

TEST BANK FOR

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Chapter 1-11 Answers are at the end of Each Chapter

Chapter 1

Student name: _____

- 1) The main purpose of financial accounting is to communicate useful financial information to decision-makers both inside and outside of the business organization.
☐ true
☐ false

- 2) The Canadian Business Corporations Act mandates that all incorporated companies in Canada follow IFRS.
☐ true
☐ false

- 3) Private companies in Canada may choose between IFRS or ASPE.
☐ true
☐ false

- 4) Canada has adapted its own pre-existing standards for public companies to IFRS, while the U.S has adopted IFRS completely.
☐ true
☐ false

- 5) A disclosed basis of accounting (DBA) is acceptable if a company's financial statements are prepared solely for internal use.
☐ true
☐ false

- 6) Only publicly traded companies in Canada are required to adopt IFRS.
- ☐ true
 - ☐ false
- 7) Earnings quality is said to be high when most of a company's earnings are the result of its continuing operations.
- ☐ true
 - ☐ false
- 8) Income tax deferral is illegal in Canada.
- ☐ true
 - ☐ false
- 9) In Canada, income for tax and accounting purposes may be different.
- ☐ true
 - ☐ false
- 10) External users of a company's financial statements may have conflicting objectives.
- ☐ true
 - ☐ false
- 11) In Canada, IFRS standards were essentially converged with Canadian GAAP.
- ☐ true
 - ☐ false
- 12) A company's functional currency is always the currency in which the financial statements are presented.
- ☐ true
 - ☐ false

- 13) It is acceptable for publicly traded Canadian companies to report under US GAAP.
- ☐ true
 - ☐ false
- 14) In Canada, almost all equity financing for both public and private companies is done through private placements.
- ☐ true
 - ☐ false
- 15) IFRS standards may be modified to allow for a disclosed basis of accounting (DBA).
- ☐ true
 - ☐ false
- 16) Privately held for-profit enterprises with a fiduciary responsibility have a choice between IFRS and ASPE.
- ☐ true
 - ☐ false
- 17) Mutual fund companies, which may be privately held, are deemed to have a fiduciary responsibility and must therefore comply with IFRS.
- ☐ true
 - ☐ false
- 18) Canadian companies must always present their financial results in Canadian dollars.
- ☐ true
 - ☐ false
- 19) Canadian corporations are prohibited from using U.S. GAAP.
- ☐ true
 - ☐ false

20) A company's reporting currency is the currency in which it conducts most of its business.

- ☐ true
- ☐ false

21) The disclosed basis of accounting (DBA) refers to the use of Non-GAAP accounting policies by private companies.

- ☐ true
- ☐ false

22) A company's presentation currency can differ from its functional currency.

- ☐ true
- ☐ false

23) The accounting standards for private enterprises (ASPE) are essentially a scaled-down version of the CPA Handbook, which is available to all small and medium sized enterprises with no fiduciary responsibility.

- ☐ true
- ☐ false

24) Different stakeholders have different reporting requirements with respect to general-purpose financial statements. A lender will be more interested in a company's cash flows while an investor will likely be more interested in a company's earnings.

- ☐ true
- ☐ false

25) The influence of tax rules when selecting appropriate accounting treatment for a transaction is particularly strong with public companies.

- ☐ true
- ☐ false

26) Due to the excellent work of the ACSB, there are very few choices among alternative accounting policies today.

- ☐ true
- ☐ false

27) Cash flow prediction is a common internal user reporting objective.

- ☐ true
- ☐ false

28) Disclosure notes facilitate the evaluation of enterprise position and performance because they include information, which helps to explain qualitative aspects of earnings.

- ☐ true
- ☐ false

29) A company that chooses to expense development cost instead of capitalizing is perceived to have high-quality earnings.

- ☐ true
- ☐ false

30) Lending institutions such as banks are most interested in a company's profitability ratios.

- ☐ true
- ☐ false

31) Developments in accounting standards have not addressed the problem of using accounting techniques to smooth earnings.

- ☐ true
- ☐ false

32) Management will choose policies that focus more on accrual basis of accounting when cash flow assessment and prediction is a key objective.

- ☐ true
- ☐ false

33) Private companies can amortize their capital assets using the CCA basis.

- ☐ true
- ☐ false

34) A company interested in minimizing the amount of taxes it pays would defer revenue into later years.

- ☐ true
- ☐ false

35) Tax deferral objective is in the best interest of lenders and creditors but may lead to poorer reported earnings and better cash flow.

- ☐ true
- ☐ false

36) The CPA Canada Handbook requires that income for tax purposes be equal to a company's accounting income at all times.

