

c2

Student: _____

1. The IASB *Conceptual* Framework has the force of law.

True False

2. The UK Accounting Standards Board (ASB) retained the use of its own conceptual framework even after harmonisation.

True False

3. The IASB *Conceptual* Framework serves as a guide to the UK Accounting Standards Board (ASB) in developing accounting standards.

True False

4. The IASB *Conceptual* Framework is considered to be an International Accounting Standards Board (IASB) standard.

True False

5. One of the benefits of the *Conceptual Framework* is that it provides parameters for the exercise of judgement in resolving accounting issues.

True False

6. When an IASB standard conflicts with the Conceptual Framework, the former prevails.

True False

7. The Conceptual Framework defines principles for a specific accounting recognition, measurement and disclosure matter.

True False

8. The Conceptual Framework suggests that the relevance characteristic outweighs the faithfully represented characteristic if the financial statement is to be rendered useful.
True False
9. The objective of financial statements is to provide future oriented information to help investors make business decisions.
True False
10. Relevance and faithfully represented characteristics are placed as overriding qualities of financial statements over other qualitative characteristics
True False
11. A separate recognition criteria for equity is not set forth in the Conceptual Framework because it represents a residual interest in the assets of an entity.
True False
12. Social accountability is considered in the Conceptual Framework as part of the objectives of general purpose financial reports.
True False
13. The IASB and US FASB are jointly developing a common conceptual framework to guide both standard setters in developing separate standards for their constituents.
True False
14. For the preparation and presentation of financial statements, Europe adopts the IASB Conceptual Framework.
True False
15. The IASB and US FASB are jointly developing a common conceptual framework because this is necessary for the Convergence Project, which aims to converge two sets of accounting standards.
True False

16. Prudence is exercised in the preparation and presentation of financial statements when asset values are never shown in excess of their realisable values but could be understated, and liabilities are never to be understated.

True False

17. The efficiency perspective is consistent with limiting accounting policy choices in the interest of consistency and comparability.

True False

18. The trade-off between relevance and faithful representation requires exercise of judgment constrained by timeliness and costs versus benefits.

True False

19. The recognition criteria for liabilities are consistent with those for assets.

True False

20. Transactions or events that cannot be linked to a 'cost' or a 'market price' are not recognised.

True False

21. A central goal in establishing a conceptual framework of accounting will be to obtain general consensus on:

A. the scope and objectives of financial reporting.

B. the qualitative characteristics that financial information should possess.

C. what the elements of financial reporting are, including agreement on the characteristics and recognition criteria for assets, liabilities, income, expenses and equity.

D. the scope and objectives of financial reporting and the qualitative characteristics that financial information should possess.

22. Which of the following factors should be considered in order to determine whether an entity is a reporting entity when it is not obvious that users exist who would be dependent on the financial reports of the entity?

A. separation of management from those with economic interest in the entity

B. economic or political importance/influence

C. financial characteristics

D. separation of management from those with economic interest in the entity and economic or political importance/influence

23. Mr and Mrs K Urban are partners in Urban Plc, a music shop with sales revenue of € 5 000 000 per annum, total assets of € 10 000 000 and employees totalling 15. Urban Plc is:
- A. a reporting entity because there are at least two users of a financial report.
 - B. not likely to be a reporting entity because it is unlikely to have users dependent on its financial reports.
 - C. likely to be a reporting entity because there are two shareholders and it is an exempt proprietary entity.
 - D. not a reporting entity because small proprietary companies are frequently not considered reporting entities.
24. Bowen Pty Plc is a small proprietary company with seven directors. Four of the seven directors own 75% of the ordinary shares and the remaining shares are owned by family members of the directors. The company also has 15 trade creditors and an open line of credit with one state bank. Is Bowen Pty Plc a reporting entity and hence required to prepare general purpose financial reports?
- A. Yes, because dependent users of financial reports exist.
 - B. Yes, because there are trade creditors who are external users.
 - C. No, because it is a small proprietary firm.
 - D. No, because there are no obvious users who are unable to command the preparation of information from the entity.
25. Which of the following statement(s) is/are true of general purpose financial reports?
- A. General purpose financial reports should be prepared by all reporting entities.
 - B. General purpose financial reports are reports that comply with statements of accounting concepts and accounting standards.
 - C. General purpose financial reports are intended to meet the information needs common to users who are able to command the preparation of reports.
 - D. General purpose financial reports should be prepared by all reporting entities and general purpose financial reports are reports that comply with statements of accounting concepts and accounting standards.
26. Which of the following are considered in the IASB Conceptual Framework as primary qualitative characteristics?
- A. relevance, faithful representation, materiality and comparability
 - B. relevance, faithful representation, timeliness and understandability
 - C. relevance, faithful representation, understandability and comparability
 - D. materiality, faithful representation, understandability and comparability
27. When preparing financial reports 'users are assumed to have a reasonable knowledge of the business and economic activities and accounting and a willingness to study the information with reasonable diligence'. This statement is consistent with the qualitative characteristic of:
- A. materiality.
 - B. faithful representation.
 - C. understandability.
 - D. comparability.

