

Intermediate Accounting, 2e (Gordon/Raedy/Sannella)
Chapter 1 The Financial Reporting Environment

1.1 Overview of Financial Reporting

1) The financial reporting process generates three basic financial statements.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

2) The demand for financial information is based on market factors.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

3) Managers of economic entities are best considered to be users of financial information.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

4) Managers of economic entities are best considered to be preparers of financial information.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

5) The Securities and Exchange Commission (SEC) regulates financial reporting for publicly traded companies.

Answer: TRUE

Diff: 2 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP

AACSB: Application of knowledge

6) The FASB gives the SEC authority to regulate accounting for publicly traded companies.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP

AACSB: Application of knowledge

7) The Public Company Accounting Oversight Board (PCAOB) sets financial accounting standards and oversees the audits of public companies in the United States.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP

AACSB: Application of knowledge

8) Financial accounting standards influence the behavior of managers and other internal users.

Answer: TRUE

Diff: 2 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

9) Theories and procedures that evolve as a result of lobbying from various groups are examples of proactive factors within the legal, economic, political, and social environment.

Answer: FALSE

Diff: 1 Var: 1 Page Ref: 8

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

10) Financial information includes information that is not governed by rules set forth by the accounting standard-setting bodies.

Answer: TRUE

Diff: 1 Var: 1 Page Ref: 8

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

11) What is the term that describes the process of identifying, measuring, and communicating financial information about an economic entity to various user groups?

A) financial reporting

B) accounting standard setting

C) financial statement

D) financial accounting

Answer: D

Diff: 2 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

12) Which element of financial accounting involves identifying the individuals who demand financial information?

- A) financial information
- B) economic entity
- C) user groups
- D) legal, economic, political, and social environment

Answer: C

Diff: 1 Var: 1 Page Ref: 4

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

13) Which of the following is *not* one of the four basic financial statements?

- A) balance sheet
- B) general-purpose financial statement
- C) cash flows statement
- D) statement of comprehensive income

Answer: B

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

14) Which organization is responsible for promulgating U.S. GAAP?

- A) Financial Accounting Standards Board
- B) Public Company Accounting Oversight Board
- C) International Accounting Standards Board
- D) Securities and Exchange Commission

Answer: A

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

15) Which organization is responsible for setting auditing standards and overseeing the audits of public companies in the United States?

- A) Financial Accounting Standards Board
- B) Public Company Accounting Oversight Board
- C) American Institute of Certified Public Accountants
- D) Securities and Exchange Commission

Answer: B

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP

AACSB: Application of knowledge

16) Which organization prepares and grades the Uniform CPA Examination?

- A) Financial Accounting Standards Board
- B) Public Company Accounting Oversight Board
- C) American Institute of Certified Public Accountants
- D) International Accounting Standards Board

Answer: C

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP

AACSB: Application of knowledge

17) Which of the following user groups consists of individuals that provide guidance to others in making investment and credit decisions?

- A) financial analysts
- B) equity investors
- C) creditors
- D) suppliers

Answer: A

Diff: 2 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

18) Which of the following user groups consists of individuals who expect to receive a return on their investment?

- A) employees
- B) equity investors
- C) creditors
- D) suppliers and customers

Answer: B

Diff: 1 Var: 1 Page Ref: 4

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

19) Which of the following user groups consist of companies that analyze financial information to identify the reporting entity's objectives, assumptions, overall business strategy, and capabilities?

- A) competitors
- B) creditors and other debt investors
- C) employees and labor unions
- D) suppliers and customers

Answer: A

Diff: 1 Var: 1 Page Ref: 5

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

20) Which party involved in the financial reporting process provides assurance that the financial statements prepared by management fairly present the financial position and performance of the company?

- A) standard setters
- B) regulators
- C) accounting preparers
- D) external auditors

Answer: D

Diff: 2 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

21) Which regulatory body sets auditing standards and oversees the audits of public companies in the United States?

- A) Public Company Accounting Oversight Board (PCAOB)
- B) Financial Accounting Standards Board (FASB)
- C) American Institute of Certified Public Accountants (AICPA)
- D) Securities and Exchange Commission (SEC)

Answer: A

Diff: 2 Var: 1 Page Ref: 6

Objective: 1.1

IFRS/GAAP: GAAP

AACSB: Application of knowledge

22) Which of the following types of information would be categorized as financial information?

