1. Generally accepted accounting principles
   A) are fundamental truths or axioms that can be derived from laws of nature.
   B) derive their authority from legal court proceedings.
   C) derive their credibility and authority from general recognition and acceptance by the accounting profession.
   D) have been specified in detail in the FASB conceptual framework.

2. What is a purpose of having a conceptual framework?
   A) To enable the profession to more quickly solve emerging practical problems.
   B) To provide a foundation from which to build more useful standards.
   C) Neither a nor b.
   D) To enable the profession to more quickly solve emerging practical problems and to provide a foundation from which to build more useful standards.

3. In the conceptual framework for financial reporting, what provides "the why"--the purpose of accounting?
   A) Recognition, measurement, and disclosure concepts such as assumptions, principles, and constraints
   B) Qualitative characteristics of accounting information
   C) Elements of financial statements
   D) Objective of financial reporting

4. The underlying theme of the conceptual framework is
   A) decision usefulness.
   B) understandability.
   C) faithful representation.
   D) comparability.

5. The objective of general-purpose financial reporting is to provide financial information about a reporting entity to each of the following except
   A) potential equity investors.
   B) potential lenders.
   C) present investors.
   D) All of these answers are correct.
6. What is the primary objective of financial reporting as indicated in the conceptual framework?
   A) Provide information that is useful to those making investing and credit decisions.
   B) Provide information that is useful to management.
   C) Provide information about those investing in the entity.
   D) All of these answer choices are correct.

7. What is meant by comparability when discussing financial accounting information?
   A) Information has predictive or confirmatory value.
   B) Information is reasonably free from error.
   C) Information that is measured and reported in a similar fashion across companies.
   D) Information is timely.

8. What is meant by consistency when discussing financial accounting information?
   A) Information that is measured and reported in a similar fashion across points in time.
   B) Information is timely.
   C) Information is measured similarly across the industry.
   D) Information is verifiable.

9. Changing the method of inventory valuation should be reported in the financial statements under what qualitative characteristic of accounting information?
   A) Consistency.
   B) Verifiability.
   C) Timeliness.
   D) Comparability.

10. Company A issuing its annual financial reports within one month of the end of the year is an example of which enhancing quality of accounting information?
    A) Comparability.
    B) Timeliness.
    C) Understandability.
    D) Verifiability.

11. What is the quality of information that is capable of making a difference in a decision?
    A) Faithful representation.
    B) Materiality.
    C) Timeliness.
    D) Relevance.
12. If the FIFO inventory method was used last period, it should be used for the current and following periods because of
   A) relevance.
   B) neutrality.
   C) understandability.
   D) consistency.

13. The two fundamental qualities that make accounting information useful for decision making are
   A) comparability and timeliness.
   B) materiality and neutrality.
   C) relevance and faithful representation.
   D) faithful representation and comparability.

14. Accounting information is considered to be relevant when it
   A) can be depended on to represent the economic conditions and events that it is intended to represent.
   B) is capable of making a difference in a decision.
   C) is understandable by reasonably informed users of accounting information.
   D) is verifiable and neutral.

15. The quality of information that means the numbers and descriptions match what really existed or happened is
   A) relevance.
   B) faithful representation.
   C) completeness.
   D) neutrality.

16. Neutrality means that information
   A) provides benefits which are at least equal to the costs of its preparation.
   B) can be compared with similar information about an enterprise at other points in time.
   C) would have no impact on a decision maker.
   D) cannot favor one set of interested parties over another.

17. The characteristic that is demonstrated when a high degree of consensus can be secured among independent measurers using the same measurement methods is
   A) relevance.
   B) faithful representation.
   C) verifiability.
   D) neutrality.
18. Financial information exhibits the characteristic of consistency when
   A) expenses are reported as charges against revenue in the period in which they are paid.
   B) a company applies the same accounting treatment to similar events, from period to period.
   C) extraordinary gains and losses are not included on the income statement.
   D) accounting procedures are adopted which give a consistent rate of net income.

19. When information about two different enterprises has been prepared and presented in a similar manner, the information exhibits the characteristic of
   A) relevance.
   B) faithful representation.
   C) consistency.
   D) None of these answer choices are correct.

20. In classifying the elements of financial statements, the primary distinction between revenues and gains is
   A) the materiality of the amounts involved.
   B) the likelihood that the transactions involved will recur in the future.
   C) the nature of the activities that gave rise to the transactions involved.
   D) the costs versus the benefits of the alternative methods of disclosing the transactions involved.

