

TRUE/FALSE. Write 'T' if the statement is true and 'F' if the statement is false.

- 1) The main purpose of financial accounting is to communicate useful financial information to decision-makers both inside and outside of the business organization. 1) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 2) The Canadian Business Corporations Act mandates that all incorporated companies in Canada follow IFRS. 2) \_\_\_\_\_  
Answer: ☐ True ☒ False
- 3) Private companies in Canada may choose between IFRS or ASPE. 3) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 4) Canada has adapted its own pre-existing standards for public companies to IFRS, while the U.S has adopted IFRS completely. 4) \_\_\_\_\_  
Answer: ☐ True ☒ False
- 5) A disclosed basis of accounting is acceptable if a company's financial statements are prepared solely for internal use. 5) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 6) Only publicly traded companies in Canada are required to adopt IFRS. 6) \_\_\_\_\_  
Answer: ☐ True ☒ False
- 7) Earnings quality is said to be high when most of a company's earnings are the result of its continuing operations. 7) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 8) Income tax deferral is illegal in Canada. 8) \_\_\_\_\_  
Answer: ☐ True ☒ False
- 9) In Canada, income for tax and accounting purposes may be different. 9) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 10) External users of a company's financial statements may have conflicting objectives. 10) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 11) In Canada, IFRS standards were essentially converged with Canadian GAAP. 11) \_\_\_\_\_  
Answer: ☐ True ☒ False
- 12) A company's functional currency is always the currency in which the financial statements are presented. 12) \_\_\_\_\_  
Answer: ☐ True ☒ False

- 13) It is acceptable for publicly traded Canadian companies to report under US GAAP. 13) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 14) In Canada, almost all equity financing for both public and private companies is done through private placements. 14) \_\_\_\_\_  
Answer: ☐ True ☒ False
- 15) IFRS standards may be modified to allow for a disclosed basis of accounting (DBA). 15) \_\_\_\_\_  
Answer: ☐ True ☒ False
- 16) Privately held, publicly accountable companies with a fiduciary responsibility must comply with IFRS. 16) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 17) Mutual fund companies, which may be privately held, are deemed to have a fiduciary responsibility and must therefore comply with IFRS. 17) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 18) Canadian companies must always present their financial results in Canadian dollars. 18) \_\_\_\_\_  
Answer: ☐ True ☒ False
- 19) Canadian corporations are prohibited from using U.S. GAAP. 19) \_\_\_\_\_  
Answer: ☐ True ☒ False
- 20) A company's functional currency is the currency in which it conducts most of its business. 20) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 21) The disclosed basis of accounting (DBA) refers to the use of Non-GAAP accounting policies by private companies. 21) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 22) A wholly-owned subsidiary of a multinational corporation is essentially a private corporation. 22) \_\_\_\_\_  
Answer: ☒ 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. 23) \_\_\_\_\_  
Answer: ☒ 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. 24) \_\_\_\_\_  
Answer: ☒ True ☐ False

- 25) The influence of tax rules when selecting appropriate accounting treatment for a transaction is particularly strong with public companies. 25) \_\_\_\_\_  
Answer: True ☒ False
- 26) Due to the excellent work of the ACSB, there are very few choices among alternative accounting policies today. 26) \_\_\_\_\_  
Answer: True ☒ False
- 27) Cash flow prediction is a common internal user reporting objective. 27) \_\_\_\_\_  
Answer: 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. 28) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 29) A company whose net income is highly correlated to its operating cash flows is said to have a high quality of earnings. 29) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 30) Lending institutions such as banks are most interested in a company's profitability ratios. 30) \_\_\_\_\_  
Answer: True ☒ False
- 31) Developments in accounting standards have not addressed the problem of using accounting techniques to smooth earnings. 31) \_\_\_\_\_  
Answer: True ☒ False
- 32) The Federal Accounting Standards Board (FASB) is a branch of the CPA Order. 32) \_\_\_\_\_  
Answer: True ☒ False
- 33) The CPA Canada Handbook is the most important primary source of GAAP. 33) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 34) The various provincial securities commissions do not exert influence on the development of accounting standards. 34) \_\_\_\_\_  
Answer: True ☒ False
- 35) FASB and International Accounting Standards are secondary sources of GAAP. 35) \_\_\_\_\_  
Answer: ☒ True ☐ False
- 36) The CPA Canada Handbook requires that income for tax purposes be equal to a company's accounting income at all times. 36) \_\_\_\_\_  
Answer: 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. 37) \_\_\_\_\_

Answer: 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. 38) \_\_\_\_\_

Answer: ☒ True False

MULTIPLE CHOICE. Choose the one alternative that best completes the statement or answers the question.

