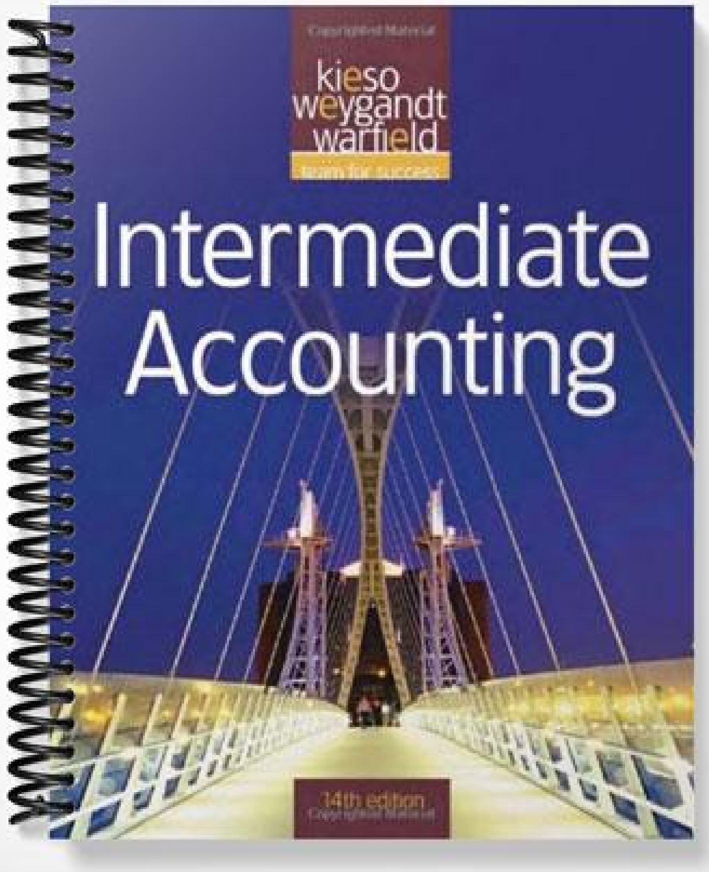
TEST BANK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14th edition

CHAPTER 2

CONCEPTUAL FRAMEWORK UNDERLYING FINANCIAL ACCOUNTING

IFRS questions are available at the end of this chapter.

TRUE-FALSE—Conceptual

Answer	No.	Description
F	1.	Nature of conceptual framework.
T	2.	Conceptual framework definition.
F	3.	Levels of conceptual framework.
T	4	International conceptual framework.
F	5.	Statements of Financial Accounting Concepts.
T	6.	Objective of financial reporting.
F	7.	Financial statement users.
T	8.	Relevance and faithful representation.
T	9.	Consistency.
F	10.	Relevance.
F	11.	Faithful representation.
F	12.	Basic elements.
T	13.	Comprehensive income.
T	14.	Going concern assumption.
F	15.	Economic entity assumption.
F	16.	Expense recognition principle.
T	17.	Realizable revenues.
T	18.	Supplementary information.
F	19.	Cost benefit trade-off.
F	20.	Conservatism.

MULTIPLE CHOICE—Conceptual

Answer	No.	Description
c	21.	GAAP defined.
d	22.	Purpose of conceptual framework.
c	23.	Conceptual framework.
d	24.	Conceptual framework purpose.
d	S25.	Conceptual framework benefits.
d	26.	Objectives of financial reporting.
a	27.	Decision usefulness.
d	28.	Objective of financial reporting.
a	P29.	Financial reporting objectives.
a	30.	Primary objective of financial reporting.
a	31.	Primary objective of financial reporting.
b	32.	Characteristic of accounting information.
c	33.	Characteristic of accounting information.
c	34.	Meaning of comparability.
a	35.	Meaning of consistency.

MULTIPLE CHOICE—Conceptual (cont.)

Answer	No.	Description
d	36.	Ingredient of relevance.
c	37.	Ingredient of reliability.
a	38.	Consistency characteristic.
b	39.	Primary quality of accounting information.
d	40.	Quality of relevance.
a	41.	Quality of reliability.
c	42.	Consistency quality.
a	43.	Decision-usefulness criterion.
c	44.	Primary qualities of accounting information.
b	45.	Definition of relevance.
b	46.	Definition of reliability.
d	47.	Relevance quality.
c	48.	Materiality characteristic.
d	49.	Completeness characteristic.
b	50.	Neutrality characteristic.
d	51.	Neutrality characteristic.
c	52.	Definition of verifiability.
a	53.	Quality of predictive value.
c	54.	Quality of free from error.
d	55.	Consistency.
b	56.	Consistency characteristic.
b	57.	Comparability and consistency.
d	58.	Comparability.
d	59.	Elements of financial statements.
c	60.	Distinction between revenues and gains.
c	61.	Definition of a loss.
d	62.	Definition of comprehensive income.
b	63.	Components of comprehensive income.
d	P64.	Comprehensive income.
b	S65.	Earnings vs. comprehensive income.
a	S66.	Reporting financial statement elements.
b	67	Basic element of financial statements.
a	68.	Basic element of financial statements.
d	69.	Basic element of financial statements.
c	70.	Definition of gains.
d	71.	Historical cost assumption.
c	72.	Periodicity assumption.
b	73	Going concern assumption.
b	74.	Periodicity assumption.
a	S75.	Monetary unit assumption.
c	S76.	Periodicity assumption.
c	77.	Monetary unit assumption.
d	78.	Economic entity assumption.
a	79.	Economic entity assumption.
b	80.	Periodicity assumption.
a	81.	Going concern assumption.
d	82.	Going concern assumption.
d	83.	Implications of going concern assumption.
a	84.	Historical cost principle.

MULTIPLE CHOICE—Conceptual (cont.)

Answer	No.	Description
d	85.	Historical cost principle.
c	86.	Revenue recognition principle.
d	87.	Revenue recognition principle.
d	88.	Revenue recognition principle.
d	89.	Timing of revenue recognition.
c	90.	Realization concept.
b	91.	Definition of realized.
b	92.	Expense recognition principle.
b	93.	Expense recognition principle.
b	94.	Expense recognition.
c	95.	Full-disclosure principle.
a	96.	Argument against historical cost.
d	97.	Recognition of revenue.
b	98.	Revenue recognition principle.
c	99.	Deviation from revenue recognition principle.
a	100.	Required components of financial statements.
d	101.	Recognition of expenses.
c	102.	Historical cost principle.
a	103.	Expense recognition principle example.
d	104.	Recording expenditure as asset.
c	105.	Historical cost principle violation.
a	106.	Full disclosure principle violation.
d	107.	Full disclosure principle.
c	108.	Historical cost principle violation.
a	109.	Industry practice constraint.
c	110.	Costs of providing financial information.
d	111.	Benefits of providing financial information.
c	112.	Use of materiality.
b	113.	Definition of prudence/conservation.
a	114.	Example of materiality constraint.
d	115.	Constraints to limit the cost of reporting.
a	116.	Cost-benefit constraint.
c	117.	Materiality characteristic.
d	118.	Materiality.
d	119.	Pervasive constraints.
a	120.	Prudence or conservatism.
b	121.	Industry practices constraint.
a	122.	Trade-offs between characteristics of accounting information.
c	123.	Trade-offs between characteristics of accounting information.
c	^{P}124.	Prudence or conservatism.

