

CHAPTER 1

FINANCIAL ACCOUNTING AND ACCOUNTING STANDARDS

IFRS questions are available at the end of this chapter.

TRUE-FALSE—Conceptual

Answer	No.	Description
F	1.	Definition of financial accounting.
T	2.	Purpose of financial statements.
T	3.	Definition of financial accounting.
T	4.	Capital allocation process.
F	5.	Objective of financial reporting.
T	6.	Decision-Usefulness approach.
T	7.	Users of financial statements.
F	8.	Committee on Accounting Procedure.
F	9.	Passage of new FASB statement.
T	10.	Statements of Financial Accounting Concepts.
T	11.	Creation of Accounting Principles Board.
F	12.	FASB Codification.
T	13.	Code of Professional Conduct.
F	14.	GAAP and political action.
T	15.	Public Company Accounting Oversight Board.
T	16.	Expectations gap.
F	17.	Financial reports.
F	18.	Fair value information.
F	19.	International Financial Reporting Standards.
F	20.	Ethical issues.

MULTIPLE CHOICE—Conceptual

Answer	No.	Description
a	21.	Financial accounting.
d	22.	Users of financial reports.
d	23.	Identify the major financial statements.
a	24.	Financial reporting entity.
d	25.	Differences between financial and managerial accounting.
b	26.	Financial reporting communication.
b	27.	Managerial accounting.
a	28.	Capital allocation process.
d	29.	Efficient use of resources.
d	30.	Capital allocation process.
c	31.	Financial statement information.
c	32.	Accounting profession challenge.
c	33.	Financial reporting objective.
d	34.	Financial statements primary users.
c	35.	Investor's decision making.

MULTIPLE CHOICE—Conceptual (cont.)

Answer	No.	Description
b	36.	Accrual accounting.
c	37.	Entity perspective.
c	38.	Meaning of "generally accepted."
b	39.	Common set of standards and procedures.
a	40.	Limitation of general purpose financial statements.
c	41.	Securities and Exchange Commission and accounting standard setting.
d	42.	Due process in FASB standard setting.
d	43.	Organizations responsible for setting accounting standards.
b	44.	Reason for Accounting Principles Board creation
b	45.	Organization issuing Accounting Research Bulletins.
a	46.	Characteristic of GAAP.
c	47.	Characteristics of GAAP.
d	48.	FASB accounting standards.
c	49.	FASB standard passage.
b	50.	Purpose of Emerging Issues Task Force.
a	51.	AICPA role in standard setting.
c	52.	Role of SEC.
c	53.	Powers of the SEC.
d	54.	SEC enforcement.
d	55.	Creation of FASB.
d	56.	Appointment of FASB members.
a	57.	Purpose of the Financial Accounting Foundation.
b	58.	Characteristics of FASB.
b	59.	FASB and "due process" system.
b	60.	Publications of FASB.
c	61.	Purpose of FASB Technical Bulletins.
d	62.	Purpose of Emerging Issues Task Force.
b	63.	Role of the AICPA.
b	64.	Pronouncement issued by the APB.
c	65.	Standard setting organizations.
d	66.	Identification of standard setting organizations.
c	67.	Statements of financial accounting concepts.
d	68.	FASB members.
d	69.	FASB statement process.
d	70.	Nature of GAAP.
d	71.	Body which promulgates GAAP.
d	72.	Publications which are not GAAP.
d	73.	Publications which are not GAAP.
b	74.	Code for Professional Conduct Rule 203.
c	75.	Purpose of FASB staff position.
c	76.	Components of GAAP.
a	77.	Political environment of standard setting.
c	78.	International Accounting Standards Board.

MULTIPLE CHOICE—Conceptual (cont.)

Answer	No.	Description
d	79.	Standard setting process pressure.
a	80.	Danger of politics in standard setting
c	81.	Definition of "expectation gap".
b	82.	Reason accounting standards differ across countries.
d	83.	Advantage of countries adopting same accounting standards.
a	84.	Ethical concern of accountants.

EXERCISES

Item	Description
E1-85	Objectives of financial reporting.
E1-86	Development of accounting principles.
E1-87	Publications and organizations.
E1-88	FASB.
E1-89	Evolution of a statement of financial accounting standards.