28. James Cook Plc bought a piece of land 10 years ago and the market value of this property is now worth five times its purchase cost. The accountant suggested that James Cook Plc should revalue the asset. This notion is consistent with the qualitative characteristic of:
- A. relevance.
 - B. faithful representation.
 - C. understandability.
 - D. comparability.
29. The audit of the financial reports of Matilda Plc had been completed except for the outcome of a material contingent liability that is still subject to the outcome of a court decision. The case is still ongoing but it is expected that a decision will be made after three months. The deadline for submitting the financial reports is next month. Which action is consistent with the notion of 'timeliness' in the preparation of financial reports?
- A. Matilda Plc should wait for the court decision to be completed before releasing the financial reports as the amount of the liability is material.
 - B. Matilda Plc should release the financial report on or before the deadline but exclude the contingent liability from the report as the outcome is still uncertain.
 - C. Matilda Plc should release the financial report on or before the deadline but disclose the contingent liability in the notes to the accounts.
 - D. Matilda Plc must wait for the court decision to be completed before releasing the financial reports as it is expected to occur in the near future anyway (i.e. three months).
30. The Conceptual Framework identifies two aspects to financial information that are 'relevant'. These are:
- A. verifiability and understandability.
 - B. predictability and verifiability.
 - C. neutrality and verifiability.
 - D. prudence and neutrality.
31. The IASB Conceptual Framework for Financial Reporting (as released in 2010), requires that general purpose financial reports disclose information that is:
- A. relevant to the assessment of profit, funding and investing, and compliance.
 - B. relevant to the assessment of financial and social performance, financial position and funding and investing, and includes information about compliance.
 - C. relevant to the assessment of performance, financial position and funding and investing, including information about compliance.
 - D. relevant to the assessment of performance, financial position and cash flows.
32. The Conceptual Framework outlines two underlying assumptions of financial statements. These are:
- A. fair value basis and insolvency assumption.
 - B. accrual basis of accounting and going concern assumption.
 - C. cash basis of accounting and insolvency assumption.
 - D. historical cost accounting and limited life concept.

33. Which of the following actions best describes the qualitative characteristic 'relevance'?
- A. The financial report of KMC Plc was audited by one of the Big 4 four accounting firms.
 - B. DGC omitted a sales transaction equal to 10.5% of its accounts receivable.
 - C. MCB Plc and DGC Plc both use accelerated depreciation method.
 - D. GEP Plc did not revalue its intangible assets because it was difficult to obtain the fair value of the assets.
34. Which of the following statement(s) is/are true of the qualitative characteristic 'faithful representation'?
- A. information that is free from material bias and error
 - B. information that faithfully represents what it purports to represent
 - C. information that should affect the decisions of financial statement users
 - D. information that is free from material bias and error, complete description and that faithfully represents what it purports to represent
35. Which of the following actions are consistent with the Doctrine of Conservatism?
- A. deliberate overstatement of expenses to reduce profits
 - B. excessive provisions for warranty expenses
 - C. careful assessment of doubtful debts
 - D. adoption of accelerated depreciation method to reduce profits
36. Which of the following is/are characteristics of 'comparability'?
- A. Users must be able to compare the financial reports of an entity with the financial reports of a shareholder.
 - B. Users must be able to compare the current financial reports with prior period financial reports of an entity.
 - C. Users must be able to compare the financial reports of an entity with the financial reports of another entity.
 - D. Users must be able to compare the current financial reports with prior period financial reports of an entity and users must be able to compare the financial reports of an entity with the financial reports of another entity.
37. Which of the following statement(s) is/are true of the qualitative characteristic 'comparability'?
- A. A financial report must show corresponding results for the preceding period.
 - B. A financial report must be presented in a consistent manner, hence, an entity must adopt similar accounting policies from period to period even though a more reliable and relevant alternative exist.
 - C. A financial report must contain all material and relevant items.
 - D. A financial report must show corresponding results for the preceding period and be presented in a consistent manner, hence, an entity must adopt similar accounting policies from period to period even though a more reliable and relevant alternative exist.

38. When a standard restricts the number of accounting methods to be used to account for a particular accounting issue, it is promoting the qualitative characteristic of _____?
- A. timeliness
 - B. prudence
 - C. understandability
 - D. comparability
39. The accountant of Broken Bay Plc decided to retain the historical cost of the entity's intangible assets because it was difficult to obtain fair value of these assets. This action is consistent with _____.
- A. substance over form
 - B. balancing of relevance and faithful representation
 - C. accrual accounting
 - D. cash accounting
40. The IASB Conceptual Framework adopts which approach to determining profits?
- A. revenue/expense approach
 - B. matching principle approach
 - C. asset/liability approach
 - D. cash basis approach
41. The key characteristics of an asset as defined in the Conceptual Framework include:
- A. There must be future economic benefits.
 - B. The reporting entity must control the future economic benefits.
 - C. The asset results from past transactions.
 - D. all of the given answers.
42. Which of the following items is not considered an asset?
- A. patents
 - B. research expenses of an R&D project
 - C. equipment under lease where the risks and rewards flows into the entity
 - D. research expenses of an R&D project and equipment under lease where the risks and rewards flows into the entity

43. Jackson Plc is developing computer software for use in its courier delivery service business. So far the company had spent £50 000 but the software is still unfinished and not expected to be finished in time for the preparation of the reports. As a result, the company had to purchase a computer package amounting to £100 000 to finalise its accounts. There is no further use for the unfinished software as it is expected that the purchased computer package could be used by the entity for another 10 years. Which accounting treatment would be consistent with the Conceptual Framework?