MULTIPLE CHOICE—CPA Adapted

Answer	No.	Description
a	125.	Quality of predictive value.
b	126.	Relevance and faithful representation.
b	127.	Classification of gains and losses.
b	128.	Earnings concept.
a	129.	Components of comprehensive income.
b	130.	Components of comprehensive income.
d	131.	Components of comprehensive income.
d	132.	Components of comprehensive income.
a	133.	Definition of recognition.

[P] Note: these questions also appear in the Problem-Solving Survival Guide.
[S] Note: these questions also appear in the Study Guide.

EXERCISES

Item	Description
E2-134	Qualitative characteristics.
E2-135	Accounting concepts—identification.
E2-136	Accounting concepts—identification.
E2-137	Accounting concepts—matching.
E2-138	Accounting concepts—fill in the blanks.
E2-139	Basic assumptions.
E2-140	Revenue recognition.
E2-141	Historical cost principle.
E2-142	Matching concept.

CHAPTER LEARNING OBJECTIVES

1. Describe the usefulness of a conceptual framework.
2. Describe the FASB’s efforts to construct a conceptual framework.
3. Understand the objective of financial reporting.
4. Identify the qualitative characteristics of accounting information.
5. Define the basic elements of financial statements.
6. Describe the basic assumptions of accounting.
7. Explain the application of the basic principles of accounting.
8. Describe the impact that constraints have on reporting accounting information.

SUMMARY OF LEARNING OBJECTIVES BY QUESTIONS

Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type	Item	Type
Learning Objective 1													
1.	TF	21.	MC	23.	MC	[S]25.	MC						
2.	TF	22.	MC	24.	MC	134.	E						
Learning Objective 2													
3.	TF	4.	TF	5.	TF	26.	MC	94.	E				
Learning Objective 3													
6.	TF	27.	MC	[P]29.	MC	31.	MC						
7.	TF	28.	MC	30.	MC	134.	E						
Learning Objective 4													
8.	TF	34.	MC	40.	MC	46.	MC	52.	MC	58.	MC	138.	E
9.	TF	35.	MC	41.	MC	47.	MC	53.	MC	125.	MC		
10.	TF	36.	MC	42.	MC	48.	MC	54.	MC	126.	MC		
11.	TF	37.	MC	43.	MC	49.	MC	55.	MC	135.	E		
32.	MC	38.	MC	44.	MC	50.	MC	56.	MC	136.	E		
33.	MC	39.	MC	45.	MC	51.	MC	57.	MC	137.	E		
Learning Objective 5													
12.	TF	60.	MC	63.	MC	[S]66.	MC	69.	MC	128.	MC	131.	MC
13.	TF	61.	MC	[P]64.	MC	67.	MC	70.	MC	129.	MC	132.	MC
59.	MC	62.	MC	[S]65.	MC	68.	MC	127.	MC	130.	MC		
Learning Objective 6													
14.	TF	72.	MC	[S]75.	MC	78.	MC	81.	MC	135.	E	140.	E
15.	TF	73.	MC	[S]76.	MC	79.	MC	82.	MC	138.	E	141.	E
71.	MC	74.	MC	77.	MC	80.	MC	83.	MC	139.	E		
Learning Objective 7													
16.	TF	87.	MC	93.	MC	99.	MC	105.	MC	136.	E		
17.	TF	88.	MC	94.	MC	100.	MC	106.	MC	137.	E		
18.	TF	89.	MC	95.	MC	101.	MC	107.	MC	138.	E		
84.	MC	90.	MC	96.	MC	102.	MC	108.	MC	140.	E		
85.	MC	91.	MC	97.	MC	103.	MC	133.	MC	141.	E		
86.	MC	92.	MC	98.	MC	104.	MC	135.	E	142.	E		
Learning Objective 8													
19.	TF	110.	MC	113.	MC	116.	MC	119.	MC	122.	MC	135.	E
20.	TF	111.	MC	114.	MC	117.	MC	120.	MC	123.	MC	136.	E
109.	MC	112.	MC	115.	MC	118.	MC	121.	MC	[P]124.	MC		

Note: TF = True-False
MC = Multiple Choice
E = Exercise

TRUE-FALSE—Conceptual

1. A soundly developed conceptual framework enables the FASB to issue more useful and consistent pronouncements over time.
2. A conceptual framework is a coherent system of concepts that flow from an objective.
3. The first level of the conceptual framework identifies the recognition, measurement, and disclosure concepts used in establishing accounting standards.
4. The IASB has also issued a conceptual framework and the FASB and the IASB have agreed to develop a common conceptual framework.
5. Although the FASB has developed a conceptual framework, no Statements of Financial Accounting Concepts have been issued to date.
6. The objective of financial reporting is the foundation of the conceptual framework.
7. Users of financial statements are assumed to need no knowledge of business and financial accounting matters to understand information contained in financial statements.
8. Relevance and faithful representation are the two primary qualities that make accounting information useful for decision making.
9. The idea of consistency does not mean that companies cannot switch from one accounting method to another.
10. Timeliness and neutrality are two ingredients of relevance.
11. Verifiability and predictive value are two ingredients of faithful representation.
12. Revenues, gains, and distributions to owners all increase equity.
13. Comprehensive income includes all changes in equity during a period except those resulting from investments by owners and distributions to owners.
14. The historical cost principle would be of limited usefulness if not for the going concern assumption.
15. The economic entity assumption means that economic activity can be identified with a particular legal entity.
16. The expense recognition principle states that debits must equal credits in each transaction.
17. Revenues are realizable when assets received or held are readily convertible into cash or claims to cash.
18. Supplementary information may include details or amounts that present a different perspective from that adopted in the financial statements.

19. In order to justify reguiring a particular measurement or disclosure, the benefits to be derived from it must equal the costs associated with it.

20. Prudence or conservatism means when in doubt, choose the solution that will be least likely to overstate liabilities or expenses.