CHAPTER LEARNING OBJECTIVES

1. Describe the financial reporting environment.
2. Identify the major policy-setting bodies and their role in the standard-setting process.
3. Explain the meaning of generally accepted accounting principles (GAAP) and the role of the Codification for GAAP.
4. Describe major challenges in the financial reporting environment.
5. Compare the procedures related to financial accounting and accounting standards under GAAP and IFRS.

SUMMARY OF QUESTIONS BY LEARNING OBJECTIVES AND BLOOM'S TAXONOMY

Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT	Item	LO	BT
TRUE-FALSE STATEMENTS														
1.	1	K	5.	1	K	9.	2	K	13.	3	K	17.	4	K
2.	1	K	6.	1	K	10.	2	K	14.	4	K	18.	4	K
3.	1	K	7.	1	K	11.	2	K	15.	4	K	19.	4	K
4.	1	K	8.	2	K	12.	3	K	16.	4	K	20.	4	K
MULTIPLE CHOICE QUESTIONS														
21.	1	K	34.	1	K	47.	2	K	60.	2	K	73.	3	K
22.	1	K	35.	1	K	48.	2	C	61.	2	C	74.	3	K
23.	1	K	36.	1	K	49.	2	K	62.	3	K	75.	3	C
24.	1	K	37.	1	K	50.	2	K	63.	2	K	76.	3	C
25.	1	C	38.	1	C	51.	2	K	64.	2	K	77.	4	C
26.	1	K	39.	1	K	52.	2	K	65.	2	K	78.	4	K
27.	1	K	40.	1	C	53.	2	K	66.	2	K	79.	4	K
28.	1	K	41.	2	C	54.	2	K	67.	2	K	80.	4	C
29.	1	K	42.	2	K	55.	2	K	68.	2	K	81.	4	K
30.	1	K	43.	2	K	56.	2	K	69.	2	C	82.	4	K
31.	4	K	44.	2	K	57.	2	K	70.	3	C	83.	4	C
32.	4	K	45.	2	K	58.	2	C	71.	3	K	84.	4	K
33.	1	K	46.	2	K	59.	2	K	72.	3	K			
EXERCISES														
85.	1	C	86.	1, 2	E	87.	2	K	88.	2	C	89.	2	K

TRUE-FALSE—Conceptual

1. Financial accounting is the process of identifying, measuring, analyzing, and communicating financial information needed by management to plan, evaluate, and control a company's operations.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

2. Financial statements are the principal means through which a company communicates its financial information to those outside it.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

3. Users of financial reports of a company use the information provided by these reports to make their capital allocation decisions.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

4. An effective process of capital allocation promotes productivity and provides an efficient market for buying and selling securities and obtaining and granting credit.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

5. The objective of financial reporting is to report the plans made by a company to improve the productivity of its employees.

Ans: F, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

6. Investors are interested in financial reporting because it provides information that is useful for making decisions.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

7. Users of financial accounting statements have both coinciding and conflicting needs for information of various types.

Ans: T, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

8. The Securities and Exchange Commission appointed the Committee on Accounting Procedure.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

9. The passage of a new FASB Accounting Standards Update requires the support of five of the seven board members.

Ans: F, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

10. Statements of Financial Accounting Concepts set forth fundamental objectives and concepts that are used by the FASB in developing future standards of financial accounting and reporting.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

11. The AICPA created the Accounting Principles Board in 1959.

Ans: T, LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

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12. The FASB's Codification creates a new set of GAAP.

Ans: F, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

13. The AICPA's Code of Professional Conduct requires that members prepare financial statements in accordance with generally accepted accounting principles.

Ans: T, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

14. GAAP is a product of careful logic or empirical findings and is **not** influenced by political action.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

15. The Public Company Accounting Oversight Board has oversight and enforcement authority and establishes auditing and independence standards and rules.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

16. The expectations gap is due to the difference between what the public thinks accountants should do and what accountants think they can do.

Ans: T, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

17. Financial reports in the early 21st century did **not** provide any information about a company's soft assets (intangibles).

Ans: F, LO: 4, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

18. Accounting standards are now less likely to require the recording or disclosure of fair value information.

Ans: F, LO: 4, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

19. U.S. companies that list overseas are required to use International Financial Reporting Standards, issued by the International Accounting Standards Board.

