1) What do business enterprises have that NFPs do *not* have?

A) Specified products or services

B) Identifiable customers or clients

C) Employees

D) Boards of directors

Answer: B

Page Ref: 3

Learning Obj.: 1.1

Difficulty: Easy

2) Which of the following statements about the adoption of IFRS is *true*?

A) Many European countries adopted IFRS prior to 2011.

B) Canada adopted IFRS in 2012.

C) All European and North American countries adopted IFRS in 2011.

D) All European, Asian, and African countries adopted IFRS in 2011.

Answer: A

Page Ref: 3

Learning Obj.: 1.1

Difficulty: Easy

3) Why has the reputation of U.S. accounting standards decreased in recent years?

A) The U.S. deficit is at a record high.

B) Many U.S. businesses have declared bankruptcy.

C) There have been some notable American accounting scandals, such as Enron.

D) Lengthy prison sentences have been given to unethical American executives, such as Bernie Madoff.

Answer: C

Page Ref: 4

Learning Obj.: 1.2

Difficulty: Easy

4) Which of the following is true about the standards for publicly accountable enterprises in the *CICA Handbook, Part I*?

A) The standards are similar to U.S. GAAP.

B) The standards are adaptations of IFRS that have been tailored to Canadian circumstances.

C) The standards are similar to ASPE.

D) The standards are identical, word for word, to IFRS.

Answer: D

Page Ref: 5

Learning Obj.: 1.2

Difficulty: Easy

5) Which of the following private companies is required to use IFRS?

A) Investment companies

B) Import/export companies

C) Manufacturing companies

D) Accounting firms

Answer: A

Page Ref: 5

Learning Obj.: 1.2

Difficulty: Moderate

6) What accounting standards are private banks and investment funds required to follow for their consolidated, general-purpose, publicly issued financial statements?

A) IFRS

B) ASPE

C) NFP accounting standards

D) PSAB recommendations

Answer: A

Page Ref: 5

Learning Obj.: 1.2

Difficulty: Moderate

7) Which of the following Canadian accounting standards are not included in the *CICA Handbook*?

A) Publicly accountable enterprises

B) Private enterprises

C) Not-for-profit organizations

D) Government

Answer: D

Page Ref: 5-6

Learning Obj.: 1.2

Difficulty: Easy

8) What accounting standards should government NFP organizations follow?

A) *CICA Handbook, Part III* only

B) *CICA Public Sector Accounting Handbook* only

C) Choice of *CICA Handbook, Part III* or *CICA Public Sector Accounting Handbook*

D) Choice of *CICA Handbook, Part III*; *CICA Public Sector Accounting Handbook;* or IFRS

Answer: C

Page Ref: 5, 7

Learning Obj.: 1.2

Difficulty: Moderate

9) What accounting standards are contained in the *CICA Handbook, Part III*?

A) IFRS

B) ASPE

C) NFP

D) Government

Answer: C

Page Ref: 6

Learning Obj.: 1.2

Difficulty: Easy

10) NFP organizations can choose among reporting approaches contained within the framework provided by the *CICA Handbook*. Which of the following is *not* a consideration in choosing the approach?

A) Nature of the NFP's operations

B) Sources of the NFP's funding

C) The NFP's reporting objectives

D) Whether or not the NFP uses the restricted fund method of accounting

Answer: D

Page Ref: 6

Learning Obj.: 1.2

Difficulty: Moderate

11) Which of the following is *true* about Canadian governmental reporting standards?

A) PSAB standards are recommendations only.

B) PSAB standards are rules that must be followed.

C) PSAB standards must be applied to all provincial public utilities.

D) PSAB standards were developed by the OSC.

Answer: A

Page Ref: 6

Learning Obj.: 1.2

Difficulty: Easy

12) A private company that is closely held and internally financed is *most* likely to report under \_\_\_\_\_\_\_\_.