True False Answers—Conceptual

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

MULTIPLE CHOICE—Conceptual

21. Generally accepted accounting principles
    a. are fundamental truths or axioms that can be derived from laws of nature.
    b. derive their authority from legal court proceedings.
    c. derive their credibility and authority from general recognition and acceptance by the accounting profession.
    d. have been specified in detail in the FASB conceptual framework.

22. A soundly developed conceptual framework of concepts and objectives should
    a. increase financial statement users' understanding of and confidence in financial reporting.
    b. enhance comparability among companies' financial statements.
    c. allow new and emerging practical problems to be more quickly solved.
    d. all of these.

23. Which of the following are *not* true concerning a conceptual framework in account-ing?
    a. It should be a basis for standard-setting.
    b. It should allow practical problems to be solved more quickly by reference to it.
    c. It should be based on fundamental truths that are derived from the laws of nature.
    d. All of the above (a-c) are true.

24. What is a purpose of having a conceptual framework?
    a. To enable the profession to more quickly solve emerging practical problems.
    b. To provide a foundation from which to build more useful standards.
    c. Neither a nor b.
    d. Both a and b.

S25. Which of the following is not a benefit associated with the FASB Conceptual Framework Project?
   a. A conceptual framework should increase financial statement users' understanding of and confidence in financial reporting.
   b. Practical problems should be more quickly solvable by reference to an existing conceptual framework.
   c. A coherent set of accounting standards and rules should result.
   d. Business entities will need far less assistance from accountants because the financial reporting process will be quite easy to apply.

26. In the conceptual framework for financial reporting, what provides "the why"--the purpose of accounting?
   a. Recognition, measurement, and disclosure concepts such as assumptions, principles, and constraints
   b. Qualitative characteristics of accounting information
   c. Elements of financial statements
   d. Objective of financial reporting

27. The underlying theme of the conceptual framework is
   a. decision usefulness.
   b. understandability.
   c. faithful representation.
   d. comparability.

28. Which of the following is *not* an objective of financial reporting?
   a. To provide information about economic resources, the claims to those resources, and the changes in them.
   b. To provide information that is helpful to investors and creditors and other users in assessing the amounts, timing, and uncertainty of future cash flows.
   c. To provide information that is useful to those making investment and credit decisions.
   d. All of these are objectives of financial reporting.

P29. The objectives of financial reporting include all of the following except to provide information that
   a. is useful to the Internal Revenue Service in allocating the tax burden to the business community.
   b. is useful to those making investment and credit decisions.
   c. is helpful in assessing future cash flows.
   d. identifies the economic resources (assets), the claims to those resources (liabilities), and the changes in those resources and claims.

30. What is a primary objective of financial reporting as indicated in the conceptual framework?
   a. provide information that is useful to those making investing and credit decisions.
   b. provide information that is useful to management.
   c. provide information about those investing in the entity.
   d. All of the above.

31. What is a primary objective of financial reporting as indicated in the conceptual framework?
    a. Provide information that is helpful to present and potential investors, creditors, and other users in assessing the amounts, timing, and uncertainty of future cash flows.
    b. Provide information that is helpful to present investors, creditors, and other users in assessing the amounts, timing, and uncertainty of future cash flows.
    c. Provide information that is helpful to potential investors, creditors, and other users in assessing the amounts, timing, and uncertainty of future cash flows.
    d. None of the above.

32. Which of the following is a fundamental characteristic of useful accounting information?
    a. Comparability.
    b. Relevance.
    c. Neutrality.
    d. Materiality.

33. Which of the following is a primary characteristic of useful accounting information?
    a. Conservatism.
    b. Comparability.
    c. Faithful representation.
    d. Consistency.

34. What is meant by comparability when discussing financial accounting information?
    a. Information has predictive or confirmatory value.
    b. Information is reasonably free from error.
    c. Information that is measured and reported in a similar fashion across companies.
    d. Information is timely.

35. What is meant by consistency when discussing financial accounting information?
    a. Information that is measured and reported in a similar fashion across points in time.
    b. Information is timely.
    c. Information is measured similarly across the industry.
    d. Information is verifiable.

36. Which of the following is an ingredient of relevance?
    a. Verifiability.
    b. Neutrality.
    c. Timeliness.
    d. Materiality.

37. Which of the following is an ingredient of faithful representation?
    a. Predictive value.
    b. Materiality.
    c. Neutrality.
    d. Confirmatory value.

38. Changing the method of inventory valuation should be reported in the financial statements under what qualitative characteristic of accounting information?
    a. Consistency.
    b. Verifiability.
    c. Timeliness.
    d. Comparability.

39. Company A issuing its annual financial reports within one month of the end of the year is an example of which ingredient of fundamental quality of accounting information?
    a. Neutrality.
    b. Timeliness.
    c. Predictive value.
    d. Completeness.

40. What is the quality of information that enables users to better forecast future operations?
    a. Faithful representation.
    b. Materiality.
    c. Timeliness.
    d. Relevance.

41. Neutrality is an ingredient of which fundamental quality of information?
    a. Faithful representation.
    b. Comparability.
    c. Relevance.
    d. Understandability.

42. If the FIFO inventory method was used last period, it should be used for the current and following periods because of
    a. relevance.
    b. neutrality.
    c. understandability.
    d. consistency.

43. The pervasive criterion by which accounting information can be judged is that of
    a. decision usefulness.
    b. freedom from bias.
    c. timeliness.
    d. comparability.

44. The two fundamental qualities that make accounting information useful for decision making are
    a. comparability and timeliness.
    b. materiality and neutrality.
    c. relevance and faithful representation.
    d. faithful representation and comparability.

45. Accounting information is considered to be relevant when it
    a. can be depended on to represent the economic conditions and events that it is intended to represent.
    b. is capable of making a difference in a decision.
    c. is understandable by reasonably informed users of accounting information.
    d. is verifiable and neutral.

46. The quality of information that means the numbers and descriptions match what really existed or happened is
    a. relevance.
    b. faithful representation.
    c. completeness.
    d. neutrality.

47. Which of the following does not relate to relevance?
    a. Materiality
    b. Predictive value
    c. Confirmatory value
    d. All of these

48. According to *Statement of Financial Accounting Concepts No. 2,* materiality is an ingredient of the fundamental quality of

	Relevance	Faithful Representation
a.	Yes	Yes
b.	No	Yes
c.	Yes	No
d.	No	No

49. According to *Statement of Financial Accounting Concepts No. 2,* completeness is an ingredient of the fundamental quality of

	Relevance	Faithful Representation
a.	Yes	No
b.	Yes	Yes
c.	No	No
d.	No	Yes

50. According to *Statement of Financial Accounting Concepts No. 2,* neutrality is an ingredient of the fundamental quality of

	Relevance	Faithful Representation
a.	Yes	Yes
b.	No	Yes
c.	Yes	No
d.	No	No

51. Neutrality means that information
    a. provides benefits which are at least equal to the costs of its preparation.
    b. can be compared with similar information about an enterprise at other points in time.
    c. would have no impact on a decision maker.
    d. cannot favor one set of interested parties over another.

