# Testbank

to accompany

**Accounting: business reporting for decision making**

**7th edition**

by

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**Chapter 2: Accounting in society**

**Learning objectives**

1. Identify the sources of company regulation in Australia

Q1, Q2, Q3, Q4, Q5, Q49

2. Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process

Q6, Q7, Q8, Q9, Q10, Q50, Q51

3. Evaluate the role of the *Conceptual Framework* and illustrate the qualitative characteristics of financial statements

Q11, Q12, Q13, Q14, Q15, Q16, Q17, Q18, Q19, Q20, Q21, Q22, Q23, Q52, Q53, Q54, Q55

4. Explain the concept of corporate governance

Q24, Q25, Q56, Q57

5. Outline corporate governance guidelines and practices

Q26, Q27, Q28, Q58, Q59

6. Outline the role of ethics in business and compare ethical philosophies relevant to business decision making

Q29, Q30, Q31, Q32, Q33, Q34, Q35, Q36, Q37, Q38, Q60

7. Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations

Q39, Q40, Q41, Q42, Q43, Q44, Q61, Q62, Q63

8. Give examples of the limitations of accounting information

Q45, Q46, Q47, Q48, Q64, Q65

**Multiple-choice questions**

1. Primarily, which body enforces the *Corporations Act 2001*?

a. Australian Accounting Standards Board

\*b. Australian Securities and Investments Commission

c. Financial Reporting Council

d. Australian Securities Exchange

*Correct answer: b*

*Learning objective 2.1 ~ Identify the sources of company regulation in Australia*

1. Which body issues legally enforceable accounting standards that apply to Australian companies?

a. Australian Securities and Investments Commission

b. Financial Reporting Council

\*c Australian Accounting Standards Board

d. Australian Professional Accounting bodies

*Correct answer: c*

*Learning objective 2.1 ~ Identify the sources of company regulation in Australia*

1. The Australian Securities and Investments Commission has many roles. Which of the below is *not* one of ASIC’s roles?

a. To promote confident and informed participation in the financial system by investors and consumers.

\*b. To ensure financial institutions honour their commitments.

c. To uphold the law uniformly, effectively and quickly.

d. None of the above; all the listed options are roles of ASIC.

*Correct answer: b*

*Learning objective 2.1 ~ Identify the sources of company regulation in Australia*

1. What is the acronym for the regulatory body that oversees the operations of financial institutions such as banks and building societies in Australia?

a. ASX

b. ATO

\*c. APRA

d. ASIC

*Correct answer: c*

*Learning objective 2.1 ~ Identify the sources of company regulation in Australia*

1. What is the Australian Competition and Consumer Commission (ACCC) responsible for?

\*a. Administration of the *Competition and Consumer Act 2010*

b. The ASX Market and Listing Rules

c. The enforcement of the *Corporations Act 2001*

d. The stability of the Australian financial system

*Correct answer: a*

*Learning objective 2.1 ~ Identify the sources of company regulation in Australia*

1. Which of the below statements is true?

a. The ICAA and CPA Australia are responsible for developing company regulations.

\*b. The ICAA and CPA Australia are involved in the enforcement of company regulations through the regulation of their members.

c. The ICAA and CPA Australia play no role in setting company regulation and have nothing to do with enforcing company regulation.

d. The ICAA and CPA Australia have nothing to do with setting company regulations but have a role in enforcing the regulations.

*Correct answer: b*

*Learning objective 2.2 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. What is the Financial Reporting Council (FRC) responsible for?

a. Issuing Australian accounting standards for both the public and private sectors in Australia.

b. Reporting breeches of Australian accounting standards for both the public and private sectors in Australia.

\*c. Overseeing the accounting and auditing standard-setting process for both the public and private sectors in Australia.

d. Developing Australian accounting standards for both the public and private sectors in Australia.

*Correct answer: c*

*Learning objective 2.2 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. Which statement best describes a disclosing entity?

\*a. An entity that issues securities that are quoted on a stock market or made available to the public via a prospectus.

b. An entity that discloses the basis on which their financial reports are prepared.

c. An entity that is exempt under the *Corporations Act 2001* from applying the AASB accounting standards.

d. An entity that is involved in the accounting standard-setting process.

*Correct answer: a*

*Learning objective 2.2 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. What is the first step in issuing an accounting standard?

a. Comprehensive research of the relevant issue

\*b. The identification by interested parties of a relevant issue

c. Consultation with stakeholders

d. The issue of an exposure draft inviting comment from interested parties

*Correct answer: b*

*Learning objective 2.2 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. Under which act are the AASB accounting standards legally enforceable in Australia?