39) If cash flow prediction is a company's primary reporting objective, this would likely result in: 39) \_\_\_\_\_

- A) Higher earnings.
- B) Fewer accruals and deferrals.
- C) Lower earnings.
- D) Poor matching.

Answer: B

40) The organization created to develop accounting standards in Canada, the AcSB, is NOT concerned about: 40) \_\_\_\_\_

- A) reported comparability of results.
- B) reporting financial position.
- C) reported earnings.
- D) reported cash flows.
- E) All of these answers are correct.

Answer: A

41) Which of the following is published by the Accounting Standards Board (AcSB)? 41) \_\_\_\_\_

- A) CPA Handbook Sections and Accounting Guidelines.
- B) Accounting Exposure Drafts.
- C) Accounting Project Proposals.
- D) Statements of Auditing Revisions.
- E) Accounting Issues Papers.

Answer: A

42) Generally accepted accounting principles currently are promulgated primarily by the: 42) \_\_\_\_\_

- A) Canadian Academic Accounting Association (CAAA).
- B) Ontario Securities Commission (OSC).
- C) Canada Customs and Revenue Agency.
- D) Accounting Standards Board (AcSB).

Answer: D

- 43) The conceptual framework of accounting should have many positive effects as new accounting standards are developed. Which of the following is not one of those effects? 43) \_\_\_\_\_
- A) Users' understanding and confidence in financial statements should increase.
  - B) Management should have greater latitude in choosing among accounting alternatives.
  - C) Standard setting should be more consistent with an overall statement of the objectives and concepts of financial reporting.
  - D) Accountants should be better able to assess the validity of different accounting alternatives for similar and dissimilar transactions and events.
  - E) Financial statements among companies and industries should be more consistent and comparable.

Answer: B

- 44) External decision-makers include all of the following except: 44) \_\_\_\_\_
- A) creditors.
  - B) managers.
  - C) owners.
  - D) employees.

Answer: B

- 45) The users toward which financial statements are directed: 45) \_\_\_\_\_
- A) are Chartered Financial Analysts.
  - B) are independent Public Accountants.
  - C) have a reasonable understanding of business and economic activities.
  - D) have degrees in accounting and finance.
  - E) are very sophisticated and experienced in using financial information.

Answer: C

- 46) General-purpose financial statements report financial information relevant to: 46) \_\_\_\_\_
- A) investors only.
  - B) investors, creditors and government users.
  - C) government users only.
  - D) creditors only.

Answer: B

- 47) Users of financial statements can generally be broken down into which of the following two categories: 47) \_\_\_\_\_
- A) External users and preparers.
  - B) Creditors and Investors.
  - C) Government and investors.
  - D) Government and external users.

Answer: A

- 48) What is the purpose of financial statements? 48) \_\_\_\_\_
- A) To help users make decisions.
  - B) To disclose the market value of the firm's assets and liabilities.
  - C) To identify shareholders.
  - D) To determine compliance with tax laws.

Answer: A

- 49) Choose the correct statement about audits of corporations: 49) \_\_\_\_\_
- A) Public corporations (those whose stock are traded on exchanges) are subject to annual audit as to their compliance with GAAP.
  - B) Outside auditors are paid by the government for auditing the financial statements of corporations.
  - C) Revenue Canada performs audits of corporations' financial statements.
  - D) It is the employees of the firm being audited who perform the annual audit of the financial statements of that firm.
- Answer: A
- 50) Which of the following areas within the accounting field has as its main purpose serving the information needs of parties outside the reporting firm? 50) \_\_\_\_\_
- A) Managerial accounting.
  - B) Auditing.
  - C) Financial accounting.
  - D) Tax accounting.
- Answer: C
- 51) The stewardship function refers to: 51) \_\_\_\_\_
- A) Disclosing management's use of funds and other financial information to absentee shareholders.
  - B) The collection of information for planning the future of the entity, implementing those plans, and for controlling daily operations.
  - C) The collection of information to help present and potential investors and creditors and other users in assessing the amounts, timing and uncertainty of prospective cash receipts.
  - D) A company's corporate citizenship track record.
- Answer: A
- 52) The primary responsibility of an independent auditor who is a professional accountant is to: 52) \_\_\_\_\_
- A) Prepare current financial reports for the client.
  - B) Evaluate the "fair presentation" of the company's financial reports.
  - C) Assess whether the management is honest.
  - D) Prepare or make changes to source documents.
- Answer: B
- 53) Professional accountants need a wide range of knowledge and skills. Which of the following is not an example of such knowledge or skills? 53) \_\_\_\_\_
- A) Knowledge of many disciplines such as finance, economics, management, marketing and statistics.
  - B) An ability to communicate in a concise and understandable manner.
  - C) An ability to calculate and analyze data, and a facility with numbers.
  - D) Skills derived from prior management experience.
- Answer: D