Ans: F, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

20. Ethical issues in financial accounting are governed by the AICPA.

Ans: F, LO: 4, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Prof. Demeanor, IMA: Reporting, IFRS: None

True-False Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
1.	F	6.	T	11.	T	16.	T
2.	T	7.	T	12.	F	17.	F
3.	T	8.	F	13.	T	18.	F
4.	T	9.	F	14.	F	19.	F
5.	F	10.	T	15.	T	20.	F

MULTIPLE CHOICE—Conceptual

21. General-purpose financial statements are the product of
- financial accounting.
 - managerial accounting.
 - both financial and managerial accounting.
 - neither financial nor managerial accounting.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

22. Which of the following is **not** a user of financial reports?
- Creditors.
 - Government agencies.
 - Unions.
 - Employees.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

23. The financial statements most frequently provided include all of the following **except** the
- balance sheet.
 - income statement.
 - statement of cash flows.
 - statement of retained earnings.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

24. The information provided by financial reporting pertains to
- individual business enterprises, rather than to industries or an economy as a whole or to members of society as consumers.
 - business industries, rather than to individual enterprises or an economy as a whole or to members of society as consumers.
 - individual business enterprises, industries, and an economy as a whole, rather than to members of society as consumers.
 - an economy as a whole and to members of society as consumers, rather than to individual enterprises or industries.

Ans: a, LO: 1, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

25. All the following are ways in which accounting information is used by financial accounting **except** to
- buy, sell, hold equity and debt instruments.
 - decide whether to invest in the company.
 - evaluate borrowing capacity to determine the extent of a loan to grant.
 - plan and control company's operations.

Ans: d, LO: 1, Bloom: C, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Info. Mgmt., IFRS: None

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26. Which of the following represents a form of communication through financial reporting but **not** through financial statements?
- Balance sheet.
 - President's letter.
 - Income statement.
 - Notes to financial statements.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

- P27. The process of identifying, measuring, analyzing, and communicating financial information needed by management to plan, evaluate, and control an organization's operations is called
- financial accounting.
 - managerial accounting.
 - tax accounting.
 - auditing.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

28. How does accounting help the capital allocation process attract investment capital?
- By providing timely, relevant information.
 - By encouraging innovation.
 - By promoting productivity.
 - By providing timely, relevant information and by encouraging innovation.

Ans: a, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: reporting, IFRS: None

29. Which of the following does **not** help in determining whether a business thrives?
- Markets.
 - Free enterprise.
 - Competition.
 - Lack of innovation.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

30. Which of the following is related to an effective capital allocation?
- Promoting productivity.
 - Encouraging innovation.
 - Providing an efficient market for buying and selling securities.
 - Provides timely, relevant information and encourages innovation.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

31. Financial statements in the early 2000s provide information related to
- nonfinancial measurements.
 - forward-looking data.
 - hard assets (inventory and plant assets).
 - soft assets.

Ans: c, LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication IMA: Reporting, IFRS: None

32. Which of the following is **not** a major challenge facing the accounting profession?
- Nonfinancial measurements.
 - Timeliness.
 - Accounting for hard assets.
 - Forward-looking information.

Ans: c, LO: 4, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

33. What is the objective of financial reporting?
- Provide information that is useful to management in making decisions.
 - Provide information that clearly portrays nonfinancial transactions.
 - Provide information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors.
 - Provide information that excludes claims to the resources.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

34. Primary users for general-purpose financial statements include each of the following **except**
- creditors.
 - suppliers.
 - investors.
 - employees.

Ans: d, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

35. Which of the following will be of interest to investors in decision-making?
- Assessing the company's ability to generate net cash inflows.
 - Assessing management's ability to protect and enhance the capital providers' investments.
 - Both assessing the company's ability to generate net cash inflows and assessing management's ability to protect and enhance the capital provider's investments.
 - Assessing the company's ability to collect debts.

Ans: c, LO: 1, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

36. Accrual accounting is used because
- cash flows are considered less important.
 - it provides a better indication of a company's ability to generate cash flows over time than the cash basis.
 - it recognizes revenues when cash is received and expenses when cash is paid.
 - it provides past ability to generate negative cash flows.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Measurement, AICPA PC: Communication, IMA: Reporting, IFRS: None

37. Which perspective is adopted as a part of the objective of general-purpose financial reporting?
- A decision-usefulness perspective.
 - A proprietary perspective.
 - An entity perspective.
 - A financial reporting perspective.