\*a. *Corporations Act 2001*

b. *Trade Practices Act 1974*

c. *Income Tax Assessment Act 2007*

d. The AASB accounting standards are legally enforceable in Australia under all of these acts

*Correct answer: a*

*Learning objective 2.2 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. Which statement about the AASB revised *Conceptual* *Framework* is *not* true?

a. It establishes the objectives of the financial statements.

b. It sets out the fundamental and enhancing qualitative characteristics of financial reports.

\*c. It applies to all entities producing special purpose financial statements.

d. It defines the elements of the financial statements.

*Correct answer: c*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. What are the four *enhancing* qualitative characteristics for general purpose financial statements under the revised *Conceptual* *Framework*?

a. Comparability, verifiability, timeliness and competition

b. Reliability, timeliness, conservatism and understandability

c. Timeliness, comparability, uniqueness and reliability

\*d. Timeliness, understandability, verifiability and comparability

*Correct answer: d*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. Which of these entities is *least* likely to have users dependent on general purpose financial statements?

a. An international company operating in the Asia–Pacific region

b. A company with a large number of shareholders

c. A company listed on the stock exchange

\*d. A small company whose shareholders also run the business

*Correct answer: d*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. Which of the following is *not* a cost associated with providing financial information?

a. Collecting

b. Processing

\*c. Reviewing

d. Disseminating

*Correct answer: c*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. ‘A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits’ is the definition of:

a. an expense.

\*b. a liability.

c. equity.

d. an asset.

*Correct answer: b*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. ‘Resources controlled by the entity as a result of past transactions or events and from which future economic benefits are expected to flow to the entity’ is the definition of:

a. expenses.

\*b. assets.

c. liabilities.

d. equity.

*Correct answer: b*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. Which of the following is an example of an asset?

a. General reserve

b. Interest earned on investments

\*c. Investments

d. Employee benefits payable

*Correct answer: c*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. Which of the following is an example of a liability?

a. Allowance for doubtful debts

\*b. Revenue received in advance

c. Prepayments

d. Accumulated depreciation

*Correct answer: b*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. ‘Decreases in economic benefits in the form of outflows or depletions of assets or incurrences of liabilities that result in a decrease in equity, other than those relating to distributions to equity participants’ is the definition of:

a. liabilities.

b. assets.

\*c. expenses.

d. equity.

*Correct answer: c*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. Special purpose financial reports provide information for which group(s)?

|  |  |  |
| --- | --- | --- |
|  | Internal users | External users |
| I | Yes | Yes |
| II | No | No |
| III | No | Yes |
| IV | Yes | No |

a. I

b. II

c. III

\*d. IV

*Correct answer: d*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. What is the cost to large entities of preparing financial statements for external users?

a. Nothing — all charges are reimbursed by the government

b. Very little, as the statements are quite simple to prepare

\*c. A significant amount

d. 10% of annual turnover

*Correct answer: c*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. Under the revised *Conceptual* *Framework*, the qualitative characteristic of relevance is described as information that:

\*a. is of value to users in decision making.

b. is material.

c. can be recorded in accounting reports.

d. can be reliably measured.

*Correct answer: a*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. The term ‘general purpose financial statements’ refers to the fact that the information conveyed is:

a. generally reliable.

b. useful for general purposes but not for making specific decisions.

\*c. potentially valuable for a number of users.

d. comparable over several accounting periods.

*Correct answer: c*

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. Corporate governance responsibilities for a company ultimately rest with:

a. individual managers.

b. the Australian Securities and Exchange Commission.

c. the shareholders.

\*d. the board of directors.

*Correct answer: d*

*Learning objective 2.4 ~ Explain the concept of corporate governance*

1. Which of the following is *not* a specific legal duty and responsibility of a company director?

\*a. To benefit their own personal interests

b. To act with due care and diligence

c. To avoid improper use of information

d. To act in good faith

*Correct answer: a*

*Learning objective 2.4 ~ Explain the concept of corporate governance*

1. What does corporate governance refer to?

\*a. The direction, control and management of an entity

b. The control only of an entity

c. The management only of an entity

d. The reporting, management and control of an entity

*Correct answer: a*

*Learning objective 2.5 ~ Outline corporate governance guidelines and practices*

1. The ASX guidelines for company directors and the code of ethics for accountants both require the following:

a. consideration of the public interest.

b. minimum technical and professional standards.

c. need for transparency and accountability.

\*d. all of the above.