A) IFRS

B) ASPE

C) NFP

D) PSAB recommendations

Answer: B

Page Ref: 6

Learning Obj.: 1.2

Difficulty: Moderate

13) Assume that a nation has fully adopted IFRS. Which of the following statements is *true*?

A) Since the nation has fully adopted IFRS, all standards will be applied in the same way as other nations that have fully adopted IFRS.

B) Since the nation has fully adopted IFRS, IFRS must be applied to all business enterprises in the nation.

C) Although the nation has fully adopted IFRS, standards may be applied in different ways to suit the local environment.

D) Although the nation has fully adopted IFRS, business enterprises can choose to opt out as long as they have government approval to do so.

Answer: C

Page Ref: 8

Learning Obj.: 1.3

Difficulty: Easy

14) Which nation does *not* require a cash flow statement in its financial reporting?

A) United States

B) United Kingdom

C) Australia

D) Japan

Answer: D

Page Ref: 8

Learning Obj.: 1.3

Difficulty: Easy

15) When the International Accounting Standards Board amends a standard, what must a code-law country do to adopt the amendment?

A) The country's securities regulators must approve the amendment.

B) The country's professional accounting body must approve the amendment.

C) The country must pass new legislation to adopt the amendment.

D) The country's financial institution regulators must approve the amendment.

Answer: C

Page Ref: 9

Learning Obj.: 1.3

Difficulty: Moderate

16) Which of the following statements about the adoption of IFRS is *true*?

A) Code-law countries that adopt IFRS must adopt it completely, but common-law countries can choose to partially adopt IFRS.

B) Common-law countries that adopt IFRS must adopt it completely, but code-law countries can choose to partially adopt IFRS.

C) Both code-law and common-law countries can choose to partially adopt IFRS.

D) Both code-law and common-law countries that choose to adopt IFRS must adopt it in its entirety.

Answer: C

Page Ref: 9

Learning Obj.: 1.3

Difficulty: Easy

17) Which of the following statements is *true* about common-law countries?

A) Common-law countries must completely adopt IFRS.

B) Amendments to IFRS by common-law countries must be done legislatively.

C) Amendments to IFRS by common-law countries must be done by government regulation.

D) In common-law countries, the local non-government standard setting authority can decide which international standards to adopt.

Answer: D

Page Ref: 9

Learning Obj.: 1.3

Difficulty: Easy

18) One of the components that a nation must have to effectively apply international standards is quality auditing. Which of the following statements about auditing is *true*?

A) Audit quality is consistently high around the world due to the implementation of International Auditing Standards.

B) Most audits around the world are conducted by the Big Four, which ensures consistency.

C) Audit quality is consistent around the world as smaller countries import well-educated auditors to ensure expertise.

D) Audit quality is inconsistent around the world.

Answer: D

Page Ref: 10

Learning Obj.: 1.3

Difficulty: Easy

19) A Hong Kong—based company is listed on the Toronto Stock Exchange, but not on the Hong Kong Stock Exchange. If there are any issues about the company's reporting, the *primary* enforcement rests \_\_\_\_\_\_\_\_.

A) in Hong Kong

B) with the OSC

C) with the SEC

D) with an international tribunal

Answer: A

Page Ref: 11

Learning Obj.: 1.3

Difficulty: Moderate

20) For international standards to be applied effectively, a country does *not* require \_\_\_\_\_\_\_\_.

A) professional financial preparers

B) quality auditors

C) an independent enforcement agency

D) companies with ethical managers

Answer: C

Page Ref: 9-11

Learning Obj.: 1.3

Difficulty: Moderate

21) What is one of the primary reasons why securities commissions are often ineffective enforcement agencies for accounting standards?

A) Lack of knowledge

B) Lack of financing

C) Lack of independence

D) Lack of support from professional accounting bodies

Answer: B

Page Ref: 11

Learning Obj.: 1.3

Difficulty: Moderate

22) Both Canada and Japan have adopted IFRS even though the two countries differ in many ways. What is one area in which the two countries differ?