52. The characteristic that is demonstrated when a high degree of consensus can be secured among independent measurers using the same measurement methods is
    a. relevance.
    b. faithful representation.
    c. verifiability.
    d. neutrality.

53. According to *Statement of Financial Accounting Concepts No. 2,* predictive value is an ingredient of the fundamental quality of

	Relevance	Faithful Representation
a.	Yes	No
b.	Yes	Yes
c.	No	No
d.	No	Yes

54. Under *Statement of Financial Accounting Concepts No. 2,* free from error is an ingredient of the fundamental quality of

	Faithful Representation	Relevance
a.	Yes	Yes
b.	No	Yes
c.	Yes	No
d.	No	No

55. Financial information does not demonstrate consistency when
    a. firms in the same industry use different accounting methods to account for the same type of transaction.
    b. a company changes its estimate of the salvage value of a fixed asset.
    c. a company fails to adjust its financial statements for changes in the value of the measuring unit.
    d. none of these.

56. Financial information exhibits the characteristic of consistency when
    a. expenses are reported as charges against revenue in the period in which they are paid.
    b. companies apply the same accounting treatment to similar events, from period to period.
    c. extraordinary gains and losses are not included on the income statement.
    d. accounting procedures are adopted which give a consistent rate of net income.

57. Information about different companies and about different periods of the same company can be prepared and presented in a similar manner. Comparability and consistency are related to which of these objectives?

	Comparability	Consistency
a.	companies	companies
b.	companies	Periods
c.	Periods	companies
d.	Periods	Periods

58. When information about two different enterprises has been prepared and presented in a similar manner, the information exhibits the characteristic of
    a. relevance.
    b. faithful representation.
    c. consistency.
    d. none of these.

59. The elements of financial statements include investments by owners. These are increases in an entity's net assets resulting from owners'
    a. transfers of assets to the entity.
    b. rendering services to the entity.
    c. satisfaction of liabilities of the entity.
    d. all of these.

60. In classifying the elements of financial statements, the primary distinction between revenues and gains is
    a. the materiality of the amounts involved.
    b. the likelihood that the transactions involved will recur in the future.
    c. the nature of the activities that gave rise to the transactions involved.
    d. the costs versus the benefits of the alternative methods of disclosing the transactions involved.

61. A decrease in net assets arising from peripheral or incidental transactions is called a(n)
    a. capital expenditure.
    b. cost.
    c. loss.
    d. expense.

62. One of the elements of financial statements is comprehensive income. As described in *Statement of Financial Accounting Concepts No. 6,* "Elements of Financial Statements," comprehensive income is equal to
    a. revenues minus expenses plus gains minus losses.
    b. revenues minus expenses plus gains minus losses plus investments by owners minus distributions to owners.
    c. revenues minus expenses plus gains minus losses plus investments by owners minus distributions to owners plus assets minus liabilities.
    d. none of these.

63. Which of the following elements of financial statements is not a component of comprehensive income?
    a. Revenues
    b. Distributions to owners
    c. Losses
    d. Expenses

P64. Which of the following is false with regard to the element "comprehensive income"?
    a. It is more inclusive than the traditional notion of net income.
    b. It includes net income and all other changes in equity exclusive of owners' investments and distributions to owners.
    c. This concept is not yet being applied in practice.
    d. It excludes prior period adjustments (transactions that relate to previous periods, such as corrections of errors).

S65. According to the FASB conceptual framework, which of the following elements describes transactions or events that affect a company during a period of time?
    a. Assets.
    b. Expenses.
    c. Equity.
    d. Liabilities.

S66. According to the FASB Conceptual Framework, the elements—assets, liabilities, and equity—describe amounts of resources and claims to resources at/during a

	Moment in Time	Period of Time
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	No	No

67. Which of the following is not a basic element of financial statements?
    a. Assets.
    b. Balance sheet.
    c. Losses.
    d. Revenue.

68. Which of the following basic elements of financial statements is more associated with the balance sheet than the income statement?
    a. Equity.
    b. Revenue.
    c. Gains.
    d. Expenses.

69. Issuance of common stock for cash affects which basic element of financial statements?
    a. Revenues.
    b. Losses.
    c. Liabilities.
    d. Equity.

70. Which basic element of financial statements arises from peripheral or incidental transactions?
    a. Assets.
    b. Liabilities.
    c. Gains.
    d. Expenses.

71. Which of the following is not a basic assumption underlying the financial accounting structure?
    a. Economic entity assumption.
    b. Going concern assumption.
    c. Periodicity assumption.
    d. Historical cost assumption.

72. Which basic assumption is illustrated when a firm reports financial results on an annual basis?
    a. Economic entity assumption.
    b. Going concern assumption.
    c. Periodicity assumption.
    d. Monetary unit assumption.

73. Which basic assumption may not be followed when a firm in bankruptcy reports financial results?
    a. Economic entity assumption.
    b. Going concern assumption.
    c. Periodicity assumption.
    d. Monetary unit assumption.

74. Which accounting assumption or principle is being violated if a company provides financial reports in connection with a new product introduction?
    a. Economic entity.
    b. Periodicity.
    c. Revenue recognition.
    d. Full disclosure.

S75. Which of the following basic accounting assumptions is threatened by the existence of severe inflation in the economy?
a. Monetary unit assumption.
b. Periodicity assumption.
c. Going-concern assumption.
d. Economic entity assumption.

S76. During the lifetime of an entity accountants produce financial statements at artificial points in time in accordance with the concept of

	Relevance	Periodicity
a.	No	No
b.	Yes	No
c.	No	Yes
d.	Yes	Yes

77. Under current GAAP, inflation is ignored in accounting due to the
a. economic entity assumption.
b. going concern assumption.
c. monetary unit assumption.
d. periodicity assumption.

78. The economic entity assumption
a. is inapplicable to unincorporated businesses.
b. recognizes the legal aspects of business organizations.
c. requires periodic income measurement.
d. is applicable to all forms of business organizations.

79. Preparation of consolidated financial statements when a parent-subsidiary relationship exists is an example of the
a. economic entity assumption.
b. relevance characteristic.
c. comparability characteristic.
d. neutrality characteristic.