Ans: c, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

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38. Which of the following is a requirement for an accounting principle to be called "generally accepted"?
- An authoritative accounting rule-making body has established it in an official pronouncement.
 - The principle has been accepted as appropriate because of its universal application.
 - An authoritative accounting rule-making body has established it and it has been accepted because of its universal application.
 - Each company develops its own standards.

Ans: c, LO: 1, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

39. A common set of accounting standards and procedures is called
- financial accounting standards.
 - generally accepted accounting principles.
 - objectives of financial reporting.
 - statements of financial accounting concepts.

Ans: b, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

40. Which of the following is a general limitation of "general purpose financial statements"?
- General purpose financial statements may not be the most informative for a specific enterprise.
 - General purpose financial statements are not comparable.
 - General purpose financial statements do not fairly present a company's financial operations.
 - General purpose financial statements provide financial reporting information to a wide variety of users.

Ans: a, LO: 1, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

41. What is the relationship between the Securities and Exchange Commission and accounting standard setting in the United States?
- The SEC requires all companies listed on an exchange to submit their financial statements to the SEC.
 - The SEC coordinates with the AICPA in establishing accounting standards.
 - The SEC has a mandate to establish accounting standards for enterprises under its jurisdiction.
 - The SEC reviews financial statements for compliance.

Ans: c, LO: 2, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

42. What is not due process in the context of standard setting at the FASB?
- The FASB operates in full view of the public.
 - Public hearings are held on proposed accounting standards.
 - Interested parties can make their views known.
 - No public hearings are held on proposed accounting standards.

Ans: d, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

43. Which of the following organizations has been responsible for setting U.S. accounting standards?
- The Accounting Principles Board.
 - The Committee on Accounting Procedure.
 - The Financial Accounting Standards Board.
 - All of the answer choices are correct.

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

44. Why did the AICPA create the Accounting Principles Board?
- The SEC disbanded the previous standard setting organization.
 - The previous standard setting organization did not provide a structured set of accounting principles.
 - No such organization existed in the past.
 - The reason was to revert to the written expression of accounting principles.

Ans: b, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

45. Which organization was responsible for issuing Accounting Research Bulletins?
- The Accounting Principles Board.
 - The Committee on Accounting Procedure.
 - The SEC.
 - The FASB.

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

46. A characteristic of generally accepted accounting principles includes:
- a common set of standards and principles.
 - standards and principles are based on federal statutes.
 - acceptance requires an affirmative vote of Certified Public Accountants.
 - practices that become accepted for at least a year by all industry members.

Ans: a, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

47. Characteristics of generally accepted accounting principles include all of the following **except**
- authoritative accounting that the rule-making body has established as a principle of reporting.
 - standards are considered useful by the profession.
 - each principle is approved by the SEC.
 - practice has become universally accepted over time.

Ans: c, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

48. Why was it believed that accounting standards that were issued by the Financial Accounting Standards Board would carry more weight than those previously issued?
- The FASB board had a smaller membership.
 - The FASB board members were well-paid.
 - The FASB board members were CPAs.
 - The FASB follows due process.

Ans: d, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

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49. The passage of a new FASB Accounting Standards Update requires the support of
- seven Board members.
 - three Board members.
 - four Board members.
 - five Board members.

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

50. What is the purpose of Emerging Issues Task Force?
- Provide interpretation of existing standards.
 - Provide implementation guidance within the Codification framework to reduce diversity in practice on a timely basis.
 - Provide interpretive guidance.
 - Provide timely guidance on select issues.

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

51. Which organization is responsible for issuing Emerging Issues Task Force Statements?
- The FASB
 - The CAP
 - The APB
 - The SEC

Ans: a, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Communication, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

52. Each of the following are true of the Securities and Exchange Commission **except** that
- it is a federal agency.
 - the SEC's involvement in the development of accounting standards varies.
 - the FASB relies on the SEC to develop accounting standards.
 - the SEC requires registrants to adhere to GAAP.

Ans: c, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

53. The body that has the power to prescribe the accounting practices and standards to be employed by companies that fall under its jurisdiction is the
- FASB.
 - AICPA.
 - SEC.
 - APB.

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

54. Companies that are listed on a stock exchange are required to submit their financial statements to the
- AICPA.
 - APB
 - FASB.
 - SEC.

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

55. The Financial Accounting Standards Board (FASB) was proposed by the
- American Institute of Certified Public Accountants.
 - Accounting Principles Board.
 - Study Group on the Objectives of Financial Statements.
 - Study Group on establishment of Accounting Principles (Wheat Committee).