- A) Asset values governed by accounting standards
- B) Footnote disclosures in annual reports
- C) Auditor's report
- D) All of the above

Answer: D

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

23) Equity investors include all but which of the following?

- A) Partners
- B) Shareholders
- C) Bondholders
- D) Sole proprietor

Answer: C

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

24) What group or organization both protects investors and oversees the accounting standard-setting process in the United States?

- A) Public accounting firms
- B) American Institute of Public Accountants
- C) United States Securities and Exchange Commission
- D) Financial Accounting Standards Board

Answer: C

Diff: 1 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP

AACSB: Application of knowledge

25) How does accounting help in the capital allocation process?

Answer: Financial accounting provides information that enables users to evaluate economic entities and make efficient resource allocation decisions based on the risks and returns of a particular investment. This process directs capital flows to their most productive uses. The notion of "efficient and effective" allocation of capital helps drive capitalist economies and societies to greater standards of living. To provide unreliable and irrelevant information leads to poor capital allocation which adversely affects the securities market. An inefficient and wasteful allocation would reward poorly run entities until they ultimately flounder or go bust.

Diff: 2 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Reflective thinking

26) In what ways does accounting information proactively interact with its environment?

Answer: Financial accounting is proactive in that it can change or influence its environment by providing feedback information that is used by organizations and individuals to reshape the economy. Accounting information is used to efficiently allocate capital resources throughout the economy. Accounting standards can also influence managerial behavior.

Diff: 2 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Reflective thinking

27) What is meant by general-purpose financial statements?

Answer: Published financial statements are called *general-purpose financial statements* because they provide information to a wide spectrum of user groups: investors, creditors, financial analysts, customers, employees, competitors, suppliers, unions, and government agencies. Although considered general purpose, most financial information is provided to satisfy users with limited ability or authority to obtain additional information, which includes investors and creditors.

Diff: 2 Var: 1

Objective: 1.1

IFRS/GAAP: GAAP/IFRS

AACSB: Reflective thinking

1.2 Role of Standard Setters

1) *IFRS* refers to generally accepted accounting standards that apply globally.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: IFRS

AACSB: Application of knowledge

2) Standard setters develop accounting standards based on natural economic laws.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

3) The FASB and the IFRS have been working together to converge U.S. and international standards to eliminate differences.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

4) The FASB promulgates accounting standards in the U.S. and the IFRS issues international accounting standards.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

5) Accountants in the United States do not need to learn international accounting standards.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

6) The SEC permits the use of IFRS-based financial statements by international companies with shares trading on U.S. stock exchanges.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

7) When accountants work on the financial statements of U.S. companies with foreign subsidiaries prepared under IFRS in the home countries, the accountants do not convert the subsidiaries' financial statements to U.S. GAAP.

Answer: FALSE

Diff: 1 Var: 1 Page Ref: 9

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

8) The American Institute of Certified Public Accountants tests IFRS on the uniform CPA exam.

Answer: TRUE

Diff: 1 Var: 1 Page Ref: 8

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

9) Which of the following statements correctly identifies accounting standard setters?

A) The AICPA promulgates accounting standards in the U.S. and the IFRS issues international accounting standards.

B) The AICPA promulgates accounting standards in the U.S. and the IASB issues international accounting standards.

C) The FASB promulgates accounting standards in the U.S. and the IFRS issues international accounting standards.

D) The FASB promulgates accounting standards in the U.S. and the IASB issues international accounting standards.

Answer: D

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

10) Which of the following statements is *false*?

A) The SEC permits the use of IFRS-based financial statements by international companies with shares trading on U.S. stock exchanges.

B) Non-U.S. companies operate in the United States but prepare their financial statements using IFRS.

C) Accountants must convert to U.S. GAAP the IFRS financial statements of foreign subsidiaries that belong to U.S. companies.

D) The accounting profession has determined that a working knowledge of IFRS is not important for accountants working in the United States.

Answer: D

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

11) Which of the following is *not* a reason why an accountant in the United States should learn international accounting standards?

- A) The United States has plans to adopt IFRS in the near future.
- B) The SEC permits the use of IFRS-based financial statements by international companies with shares trading on the U.S. stock exchanges.
- C) An accountant may work for, or assist, a foreign company that operates in the U.S. and uses IFRS for financial reporting.
- D) U.S. companies operate subsidiaries outside of the United States which report under IFRS in their home countries.