80. During the lifetime of an entity, accountants produce financial statements at arbitrary points in time in accordance with which basic accounting concept?
a. Cost constraint
b. Periodicity assumption
c. Conservatism constraint
d. Expense recognition principle

81. What accounting concept justifies the usage of depreciation and amortization policies?
a. Going concern assumption
b. Fair value principle
c. Full disclosure principle
d. Monetary unit assumption

82. The assumption that a company will not be sold or liquidated in the near future is known as the
    a. economic entity assumption.
    b. monetary unit assumption.
    c. periodicity assumption.
    d. none of these.

83. Which of the following is an implication of the going concern assumption?
    a. The historical cost principle is credible.
    b. Depreciation and amortization policies are justifiable and appropriate.
    c. The current-noncurrent classification of assets and liabilities is justifiable and signify-cant.
    d. All of these.

84. Proponents of historical cost ordinarily maintain that in comparison with all other valuation alternatives for general purpose financial reporting, statements prepared using historical costs are more
    a. faithfully representative.
    b. relevant.
    c. indicative of the entity's purchasing power.
    d. conservative.

85. Valuing assets at their liquidation values rather than their cost is inconsistent with the
    a. periodicity assumption.
    b. expense recognition principle.
    c. materiality constraint.
    d. historical cost principle.

86. Revenue is generally recognized when realized or realizable and earned. This statement describes the
    a. consistency characteristic.
    b. expense recognition principle.
    c. revenue recognition principle.
    d. relevance characteristic.

87. Generally, revenue from sales should be recognized at a point when
    a. management decides it is appropriate to do so.
    b. the product is available for sale to the ultimate consumer.
    c. the entire amount receivable has been collected from the customer and there remains no further warranty liability.
    d. none of these.

88. Revenue generally should be recognized
    a. at the end of production.
    b. at the time of cash collection.
    c. when realized.
    d. when realized or realizable and earned.

89. Which of the following is *not* a time when revenue may be recognized?
    a. At time of sale
    b. At receipt of cash
    c. During production
    d. All of these are possible times of revenue recognition.

90. Which of the following is the process of converting assets received or held into cash or claims to cash?
    a. Recognition
    b. Measurement
    c. Realization
    d. Allocation

91. "When products (goods or services), merchandise, or other assets are exchanged for cash or claims to cash" is a definition of
    a. allocated.
    b. realized.
    c. realizable.
    d. earned.

92. The allowance for doubtful accounts, which appears as a deduction from accounts receivable on a balance sheet and which is based on an estimate of bad debts, is an application of the
    a. consistency characteristic.
    b. expense recognition principle.
    c. materiality constraint.
    d. revenue recognition principle.

93. The accounting principle of expense recognition is best demonstrated by
    a. not recognizing any expense unless some revenue is realized.
    b. associating effort (expense) with accomplishment (revenue).
    c. recognizing prepaid rent received as revenue.
    d. establishing an Appropriation for Contingencies account.

94. Which of the following serves as the justification for the periodic recording of depreciation expense?
    a. Association of efforts (expense) with accomplishments (revenue)
    b. Systematic and rational allocation of cost over the periods benefited
    c. Immediate recognition of an expense
    d. Minimization of income tax liability

95. Application of the full disclosure principle
    a. is theoretically desirable but not practical because the costs of complete disclosure exceed the benefits.
    b. is violated when important financial information is buried in the notes to the financial statements.
    c. is demonstrated by the use of supplementary information presenting the effects of changing prices.
    d. requires that the financial statements be consistent and comparable.

96. Which of the following is an argument against using historical cost in accounting?
    a. Fair values are more relevant.
    b. Historical costs are based on an exchange transaction.
    c. Historical costs are reliable.
    d. Fair values are subjective.

97. When is revenue generally recognized?
    a. When cash is received.
    b. When the warranty expires.
    c. When production is completed.
    d. When the sale occurs.

98. Which of the following are the two components of the revenue recognition principle?
    a. Cash is received and the amount is material.
    b. Recognition occurs when and earned realized or realizable.
    c. Production is complete and there is an active market for the product.
    d. Cash is realized or realizable and production is complete.

99. Which of the following practices may not be an acceptable deviation from recognizing revenue at the point of sale?
    a. Upon receipt of cash.
    b. During production.
    c. Upon receipt of order.
    d. End of production.

100. Which of the following is not a required component of financial statements prepared in accordance with generally accepted accounting principles?
    a. President's letter to shareholders.
    b. Balance sheet.
    c. Income statement.
    d. Notes to financial statements.

101. What is the general approach as to when product costs are recognized as expenses?
    a. In the period when the expenses are paid.
    b. In the period when the expenses are incurred.
    c. In the period when the vendor invoice is received.
    d. In the period when the related revenue is recognized.

102. Not adjusting the amounts reported in the financial statements for inflation is an example of which basic principle of accounting?
    a. Economic entity.
    b. Going concern.
    c. Historical cost.
    d. Full disclosure.

103. Recognition of expense related to amortization of an intangible asset illustrates which principle of accounting?
    a. Expense recognition.
    b. Full disclosure.
    c. Revenue recognition.
    d. Historical cost.

104. When should an expenditure be recorded as an asset rather than an expense?
a. Never.
b. Always.
c. If the amount is material.
d. When future benefit exits.

105. Which accounting assumption or principle is being violated if a company reports its corporate headquarter building at its fair value on the balance sheet?
a. Going concern.
b. Monetary unit.
c. Historical cost.
d. Full disclosure.

106. Which accounting assumption or principle is being violated if a company is a party to major litigation that it may lose and decides not to include the information in the financial statements because it may have a negative impact on the company's stock price?
a. Full disclosure.
b. Going concern.
c. Historical cost.
d. Expense recognition.

107. Which assumption or principle requires that all information significant enough to affect a decision of reasonably informed users should be reported in the financial statements?
a. Matching.
b. Going concern.
c. Historical cost.
d. Full disclosure.

108. A company has a factory building that originally cost the company $250,000. The current fair value of the factory building is $3 million. The president would like to report the difference as a gain. The write-up would represent a violation of which accounting assumption or principle?
a. Revenue recognition.
b. Going concern.
c. Historical cost.
d. Monetary unit.

109. Which of the following is a constraint in presenting financial information?
a. Industry practice.
b. Full disclosure.
c. Relevance.
d. Consistency.

110. All of the following represent costs of providing financial information except
a. preparing.
b. disseminating.
c. accessing capital.
d. auditing.

111. Which of the following are benefits of providing financial information?
    a. Potential litigation.
    b. Auditing.
    c. Disclosure to competition.
    d. Improved allocation of resources.

112. Where is materiality not used in providing financial information?
    a. Applying the revenue recognition principle.
    b. Determining what items to include in the financial statements.
    c. Applying the going concern assumption.
    d. Determining the level of disclosure.