- ☐ true
- ☐ false

37) The Accounting Standards Board (ACSB) is an independent group established to promulgate accounting standards for governmental units such as provincial and civic entities.

- ☐ true
- ☐ false

38) The International Accounting Standards Board is responsible for the creation of International Financial Reporting Standards used by companies whose securities are traded on international markets.

- ☐ true
- ☐ false

- 39) A company interested in increasing debt-to-equity ratio will prefer to capitalize than expense the development cost.
- ☐ true
 - ☐ false
- 40) Interperiod allocation makes it easier for financial statement readers to see how management is managing the funds entrusted to its care.
- ☐ true
 - ☐ false
- 41) A German company uses IFRS when reporting their consolidated results so it is straightforward to compare their IFRS results to a Canadian competitor who also uses IFRS.
- ☐ true
 - ☐ false
- 42) ASPE required companies to report using their functional currency and present using a presentation currency.
- ☐ true
 - ☐ false
- 43) The move to IFRS may still incentivize management to take a big bath since IFRS requires assets to be written up if fair value recovers in future years.
- ☐ true
 - ☐ false
- 44) If cash flow prediction is a company's primary reporting objective, this would likely result in:
- A) Higher earnings.
 - B) Lower earnings.
 - C) Poor matching.
 - D) Fewer accruals and deferrals.

Generally accepted accounting principles currently are promulgated primarily by the:

- E) Canadian Business Corporations Act (CBCA).
- F) Federal Accounting Standard Board (FASB).
- G) International Accounting Standards Board (IASB).
- H) Accounting Standards Board (AcSB).

45) External decision-makers include all of the following except:

- A) manager
- B) investor
- C) creditor
- D) employee

46) The users toward which financial statements are directed:

- A) are very sophisticated and experienced in using financial information.
- B) are independent Public Accountants.
- C) have degrees in accounting and finance.
- D) have a reasonable understanding of business and economic activities.
- E) are Chartered Financial Analysts.

47) General-purpose financial statements report financial information relevant to:

- A) investor only.
- B) creditor only.
- C) government user only.
- D) investor, creditor and government user.

48) Users of financial statements can generally be broken down into which of the following two categories:

- A) Government and external users.
- B) Government and investor.
- C) Creditor and Investor.
- D) External users and preparers.

What is the purpose of financial statements?

- E) To disclose the market value of the firm's assets and liabilities.
- F) To determine compliance with tax laws.
- G) To identify shareholders.
- H) To help users make decisions.

49) Choose the correct statement about audits of corporations:

- A) Outside auditors are paid by the government for auditing the financial statements of corporations.
- B) Revenue Canada performs audits of corporations' financial statements.
- C) Public corporations (those whose stock are traded on exchanges) are subject to annual audit as to their compliance with GAAP.
- D) It is the employees of the firm being audited who perform the annual audit of the financial statements of that firm.

50) Which approach did Canada take when they implemented IFRS?

- A) adapt
- B) adopt
- C) converge
- D) All of these answers are true
- E) None of these answers are true

51) The stewardship function refers to:

- A) Disclosing management's use of funds and other financial information to absentee shareholders.
- B) A company's corporate citizenship track record.
- C) The collection of information for planning the future of the entity, implementing those plans, and for controlling daily operations.
- D) The collection of information to help present and potential investor and creditor and other users in assessing the amounts, timing and uncertainty of prospective cash receipts.

- 52) The primary responsibility of an independent auditor who is a professional accountant is to:
- A) Prepare or make changes to source documents.
 - B) Assess whether the management is honest.
 - C) Evaluate the "fair presentation" of the company's financial reports.
 - D) Prepare current financial reports for the client.
- 53) Professional accountants need a wide range of knowledge and skills. Which of the following is not an example of such knowledge or skills?
- A) An ability to calculate and analyze data, and a facility with numbers.
 - B) Knowledge of many disciplines such as finance, economics, management, marketing and statistics.
 - C) An ability to communicate in a concise and understandable manner.
 - D) Skills derived from prior management experience.
- 54) Which of the following statements regarding cash flows is not accurate?
- A) Before the present cash flow statement standard became effective, companies had a choice of whether to report cash flow from operating activities or working capital from operating activities.
 - B) Studies have shown that a cash flows report is more relevant to investor decisions than a working capital report.
 - C) The reported cash flow from operating activities has been found useful in evaluating a firm's ability to make interest payments and repay debt.
 - D) Information about past cash flows is useful in predicting an entity's future cash flows.
 - E) Information about the balances of current liabilities, long-term debt and stockholders' equity can be found in the statement of cash flows.
- 55) The stewardship function is reflected by:
- A) Minimizing interperiod allocations only.
 - B) Performance evaluation.
 - C) Full disclosure only.
 - D) Performance evaluation and minimizing interperiod allocations.
 - E) Full disclosure i.e transparency and minimizing interperiod allocations.

