the number of optional treatments.

Correct answer: b
Learning objective 3.2

4. One of the rules-based standard disadvantages can be:
- a. They allow for no manipulation.
 - *b. They can be very complex.
 - c. They can be very simple.
 - d. None of the above.

Correct answer: b
Learning objective 3.3

5. Which if the following is an advantage of rules-based accounting standards?
- a. Can cover most situations.
 - b. Reduced complexity of standards.
 - *c. Reduced opportunities for earnings management through judgements.
 - d. Improve representational faithfulness of financial statements.

Correct answer: c

Learning objective 3.3

6. Disadvantage of principles-based standards is:
- a. They supply broad guidelines.
 - *b. They allow managers to select policies that may not reflect the substance of a transaction.
 - c. They allow accountants to use professional judgement.
 - d. All of the above.

Correct answer: b

Learning objective 3.3

7. One of the advantages of principles-based standard is:
- a. They do not improve representational faithfulness of financial statements.
 - b. They allow for no professional judgement.
 - *c. They are generally simpler.
 - d. None of the above.

Correct answer: c

Learning objective 3.3

8. Signalling Theory postulates that:
- *a. Regulation is largely unnecessary.
 - b. Non-disclosing entities will do better in the market for finance.
 - c. Regulation decreases the cost of capital.
 - d. Financial reporting is a pointless activity.

Correct answer: a

Learning objective 3.4

9. Which of the following is NOT a key element of regulation?
- *a. Regulation should be biased.
 - b. An intention to intervene.
 - c. A restriction on choice.
 - d. The exercise of control.

Correct answer: a

Learning objective 3.4

10. Which of the following is a fundamental assumption of Capture Theory?
- a. Regulation is costly.
 - *b. People rationally advance their own self-interest.
 - c. Economic markets are fragile.
 - d. The market is an efficient market.

Correct answer: b

Learning objective 3.4

11. Which of the following is a fundamental assumption of Bushfire theory?
- a. People are not influenced by media when it comes to regulation.
 - b. People are proactive when it comes to regulation.
 - *c. People are reactive when it comes to regulation.
 - d. People are apathetic when it comes to regulations.

Correct answer: c

Learning objective 3.4

12. Which of the following is a fundamental assumption of public interest theory?
- a. Regulation is costly.
 - b. People rationally advance their own self-interest.
 - *c. Economic markets are fragile.
 - d. There is an efficient market.

Correct answer: c

Learning objective 3.4

13. Which of the following is NOT a disadvantage of regulation?
- a. It can restrict communication.
 - b. It can be difficult to reverse.
 - *c. It leads to standardisation.
 - d. It can be difficult to determine the optimal regulations.

Correct answer: c

Learning objective 3.4

14. Which of the following is NOT an advantage of accounting regulation?
- *a. Reduced lobbying to produce favourable outcomes.
 - b. Increased efficiency in allocating capital.
 - c. Cheaper production of accounting disclosure.
 - d. Increased public confidence.

Correct answer: a

Learning objective 3.4

15. Research into accounting regulation:
- *a. Supports capture theory.
 - b. Is extensive.
 - c. Shows that accounting is independent of political influence.
 - d. Looks after the interests of a wide range of stakeholders.

Correct answer: a
Learning objective 3.4

16. Which of the following groups benefits most from rules based accounting regulation?
- a. Shareholders.
 - b. Managers.
 - *c. Auditors.
 - d. Accountants.

Correct answer: c
Learning objective 3.5

17. Which of the following have been blamed for the Global Financial Crisis?
- a. Auditor-Client relationships.
 - b. Corporate governance structures.
 - c. Accounting standards.
 - *d. All of the above.

Correct answer: d
Learning objective 3.5

18. Which of the following groups have been criticised for their failure to respond to exposure drafts?
- a. Large Australian companies.
 - b. Auditors.
 - *c. Academics.
 - d. Analysts.

Correct answer: c
Learning objective 3.5

19. Which of the following has NOT been identified as a problem with Australia accepting the international harmonisation of its accounting standards?
- *a. Too few countries have adopted international accounting standards.
 - b. IFRS standards tend to be more complex.
 - c. Compromises sometimes need to be made when creating standards.
 - d. None of the above, they are all problems.

Correct answer: a
Learning objective 3.6

20. Which of the following was identified as a benefit when Australia accepted the international harmonisation of its accounting standards?
- a. Reporting costs would be lowered.
 - b. International comparability of financial statements would increase.
 - c. The cost of capital would decrease.
 - *d. All of the above.

Correct answer: d

Learning objective 3.6