- 54) Which of the following statements regarding cash flows is not accurate? 54) \_\_\_\_\_
- A) Studies have shown that a cash flows report is more relevant to investor decisions than a working capital report.
  - B) Information about the balances of current liabilities, long-term debt and stockholders' equity can be found in the statement of cash flows.
  - C) Information about past cash flows is useful in predicting an entity's future cash flows.
  - D) The reported cash flow from operating activities has been found useful in evaluating a firm's ability to make interest payments and repay debt.
  - E) 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.

Answer: B

- 55) The stewardship function is reflected by: 55) \_\_\_\_\_
- A) Full disclosure only.
  - B) Minimizing interperiod allocations only.
  - C) Performance evaluation and minimizing interperiod allocations.
  - D) Performance evaluation.
  - E) Full disclosure and minimizing interperiod allocations.

Answer: E

- 56) Which of the following is NOT a primary motivator for maximizing net income? 56) \_\_\_\_\_
- A) To enhance managers' performance-based compensation.
  - B) To minimize the company's income tax liability.
  - C) Compliance with debt covenants.
  - D) To positively influence users' assessment of management performance.

Answer: B

- 57) Generally accepted accounting principles are: 57) \_\_\_\_\_
- A) the rules of accounting, prescribed exclusively by Federal regulatory agencies.
  - B) mandatory rules applied to both financial and management accounting.
  - C) standards of accounting, a material departure from which may result in a qualified opinion issued by an auditor.
  - D) optional procedures for recording economic events.

Answer: C

58) Which of these following is NOT true regarding generally accepted accounting principles? 58) \_\_\_\_\_

- A) The GAAP requirement for Private companies is enforceable by the provincial securities commissions.
- B) Include broad principles and conventions of general applications including underlying concepts
- C) Include specific rules, practices and procedures.
- D) Standards of accounting, a material departure from which may result in a qualified opinion issued by an auditor.

Answer: A

59) Which of the following are major factors in the rapidly changing financial reporting environment in Canada? 59) \_\_\_\_\_

- A) The growing number of institutional investors and the knowledge based economy.
- B) Globalization and the use of computer networks.
- C) Increased demand for accountants and the impact of technology.
- D) Financial forecasting and planning for business.

Answer: A

60) An organization that has not published financial accounting standards is the: 60) \_\_\_\_\_

- A) Institute of Chartered Accountants.
- B) Certified Management Accountants of Canada.
- C) Emerging Issues Committee.
- D) International Accounting Standards Committee.

Answer: B

61) The role of the Accounting Standards Board (AcSB) in the formulation of accounting principles in Canada can be best described as: 61) \_\_\_\_\_

- A) sometimes primary and sometimes secondary.
- B) secondary.
- C) primary.
- D) non-existent.

Answer: C

62) The body that has the responsibility to set generally accepted accounting principles in Canada is the: 62) \_\_\_\_\_

- A) OSC.
- B) AcSB.
- C) FASB.
- D) IASC.

Answer: B



- 63) Which of the following financial statements are required for companies adhering to IFRS but NOT ASPE (private entity GAAP)? 63) \_\_\_\_\_
- A) Statement of Cash Flows.
  - B) Statement of Retained Earnings.
  - C) Statement of financial position.
  - D) Statement of Comprehensive income.

Answer: D

- 64) The essential characteristic(s) of accounting is (are): 64) \_\_\_\_\_
- A) communication of financial information to interested persons.
  - B) communication of financial information to interested persons, communication of financial information about economic entities, and identification, measurement, and communication of financial information.
  - C) identification, measurement, and communication of financial information.
  - D) communication of financial information about economic entities.

Answer: B

- 65) During the coming years, we should expect the ACSB to: 65) \_\_\_\_\_
- A) harmonize Canadian GAAP to international standards.
  - B) extend differential reporting options available to private companies.
  - C) continue to provide accounting standards for private companies.
  - D) All of these choices are correct.