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

56. Which of the following is true of the Financial Accounting Standards Board?
- It has issued a series of pronouncements entitled Auditing Standards Updates.
 - It was the forerunner of the current Accounting Principles Board.
 - It is the arm of the Securities and Exchange Commission responsible for setting financial accounting standards.
 - The members of the FASB are appointed by the Financial Accounting Foundation.

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

57. The Financial Accounting Foundation
- oversees the operations of the FASB.
 - oversees the operations of the AICPA.
 - provides information to interested parties on financial reporting issues.
 - works with the Financial Accounting Standards Advisory Council to provide information to interested parties on financial reporting issues.

Ans: a, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

58. The major distinction between the Financial Accounting Standards Board (FASB) and its predecessor, the Accounting Principles Board (APB), is
- the FASB issues exposure drafts of proposed standards.
 - all members of the FASB are fully remunerated, serve full time, and are independent of any companies or institutions.
 - all members of the FASB possess extensive experience in financial reporting.
 - a majority of the members of the FASB are CPAs who are drawn from public practice.

Ans: b, LO: 2, Bloom: C, Difficulty: Difficult, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

59. The Financial Accounting Standards Board employs a "due process" system which
- is an efficient system for collecting dues from members.
 - enables interested parties to express their views on issues under consideration.
 - identifies the accounting issues that are the most important.
 - requires that all accountants must receive a copy of financial standards.

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

60. Which of the following is **not** a publication of the FASB?
- Statements of Financial Accounting Concepts
 - Accounting Research Bulletins
 - Interpretations
 - Technical Bulletins

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FN: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

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61. The FASB has issued each of the following pronouncements except
- Accounting Standards Updates.
 - Financial Accounting Concepts.
 - Accounting Research Bulletins.
 - The FASB has issued each of these pronouncements.

Ans: c, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

62. The purpose of the Emerging Issues Task Force is to
- develop a conceptual framework as a frame of reference for the solution of future problems.
 - lobby the FASB on issues that affect a particular industry.
 - do research on issues that relate to long-term accounting problems.
 - provide implementation guidance within the Codification framework to reduce diversity in practice on a timely basis.

Ans: d, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

63. The American Institute of Certified Public Accountants (AICPA) continues to be involved in all of the following **except**
- developing and enforcing professional ethics.
 - developing auditing standards for public companies.
 - providing professional education programs.
 - grading the CPA exam.

Ans: b, LO: 2, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

- ^P64. Which of the following pronouncements were issued by the Accounting Principles Board?
- Accounting Research Bulletins
 - APB Opinions
 - APB Statements of Position
 - Statements of Financial Accounting Concepts

Ans: b, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

65. Which of the following organizations has **not** been instrumental in the development of financial accounting standards in the United States?
- AICPA
 - FASB
 - IASB
 - SEC

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

66. Which of the following organizations has **not** published accounting standards?
- American Institute of Certified Public Accountants.
 - Securities and Exchange Commission.
 - Financial Accounting Standards Board.
 - American Institute of Certified Private Accountants.

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

67. The purpose of Statements of Financial Accounting Concepts is to
- establish GAAP.
 - modify or extend an existing FASB Accounting Standards Update.
 - form a conceptual framework for solving existing and emerging problems.

d. determine the need for FASB involvement in an emerging issue.

Ans: c, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

- P68. Members of the Financial Accounting Standards Board are
- employed by the American Institute of Certified Public Accountants (AICPA).
 - part-time employees.
 - required to hold a CPA certificate.
 - independent of any other organization.

Ans: d, LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

- P69. The following are part of the "due process" system used by the FASB in the evolution of a typical FASB Accounting Standards Update:

- Exposure Draft
- FASB Accounting Standards Update
- Preliminary Views

The chronological order in which these items are released is as follows:

- 1, 2, 3.
- 1, 3, 2.
- 2, 3, 1.
- 3, 1, 2.

Ans: d, LO: 2, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

70. Which of the following is **not** true of generally accepted accounting principles?
- GAAP includes detailed practices and procedures as well as broad guidelines of general application.
 - GAAP is influenced by pronouncements of the SEC and IRS.
 - GAAP changes over time as the nature of the business environment changes.
 - GAAP does not have substantial authoritative support.