113. What is prudence or conservatism?
    a. Understating assets and net income.
    b. When in doubt, recognizing the option that is least likely to overstate assets and income.
    c. Recognizing the option that is least likely to overstate assets and income.
    d. Recognizing revenue when earned and realized.

114. Expensing the cost of copy paper when the paper is acquired is an example of which constraint?
    a. Materiality.
    b. Cost.
    c. Conservatism.
    d. Industry practices.

115. Which of the following statements concerning the cost-benefit relationship is not true?
    a. Business reporting should exclude information outside of management's expertise.
    b. Management should not be required to report information that would significantly harm the company's competitive position.
    c. Management should not be required to provide forecasted financial information.
    d. If needed by financial statement users, management should gather information not included in the financial statements that would not otherwise be gathered for internal use.

116. Which of the following relates to both relevance and faithful representation?
    a. Cost constraint
    b. Predictive value
    c. Verifiability
    d. Neutrality

117. Charging off the cost of a wastebasket with an estimated useful life of 10 years as an expense of the period when purchased is an example of the application of the
    a. consistency characteristic.
    b. expense recognition principle.
    c. materiality characteristic.
    d. historical cost principle.

118. Which of the following statements about materiality is *not* correct?
  a. An item must make a difference or it need not be disclosed.
  b. Materiality is a matter of relative size or importance.
  c. An item is material if its inclusion or omission would influence or change the judgment of a reasonable person.
  d. All of these are correct statements about materiality.

119. Which of the following are considered pervasive constraints by *Statement of Financial Accounting Concepts No. 2*?
  a. Cost-constraint relationship and conservatism
  b. Timeliness and feedback value
  c. Conservatism and verifiability
  d. Materiality and cost-constraint relationship

120. The basic accounting concept that refers to the tendency of accountants to resolve uncertainty in favor of understating assets and revenues and overstating liabilities and expenses is known as
  a. prudence or conservatism.
  b. the materiality constraint.
  c. the substance over form principle.
  d. the industry practices constraint.

121. Following the peculiar nature of some business concerns, which sometimes requires departure from basic theory is known as
  a. the economic entity assumption.
  b. industry practices.
  c. the cost constraint.
  d. the going concern assumption.

122. Trade-offs between the characteristics that make information useful may be necessary or beneficial. Issuance of interim financial statements is an example of a trade-off between
  a. relevance and faithful representation.
  b. faithful representation and periodicity.
  c. timeliness and materiality.
  d. understandability and timeliness.

123. Allowing firms to estimate rather than physically count inventory at interim (quarterly) periods is an example of a trade-off between
  a. verifiability and faithful representation.
  b. faithful representation and comparability.
  c. timeliness and verifiability.
  d. neutrality and consistency.

P124. In matters of doubt and great uncertainty, accounting issues should be resolved by choosing the alternative that has the least favorable effect on net income, assets, and owners' equity. This guidance comes from
  a. the cost constraint.
  b. the industry practices constraint.
  c. prudence or conservatism.
  d. the full disclosure principle.

Multiple Choice Answers—Conceptual

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
21.	c	37.	c	53.	a	69.	d	85.	d	101.	d	117.	c
22.	d	38.	a	54.	c	70.	c	86.	c	102.	c	118.	d
23.	c	39.	b	55.	d	71.	d	87.	d	103.	a	119.	d
24.	d	40.	d	56.	b	72.	c	88.	d	104.	d	120.	a
25.	d	41.	a	57.	b	73.	b	89.	d	105.	c	121.	b
26.	d	42.	c	58.	d	74.	b	90.	c	106.	a	122.	a
27.	a	43.	a	59.	d	75.	a	91.	b	107.	d	123.	c
28.	d	44.	c	60.	c	76.	c	92.	b	108.	c	124.	c
29.	a	45.	b	61.	c	77.	c	93.	b	109.	a		
30.	a	46.	b	62.	d	78.	d	94.	b	110.	c		
31.	a	47.	d	63.	b	79.	a	95.	c	111.	d		
32.	b	48.	c	64.	d	80.	b	96.	a	112.	c		
33.	c	49.	d	65.	b	81.	a	97.	d	113.	b		
34.	c	50.	b	66.	a	82.	d	98.	b	114.	a		
35.	a	51.	d	67.	b	83.	d	99.	c	115.	d		
36.	d	52.	c	68.	a	84.	a	100.	a	116.	a		

Solutions to those Multiple Choice questions for which the answer is “none of these.”

55. a company changes its inventory method every few years in order to maximize reported income (other answers are possible).
58. comparability.
62. change in equity of an entity during a period from transactions and other events and circumstances from nonowner sources.
82. going concern assumption.
87. an exchange has taken place and the earnings process is virtually complete.

MULTIPLE CHOICE—CPA Adapted

125. According to the FASB's conceptual framework, predictive value is an ingredient of

	Relevance	Faithful Representation
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	No	No

126. According to the FASB's conceptual framework, which of the following relates to both relevance and faithful representation?

	Comparability	Neutrality
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

127. The FASB's conceptual framework classifies gains and losses based on whether they are related to an entity's major ongoing or central operations. These gains or losses may be classified as

	Nonoperating	Operating
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	No	No

128. According to the FASB's conceptual framework, earnings
   a. is the same as comprehensive income.
   b. excludes certain gains and losses that are included in comprehensive income.
   c. includes certain gains and losses that are excluded from comprehensive income.
   d. includes certain losses that are excluded from comprehensive income.

129. According to the FASB's conceptual framework, comprehensive income includes which of the following?

	Operating Income	Investments by Owners
a.	Yes	No
b.	Yes	Yes
c.	No	Yes
d.	No	No

130. According to the FASB's conceptual framework, the calculation of comprehensive income includes which of the following?

	Income from Continuing Operations	Distributions to Owners
a.	No	No
b.	Yes	No
c.	Yes	Yes
d.	No	Yes

131. According to the FASB's conceptual framework, comprehensive income includes which of the following?

	Gross Margin	Operating Income
a.	No	Yes
b.	No	No
c.	Yes	No
d.	Yes	Yes

132. Under Statements of Financial Accounting Concepts, comprehensive income includes which of the following?

	Gains	Gross Margin
a.	No	No
b.	No	Yes
c.	Yes	No
d.	Yes	Yes

133. According to the FASB's conceptual framework, the process of reporting an item in the financial statements of an entity is
   a. recognition.
   b. realization.
   c. allocation.
   d. matching.