*Correct answer: d*

*Learning objective 2.5 ~ Outline corporate governance guidelines and practices*

1. The fourth principle of the ASX CGC corporate governance principles states that a company should safeguard integrity in corporate reporting. Which option below refers to a crucial element of this principle?

a. A board of directors with a majority of members being executive directors

\*b. The independent verification of financial reports

c. The internal auditing of financial reports

d. The chairperson of the board

*Correct answer: b*

*Learning objective 2.5 ~ Outline corporate governance guidelines and practices*

1. According to Carroll (1979), which of the following was *not* a category for the grouping of business key responsibilities?

a. Economic

\*b. Environment

c. Discretionary

d. Legal

*Correct answer: b*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. An accountant responsible for making a decision that optimises the outcome for the most number of stakeholders is said to be following which approach to decision making?

a. Deontological

b. Kantianism

\*c. Teleological

d. Discretionary

*Correct answer: c*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Which of the theories of ethics listed below is considered to be relevant to modern corporate governance?

a. Deontological

\*b. Ethical egoism

c. Utilitarianism

d. Kantianism

*Correct answer: b*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Which of these types of behaviour would be regarded as ethical?

\*a. Timely disclosure of a pending lawsuit which, if found guilty, will result in the entity being required to pay a substantial amount in damages.

b. Non-disclosure of significant errors in the financial reports.

c. A company director using confidential information for personal gain.

d. Misleading advertising.

*Correct answer: a*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Which of the following statements relating to ethics is *not* true?

\*a. Ethical decisions are always easy to make.

b. A high standard of ethical behaviour is in the long-term interests of an organisation.

c. Ethics is concerned with whether human actions are proper or improper.

d. Stakeholders deserve ethical behaviour from a firm’s management.

*Correct answer: a*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Kantian philosophy is grounded in the notion of duty or obligation and believes that a business that is motivated by maximising their profits, while doing so respectfully, is acting:

a. with dignity.

\*b. prudently, but not morally.

c. morally, but not prudently.

d. loyally.

*Correct answer: b*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Which of the following statements relating to ethics is true?

a. It is best to resolve ethical issues outside an organisation.

b. Insider trading is not illegal.

\*c. Statements of best practice are a part of providing good corporate governance.

d. There is no distinction between acting morally and acting prudently.

*Correct answer: c*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Which of these is *not* an ethical principle?

a. Do unto others as you would have them do unto you.

\*b. The end justifies the means.

c. The greatest good for the greatest number.

d. The end does not justify the means.

*Correct answer: b*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Which of the following statements concerning ethical egoism is *not* true?

\*a. It underlies the assumptions in stakeholder theory.

b. It is a teleological theory.

c. It is where the decision maker decides what is best for him/herself.

d. It is relevant to modern corporate governance.

*Correct answer: a*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Which of the following is a deontological philosophy?

a. Psychological egoism

b. Utilitarianism

\*c. Kantianism

d. Ethical egoism

*Correct answer: c*

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Which body issues the APES 110 *Code of Ethics for Professional Accountants*?

a. The Australian Securities and Investments Commission

\*b. The Accounting Professional & Ethical Standards Board

c. The Institute of Chartered Accountants in Australia

d. CPA Australia

*Correct answer: b*

*Learning objective 2.7 ~ Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations*

1. Which of the below factors has *not* been a major reason for heightened interest in business ethics?

a. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

b. Globalisation

\*c. The introduction of the GST

d. Corporate collapses

*Correct answer: c*

*Learning objective 2.7 ~ Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations*

1. The overriding application of APES 110 *Code of Ethics for Professional Accountants* requires accountants to:

a. act confidently.

b. act competently.

c. act with integrity.

\*d. act in the public interest.

*Correct answer: d*

*Learning objective 2.7 ~ Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations*

1. Which of these practices is regarded as being unethical?

a. Removing a faulty product from the marketplace

b. Prompt payment of an account payable

\*c. Working at the theatre and allowing a friend to enter without a ticket

d. All above practices are ethical

*Correct answer: c*

*Learning objective 2.7 ~ Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations*

1. Which of the below options describes a major criticism of the financial planning industry?

a. Financial planners make recommendations based on their client’s objective and risk profile

\*b. Financial planners are paid via commissions from the manufacturers of investment products

c. Financial planners are not salespeople

d. Financial planners are paid from direct fees for services provided

*Correct answer: b*

*Learning objective 2.7 ~ Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations*

1. When faced with a moral dilemma, making an ethical decision is:

a. always easy if it will lead to a profitable outcome.

\*b. difficult, as the decision may be controversial.

c. unnecessary.

d. easy as there is always one simple solution to the problem.