Answer: D

- 66) Which of the following is NOT a primary source of GAAP? 66) \_\_\_\_\_
- A) Accounting sections of the CPA Handbook, PART I.
  - B) FASB accounting standards.
  - C) Accounting sections of the CPA Handbook, PART II.
  - D) Accounting Guidelines issued by the AcSB.

Answer: B

- 67) Secondary sources of GAAP should be evaluated on 67) \_\_\_\_\_
- A) the continued relevance of the source only.
  - B) the specificity of the source & the continued relevance of the source.
  - C) the specificity of the source only.
  - D) acceptance of the source by industry professionals.
  - E) None of these answers are correct.

Answer: B

- 68) The disclosed basis of accounting refers to 68) \_\_\_\_\_
- A) the use of non-GAAP policies by any company.
  - B) the use of non-GAAP policies by private companies.
  - C) the practice of disclosing all pertinent accounting policies in a company's annual report.
  - D) the use of International Financial Reporting Standards.

Answer: B

- 69) Private placements refer to: 69) \_\_\_\_\_
- A) indirect negotiation with the one or more creditors.
  - B) debt or equity securities issued to individuals or organizations without being listed with a securities commission.
  - C) funds not disclosed by private companies.
  - D) shares that form part of a control block.

Answer: B

- 70) Which of the following statement(s) is(are) correct? 70) \_\_\_\_\_
- A) When used, the disclosed basis of accounting must comply with GAAP.
  - B) Companies that use the disclosed basis of accounting are NOT allowed to use differential reporting.
  - C) 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.
  - D) Companies that use the disclosed basis of accounting are in effect using differential reporting.

Answer: B

- 71) Lenders and creditors are most concerned with a company's 71) \_\_\_\_\_
- A) profitability.
  - B) cash flows.
  - C) solvency.
  - D) adherence to covenants.

Answer: B

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

- 72) Discuss in general the due process procedure the AcSB follows in developing accounting standards. Who are the groups which typically have opposing views when it comes to accounting standards, and why?

Answer: After identifying an issue of interest, the AcSB writes a project proposal which defines the terms of reference, the need and scope of the issue, and those affected. A task force is made up to monitor the issue to its conclusion. An issues paper may be prepared to help the AcSB members to appreciate the problems. A statement of principles is usually prepared to outline the basic response to the issues raised. Input is then sought on a private and confidential basis to fine-tune the issues. After AcSB approval, an exposure draft is developed and circulated to all interested parties and input is requested. Revisions may result in a re-exposure draft being circulated again for further public input. Finally, a 2/3 vote by the AcSB is required to approve a new section of the CPA Handbook. The two groups with frequently opposing views are the preparers (reporting companies) and the investment community. Reporting companies base their arguments for or against a standard on how their interests might be affected by a new standard. The investment community typically wants expanded disclosure to enable the best possible decisions concerning resource allocation, and favours neutral reporting. The AcSB prefers neutral financial accounting principles to principles which would have a goal of influencing particular types of economic activity or government regulation.

- 73) What is GAAP, how is it currently defined, and what is the outcome of the due process?

Answer: GAAP is the set of rules, procedures, policies and customs, which govern measurement, recognition and disclosure in financial statements. Currently, the bulk of GAAP is defined as those pronouncements promulgated by the Accounting and Auditing Research Committee, Accounting Research Committee, and Accounting Standards Board, which have not been superseded by later pronouncements. Primarily, these consist of the Accounting recommendations in the Handbook and when a matter is not covered by a Recommendation, other accounting principles that either: (a) are generally accepted by virtue of their use in similar circumstances by a significant number of entities in Canada; or (b) are consistent with the Recommendations in the Handbook and are developed through the exercise of professional judgement, including consultation with other informed accountants where appropriate, and the application of the concepts. In exercising professional judgement, established principles for analogous situations dealt with in the Handbook would be taken into account and reference would be made to: (i) other relevant matters dealt with in the Handbook; (ii) practice in similar circumstances; (iii) Accounting Guidelines; (iv) Abstracts of Issues Discussed by the CICA Emerging Issues Committee (v) International Accounting Standards published by the International Accounting Standards Committee; (vi) standards published by bodies authorised to establish financial accounting standards in other jurisdictions; (vii) CICA research studies; and (viii) other sources of accounting literature such as textbooks and journals. The relative importance of these various sources is a matter of professional judgement in the circumstances. (CICA Handbook, Section 1000)

74) 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.