Multiple Choice Answers—CPA Adapted

Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.	Item	Ans.
125.	a	127.	b	129.	a	131.	d	133.	a
126.	b	128.	b	130.	b	132.	d		

EXERCISES

Ex. 2-134—Qualitative Characteristics.

Accounting information provides useful information about business transactions and events. Those who provide and use financial reports must often select and evaluate accounting alternatives. The FASB statement on qualitative characteristics of accounting information examines the characteristics of accounting information that make it useful for decision-making. It also points out that various limitations inherent in the measurement and reporting process may necessitate trade-offs or sacrifices among the characteristics of useful information.

Instructions.

(a) Describe briefly the following characteristics of useful accounting information.

(1) Relevance
(2) Faithful representation
(3) Understandability
(4) Comparability
(5) Consistency

(b) For each of the following pairs of information characteristics, give an example of a situation in which one of the characteristics may be sacrificed in return for a gain in the other.

(1) Relevance and faithful representation.
(2) Relevance and consistency.
(3) Comparability and consistency.
(4) Relevance and understandability.

(c) What criterion should be used to evaluate trade-offs between information characteristics?

Solution 2-134.

(a) (1) Relevance is one of the two primary decision-specific characteristics of useful accounting information. Relevant information is capable of making a difference in a decision. Relevant information helps users to make predictions about the outcomes of past, present, and future events, or to confirm or correct prior expectations. Information must also be timely in order to be considered relevant.

(2) Faithful representation is one of the two primary decision-specific characteristics of useful accounting information. Reliable information can be depended upon to represent the conditions and events that it is intended to represent. Representational faithfulness is correspondence or agreement between accounting information and the economic phenomena it is intended to represent stemming from completeness, neutrality, and free from error.

(3) Understandability is a user-specific characteristic of information. Information is understandable when it permits reasonably informed users to perceive its significance. Understandability is a link between users, who vary widely in their capacity to comprehend or utilize the information, and the decision-specific qualities of information.

(4) Comparability means that information about enterprises has been prepared and presented in a similar manner. Comparability enhances comparisons between information about two different enterprises at a particular point in time.

(5) Consistency means that unchanging policies and procedures have been used by an enterprise from one period to another. Consistency enhances comparisons between information about the same enterprise at two different points in time.

(b) (**Note to instructor**: There are a multitude of answers possible here. The suggestions below are intended to serve as examples).

(1) Forecasts of future operating results and projections of future cash flows may be highly relevant to some decision makers. However, they would not be as free from error as historical cost information about past transactions.

(2) Proposed new accounting methods may be more relevant to many decision makers than existing methods. However, if adopted, they would impair consistency and make trend comparisons of an enterprise's results over time difficult or impossible.

(3) There presently exists much diversity among acceptable accounting methods and procedures. In order to facilitate comparability between enterprises, the use of only one accepted accounting method for a particular type of transaction could be required. However, consistency would be impaired for those firms changing to the new required methods.

(4) Occasionally, relevant information is exceedingly complex. Judgment is required in determining the optimum trade-off between relevance and understandability. Information about the impact of general and specific price changes may be highly relevant but not understandable by all users.

(c) Although trade-offs result in the sacrifice of some desirable quality of information, the overall result should be information that is more useful for decision making.

Ex. 2-135—Accounting concepts—identification.

State the accounting assumption, principle, information characteristic, or constraint that is most applicable in the following cases.

1. All payments less than $25 are expensed as incurred. (Do not use conservatism.)
2. The company employs the same inventory valuation method from period to period.
3. A patent is capitalized and amortized over the periods benefited.
4. Assuming that dollars today will buy as much as ten years ago.
5. Rent paid in advance is recorded as prepaid rent.
6. Financial statements are prepared each year.
7. All significant post-balance sheet events are reported.
8. Personal transactions of the proprietor are distinguished from business transactions.

Solution 2-135

1. Materiality constraint.
2. Consistency characteristic.
3. Expense recognition principle or going concern assumption.
4. Monetary unit assumption.
5. Expense recognition principle or going concern assumption.
6. Periodicity assumption.
7. Full disclosure principle.
8. Economic entity assumption.

Ex. 2-136—Accounting concepts—identification.

Presented below are a number of accounting procedures and practices in Ramirez Corp. For each of these items, list the assumption, principle, information characteristic, or modifying convention that is violated.

1. Because the company's income is low this year, a switch from accelerated depreciation to straight-line depreciation is made this year.
2. The president of Ramirez Corp. believes it is foolish to report financial information on a yearly basis. Instead, the president believes that financial information should be disclosed only when significant new information is available related to the company's operations.
3. Ramirez Corp. decides to establish a large loss and related liability this year because of the possibility that it may lose a pending patent infringement lawsuit. The possibility of loss is considered remote by its attorneys.
4. An officer of Ramirez Corp. purchased a new home computer for personal use with company money, charging miscellaneous expense.
5. A machine, that cost $40,000, is reported at its current market value of $45,000.

Solution 2-136

1. Consistency.
2. Periodicity.
3. Expense recognition (also, conservatism).
4. Economic entity.
5. Historical cost (also, revenue recognition)*.
   *Reporting the asset at FMV of $45,000 implies the following entry:

Machine	5,000	
Revenue		5,000

Ex. 2-137—Accounting concepts—matching.

Listed below are several information characteristics and accounting principles and assumptions. Match the letter of each with the appropriate phrase that states its application. (Items *a* through *k* may be used more than once or not at all.)

a. Economic entity assumption
b. Going concern assumption
c. Monetary unit assumption
d. Periodicity assumption
e. Historical cost principle
f. Revenue recognition principle
g. Expense recognition principle
h. Full disclosure principle
i. Relevance characteristic
j. Faithful representation characteristic
k. Consistency characteristic

____ 1. Stable-dollar assumption (do not use historical cost principle).
____ 2. Earning process completed and realized or realizable.
____ 3. Numbers and descriptions match what really existed or happened.
____ 4. Yearly financial reports.
____ 5. Accruals and deferrals in adjusting and closing process. (Do not use going concern.)
____ 6. Useful standard measuring unit for business transactions.
____ 7. Notes as part of necessary information to a fair presentation.
____ 8. Affairs of the business distinguished from those of its owners.
____ 9. Company assumed to have a long life.
____ 10. Valuing assets at amounts originally paid for them.
____ 11. Application of the same accounting principles as in the preceding year.
____ 12. Summarizing significant accounting policies.
____ 13. Presentation of timely information with predictive and feedback value.

Solution 2-137

1. c	4. d	7. h	10. e	13. i
2. f	5. g	8. a	11. k	
3. j	6. c	9. b	12. h	

Ex. 2-138—Accounting concepts—fill in the blanks.

Fill in the blanks below with the accounting principle, assumption, or related item that *best* completes the sentence.