Answer: A

Diff: 1 Var: 1 Page Ref: 8-9

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

12) Accounting standards setters do which of the following?

- A) protect investors and creditors
- B) develop concepts, rules, and guidelines for financial reporting
- C) assure transparent and truthful reporting and guarantee the efficient functioning of the capital markets
- D) prosecute violators of their rules and guidelines so as to maintain the public trust and to ensure the efficient functioning of capital markets

Answer: B

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

13) List four reasons why it is important for an accountant in the United States to learn international accounting standards.

Answer:

- U.S. companies operate subsidiaries outside of the United States.
- Non-U.S. companies operate in the United States and prepare their financial statements using IFRS.
- The SEC permits the use of IFRS-based financial statements by international companies with shares trading on U.S. stock exchanges.
- U.S. accountants and auditors need a working knowledge of IFRS to implement global standards in companies and perform audits.
- Many U.S. accountants now spend time working outside of the United States.
- The accounting profession has determined that a working knowledge of IFRS is important for today's accountant.

Diff: 1 Var: 1

Objective: 1.2

IFRS/GAAP: GAAP/IFRS

AACSB: Reflective thinking

1.3 The Standard-Setting Process

1) The U.S. Congress has given the Securities and Exchange Commission the power to promulgate accounting standards for all publicly traded firms.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

2) Accounting standard setting began in the United States with the 1934 Securities Exchange Act.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

3) The Securities and Exchange Commission currently delegates its standard-setting power to the AICPA, a private sector organization.

Answer: FALSE

Diff: 1 Var: 1 Page Ref: 9-10

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

4) Official U.S. GAAP consist of the bulletins, opinions, and statements issued by the CAP, the APB, and the FASB.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

5) The FASB Accounting Standards Codification is the single source of GAAP in the United States.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

6) Both financial and governmental accounting standards are under the auspices of the Financial Accounting Foundation.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

7) The FASB is a subcommittee of the AICPA.

Answer: FALSE

Diff: 1 Var: 1 Page Ref: 10

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

8) The FAF finances the FASB primarily by funds from the Public Company Accounting Oversight Board which assesses fees against companies that issue equity securities.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

9) The Private Company Council has authority to make the final decision about changing U.S. GAAP for private companies.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

10) The FASB standard-setting process requires a post-implementation review of each new standard.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

11) Which of the following is *not* true of FASB?

A) The FASB is a full-time board of seven members.

B) Board members must sever all relationships with outside entities.

C) Board members must be CPAs.

D) The FASB is not a subcommittee of the AICPA.

Answer: C

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

12) Currently, what is the single source of generally accepted accounting principles in the United States?

A) Financial Accounting Statements

B) APB Opinions

C) Accounting Standards Codification

D) Accounting Research Bulletins

Answer: C

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

13) Which organization is responsible for the oversight, financing, and administration of all accounting standard setting organizations in the United States?

- A) American Institute of Certified Public Accountants (AICPA)
- B) Financial Accounting Foundation (FAF)
- C) Securities and Exchange Commission (SEC)
- D) Financial Accounting Standards Advisory Council (FASAC)

Answer: B

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

14) Which of the following organizations is responsible for setting accounting standards for state and local governments?

- A) Government Issues Task Force (GITF)
- B) Government Accounting Standards Board (GASB)
- C) Securities and Exchange Commission (SEC)
- D) Government Accounting Standards Advisory Council (GASAC)

Answer: B

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

15) During the standard-setting process, an _____ is issued by the FASB to solicit input from financial statement preparers, auditors, and other users of financial statements.

- A) exposure draft
- B) accounting standards update
- C) accounting research bulletin
- D) accounting comment letter

Answer: A

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

16) Which of the following statements about the global standard-setting structure is *false*?

- A) The IFRS Interpretations Committee is similar to the EITF in the U.S.
- B) The Monitoring Board was formed to enhance public accountability of the IFRS Foundation.
- C) The IASB oversees the IFRS Advisory Council which advises the Monitoring Board.
- D) The IFRS Foundation oversees the IASB and finances IASB operations.

Answer: C

Diff: 1 Var: 1

Objective: 1.3

IFRS/GAAP: IFRS

AACSB: Application of knowledge

17) In addition to the comments obtained from responses to the exposure drafts and public round tables, the U.S. standard setting process relies on the information gathered and opinions from all of the following *except* _____.