- A. recognise an asset of £150 000
- B. recognise an expense of £150 000
- C. recognise an asset of £100 000 and expense of £50 000
- D. recognise an asset of £50 000 and expense of £100 000

44. Which of the following transactions does not meet the definition of an asset?

- A. deposit for purchase of equipment
- B. commitment to purchase equipment
- C. finance leased equipment
- D. purchase of equipment on credit.

45. Ms Maple is an accounting cadet for one of the big accounting firms. She is a bit confused as to which of the following sources should be referred to first in dealing with an accounting issue.

- A. industry practice
- B. accounting standards
- C. conceptual framework
- D. auditing standards

46. The audit of Liverpool Plc had been completed and the audit senior for the engagement prepared items for discussion. He argues that the following list of accounting changes violate the consistency qualitative characteristic of accounting information. As audit manager, which of the following items do you think are worthy of discussion with the audit partner?

- A. After five years of using straight-line depreciation for reporting purposes and accelerated depreciation for tax purposes, the entity decided to adopt accelerated depreciation for reporting purposes.
- B. The company uses an inventory valuation method that is different from the method used by other companies in the industry.
- C. The estimated remaining useful life of an asset was reduced due to the increase in volume of use of the asset.
- D. The company disposed of a subsidiary that had been included in the financial reports in prior years.

47. The Conceptual Framework's recognition criteria provides that 'an asset is recognised in the balance sheet when it is _____ that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured _____'.

- A. possible; reliably
- B. probable; accurately
- C. probable; reliably
- D. certain; accurately

48. The Blaxland Plc filed a lawsuit against D-Mart Machineries for failure to comply with the specifications of the factory equipment that they ordered and received. The solicitors for Blaxland Plc strongly believe that the company will receive € 50 000 to € 100 000 if they win the case. Which action is consistent with the Conceptual Framework?

- A. Blaxland Plc should recognise a receivable of € 75 000, the expected value of the gain.
- B. Blaxland Plc should recognise a receivable of € 50 000, a conservative estimate of the gain.
- C. Blaxland Plc should not recognise the receivable until it is probable that they have won the case.
- D. Blaxland Plc should not recognise the receivable because while the solicitor is expecting to win the case, the receivable cannot be estimated reliably.

49. Your best friend from high school approaches you to invest in 'e-track' an upcoming high-tech company which he is convinced will make huge profits in the future. You are sceptical of the business venture and say that you would have to look up the financial statements of the company before investing your own money. He sends you the financial report and you notice that the report is unaudited and does not provide prior years' results even though the firm had been operating for the last three years.

Based on the above information, which qualitative characteristics is lacking in e-track's financial reports?

- A. relevance and faithful representation
- B. relevance and timeliness
- C. comparability and consistency
- D. faithful representation and comparability

50. Which of the following statement(s) is/are true with respect to materiality?

- A. Materiality refers to the notion that an item need not be recognised in the financial reports.
- B. Materiality is a primary qualitative characteristic.
- C. Materiality relates to financial information where its omission or misstatement could influence the economic decisions of users.
- D. Materiality relates to financial information where its omission or misstatement could influence the economic decisions that users make about a specific reporting entity.

51. This question is subjective. Which of the following statements might be most appropriate in terms of providing guidance on determining a materiality level?

- A. If the amount is equal or greater than 10% of the appropriate base amount, the item is material.
- B. If the amount is equal or greater than 10% of the appropriate base amount, the item is immaterial.
- C. If the amount is equal or less than 5% of the appropriate base amount, the item is material
- D. If the amount is equal or greater than 10% of the appropriate base amount, the item is material; if the amount is equal or less than 5% of the appropriate base amount, the item is immaterial.

52. Identify which qualitative characteristic of financial reports is best described in each item below:

- A. relevance, comparability, timeliness
- B. faithful representation, consistency, understandability
- C. faithful representation, comparability, timeliness
- D. relevance, understandability, comparability

53. Identify the appropriate qualitative characteristic employed in the following information:

- A. relevance, faithful representation, consistency
- B. faithful representation, relevance, comparability
- C. faithful representation, relevance, consistency
- D. relevance, faithful representation, comparability

54. In accordance with IASB Conceptual Framework which of the following is consistent with the definition of income?

- A. increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants
- B. increases in economic benefits during the accounting period in the form of inflows other than those relating to contributions from equity participants
- C. increases in economic benefits during the accounting period in the form of cash inflows or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants
- D. All of the given answers are correct.

55. In accordance with IASB Conceptual Framework which of the following transaction(s) is/are consistent with a definition of income?

- A. collection of accounts receivable
- B. debt forgiveness
- C. issue of share capital
- D. collection of accounts receivable and debt forgiveness

56. In accordance with IASB Conceptual Framework which of the following is consistent with the definition of expenses?

- A. decreases in economic benefits during the accounting period in the form of outflows other than those relating to distributions to equity participants
- B. increases in economic benefits during the accounting period in the form of inflows or enhancement of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants
- C. decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants
- D. All of the given answers are correct.

57. In accordance with IASB Conceptual Framework which of the following accounts are expenses?

- A. dividends paid
- B. provision for warranties
- C. entity dumps pollutants in a river adjacent to its factory
- D. None of the given answers are correct.