A) Corporate structure

B) Issuance of consolidated financial statements

C) Use of common law

D) Ability to select accounting policies

Answer: A

Page Ref: 13

Learning Obj.: 1.3

Difficulty: Difficult

23) In Germany, what does a company that has no debt indicate?

A) It is a superior company with stable earnings.

B) It is a safer company to invest in than a company with debt.

C) It is highly supported by financial markets.

D) The banks do not have any faith in the company.

Answer: D

Page Ref: 13

Learning Obj.: 1.3

Difficulty: Moderate

24) What is the effect of a nation's high inflation on its business enterprises?

A) There would not be any impact on the long-term earnings of companies.

B) It could cause a revaluation of assets.

C) It could decrease companies' reliance on net monetary liabilities.

D) It could lead companies to hold more monetary investments.

Answer: B

Page Ref: 13

Learning Obj.: 1.3

Difficulty: Moderate

25) Which of the following statements is *not* true about private companies?

A) Private companies usually have easily identifiable user groups.

B) User groups of a private company are not permitted to request additional information, outside of the issued financial statements, from the company.

C) Private companies are not required to issue "general-purpose" financial statements.

D) Private companies often report to specific user groups for specific purposes.

Answer: B

Page Ref: 14

Learning Obj.: 1.3

Difficulty: Easy

26) Which GAAP approach for private companies would smaller countries that do not have well-established standard-setting processes be *most* likely to use?

A) IFRS for SMEs

B) Full IFRS

C) Disclosed basis of accounting

D) Code law requirement

Answer: A

Page Ref: 14-15

Learning Obj.: 1.3

Difficulty: Moderate

27) Why might a large private company choose to use full IFRS?

A) Its assets exceed $10,000,000.

B) It only uses debt financing.

C) It only uses equity financing.

D) It competes with public companies for financing.

Answer: D

Page Ref: 14-15

Learning Obj.: 1.3

Difficulty: Moderate

28) Which financial reporting approach has Canada decided to take with respect to private enterprises?

A) IFRS

B) Special adaptation of IFRS for small and medium enterprises

C) Canadian GAAP for private enterprises

D) Disclosed basis of accounting

Answer: C

Page Ref: 14-15

Learning Obj.: 1.3

Difficulty: Easy

29) If a country uses a disclosed basis of accounting for private companies, which of the following statements is *true*?

A) Private companies can create their own GAAP as long as it is disclosed and the spirit of the country's GAAP standards has been followed.

B) Private companies can pick and choose which aspects of GAAP to follow.

C) Private companies must report using fair value.

D) Private companies must report using both historical and fair value.

Answer: B

Page Ref: 15

Learning Obj.: 1.3

Difficulty: Easy

30) In Canada, who developed the accounting standards for private enterprises?

A) International Accounting Standards Board

B) Accounting Standards Board

C) Financial Accounting Standards Board

D) Ontario Securities Commission

Answer: B

Page Ref: 17

Learning Obj.: 1.3

Difficulty: Easy

31) In Canada, there are many types of business and non-business organizations and four different reporting standards that might be applicable.

**Required:**

What types of organizations are required to follow IFRS? What types of organizations may follow IFRS if they choose to do so, and how is this choice made?

Answer: Public companies and those entities that have a fiduciary responsibility must follow IFRS. Government business enterprises must follow IFRS since they are competing with profit-oriented businesses.

Private enterprises that are not publicly accountable enterprises have a choice to follow IFRS or ASPE. The choice will depend on management's reporting objectives and users' objectives. Not-for-profit entities in Canada also have a choice of following IFRS. Again, this choice will depend on users' and management's objectives in preparing the financial reports.

Page Ref: 5-6

Learning Obj.: 1.2

Difficulty: Easy

32) In Canada, we have business and non-business organizations.