- A) the Monitoring Board
- B) users
- C) managers
- D) auditors

Answer: A

Diff: 2 Var: 1 Page Ref: 15

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

18) List the seven steps of the FASB standard-setting process.

Answer: Step 1: Identification of an issue.

Step 2: Decision to pursue.

Step 3: Public meetings.

Step 4: Exposure Draft.

Step 5: Public roundtables.

Step 6: Redeliberation.

Step 7: Publication of the final standard.

Diff: 2 Var: 1

Objective: 1.3

IFRS/GAAP: GAAP

AACSB: Application of knowledge

1.4 Trends in Standard Setting

1) In recent years, the FASB standards that have been set indicate that the income statement is more important than the balance sheet.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP

AACSB: Application of knowledge

2) Principles-based standards are deemed to be more optimal than rules-based standards and objectives-based standards.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

3) Objectives-based standards are deemed to be more optimal than rules-based standards and principles-based standards.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

4) Rules-based standards rely on theories and concepts that are linked to a well-developed theoretical framework.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

5) Principles-based standards involve few, if any, exceptions.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

6) Principles-based standards typically provide sufficient guidance to implement a standard.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

7) Rules-based standards require a significant amount of professional judgment.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

8) Rules-based standards result in inconsistencies between standards.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

9) U.S. GAAP contains more rules-based standards than IFRS.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

10) Principles-based standards are more consistent with the asset/liability approach and rules-based standards are more consistent with the income statement approach.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

11) Fair value of an asset is the amount at which the asset could be bought in a current transaction between willing parties.

Answer: TRUE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

12) Fair value measurements have a long-standing tradition in U.S. GAAP.

Answer: FALSE

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP

AACSB: Application of knowledge

13) Which of the following is *not* a current trend in accounting-standards setting?

A) increase in political involvement

B) move toward principles-based system

C) focus on asset/liability approach

D) emphasis on measuring fair value

Answer: A

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

14) Which type of standard relies on theories and concepts that are linked to a well-developed theoretical framework?

A) objectives-based standard

B) principles-based standard

C) theories-based standard

D) rules-based standard

Answer: B

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

15) Which of the following is a characteristic of rules-based standards?

A) involve few, if any, exceptions

B) result in inconsistencies between standards

C) contain no bright-line tests

D) provide insufficient guidance

Answer: B

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

16) Which of the following is a characteristic of objectives-based standards?

- A) do not rely on professional judgment
- B) increase bright-line tests
- C) somewhere between principles-based and rules-based
- D) no exceptions

Answer: C

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

17) Which financial statement is implicitly considered dominant as standard setting shifts toward the asset/liability approach?

- A) statement of financial position
- B) statement of cash flows
- C) statement of shareholders' equity
- D) statement of comprehensive income

Answer: A

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

18) _____ is the amount at which a liability could be incurred or settled in a current transaction between willing parties.

- A) Income value
- B) Settlement value
- C) Current value
- D) Fair value

Answer: D

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

19) Which of the following is a bright-line test?

- A) An item is deemed material if it is large enough to influence the CEO's decision making.
- B) An item is deemed material if it exceeds 10% of net income.
- C) An item is deemed material if it is large in size.
- D) An item is deemed material if it is large enough to influence an investor's decision making.

Answer: B

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

20) Which of the following defines fair value?

- A) The amount at which an asset could be bought or sold in a current transaction between willing parties.
- B) The market value of an asset determined by a transaction between related parties.
- C) The amount at which an asset could be sold in a transaction occurring within the last year.
- D) The amount at which an asset could be bought or sold in a current transaction between any two parties.

Answer: A

Diff: 1 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

21) Contrast the differences between rules-based standards and principles-based standards.

Answer: Principles-based

Rules-based

Few exceptions

Many exceptions

No bright-line tests

Many bright-line tests

Provide less guidance

Provide more guidance

Involve much interpretation

Involve little interpretation

Few inconsistencies between standards

Many inconsistencies between standards

Diff: 2 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Application of knowledge

22) Give two examples of assets that may be valued at fair value as opposed to historical cost.

Answer: Firms must report some investments in equity securities that have a readily determinable fair value and some investments in debt at fair value, as opposed to historical cost.

Diff: 2 Var: 1

Objective: 1.4

IFRS/GAAP: GAAP/IFRS

AACSB: Reflective thinking