58. Faithful presentation is one on the two primary fundamental qualitative characteristics for financial information to be useful. According to the IASB Conceptual Framework a financial report is faithfully presented if it is:

- A. consistent, free from bias and free of material error.
- B. accurate, free from bias and free of material error.
- C. complete, neutral and free of material error.
- D. reliable, neutral and free of material error.

59. Which of the following statements most accurately reflects the qualitative characteristics of financial information in the IASB Conceptual Framework?

- A. These attributes or qualities determine whether an entity is considered to be a reporting entity.
- B. These are attributes or qualities that financial information should possess if it is to be useful for such decision making.
- C. These attributes or qualities satisfy the definition of elements in the financial reports.
- D. All of the given answers are correct.

60. Which of the following accounting policies is an example of a trade-off between relevance and faithful representation?

- A. Research outflows are expensed and development activities expenses are capitalised.
- B. Biological assets are stated at fair value unless the fair value cannot be measured reliably.
- C. Machinery and equipment are reviewed periodically to assess propriety of useful life estimations used in depreciation.
- D. All of the given answers are correct.

61. Which of the following accounting policies is an example of costs versus benefits constraint being exercised in the disclosure of financial information?

- A. Inventory is valued at lower of cost or market.
- B. Property, plant and equipment are appraised and revalued every three years.
- C. Biological assets are stated at fair value unless the fair value cannot be measured reliably.
- D. Research and development costs are expensed as incurred.

62. What qualities should financial information possess to be faithfully represented?

63. The Conceptual framework identified some constraints that preparers should consider in the preparation of financial reports. Identify and discuss these constraints.

64. 'Liabilities that are legally enforceable and equitably or constructively unavoidable must be recognised if they can be measured reliably'. Discuss.

65. Discuss the benefits of a conceptual framework

66. Discuss some of the criticisms of the Conceptual Framework.

67. Identify and discuss the fundamental qualitative characteristics of financial information identified in the IASB *Conceptual Framework for Financial Reporting*.

68. With the convergence project between IASB and FASB explain why there is a need for a revised conceptual framework.

69. Discuss issues covered by IASB and the US FASB with respect to measurement principles in the development of a common conceptual framework.

c2 Key

1. The IASB *Conceptual* Framework has the force of law.

FALSE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #1

Difficulty: Easy

Section: 2.01 Use of the IASB Conceptual Framework

2. The UK Accounting Standards Board (ASB) retained the use of its own conceptual framework even after harmonisation.

TRUE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #2

Difficulty: Easy

Section: 2.01 Use of the IASB Conceptual Framework

3. The IASB *Conceptual* Framework serves as a guide to the UK Accounting Standards Board (ASB) in developing accounting standards.

TRUE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #3

Difficulty: Easy

Section: 2.03 Benefits of a conceptual framework

4. The IASB *Conceptual* Framework is considered to be an International Accounting Standards Board (IASB) standard.

FALSE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #4

Difficulty: Easy

Section: 2.01 Use of the IASB Conceptual Framework

Section: 2.05 Structure of the Conceptual Framework

5. One of the benefits of the *Conceptual Framework* is that it provides parameters for the exercise of judgement in resolving accounting issues.

TRUE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #5

Difficulty: Easy

Section: 2.03 Benefits of a conceptual framework

6. When an IASB standard conflicts with the Conceptual Framework, the former prevails.

TRUE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #6

Difficulty: Easy

Section: 2.05 Structure of the Conceptual Framework

7. The Conceptual Framework defines principles for a specific accounting recognition, measurement and disclosure matter.

FALSE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #7

Difficulty: Easy

Section: 2.02 What is a conceptual framework?

8. The Conceptual Framework suggests that the relevance characteristic outweighs the faithfully represented characteristic if the financial statement is to be rendered useful.

FALSE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #8

Difficulty: Easy

Section: 2.06 Building blocks of a conceptual framework

9. The objective of financial statements is to provide future oriented information to help investors make business decisions.

FALSE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #9

Difficulty: Easy

Section: 2.04 Current initiatives to develop a revised conceptual framework

10. Relevance and faithfully represented characteristics are placed as overriding qualities of financial statements over other qualitative characteristics

TRUE

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #10
Difficulty: Easy
Section: 2.06 Building blocks of a conceptual framework*

11. A separate recognition criteria for equity is not set forth in the Conceptual Framework because it represents a residual interest in the assets of an entity.

TRUE

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #11
Difficulty: Easy
Section: 2.06 Building blocks of a conceptual framework*

12. Social accountability is considered in the Conceptual Framework as part of the objectives of general purpose financial reports.

FALSE

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #12
Difficulty: Medium
Section: 2.08 A critical review of conceptual frameworks*

13. The IASB and US FASB are jointly developing a common conceptual framework to guide both standard setters in developing separate standards for their constituents.

FALSE

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #13
Difficulty: Medium
Section: 2.03 Benefits of a conceptual framework
Section: 2.04 Current initiatives to develop a revised conceptual framework*

14. For the preparation and presentation of financial statements, Europe adopts the IASB Conceptual Framework.

FALSE

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #14
Difficulty: Easy
Section: 2.05 Structure of the Conceptual Framework*

15. The IASB and US FASB are jointly developing a common conceptual framework because this is necessary for the Convergence Project, which aims to converge two sets of accounting standards.