Ans: d, LO: 3, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

71. The most significant current source of generally accepted accounting principles is the
- AICPA.
 - SEC.
 - APB.
 - FASB.

Ans: d, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

72. Which of the following is **not** a part of generally accepted accounting principles?
- FASB Interpretations
 - CAP Accounting Research Bulletins
 - APB Opinions
 - AICPA Research Analysis.

Ans: d, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

73. Which of the following publications does **not** qualify as a statement of generally accepted accounting principles?
- Statements of financial standards issued by the FASB
 - Accounting interpretations issued by the FASB

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- c. APB Opinions
- d. Accounting research studies issued by the AICPA

Ans: d, LO: 3, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

74. Rule 203 of the Code of Professional Conduct addresses:
- a. ethical requirements.
 - b. financial statements being based on generally accepted accounting principles.
 - c. advertising to obtain clients.
 - d. auditing financial statements.

Ans: b, LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

75. What is the purpose of a FASB Staff Position?
- a. Provide interpretation of existing standards.
 - b. Provide a consensus on how to account for new and unusual financial transactions.
 - c. Provide interpretive guidance.
 - d. Provide timely guidance on select issues.

Ans: c, LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

76. Which of the following is **not** considered a component of generally accepted accounting principles?
- a. FASB Implementation Guides.
 - b. Widely recognized industry practices.
 - c. Articles published in CPA journals.
 - d. AICPA Accounting Interpretations.

Ans: c, LO: 3, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

77. Financial accounting standard-setting in the United States
- a. can be described as a social process which reflects political actions of various interested user groups as well as a product of research and logic.
 - b. is based solely on research and empirical findings.
 - c. is a legalistic process based on rules promulgated by governmental agencies.
 - d. is democratic in the sense that a majority of accountants must agree with a standard before it becomes enforceable.

Ans: a, LO: 4, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

78. The purpose of the International Accounting Standards Board is to
- a. issue enforceable standards which regulate the financial accounting and reporting of multinational corporations.
 - b. develop a uniform currency in which the financial transactions of companies throughout the world would be measured.
 - c. promote uniform accounting standards among countries of the world.
 - d. arbitrate accounting disputes between auditors and international companies.

Ans: c, LO: 4, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

79. Which of the following is a source of pressure that may influence the accounting standard setting process?
- Congress
 - Lobbyists
 - CPA firms
 - All of these answers are correct.

Ans: d, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

80. What is a possible danger if politics plays too big a role in accounting standard setting?
- Accounting standards that are not truly generally accepted.
 - Individuals may influence the standards.
 - User groups become active.
 - The FASB delegates its authority to elected officials.

Ans: a, LO: 4, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

81. What is the "expectations gap"?
- The difference between what the public thinks the accountant should not do and what the accountant knows they should do.
 - The difference between what the public thinks the accountant should do and what Congress says the accountant should do.
 - The difference between what the public thinks the accountant should do and what the accountant thinks they can do.
 - The difference between what the accountant should do and what the Courts say the accountant should be doing.

Ans: c, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

82. What is **not** a reason that accounting standards may differ across countries?
- Governments
 - Language
 - Culture
 - Past practice

Ans: b, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

83. What would be an advantage of having all countries adopt and follow the same accounting standards?
- Agreement.
 - Comparability.
 - Lower preparation costs.
 - Comparability and lower preparation costs.

Ans: d, LO: 4, Bloom: C, Difficulty: Moderate, Min: 2, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

84. Which of the following is an ethical concern of accountants?
- Earnings manipulation.
 - Conservative accounting.
 - Industry practices.
 - Managerial Accounting.

Ans: a, LO: 4, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Ethics, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Prof. Demeanor, IMA: Reporting, IFRS: None

Multiple Choice Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
21.	a	31.	c	41.	c	51.	a	61.	c	71.	d	81.	c
22.	d	32.	c	42.	d	52.	c	62.	d	72.	d	82.	b
23.	d	33.	c	43.	d	53.	c	63.	b	73.	d	83.	d
24.	a	34.	d	44.	b	54.	d	64.	b	74.	b	84.	a
25.	d	35.	c	45.	b	55.	d	65.	c	75.	c		
26.	b	36.	b	46.	a	56.	d	66.	d	76.	c		
27.	b	37.	c	47.	c	57.	a	67.	c	77.	a		
28.	a	38.	c	48.	d	58.	b	68.	d	78.	c		
29.	d	39.	b	49.	c	59.	b	69.	d	79.	d		
30.	d	40.	a	50.	b	60.	b	70.	d	80.	a		

EXERCISES

Ex. 1-85—Objective of financial reporting.