- 56) Which of the following is NOT a primary motivator for maximizing net income?
- A) Compliance with debt covenants.
 - B) To positively influence users' assessment of management performance.
 - C) To enhance managers' performance-based compensation.
 - D) To minimize the company's income tax liability.
- 57) Which policy would management choose if they're interested in maximizing current earnings?
- A) gross revenue accounting instead of accounting revenue on a net basis
 - B) accruing expense as early as possible
 - C) write-down of capital assets
 - D) All of these answers are true
 - E) None of these answers are true
- 58) Which financial reporting objective is met when management defers expense to a later period instead of expensing immediately?
- A) maximize future income
 - B) maximize current income tax
 - C) cash flow prediction
 - D) All of these answers are true
 - E) None of these answers are true
- 59) Which of the following are not users of the financial statements?
- A) owners
 - B) auditors
 - C) government agencies
 - D) banks
- 60) Which of the following helps better predict cash flow?
- A) writing off assets down to recoverable amount
 - B) revalue asset at its fair value
 - C) recording revenue in line with cash receipt
 - D) None of these answers are true
 - E) All of these answers are true

- 61) Which of the following helps minimize current income tax?
- A) deferring expense to match revenue
 - B) recording revenue as soon as cash is received
 - C) deferring revenue to a later period
 - D) capitalizing cost instead of expensing
- 62) Which of the following financial statements are required for companies adhering to IFRS but not ASPE?
- A) Statement of Comprehensive Income
 - B) Statement of Financial Position
 - C) Statement of Cash Flows
 - D) Statement of Retained Earnings
- 63) Which private company would benefit from using ASPE rather than IFRS?
- A) company with a control block who owns the majority of the business
 - B) company with operations internationally
 - C) company interested in debt/equity financing in the external market
 - D) company whose parent company is a major public corporation
- 64) A company will choose straight line than declining balance depreciation because it is interested in the following objective:
- A) high earnings quality.
 - B) tax-book conformity.
 - C) evaluating management's performance.
 - D) complying with the covenant to maintain high times-interest-earned ratio.
 - E) None of these answers are true.
- 65) The disclosed basis of accounting refers to
- A) the use of non-GAAP policies by private companies.
 - B) the use of non-GAAP policies by any company.
 - C) the use of International Financial Reporting Standards.
 - D) the practice of disclosing all pertinent accounting policies in a company's annual report.

66) Private placements refer to:

- A) funds not disclosed by private companies.
- B) debt or equity securities issued to individuals or organizations without being listed with a securities commission.
- C) shares that form part of a control block.
- D) indirect negotiation with the one or more creditors.

67) Which of the following statement(s) is(are) correct?

- A) Companies that use the disclosed basis of accounting are in effect using differential reporting.
- B) Companies that use the disclosed basis of accounting are NOT allowed to use differential reporting.
- C) When used, the disclosed basis of accounting must comply with GAAP.
- D) Both "companies that use the disclosed basis of accounting are NOT allowed to use differential reporting" and "when used, the disclosed basis of accounting must comply with GAAP" are correct.

68) Please explain the accounting framework to be used by public, private and publicly accountable enterprises. Why would companies choose one framework over the other?

69) Please explain the concept of functional and presentation currency and whether the requirements are the same/different under IFRS and ASPE.

- 70) Discuss the reasons why a corporation would have the motive or the tendency to adopt the same accounting practices for financial reporting purposes as for tax reporting.
- 71) What kind of forces shape a company's financial reporting objectives and why are they important consideration?
- 72) Please provide examples of the various types of key financial reporting objectives and which users would those objectives be aligned with?
- 73) Give two examples of conflicting motivation between various users. Why is it important to pay attention to the conflict in objectives?

- 74) Creditors and analysts who attempt to assess and predict future cash flows tend to prefer earnings measures that are supported by operating cash flows taken from the Cash Flow Statement. What comparisons do they use in assessing the entity's strength in respect of operating cash flows?
- 75) Give examples of provisions, known as maintenance tests or covenants which are often contained in debt contracts or agreements.
- 76) Instead of maximizing reported earnings, management may wish to minimize reported earnings an ongoing endeavour. Besides income tax minimization, what are some of the reasons why management would want to minimize earnings?
- 77) Briefly explain how the CRA's (Revenue Canada) view differs from most GAAP based policies in terms of revenue recognition