TRUE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #15

Difficulty: Easy

Section: 2.04 Current initiatives to develop a revised conceptual framework

16. Prudence is exercised in the preparation and presentation of financial statements when asset values are never shown in excess of their realisable values but could be understated, and liabilities are never to be understated.

FALSE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #16

Difficulty: Medium

Section: 2.07 Measurement principles

17. The efficiency perspective is consistent with limiting accounting policy choices in the interest of consistency and comparability.

FALSE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #17

Difficulty: Medium

Section: 2.06 Building blocks of a conceptual framework

18. The trade-off between relevance and faithful representation requires exercise of judgment constrained by timeliness and costs versus benefits.

TRUE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #18

Difficulty: Medium

Section: 2.06 Building blocks of a conceptual framework

19. The recognition criteria for liabilities are consistent with those for assets.

TRUE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #19

Difficulty: Easy

Section: 2.06 Building blocks of a conceptual framework

20. Transactions or events that cannot be linked to a 'cost' or a 'market price' are not recognised.

TRUE

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #20

Difficulty: Medium

Section: 2.08 A critical review of conceptual frameworks

21. A central goal in establishing a conceptual framework of accounting will be to obtain general consensus on:

- A. the scope and objectives of financial reporting.
- B. the qualitative characteristics that financial information should possess.
- C. what the elements of financial reporting are, including agreement on the characteristics and recognition criteria for assets, liabilities, income, expenses and equity.
- D.** the scope and objectives of financial reporting and the qualitative characteristics that financial information should possess.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #21

Difficulty: Medium

Section: 2.02 What is a conceptual framework?

22. Which of the following factors should be considered in order to determine whether an entity is a reporting entity when it is not obvious that users exist who would be dependent on the financial reports of the entity?

- A. separation of management from those with economic interest in the entity
- B. economic or political importance/influence
- C. financial characteristics
- D.** separation of management from those with economic interest in the entity and economic or political importance/influence

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #22

Difficulty: Easy

Section: 2.05 Structure of the Conceptual Framework

Section: 2.06 Building blocks of a conceptual framework

23. Mr and Mrs K Urban are partners in Urban Plc, a music shop with sales revenue of € 5 000 000 per annum, total assets of € 10 000 000 and employees totalling 15. Urban Plc is:
- A. a reporting entity because there are at least two users of a financial report.
 - B. not likely to be a reporting entity because it is unlikely to have users dependent on its financial reports.
 - C. likely to be a reporting entity because there are two shareholders and it is an exempt proprietary entity.
 - D.** not a reporting entity because small proprietary companies are frequently not considered reporting entities.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #23
Difficulty: Medium
Section: 2.05 Structure of the Conceptual Framework
Section: 2.06 Building blocks of a conceptual framework

24. Bowen Pty Plc is a small proprietary company with seven directors. Four of the seven directors own 75% of the ordinary shares and the remaining shares are owned by family members of the directors. The company also has 15 trade creditors and an open line of credit with one state bank. Is Bowen Pty Plc a reporting entity and hence required to prepare general purpose financial reports?
- A. Yes, because dependent users of financial reports exist.
 - B. Yes, because there are trade creditors who are external users.
 - C. No, because it is a small proprietary firm.
 - D.** No, because there are no obvious users who are unable to command the preparation of information from the entity.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #24
Difficulty: Medium
Section: 2.05 Structure of the Conceptual Framework
Section: 2.06 Building blocks of a conceptual framework

25. Which of the following statement(s) is/are true of general purpose financial reports?
- A. General purpose financial reports should be prepared by all reporting entities.
 - B. General purpose financial reports are reports that comply with statements of accounting concepts and accounting standards.
 - C. General purpose financial reports are intended to meet the information needs common to users who are able to command the preparation of reports.
 - D.** General purpose financial reports should be prepared by all reporting entities and general purpose financial reports are reports that comply with statements of accounting concepts and accounting standards.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #25
Difficulty: Medium
Section: 2.05 Structure of the Conceptual Framework
Section: 2.06 Building blocks of a conceptual framework

26. Which of the following are considered in the IASB Conceptual Framework as primary qualitative characteristics?

- A. relevance, faithful representation, materiality and comparability
- B. relevance, faithful representation, timeliness and understandability
- C.** relevance, faithful representation, understandability and comparability
- D. materiality, faithful representation, understandability and comparability

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #26
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

27. When preparing financial reports 'users are assumed to have a reasonable knowledge of the business and economic activities and accounting and a willingness to study the information with reasonable diligence'. This statement is consistent with the qualitative characteristic of:

- A. materiality.
- B. faithful representation.
- C.** understandability.
- D. comparability.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #27
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

28. James Cook Plc bought a piece of land 10 years ago and the market value of this property is now worth five times its purchase cost. The accountant suggested that James Cook Plc should revalue the asset. This notion is consistent with the qualitative characteristic of:

- A.** relevance.
- B. faithful representation.
- C. understandability.
- D. comparability.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #28
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

29. The audit of the financial reports of Matilda Plc had been completed except for the outcome of a material contingent liability that is still subject to the outcome of a court decision. The case is still ongoing but it is expected that a decision will be made after three months. The deadline for submitting the financial reports is next month. Which action is consistent with the notion of 'timeliness' in the preparation of financial reports?
- A. Matilda Plc should wait for the court decision to be completed before releasing the financial reports as the amount of the liability is material.
 - B. Matilda Plc should release the financial report on or before the deadline but exclude the contingent liability from the report as the outcome is still uncertain.
 - C.** Matilda Plc should release the financial report on or before the deadline but disclose the contingent liability in the notes to the accounts.
 - D. Matilda Plc must wait for the court decision to be completed before releasing the financial reports as it is expected to occur in the near future anyway (i.e. three months).