21. A decrease in net assets arising from peripheral or incidental transactions is called a(n)
   A) capital expenditure.
   B) cost.
   C) loss.
   D) expense.

22. Which of the following basic elements of financial statements is more associated with the balance sheet than the income statement?
   A) Equity.
   B) Revenue.
   C) Gains.
   D) Expenses.

23. Which basic element of financial statements arises from peripheral or incidental transactions?
   A) Assets.
   B) Liabilities.
   C) Gains.
   D) Expenses.
24. Which basic assumption is illustrated when a firm reports financial results on an annual basis?
   A) Economic entity assumption.
   B) Going concern assumption.
   C) Periodicity assumption.
   D) Monetary unit assumption.

25. Which basic assumption may not be followed when a firm in bankruptcy reports financial results?
   A) Economic entity assumption.
   B) Going concern assumption.
   C) Periodicity assumption.
   D) Monetary unit assumption.

26. Which accounting assumption or principle is being violated if a company provides financial reports only when it introduces a new product?
   A) Economic entity.
   B) Periodicity.
   C) Revenue recognition.
   D) Full disclosure.

27. Which of the following basic accounting assumptions is threatened by the existence of severe inflation in the economy?
   A) Monetary unit assumption.
   B) Periodicity assumption.
   C) Going-concern assumption.
   D) Economic entity assumption.

28. Under current GAAP, inflation is ignored in accounting due to the
   A) economic entity assumption.
   B) going concern assumption.
   C) monetary unit assumption.
   D) periodicity assumption.

29. The economic entity assumption
   A) is inapplicable to unincorporated businesses.
   B) recognizes the legal aspects of business organizations.
   C) requires periodic income measurement.
   D) is applicable to all forms of business organizations.
30. Preparation of consolidated financial statements when a parent-subsidiary relationship exists is an example of the
   A) economic entity assumption.
   B) relevance characteristic.
   C) comparability characteristic.
   D) neutrality characteristic.

31. What accounting concept justifies the usage of depreciation and amortization policies?
   A) Going concern assumption
   B) Fair value principle
   C) Full disclosure principle
   D) Monetary unit assumption

32. The assumption that a company will not be sold or liquidated in the near future is known as the
   A) economic entity assumption.
   B) monetary unit assumption.
   C) periodicity assumption.
   D) None of these answer choices are correct.

33. Proponents of historical cost ordinarily maintain that in comparison with all other valuation alternatives for general purpose financial reporting, statements prepared using historical costs are more
   A) verifiable.
   B) relevant.
   C) indicative of the entity's purchasing power.
   D) conservative.

34. Valuing assets at their liquidation values rather than their cost is inconsistent with the
   A) periodicity assumption.
   B) expense recognition principle.
   C) materiality constraint.
   D) historical cost principle.

35. Which of the following is commonly referred to as the matching principle?
   A) Revenue recognition principle
   B) Measurement principle
   C) Expense recognition principle
   D) Full disclosure principle
36. The allowance for doubtful accounts, which appears as a deduction from accounts receivable on a balance sheet and which is based on an estimate of bad debts, is an application of the
A) consistency characteristic.
B) expense recognition principle.
C) materiality quality.
D) revenue recognition principle.

37. The accounting principle of expense recognition is best demonstrated by
A) not recognizing any expense unless some revenue is realized.
B) associating effort (expense) with accomplishment (revenue).
C) recognizing prepaid rent received as revenue.
D) establishing an Appropriation for Contingencies account.

38. Which of the following is an argument against using historical cost in accounting?
A) Fair values are more relevant.
B) Historical costs are based on an exchange transaction.
C) Historical costs are reliable.
D) Fair values are subjective.

39. When is revenue generally recognized?
A) When cash is received.
B) When the warranty expires.
C) When production is completed.
D) When the company satisfies the performance obligation.

40. Which of the following is a component of the revenue recognition principle?
A) Cash is received and the amount is material.
B) Recognition occurs when the performance obligation is satisfied.
C) Production is complete and there is an active market for the product.
D) Cash is realized or realizable and production is complete.

41. A company has a performance obligation when it agrees to
A) perform a service for a customer and receives cash payment.
B) sell a product to a customer after receiving payment.
C) perform a service or sell a product to a customer.
D) None of the answer choices are correct.
42. When should an expenditure be recorded as an asset rather than an expense?
   A) Never.
   B) Always.
   C) If the amount is material.
   D) When future benefit exists.