*Correct answer: b*

*Learning objective 2.7 ~ Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations*

1. Which of the following is not a limitation of accounting information?

a. The use of historical data to predict future events

b. The time delay from when events take place and their reporting

c. Its subjective nature

\*d. Its objective nature

*Correct answer: d*

*Learning objective 2.8 ~ Give examples of the limitations of accounting information*

1. What is the time delay in Australia in providing the annual report of large companies to external users after the end of the financial year?

\*a. Often up to three months

b. Always one month

c. Often only two weeks

d. Nil

*Correct answer: a*

*Learning objective 2.8 ~ Give examples of the limitations of accounting information*

1. What are investors interested in when making informed investment decisions?

a. Investors are only interested in the company’s financial situation.

\*b. Investors are interested in the company’s financial situation and other relevant business factors.

c. Investors are mainly interested in the company’s share price.

d. Investors are only interested in how long the company has been operating profitably.

*Correct answer: b*

*Learning objective 2.8 ~ Give examples of the limitations of accounting information*

1. Subjectivity does *not* apply to the valuation of:

\*a. cash.

b. inventory.

c. net accounts receivable.

d. property, plant and equipment.

*Correct answer: a*

*Learning objective 2.8 ~ Give examples of the limitations of accounting information*

**Fill in the blanks**

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ *Act 2001* is the most important Act under the authority of the Australian Securities and Investments Commission.

a. *Corporations*

*Learning objective 2.1 ~ Identify the sources of company regulation in Australia*

1. Entities that issue securities that are quoted on a stock market or made available to the public via a prospectus are known as \_\_\_\_\_\_\_\_\_\_\_\_\_ entities.

a. disclosing

*Learning objective 2.2 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. The Financial Reporting Council is responsible for overseeing the accounting and auditing \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ process for all accounting sectors in Australia.

a. standard-setting

*Learning objective 2.2 ~ Explain the current standard-setting framework and the role of the professional accounting associations in the standard-setting process*

1. Accounting reports that do not cater to the general needs common to most users are known as \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ purpose financial reports.

a. special

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. The major constraint on the preparation of financial information is \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. cost

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. The financial reports that meet the information needs of a range of users unable to demand accounting information are called \_\_\_\_\_\_\_\_\_\_\_\_ purpose financial statements.

a. general

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. \_\_\_\_\_\_\_\_\_\_\_\_ is the accounting element defined as ‘increases in economic benefits during the accounting period in the form of inflows or enhancements of assets, or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants’.

a. Income

*Learning objective 2.3 ~ Evaluate the role of the* Conceptual Framework *and illustrate the qualitative characteristics of financial statements*

1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_ Act identifies specific duties, responsibilities and potential liabilities of directors of a company.

a. Corporations

*Learning objective 2.4 ~ Explain the concept of corporate governance*

1. Directors owe a legal duty to their company to act with \_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_.

a. care, diligence

*Learning objective 2.4 ~ Explain the concept of corporate governance*

1. One of the principles outlined by the ASX Corporate Governance Council is that companies should respect the rights of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. shareholders

*Learning objective 2.5 ~ Outline corporate governance guidelines and practices*

1. The fifth principle outlined by the ASX Corporate Governance Council is that companies should make timely and \_\_\_\_\_\_\_\_\_\_\_\_\_\_disclosure.

a. balanced

*Learning objective 2.5 ~ Outline corporate governance guidelines and practices*

1. Ethically, businesses are obliged to act in the way expected of them by \_\_\_\_\_\_\_\_\_\_\_\_.

a. society

*Learning objective 2.6 ~ Outline the role of ethics in business and compare ethical philosophies relevant to business decision making*

1. Not compromising your professional judgement because of bias or a conflict of interest is known as maintaining \_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. objectivity

*Learning objective 2.7 ~ Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations*

1. ‘Professional behaviour’ requires an accountant to refrain from any conduct that might bring \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to the profession.

a. discredit

*Learning objective 2.7 ~ Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations*

1. The minimum acceptable standards for accountants, issued by the professional bodies, are known as the code of professional \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

a. conduct

*Learning objective 2.7 ~ Explain the use of codes of ethical conduct and apply ethical decision-making methods to business situations*

1. The information provided in financial statements is the result of past transactions and does not provide \_\_\_\_\_\_\_\_\_\_ information.

a. forecast

*Learning objective 2.8 ~ Give examples of the limitations of accounting information*

1. Corporate \_\_\_\_\_\_\_\_\_\_\_\_\_\_ principles include appropriate auditing, board independence, corporate responsibility, financial transparency and information disclosure.

a. governance

*Learning objective 2.8 ~ Give examples of the limitations of accounting information*