**Required:**

Explain the difference between these two types of organizations. Why should they be allowed to follow different accounting policies?

Answer: Business organizations, whether private or public, are driven by profit. They sell identifiable goods and services to identifiable customers, who pay for these goods and services. There is a link between revenue and costs.

In contrast, non-business organizations include NFP and government organizations. These types of entities are not motivated by profit. In these types of organizations, services and products are not as well defined as in business enterprises. The customers or clients who use these products and services are also not identifiable. Finally, the customer (or client) often does not directly pay for the services as they are used, so the link between revenue and costs does not exist.

For business enterprises, where profit motivation is key, standards will be written with this in mind, ensuring that revenue and expense items are properly recognized as incurred.

Non-business enterprises generally have unique types of stakeholder relationships and transactions that never occur in business enterprises. For example, how should donations and government grants be recognized? How and when should costs be recognized when revenue is not "earned" through normal business activities? These types of issues require a different set of financial reporting standards.

Page Ref: 2-3

Learning Obj.: 1.1

Difficulty: Difficult

33) Countries establish their accounting standards using one of two methods. They can be either *code-law* countries or *common-law* countries.

**Required:**

Explain these two separate methods used to establish reporting standards and why IFRS might not be adopted completely under either method. Provide examples of each type.

Answer: Code-law countries are countries that establish their accounting standards by law or government regulation. Examples of these counties are most European countries, the EU, and China. IFRS may not be fully adopted in these countries because it requires time to get legislation passed. The process may be slow, or there may be some aspects of IFRS that are never even legislated.

Common-law countries are countries that have standards set by the domestic accounting profession or some other independent non-government authority. Canada, the United States, Japan, and the United Kingdom are common-law countries. In common-law countries, local authorities that have responsibility for setting the accounting standards may decide not to adopt certain aspects of IFRS, since it does not "fit" properly with domestic business related activities. The standard setters may also disagree with the guidance in a standard and therefore not fully adopt it.

Page Ref: 8-9

Learning Obj.: 1.3

Difficulty: Moderate

34) High Traders Inc. is a private Canadian company. The company adopted accounting standards for private enterprises in 2011. However, a new CFO has just been hired and is now suggesting that the company consider adopting IFRS in the near future.

**Required:**

Outline four possible reasons that a private company in Canada might choose to adopt IFRS.

Answer: A private company might decide to adopt IFRS for the following reasons:

1. The company is considering going public in the near future. As a public company in Canada, IFRS must be followed.

2. The company may want to attract investors and creditors from investment funds, pension funds, and other suppliers of private debt and equity. These users may require IFRS prepared statements, or may assess the risk as higher for companies following accounting standards for private enterprises. A higher assessment of risk would result in higher interest rates on loans.

3. The company may be considering expansion outside of Canada and want to raise either debt or equity in this other country. The potential investor or creditor may be familiar with IFRS and require it for the company's reports.

4. The company may want to be acquired by a larger public company. In this case, IFRS prepared statements would be easier for a potential acquirer to analyze and to forecast consolidated results if the acquisition is accomplished.

Page Ref: 6

Learning Obj.: 1.2

Difficulty: Difficult

35) Management prepares the company's financial statements. Consequently, management's objectives will dominate the selection of accounting policies.

**Required:**

Give examples of users that might have the power to influence the accounting policy choices made by preparers.

Answer: The following are examples of users that might have the power to influence accounting policy choices used by management to prepare financial statements:

• Canada Revenue Agency has its own set of rules for determining taxable income. If CRA is the main user of the financial statements, management may decide to adopt accounting policies that are similar to the tax rules for revenue and expense recognition.

• Major shareholders sitting on a board of directors and/or an audit committee may influence the policies chosen to ensure that shareholders' objectives are also being considered.

• Security analysts and the financial press may have the ability to influence accounting policy choices by providing unfavourable coverage for a company if they disagree with the reporting of certain transactions and events by a company.