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #29
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

30. The Conceptual Framework identifies two aspects to financial information that are 'relevant'. These are:
- A. verifiability and understandability.
 - B.** predictability and verifiability.
 - C. neutrality and verifiability.
 - D. prudence and neutrality.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #30
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

31. The IASB Conceptual Framework for Financial Reporting (as released in 2010), requires that general purpose financial reports disclose information that is:
- A. relevant to the assessment of profit, funding and investing, and compliance.
 - B. relevant to the assessment of financial and social performance, financial position and funding and investing, and includes information about compliance.
 - C. relevant to the assessment of performance, financial position and funding and investing, including information about compliance.
 - D.** relevant to the assessment of performance, financial position and cash flows.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #31
Difficulty: Easy
Section: 2.06 Building blocks of a conceptual framework*

32. The Conceptual Framework outlines two underlying assumptions of financial statements. These are:
- A. fair value basis and insolvency assumption.
 - B.** accrual basis of accounting and going concern assumption.
 - C. cash basis of accounting and insolvency assumption.
 - D. historical cost accounting and limited life concept.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #32
Difficulty: Easy
Section: 2.06 Building blocks of a conceptual framework*

33. Which of the following actions best describes the qualitative characteristic 'relevance'?
- A. The financial report of KMC Plc was audited by one of the Big 4 four accounting firms.
 - B.** DGC omitted a sales transaction equal to 10.5% of its accounts receivable.
 - C. MCB Plc and DGC Plc both use accelerated depreciation method.
 - D. GEP Plc did not revalue its intangible assets because it was difficult to obtain the fair value of the assets.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #33
Difficulty: Hard
Section: 2.06 Building blocks of a conceptual framework*

34. Which of the following statement(s) is/are true of the qualitative characteristic 'faithful representation'?
- A. information that is free from material bias and error
 - B. information that faithfully represents what it purports to represent
 - C. information that should affect the decisions of financial statement users
 - D.** information that is free from material bias and error, complete description and that faithfully represents what it purports to represent

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #34
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

35. Which of the following actions are consistent with the Doctrine of Conservatism?
- A. deliberate overstatement of expenses to reduce profits
 - B. excessive provisions for warranty expenses
 - C.** careful assessment of doubtful debts
 - D. adoption of accelerated depreciation method to reduce profits

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #35
Difficulty: Easy
Section: 2.05 Structure of the Conceptual Framework
Section: 2.08 A critical review of conceptual frameworks*

36. Which of the following is/are characteristics of 'comparability'?

- A. Users must be able to compare the financial reports of an entity with the financial reports of a shareholder.
- B. Users must be able to compare the current financial reports with prior period financial reports of an entity.
- C. Users must be able to compare the financial reports of an entity with the financial reports of another entity.
- D.** Users must be able to compare the current financial reports with prior period financial reports of an entity and users must be able to compare the financial reports of an entity with the financial reports of another entity.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #36
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework

37. Which of the following statement(s) is/are true of the qualitative characteristic 'comparability'?

- A.** A financial report must show corresponding results for the preceding period.
- B. A financial report must be presented in a consistent manner, hence, an entity must adopt similar accounting policies from period to period even though a more reliable and relevant alternative exist.
- C. A financial report must contain all material and relevant items.
- D. A financial report must show corresponding results for the preceding period and be presented in a consistent manner, hence, an entity must adopt similar accounting policies from period to period even though a more reliable and relevant alternative exist.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #37
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework

38. When a standard restricts the number of accounting methods to be used to account for a particular accounting issue, it is promoting the qualitative characteristic of _____?

- A. timeliness
- B. prudence
- C. understandability
- D.** comparability

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #38
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework

39. The accountant of Broken Bay Plc decided to retain the historical cost of the entity's intangible assets because it was difficult to obtain fair value of these assets. This action is consistent with _____.
- A. substance over form
 - B. balancing of relevance and faithful representation**
 - C. accrual accounting
 - D. cash accounting

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #39
Difficulty: Easy
Section: 2.06 Building blocks of a conceptual framework*

40. The IASB Conceptual Framework adopts which approach to determining profits?
- A. revenue/expense approach
 - B. matching principle approach
 - C. asset/liability approach**
 - D. cash basis approach

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #40
Difficulty: Easy
Section: 2.06 Building blocks of a conceptual framework*

41. The key characteristics of an asset as defined in the Conceptual Framework include:
- A. There must be future economic benefits.
 - B. The reporting entity must control the future economic benefits.
 - C. The asset results from past transactions.
 - D. all of the given answers.**

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #41
Difficulty: Easy
Section: 2.06 Building blocks of a conceptual framework*

42. Which of the following items is not considered an asset?
- A. patents
 - B. research expenses of an R&D project
 - C. equipment under lease where the risks and rewards flows into the entity
 - D. research expenses of an R&D project and equipment under lease where the risks and rewards flows into the entity**

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #42
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

43. Jackson Plc is developing computer software for use in its courier delivery service business. So far the company had spent £50 000 but the software is still unfinished and not expected to be finished in time for the preparation of the reports. As a result, the company had to purchase a computer package amounting to £100 000 to finalise its accounts. There is no further use for the unfinished software as it is expected that the purchased computer package could be used by the entity for another 10 years. Which accounting treatment would be consistent with the Conceptual Framework?