What is the objective of financial reporting? How do general-purpose financial statements help meet this objective.

Ans: NA, LO: 1, Bloom: C, Difficulty: Moderate, Min: 5, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: Reporting, IFRS: None

Solution 1-85

The objective of financial reporting is to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders, and other creditors in decisions about providing resources to the entity.

General-purpose financial statements provide financial reporting information to a wide variety of users. They help shareholders, creditors, managers, and regulators to better understand a company's financial position and related performance.

Ex. 1-86—Development of accounting principles.

Presented below are two independent, unrelated statements regarding the formulation of generally accepted accounting principles. Each statement contains some incorrect or debatable statement(s).

Statement I

The users of financial accounting statements have coinciding and conflicting needs for statements of various types. To meet these needs, and to satisfy the financial reporting responsibility of management, accountants prepare different sets of financial statements for different users.

Statement II

The FASB should be responsive to the needs and viewpoints of the entire economic community, not just the public accounting profession. The FASB therefore will succeed because it will deal effectively with all interested groups.

Instructions

Evaluate each of the independent statements and identify the areas of fallacious reasoning in each. Explain why the reasoning is incorrect. Complete your discussion of each statement before proceeding to the next statement.

Ans: NA, LO: 1, 2, Bloom: E, Difficulty: Difficult, Min: 10, AACSB: Reflective Thinking, AICPA BB: Crit. Think., AICPA FC: Reporting, AICPA PC: Prob. Solving, IMA: FSA, IFRS: None

Solution 1-86

Statement I

It is true that users of financial accounting statements have coinciding and conflicting needs for statements of various types. However, to meet these needs, accountants generally prepare a single set of general-purpose financial statements, rather than a number of different types of financial statements. It may be argued that accountants often do prepare special statements for particular purposes, but in general the accounting profession has relied on general purpose financial statements prepared in conformance with generally accepted accounting principles.

Statement II

It is true that the FASB should be responsive to the needs of the entire economic community, not just the public accounting profession. However, it is not clear whether the FASB will succeed. The FASB will have the best chance of survival if it deals with problems promptly, sets proper priorities, takes whatever action it thinks is right and in the public interest, and handles pressures responsibly without overreacting to them.

Ex. 1-87—Publications and organizations.

Significant accounting publications are listed below (1-5). Sources or sponsors of accounting publications are identified next by alphabetical character (a-d). Match the publications with their sources.

Publications

- ___ 1. Accounting Research Bulletins (1953-1959)
- ___ 2. Accounting Standards Updates
- ___ 3. Emerging Issues Task Force Updates
- ___ 4. Statements of Financial Accounting Concepts
- ___ 5. Opinions (1962-1973)

Sources/Sponsors

- | | |
|---|--------------------------------------|
| a. Financial Accounting Standards Board | c. The AICPA |
| b. Accounting Principles Board | d. Committee on Accounting Procedure |

Ans: NA, LO: 2, Bloom: K, Difficulty: Moderate, Min: 8, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

Solution 1-87

- | | |
|------|------|
| 1. d | 4. a |
| 2. a | 5. b |
| 3. a | |

Ex. 1-88—FASB.

The Financial Accounting Standards Board was established because many groups interested in financial reporting believed that the Accounting Principles Board was not effective. Discuss the apparent advantages that the FASB has over its earlier counterpart, the APB.

Ans: NA, LO: 2, Bloom: C, Difficulty: Moderate, Min: 10, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

Solution 1-88

1. Smaller membership. The FASB is composed of seven members, replacing the relatively large 18-member APB.
2. Full-time, remunerated membership. FASB members are well-paid, full-time members, appointed for renewable five-year terms. The APB members were unpaid and part-time.
3. Greater autonomy. The APB was a senior committee of the AICPA, whereas the FASB is not part of any single professional organization. It is appointed by and answerable only to the Financial Accounting Foundation.
4. Increased independence. The APB members retained their private positions with firms, companies, or institutions. The FASB members must sever all such ties.
5. Broader representation. All APB members were required to be CPAs and members of the AICPA. Currently, it is not necessary to be a CPA to be a member of the FASB.

Ex. 1-89—Evolution of a statement of financial accounting standards.