• Major lenders have the ability to influence accounting policy choices, particularly if the loan has certain covenants that must be maintained. Bankers could state how they wish to have certain transactions and events reported.

Page Ref: 7

Learning Obj.: 1.2

Difficulty: Easy

36) Many countries around the world have adopted International Financial Reporting Standards as their accounting standards. As a result, companies competing in the same industry, but operating in different countries, should use the same accounting policies. This, in turn, makes interpretation and analysis of peers' statements listed on different exchanges far easier than in the past.

**Required:**

Is the above statement true? Explain.

Answer: This statement is true but to a limited extent. Full comparability is actually an illusion. Although IFRS has been adopted by many countries, analysis of the statements prepared by companies operating in different countries will still be difficult for the following reasons:

• IFRS is not accepted to the same extent in every country. Some countries modify IFRS for their own national use, resulting in possibly different accounting policies.

• Local circumstances may cause similar transactions to be accounted for in different ways.

• The ways of doing business in a country or the types of legal contracts that can be prepared may be different, resulting in similar transactions being recorded differently.

• The quality of auditing and professional expertise may be limited in some countries, resulting in statements not being presented fairly in accordance with IFRS.

• Enforcement bodies may be underfunded, again resulting in poor quality financial statements being prepared and issued, since there are no penalties.

• Economic factors such as inflation rates and foreign exchange rates could vary significantly from country to country. This could result in assets being revalued or lower amounts of monetary assets being held for some companies and not others.

All of these potential differences could impact the amounts reported for assets, liabilities, revenues, and expenses, resulting in differences in ratio and trend analyses.

Page Ref: 8-13

Learning Obj.: 1.3

Difficulty: Difficult

37) XY Co. is a Canadian company that recently received approval for a loan from a bank in Europe. The bankers require statements prepared "in accordance with IFRS as adopted by the EU." The CEO recently stated that now that Canada has adopted IFRS, the company only needs to prepare one set of financial statements for issuance.

**Required:**

As the CFO, reply to this CEO's statement. Why might this not be the case in this situation? In what areas might there be differences? How would this report have to be prepared and issued?

Answer: The EU is an example of a "country" that sets its accounting standards by law and government regulation. Therefore, it may be that only certain aspects of the International Financial Reporting Standards have actually been accepted and "amended." IFRS standards are used within the EU. Canada adopted IFRS without any amendments. As a result, preparing the statements under "IFRS adopted by the EU" may require some different measurement, recognition, and reporting requirements that have been amended by the EU in comparison to the IFRS adopted by Canada. A detailed review of these amendments would be required to see where the differences were and what changes are required. Likely, the CFO would prepare the report for general purposes using Canadian IFRS. He or she might then either prepare a full restatement using IFRS as adopted by the EU or provide note disclosure on where the items were different. It would depend on the complexity of the differences.

Page Ref: 8-9

Learning Obj.: 1.3

Difficulty: Difficult

38) France, Germany, Japan, and Canada are four countries that have adopted International Financial Reporting Standards. As a result, auto companies from these nations have similar statements, statement components, disclosures, and measurement methods.

**Required:**

Discuss the "invisible differences" that may cause statements from these countries to be less comparable, and give examples.

Answer: "Invisible differences" refers to differences in the economic, political, legal, and environmental systems within each country as well as the way of doing business.

Legal factors: One example of a legal factor is that in some countries, taxable income and accounting net income must be the same. This may motivate management to choose accounting policies that reduce earnings. Another difference in legal factors is that in countries where Islamic principles are followed, interest cannot be charged and therefore investors cannot lend money to companies and can only take an equity stake.

Ways of doing business: In Germany, employees and bankers are both represented on boards of directors. For companies that have high debt balances, this is seen as favourable since the bankers must believe that the company will be profitable and be able to repay these high levels of debt. In contrast, companies with low debt are seen to be unsuccessful, since the bank is unwilling to lend them any money.