43. Which accounting assumption or principle is being violated if a company is a party to major litigation that it may lose and decides not to include the information in the financial statements because it may have a negative impact on the company's stock price?
   A) Full disclosure.
   B) Going concern.
   C) Historical cost.
   D) Expense recognition.

44. Which of the following is a constraint in presenting financial information?
   A) Cost-benefit relationship.
   B) Full disclosure.
   C) Relevance.
   D) Consistency.

45. What is prudence or conservatism?
   A) Understating assets and net income.
   B) When in doubt, recognizing the option that is least likely to overstate assets and income.
   C) Recognizing the option that is least likely to overstate assets and income.
   D) Recognizing revenue when earned and realized.

46. Charging off the cost of a wastebasket with an estimated useful life of 10 years as an expense of the period when purchased is an example of the application of the
   A) consistency characteristic.
   B) expense recognition principle.
   C) materiality quality.
   D) historical cost principle.

47. The basic accounting concept that refers to the tendency of accountants to resolve uncertainty in favor of understating assets and revenues and overstating liabilities and expenses is known as
   A) prudence or conservatism.
   B) the materiality concept.
   C) the substance over form principle.
   D) the industry practices concept.
48. Allowing firms to estimate rather than physically count inventory at interim (quarterly) periods is an example of a trade-off between
   A) verifiability and faithful representation.
   B) faithful representation and comparability.
   C) timeliness and verifiability.
   D) neutrality and consistency.

49. According to the FASB's conceptual framework, earnings
   A) is the same as comprehensive income.
   B) excludes certain gains and losses that are included in comprehensive income.
   C) includes certain gains and losses that are excluded from comprehensive income.
   D) includes certain losses that are excluded from comprehensive income.

50. Accounting concepts—identification.
    State the accounting assumption, principle, information characteristic, or constraint that is most applicable in the following cases.
    1. All payments less than $25 are expensed as incurred. (Do not use conservatism.)
    2. The company employs the same inventory valuation method from period to period.
    3. A patent is capitalized and amortized over the periods benefited.
    4. Assuming that dollars today will buy as much as ten years ago.
    5. Rent paid in advance is recorded as prepaid rent.
    6. Financial statements are prepared each year.
    7. All significant post-balance sheet events are reported.
    8. Personal transactions of the proprietor are distinguished from business transactions.
51. Accounting concepts—matching.
Listed below are several information characteristics and accounting principles and assumptions. Match the letter of each with the appropriate phrase that states its application. (Items a through k may be used more than once or not at all.)

- a. Economic entity assumption
- b. Going concern assumption
- c. Monetary unit assumption
- d. Periodicity assumption
- e. Historical cost principle
- f. Revenue recognition principle
- g. Expense recognition principle
- h. Full disclosure principle
- i. Relevance characteristic
- j. Faithful representation characteristic
- k. Consistency characteristic

____ 1. Stable-dollar assumption (do not use historical cost principle).
____ 2. The performance obligation is satisfied.
____ 3. Numbers and descriptions match what really existed or happened.
____ 4. Yearly financial reports.
____ 5. Accruals and deferrals in adjusting and closing process. (Do not use going concern.)
____ 6. Useful standard measuring unit for business transactions.
____ 7. Notes as part of necessary information to a fair presentation.
____ 8. Affairs of the business distinguished from those of its owners.
____ 9. Company assumed to have a long life.
____ 10. Valuing assets at amounts originally paid for them.
____ 11. Application of the same accounting principles as in the preceding year.
____ 12. Summarizing significant accounting policies.
____ 13. Presentation of timely information with predictive and confirmatory value.
52. Accounting concepts—fill in the blanks.

Fill in the blanks below with the accounting principle, assumption, or related item that best completes the sentence.

1. ________________ and ________________ are the two fundamental qualities that make accounting information useful for decision making.
2. Information that helps users confirm or correct prior expectations has ________________.
3. ________________ enables users to identify the real similarities and differences in economic events between companies.
4. ________________ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
5. Information is ________________ if omitting it or misstating it could influence decisions that users make on the basis of the reported financial information.
6. The ________________ characteristic requires that the same accounting method be used from one accounting period to the next, unless it becomes evident that an alternative method will bring about a better description of a firm's financial situation.
7. ________________ means when in doubt, choose the solution that will be least likely to overstate income and assets.
8. Providing information that is of sufficient importance to influence the judgement and decisions of an informed user is referred to as ________________.
9. Corporations must prepare accounting reports at least yearly due to the ________________ assumption.
10. ________________ occurs when the performance obligation is satisfied.