1. ________________________ and _______________________ are the two fundamental qualities that make accounting information useful for decision making.
2. Information that helps users confirm or correct prior expectations has _________________ ___________________.
3. ________________________ enables users to identify the real similarities and differences in economic events between companies.
4. _________________ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
5. Information is _______________________ if omitting it or misstating it could influence decisions that users make on the basis of the reported financial information.
6. The ________________________ characteristic requires that the same accounting method be used from one accounting period to the next, unless it becomes evident that an alternative method will bring about a better description of a firm's financial situation.
7. ____________________ means when in doubt, choose the solution that will be least likely to overstate income and assets.
8. Providing information that is of sufficient importance to influence the judgement and decisions of an informed user is referred to as _______________________.
9. Corporations must prepare accounting reports at least yearly due to the _______________ assumption.
10. _________________ generally occurs when realized or realizable and when earned.

Solution 2-138

1. Relevance; faithful representation
2. confirmatory value
3. Comparability
4. Fair value
5. material
6. consistency
7. Prudence or conservatism
8. full disclosure
9. periodicity
10. Revenue recognition

Ex. 2-139—Basic assumptions.

Briefly explain the four basic assumptions that underlie financial accounting.

Solution 2-139

1. The economic entity assumption states that economic activity can be identified with a particular unit of accountability.
2. The going concern assumption assumes that a company will have a long life.
3. The monetary unit assumption means that money is the common denominator of economic activity and provides an appropriate basis for accounting measurement and analysis. In addition, the monetary unit remains reasonably stable.
4. The periodicity assumption implies that a company can divided its economic activities into artificial time periods.

Ex. 2-140—Revenue recognition.

Revenue is generally recognized at the point of sale. There are three exceptions, however. Name the time for each exception, give two qualifications or criteria for the use of each exception, and give an example for each exception.

Solution 2-140

1. During production. The revenue is known (contract) or dependably estimable. Total costs are estimable or other means are available to estimate progress toward completion. Examples are long-term construction contracts and service-type transactions.
2. At completion. There are quoted prices. Units are interchangeable. There are no significant distribution costs. Examples are precious metals or agricultural products.
3. At collection. There is no reasonable basis for estimating the degree of collectibility. Costs of collection, bad debts, and repossessions are not estimable. Examples are installment sales and cost recovery method.

Ex. 2-141—Historical cost principle.

Cost as a basis of accounting for assets has been severely criticized. What defense can you build for cost as the basis for financial accounting?

Solution 2-141

Cost is definite and verifiable and not a matter for conjecture or opinion. Once established, cost is fixed as long as the asset remains the property of the party that incurred the cost. Cost is based on fact; that is, it is the result of an arm's length transaction. Cost is also measurable or determinable. Over the years, accountants have found cost to be the most practical basis for record keeping. Financial statements prepared on a cost basis provide business enterprise information having a common, accepted basis from which each reader can make inferences, comparisons, and analyses.

Ex. 2-142—Matching concept.

A concept is a group of related ideas. Matching could be considered a concept because it includes ideas related to both revenue recognition and expense recognition. Briefly explain the ideas in (a) revenue recognition and (b) expense recognition.

Solution 2-142

(a) The ideas in revenue recognition include the "three R's" and "earned":

1. Revenues are inflows of net assets from delivering or producing goods or services or other earning activities that are the major operations of an enterprise during a period.
2. Recognition is recording and reporting in the financial statements.
3. Revenues are *realized* when goods or services are exchanged for cash or claims to cash.

Solution 2-142 (cont.)

4. Revenues are *earned* when the earnings process is complete or virtually complete.

The revenue recognition principle is that revenue is recognized when it is realized and it is earned.

(b) The ideas in expense recognition include "expense" and "matching":

1. Expenses are outflows of net assets during a period from delivering or producing goods or services or other activities that are the major operations of the entity.
2. Expenses are recognized when the goods or services (efforts) make their contribution to revenue.

The expense recognition principle is that expenses are matched with revenues. Expenses are matched three ways:

1. When there is an association with revenue, expenses are matched with revenues in the period the revenues are recognized.
2. When no association with revenue is evident, expenses are allocated on some systematic and rational basis.
3. When no association with revenue is evident and no future benefits are expected, expenses are recognized immediately.

IFRS QUESTIONS

True / False

1. The conceptual framework underlying U.S. GAAP is similar to that underlying IFRS.

2. The FASB conceptual framework specifically identifies accrual basis accounting as one of its fundamental assumptions.

3. One of two assumptions made by the IASB conceptual framework is that the reporting entity is a going concern.

4. One of the challenges in developing a common conceptual framework will be to agree on how the framework should be organized since the FASB and IASB conceptual frameworks are organized in very different ways.

5. One issue that the IASB and FASB must resolve in developing a common conceptual framework is how control should be defined with regard to the definition of an asset.

Answers to True / False questions:
1. True
2. False
3. True
4. False
5. True

Multiple Choice Questions:

1. Which of the following statements regarding the IASB and FASB conceptual frameworks is not correct?
   a. The existing IASB and FASB conceptual frameworks are organized in similar ways.
   b. The two assumptions of the IASB framework are that the financial statements are prepared on an accrual basis and that the reporting entity is a going concern.
   c. The FASB and IASB agree that the sole objective of financial reporting is to provide users with information that is useful for decision-making.
   d. The FASB conceptual framework discusses the concept of accrual basis accounting in detail, but does not specifically identity it as an assumption.

2. The issues which the FASB and IASB must address in developing a common conceptual framework include all of the following except:
   a. Should the common framework lead to standards that are principles-based or rules-based?
   b. Should the role of financial reporting focus on stewardship as well as providing information to assist users in decision making?
   c. Should the characteristic of reliability be traded-off in favor of information that is verifiable?
   d. Should a single measurement method such as historical cost be used?

Answers to Multiple Choice:

1. c
2. a

Short Answer:

1. What two assumptions are central to the IFRS conceptual framework?

   1. The IASB framework makes two assumptions. One assumption is that financial statements are prepared on an accrual basis; the other is that the reporting entity is a going concern. The FASB discuss accrual accounting extensively but does not identify it as an assumption. The going concern concept is only briefly discussed. The going concern concept will undoubtedly be debated as to its place in the conceptual framework.

2. Do the IFRS and U.S. GAAP conceptual frameworks differ in terms of the role of financial reporting? Explain.

   2. While there is some agreement that the role of financial reporting is to assist users in decision-making, the IASB framework has had more of a focus on the objective of providing information on management’s performance—often referred to as stewardship. It is likely that there will be much debate regarding the role of stewardship in the conceptual framework.