In Japan, the corporate structure is very different from that in North America. In Japan, there is no parent company in a conglomerate structure, and instead the holdings in other companies may be no more than 3%. The majority of the shares are held by a group, rather than a single corporation. Consequently, consolidated statements do not show all of the assets and liabilities of the entire group of companies.

Economic and political factors: Inflation rates and foreign exchange rates may vary from country to country. The amount of inflation in a country may influence the amount of monetary assets and liabilities that a company chooses to have.

State control and regulations within a country can also differ. For rate regulated companies, there may be motivation to capitalize as many costs as possible and use more debt to finance operations.

Page Ref: 12-13

Learning Obj.: 1.3

Difficulty: Moderate

39) Private companies in Canada may follow either IFRS or accounting standards for private companies.

**Required:**

Why did Canada adopt accounting standards for private companies? What is different about private companies and public companies that require a different set of accounting standards?

Answer: Canadian standard-setters decided to adopt another set of accounting standards for private companies because private companies are very different from public companies. Private companies have a smaller number of users, which are generally identifiable. Creditors are usually bankers, and shareholders are usually few in number. Both these users have access to management (or are management) and are in a position to demand more information if they have questions about the financial statements. This is not the case for public companies, which are held by many investors. Since the users are easily identified and their needs are specific, there is no need for "general purpose" statements with full disclosure to be prepared. Additionally, the transactions for private enterprises are usually less complex than for the public companies, and therefore standards can be simplified.

Page Ref: 15

Learning Obj.: 1.3

Difficulty: Moderate

40) Private companies have different users and user needs than public companies. As a result, many countries have decided to have a separate set of accounting standards that can be followed by private enterprises.

**Required:**

Describe the five different possible sets of GAAP that a country might adopt for private companies and briefly explain how each might be implemented. Discuss any advantages or disadvantages for these methods.

Answer: The five possible sets of GAAP are described below, along with how they might be implemented:

1. Full IFRS must be used by private enterprises. In this method, the country has decided against two GAAPs and requires private and public companies to follow the same standards. In practice, this is usually not the case, but rather, private companies have a choice of adopting IFRS. If there is a choice, then there will also be another set of standards that can be used by these private enterprises as determined by one of the other methods described below.

2. IFRS for SMEs: The IASB has a set of standards for non-public entities entitled IFRS for SMEs. This is a simplified version of IFRS that eliminates some of the more complex reporting requirements. These standards are adopted in countries that do not have their own established accounting standards board–usually smaller nations. The advantage of adopting IFRS is that the country does not need to fund a separate accounting standard setting mechanism. But the main disadvantage is that any issues that are unique to domestic business transactions may not be adequately dealt with under IFRS for SMEs.

3. The country designs a domestic set of accounting standards that can be used by private companies. These standards are usually less complex with less disclosure requirements. This is the method adopted in Canada. It allows Canadian standard-setters to provide additional guidance on special industries that are prevalent in the country. For example, in Canada, there are many small mining companies, and this is one area where IFRS is not well developed. It also allows Canada to design standards that are relevant for business done in Canada. The disadvantage is that resources are required to finance these standard-setting boards. Another disadvantage is that although IFRS and ASPE are similar in many areas, as IFRS becomes updated, these changes may not flow through immediately (if ever) to ASPE.

4. A country may legislate by code law the reporting requirements for private enterprises. This would have similar advantages and disadvantages as described above for point 3, where different laws can be regulated that would differ from IFRS.

5. Finally, a country may allow private enterprises to follow different accounting policies as long as the basis is disclosed. It can choose to follow only certain aspects of the standards, simplifying the reporting requirements. For example, a country may allow companies to use the taxes payable method or the historical basis of accounting. Again, advantages and disadvantages are similar to those discussed point 3.

Page Ref: 14-15

Learning Obj.: 1.3

Difficulty: Difficult