- A. recognise an asset of £150 000
- B. recognise an expense of £150 000
- C.** recognise an asset of £100 000 and expense of £50 000
- D. recognise an asset of £50 000 and expense of £100 000

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #43

Difficulty: Easy

Section: 2.06 Building blocks of a conceptual framework

44. Which of the following transactions does not meet the definition of an asset?

- A. deposit for purchase of equipment
- B.** commitment to purchase equipment
- C. finance leased equipment
- D. purchase of equipment on credit.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #44

Difficulty: Medium

Section: 2.06 Building blocks of a conceptual framework

45. Ms Maple is an accounting cadet for one of the big accounting firms. She is a bit confused as to which of the following sources should be referred to first in dealing with an accounting issue.

- A. industry practice
- B.** accounting standards
- C. conceptual framework
- D. auditing standards

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #45

Difficulty: Medium

Section: 2.05 Structure of the Conceptual Framework

46. The audit of Liverpool Plc had been completed and the audit senior for the engagement prepared items for discussion. He argues that the following list of accounting changes violate the consistency qualitative characteristic of accounting information. As audit manager, which of the following items do you think are worthy of discussion with the audit partner?

- A. After five years of using straight-line depreciation for reporting purposes and accelerated depreciation for tax purposes, the entity decided to adopt accelerated depreciation for reporting purposes.
- B.** The company uses an inventory valuation method that is different from the method used by other companies in the industry.
- C. The estimated remaining useful life of an asset was reduced due to the increase in volume of use of the asset.
- D. The company disposed of a subsidiary that had been included in the financial reports in prior years.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #46
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

47. The Conceptual Framework's recognition criteria provides that 'an asset is recognised in the balance sheet when it is _____ that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured _____'.

- A. possible; reliably
- B. probable; accurately
- C.** probable; reliably
- D. certain; accurately

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #47
Difficulty: Easy
Section: 2.06 Building blocks of a conceptual framework*

48. The Blaxland Plc filed a lawsuit against D-Mart Machineries for failure to comply with the specifications of the factory equipment that they ordered and received. The solicitors for Blaxland Plc strongly believe that the company will receive € 50 000 to € 100 000 if they win the case. Which action is consistent with the Conceptual Framework?

- A. Blaxland Plc should recognise a receivable of € 75 000, the expected value of the gain.
- B. Blaxland Plc should recognise a receivable of € 50 000, a conservative estimate of the gain.
- C.** Blaxland Plc should not recognise the receivable until it is probable that they have won the case.
- D. Blaxland Plc should not recognise the receivable because while the solicitor is expecting to win the case, the receivable cannot be estimated reliably.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #48
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

49. Your best friend from high school approaches you to invest in 'e-track' an upcoming high-tech company which he is convinced will make huge profits in the future. You are sceptical of the business venture and say that you would have to look up the financial statements of the company before investing your own money. He sends you the financial report and you notice that the report is unaudited and does not provide prior years' results even though the firm had been operating for the last three years.

Based on the above information, which qualitative characteristics is lacking in e-track's financial reports?

- A. relevance and faithful representation
- B. relevance and timeliness
- C. comparability and consistency
- D. faithful representation and comparability**

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #49

Difficulty: Medium

Section: 2.06 Building blocks of a conceptual framework

50. Which of the following statement(s) is/are true with respect to materiality?

- A. Materiality refers to the notion that an item need not be recognised in the financial reports.
- B. Materiality is a primary qualitative characteristic.
- C. Materiality relates to financial information where its omission or misstatement could influence the economic decisions of users.**
- D. Materiality relates to financial information where its omission or misstatement could influence the economic decisions that users make about a specific reporting entity.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #50

Difficulty: Medium

Section: 2.06 Building blocks of a conceptual framework

51. This question is subjective. Which of the following statements might be most appropriate in terms of providing guidance on determining a materiality level?

- A. If the amount is equal or greater than 10% of the appropriate base amount, the item is material.
- B. If the amount is equal or greater than 10% of the appropriate base amount, the item is immaterial.
- C. If the amount is equal or less than 5% of the appropriate base amount, the item is material
- D. If the amount is equal or greater than 10% of the appropriate base amount, the item is material; if the amount is equal or less than 5% of the appropriate base amount, the item is immaterial.**

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #51

Difficulty: Easy

Section: 2.06 Building blocks of a conceptual framework

52. Identify which qualitative characteristic of financial reports is best described in each item below:

- A. relevance, comparability, timeliness
- B. faithful representation, consistency, understandability
- C. faithful representation, comparability, timeliness**
- D. relevance, understandability, comparability

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #52
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

53. Identify the appropriate qualitative characteristic employed in the following information:

- A. relevance, faithful representation, consistency
- B. faithful representation, relevance, comparability
- C. faithful representation, relevance, consistency
- D. relevance, faithful representation, comparability**

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #53
Difficulty: Hard
Section: 2.06 Building blocks of a conceptual framework*

54. In accordance with IASB Conceptual Framework which of the following is consistent with the definition of income?

- A. increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants**
- B. increases in economic benefits during the accounting period in the form of inflows other than those relating to contributions from equity participants
- C. increases in economic benefits during the accounting period in the form of cash inflows or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants
- D. All of the given answers are correct.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #54
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

55. In accordance with IASB Conceptual Framework which of the following transaction(s) is/are consistent with a definition of income?