Answer: The term used to for adopting the same accounting practices for financial reporting purposes as for tax reporting is book-tax conformity. Many accountants feel that disclosure of variations between tax and book reporting on the tax return is a "red flag" for Revenue Canada and invites a tax audit. Examples would include the deferral of revenues and the acceleration of expense recognition. Revenue Canada generally takes a dim view of a corporation's recognizing revenue in the income statement while deferring recognition for tax purposes.

75) The International Accounting Standards Committee (IASC), established in 1973 has the objective to promote the worldwide harmonization of accounting principles. Is this harmonization necessary to allow movement of capital between countries?

Answer: Although there is pressure from securities regulators and public accountants to harmonize worldwide accounting standards, there is little evidence to suggest that such harmonization is needed in order to facilitate the international movement of capital.

76) Why is the response time more rapid for the Financial Standards Board (FASB) in the U.S. who issue Statements of Financial Accounting Standards (SFAS) than the CICA AcSB who take as much as two years to bring new Handbook Recommendations to fruition.

Answer: FASB has a full-time paid Board of seven members that is supplemented by a full-time professional staff of about 30. The AcSB is made up of members who serve on a volunteer basis.

77) Compared to financial accounting, what are the major concerns of managerial accounting?

Answer: Management accounting is concerned with preparing and analyzing information for the exclusive use of management for decision-making, planning, employee motivation, and internal performance evaluation. The level of detail is much greater and the basis of accountability may differ from that presented in the organization's financial statements.

78) 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?

Answer: Creditors and analysts often use the reported cash flow from operations to calculate cash flow per share. They compare the operating cash flow per share with the earnings per share and conclude that if there is a higher degree of correspondence between the two measures, the company has high quality earnings. If there is a wide disparity between the two, then the company is said to have low quality earnings.

79) Give examples of provisions, known as maintenance tests or covenants which are often contained in debt contracts or agreements.

Answer: a) maximum debt: equity ratio b) a maximum percentage of dividend pay-out c) a minimum times-interest-earned ratio d) a minimum level of shareholders' equity

80) 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?

Answer: a) to avoid public embarrassment by reducing a high level of reported earnings. b) to avoid attracting competitors into a very lucrative business. c) to discourage hostile take-over bids. d) to avoid the scrutiny of regulators or politicians; or e) to discourage large wage claims (or to justify initiatives for wage reductions and cutbacks).

81) Briefly explain how the CRA (Revenue Canada) differs from most GAAP based policies in terms of revenue recognition

Answer: Most GAAP-based policies recognize revenues as they are earned. In general, CRA takes the view that revenues are to be taxed when they are collected, while expenses are deductible for tax purposes when paid. Essentially, CRA works on the "cash basis" while most GAAP policies are "accrual" based.

82) Do you think that most companies in the oil sector would adopt expanded disclosure policies or simply adhere to minimum compliance requirements? Explain.

Answer: Students' answers are sure to vary here, and for this reason this would be a good question for class-discussion purposes. While many responses may be valid, it can be argued that oil companies would be under enormous pressure to disclose as much information about their activities as possible. Rightly or wrongly, oil companies are often thought to be exploiting the environment for their own benefit. Moreover, many consumers still believe that they are being "gouged" by these companies. As a result, companies in the oil sector are not viewed favourably by many people. As a result of these negative perceptions, these companies would feel pressured to provide expanded disclosures in their annual reports, to show that they are good corporate citizens.

83) Explain the differences between the adoption, adaption and convergence of accounting standards.

Answer: Adoption refers to the acceptance of a new set of accounting standards, as is, without modification or an intervening approvals process. Canada took this approach when adopted IFRS in 2011. The IFRS standards effectively became Part I of the CICA Handbook. Adaption is similar to adoption with one exception. While a new set of standards may be adopted, certain standards may be changed or modified (adapted) to suit the specific environment of the nation that is endorsing these standards. Convergence is the process whereby a nation modifies its own standards to be consistent with an international standard. While the U.S did not "officially" adopt IFRS, many U.S. GAAP standards are now the same as (converged with) their IFRS counterparts.

84) Give two reasons why managers may have a bias toward smoothing earnings, and give two examples stating how this is achieved in practice.

Answer: Income smoothing is performed: a. To reduce a company's perceived risk due to earnings volatility. b. To try to show a smooth upward trend in earnings. Income smoothing may be accomplished by accruing or deferring revenues and expenses (recognizing revenues and systematically over time). Income smoothing may also be accomplished by adjusting estimates upwards or downwards within an acceptable range.