In establishing financial accounting standards, two basic premises of the FASB are (1) The FASB should be responsive to the needs and viewpoints of the entire economic community, not just the accounting profession. (2) It should operate in full view of the public through a "due process" system that gives interested persons ample opportunity to make their views known. To ensure achievement of these goals, what steps does the FASB follow in the development of a typical FASB standard?

Ans: NA, LO: 2, Bloom: K, Difficulty: Moderate, Min: 5-7, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS: None

Solution 1-89

The steps in the evolution of an FASB Accounting Standards Updates are:

- a. Topics are identified and placed on the Board's agenda.
- b. Research and analysis are conducted and preliminary views of pros and cons are issued.
- c. A public hearing on the proposed standard is held.
- d. The Board evaluates the research and public response and issues an exposure draft.
- e. The Board evaluates the responses and changes the exposure draft, if necessary. The final standard is then issued.

IFRS QUESTIONS

True/False:

1. IFRS includes both International Financial Reporting Standards and International Accounting Standards.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

2. International Financial Reporting Standards preceded International Accounting Standards

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

3. The standard-setting structure used by the International Accounting Standards Board is very similar to that used by the Financial Accounting Standards Board.

Ans: T, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

4. The rules-based standards of IFRS are more detailed than the simpler, principles-based standards of GAAP.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

5. The International Accounting Standards Board has seven members.

Ans: F, LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

6. The IASB relies primarily on IOSCO for regulation and enforcement of its standards.

Ans: T, LO: 5, Bloom: K, Difficulty: Moderate, Min: 1, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

Answers to True/False questions:

1. True
2. False
3. True
4. False
5. False
6. True

Multiple Choice:

7. Authoritative standards for IFRS include:
- a. International Financial Reporting Standards only.
 - b. International Financial Reporting Standards and International Accounting Standards only.
 - c. International Financial Reporting Standards, International Accounting Standards and GAAP only.
 - d. International Financial Reporting Standards, International Accounting Standards and any GAAP standard recognized by an organized stock exchange.

Ans: b, LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

8. Which of these statements regarding the IFRS and GAAP is correct?
- GAAP is considered to be "principles-based".
 - GAAP is considered to be less detailed than IFRS.
 - IFRS is considered to be "principles-based" and less detailed than GAAP
 - Both GAAP and IFRS are considered to be "rules-based", but GAAP tends to be more complex.

Ans: c, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

9. The IASB's standard-setting structure includes all of the following **except**
- the Standing Interpretations Committee
 - the Standards Advisory Council
 - the Standards Comparison Committee
 - the Trustees

Ans: c, LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

10. Which of the following organizations have committed to develop high-quality, compatible accounting standards that could be used for domestic and cross-border financial reporting
- The Financial Accounting Standards Board (FASB) and the International Organization of Securities Commission (IOSCO)
 - The Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB)
 - The International Accounting Standards Board (IASB) and International Organization of Securities Commission (IOSCO)
 - The International Accounting Standards Board (IASB) and the Standards Advisory Council (SAC)

Ans: b, LO: 5, Bloom: K, Difficulty: Difficult, Min: 2, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

11. Which of the following organizations is **not** among the four international standard-setting organizations?
- The International Accounting Standards Committee Foundation (IASCF)
 - The Standards Advisory Council (SAC)
 - The International Financial Reporting Interpretations Committee (IFRIC)
 - The Financial Executives Institute (FEI)

Ans: d, LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

12. Which of the following organizations selects members for the IASB?
- The Accounting Standards Committee Foundation
 - The Standards Advisory Council
 - The International Financial Reporting Interpretations Committee
 - The International Accounting Standards Committee Foundation

Ans: d, LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

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13. The purpose of the International Accounting Standards Board is to:
- regulate stock prices at the international level.
 - develop a uniform currency in which the financial transactions occur.
 - develop a single set of high-quality financial reporting standards.
 - arbitrate accounting disputes between auditors and international companies.

Ans: c, LO: 5, Bloom: K, Difficulty: Moderate, Min: 2, AACSB: Diversity, AICPA BB: International, AICPA FC: Reporting, AICPA PC: Communication, IMA: FSA, IFRS

Answers to Multiple Choice:

- | | |
|-------|-------|
| 7. b | 11. d |
| 8. c | 12. d |
| 9. c | 13. c |
| 10. b | |