- A. collection of accounts receivable
- B. debt forgiveness**
- C. issue of share capital
- D. collection of accounts receivable and debt forgiveness

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #55
Difficulty: Easy
Section: 2.06 Building blocks of a conceptual framework*

56. In accordance with IASB Conceptual Framework which of the following is consistent with the definition of expenses?

- A. decreases in economic benefits during the accounting period in the form of outflows other than those relating to distributions to equity participants
- B. increases in economic benefits during the accounting period in the form of inflows or enhancement of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants
- C. decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants**
- D. All of the given answers are correct.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #56
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

57. In accordance with IASB Conceptual Framework which of the following accounts are expenses?

- A. dividends paid
- B. provision for warranties
- C. entity dumps pollutants in a river adjacent to its factory
- D. None of the given answers are correct.**

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #57
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

58. Faithful presentation is one on the two primary fundamental qualitative characteristics for financial information to be useful. According to the IASB Conceptual Framework a financial report is faithfully presented if it is:

- A. consistent, free from bias and free of material error.
- B. accurate, free from bias and free of material error.
- C.** complete, neutral and free of material error.
- D. reliable, neutral and free of material error.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #58
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

59. Which of the following statements most accurately reflects the qualitative characteristics of financial information in the IASB Conceptual Framework?

- A. These attributes or qualities determine whether an entity is considered to be a reporting entity.
- B.** These are attributes or qualities that financial information should possess if it is to be useful for such decision making.
- C. These attributes or qualities satisfy the definition of elements in the financial reports.
- D. All of the given answers are correct.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #59
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

60. Which of the following accounting policies is an example of a trade-off between relevance and faithful representation?

- A. Research outflows are expensed and development activities expenses are capitalised.
- B.** Biological assets are stated at fair value unless the fair value cannot be measured reliably.
- C. Machinery and equipment are reviewed periodically to assess propriety of useful life estimations used in depreciation.
- D. All of the given answers are correct.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #60
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

61. Which of the following accounting policies is an example of costs versus benefits constraint being exercised in the disclosure of financial information?

A. Inventory is valued at lower of cost or market.

B. Property, plant and equipment are appraised and revalued every three years.

C. Biological assets are stated at fair value unless the fair value cannot be measured reliably.

D. Research and development costs are expensed as incurred.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #61

Difficulty: Medium

Section: 2.07 Measurement principles

62. What qualities should financial information possess to be faithfully represented?

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #62

Difficulty: Easy

Section: 2.06 Building blocks of a conceptual framework

63. The Conceptual framework identified some constraints that preparers should consider in the preparation of financial reports. Identify and discuss these constraints.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #63

Difficulty: Medium

Section: 2.06 Building blocks of a conceptual framework

64. 'Liabilities that are legally enforceable and equitably or constructively unavoidable must be recognised if they can be measured reliably'. Discuss.

Chapter 02 The conceptual framework of accounting and its relevance to financial reporting

Deegan - Chapter 2 #64

Difficulty: Medium

Section: 2.06 Building blocks of a conceptual framework

65. Discuss the benefits of a conceptual framework

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #65
Difficulty: Medium
Section: 2.03 Benefits of a conceptual framework*

66. Discuss some of the criticisms of the Conceptual Framework.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #66
Difficulty: Easy
Section: 2.08 A critical review of conceptual frameworks*

67. Identify and discuss the fundamental qualitative characteristics of financial information identified in the IASB *Conceptual Framework for Financial Reporting*.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #67
Difficulty: Medium
Section: 2.06 Building blocks of a conceptual framework*

68. With the convergence project between IASB and FASB explain why there is a need for a revised conceptual framework.

*Chapter 02 The conceptual framework of accounting and its relevance to financial reporting
Deegan - Chapter 2 #68
Difficulty: Medium
Section: 2.04 Current initiatives to develop a revised conceptual framework*

69. Discuss issues covered by IASB and the US FASB with respect to measurement principles in the development of a common conceptual framework.

Measurement questions or issues appeared to represent a stumbling block in the development of the FASB Conceptual Framework. While the FASB Framework was initially promoted as being prescriptive, when SFAC 5 was issued in 1984 the FASB appeared to sidestep the difficult measurement issues, with the statement ending up merely describing various approaches to measuring the elements of accounting. SFAC 5 notes that generally five alternative measurement bases are applied in practice: historical cost, current replacement cost, current market value, net realisable value and present value. A descriptive approach such as this was generally considered to represent a 'cop-out' on the part of the FASB (Solomons, 1986). The IASB Conceptual Framework explicitly recognises the same variety of acceptable measurement bases as the FASB Framework, with the exception of current market value (which could be regarded as comprising elements of current replacement cost and net realisable (sale) value).

For more information refer to 'Measurement principles' on page 73.

c2 Summary

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