Exam

Name_________________________________

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

1) Which of the following would NOT be a reason to obtain a greater understanding of accounting practices in other nations? 1) ______

A) Income-smoothing may have affected a foreign subsidiary's results; such smoothing practices are not permitted in North America.
B) One needs to be aware of differing disclosure requirements from nation to nation, as this impacts the preparation of financial statements.
C) Financial results are disclosed in different currencies.
D) Departures from the historical cost principle may be possible in other nations.

2) Which of the following would be most affected by financial statements being prepared under different accounting principles? 2) ______

A) Reduced reliability.
B) Inaccurate asset valuations.
C) Increased complexity.
D) Reduced comparability.

3) The *CPA Canada Handbook -- Accounting* is the handbook of Canadian accounting standards. Why do companies in Canada ensure that their financial reporting is consistent with Canadian GAAP? 3) ______

A) Their auditors require them to do so.
B) Compliance with the *CPA Canada Handbook - Accounting* pronouncements is usually required by many legal statutes.
C) Their bank requires them to do so.
D) Reporting under the *CPA Canada Handbook - Accounting* is required by public companies' boards of directors.

4) Which decision has Canada made with respect to financial reporting for private enterprises? 4) ______

A) To adopt the IFRS standards for small and medium-sized enterprises.
B) To develop and maintain its own standards for private enterprises.
C) To retain the current standards.
D) To look to US GAAP for standards.

5) Starting in 2011, what is the definition of a private enterprise (PE) under Canadian GAAP? 5) ______

A) A profit oriented enterprise that has none of its issued and outstanding financial instruments traded in a public market and does not hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
B) A corporation which is not profit oriented.
C) A corporation that has no public shareholders.
D) A corporation that has less than 500 shareholders and is not listed on a stock exchange.

6) Which enterprises must report under IFRS in Canada? 6) _______

A) Public companies, private companies and not-for-profit organizations.
B) Publicly accountable enterprises.
C) Public companies and private companies whose shareholders' equity is in excess of $500,000,000 at any particular year end.
D) All corporations, government agencies and private companies.

7) What approach did Canada first decide to take with respect to convergence with IFRS? 7) _______

A) Substituting IFRS for Canadian GAAP when approved by the IASB.
B) Reviewing them with all publically accountable entities to see which ones would be acceptable.
C) Adopting some but not necessarily all IFRSs by reviewing them on a case by case basis.
D) Harmonization of *CPA Canada Handbook* with IFRS.

8) What choice(s) do private enterprises have in their financial reporting in Canada? 8) _______

A) They may adopt accounting principles that are appropriate to the circumstances.
B) They may elect to report under either IFRS or ASPE.
C) They may elect to continue with differential reporting.
D) They have no choice at all; they will need to report under IFRS.

9) For which of the following types of organizations does the *CPA Canada Handbook* not provide specific accounting standards? 9) _______

A) Private enterprises.
B) Publicly accountable enterprises.
C) Not-for-profit organizations.
D) Proprietorships.

10) Which of the following is NOT a reason why a Canadian private company would elect to report under IFRS? 10) _______

A) It is likely to be less expensive than reporting under ASPE.
B) The company is a subsidiary of a Canadian public company.
C) The company is planning to go public in the near future.
D) The company seeks comparability with public companies of a similar size.

11) The current ratio measures: 11) _______

A) profitability of owners' investment.
B) profitability of assets.
C) liquidity.
D) solvency.

12) The formula for the current ratio is: 12) _______

A) current assets / current liabilities
B) current assets - current liabilities
C) total debt / shareholders' equity
D) net income / shareholders' equity

13) The debt-to-equity ratio measures: 13) _______

A) solvency.
B) liquidity.
C) profitability of assets.
D) profitability of owners' investment.

SHORT ANSWER. Write the word or phrase that best completes each statement or answers the question.

14) One of the underlying assumptions of the Historical Cost Principle is that a stable unit of measure (currency) should be used for Financial Reporting. Is this always the case? 14) ____________

15) X Inc. and Y Inc. are virtually identical companies with identical cost structures and very similar business practices operating in the same lines of business. X Inc. is a public company based in Canada and follows IFRS while Y Inc. is a private enterprise based in Canada and follows ASPE. The following were the condensed income statements for both companies for the last year before both adopted IFRS. 15) ____________

	X Inc.	**Y Inc.**
Sales:	$1,000,000	$2,000,000
Less:		
Cost of Goods Sold	$500,000	$1,600,000
Gross Margin	$500,000	$400,000
Administrative Expenses	$200,000	$300,000
Net Income:	$300,000	$100,000

Required:

Given the information provided, what are some possible causes for the differing re these companies?

16) Briefly discuss the anticipated changes to accounting standards in Canada over the next few years. 16) ____________

17) What disclosure requirements must be met when a Canadian company adopts IFRS for the first time? 17) ____________

18) List some of the key differences between IFRS and ASPE. 18) ____________

1) C
2) D
3) B
4) B
5) A
6) B
7) D
8) B
9) D
10) A
11) C
12) A
13) A
14) The Historical Cost Principle is not very useful when inflation rates are high. As a result of the eroding purchase power associated with periods of high inflation, many countries have had to experiment with price-level adjustments. These adjustments often include asset revaluations to reflect their current values.
15) There could be many possible explanations for these differing results. Y Inc.'s net income is $100,000, compared to X Inc.'s $300,000. Conversely, Y Inc.'s sales are twice those of X Inc. What is particularly noteworthy is Y Inc.'s 20% gross margin compared to X Inc.'s 50% gross margin. This could be due to the accelerated depreciation on Y Inc.'s property, plant and equipment or provisions made for future maintenan costs.

Smoothing practices may have been applied to reduce Y Inc.'s income, and of course, its tax liability. Y Inc may have been further reduced by higher estimates (for example: bad debt expense, warranty costs and so f which are not necessarily be indicative of economic conditions.

Note: Once again, the above analysis is not necessarily exhaustive. Students may be able to identify other valid differences.
16) 1. The format and structure of financial statements may change to present a cohesive relationship between t various statements;

2. The Conceptual Framework will be revised to create a sound foundation for future accounting standards principles based, internally consistent, and internationally converged. Relevance and faithful representation the fundamental qualitative characteristics of financial information. The definitions of assets and liabilities may change to focus more on rights and obligations to eliminate the reference to past events. When and how to use various measurement bases may be clarified.
17) 1. The company must reconcile its equity reported under the previous GAAP to its equity in accordance wit both the date of transition to IFRS and the end of the latest period reported under the previous GAAP.

2. The company must reconcile its total comprehensive income in accordance with IFRS to that reported in statements prepared under the previous GAAP.

3. The company must provide sufficient detail to enable users to understand the material adjustments to the of financial position, the statement of comprehensive income and the statement of cash flows.

18) Some key differences between IFRS and ASPE are:

> disclosure
> impaired loans
> property, plant, and equipment revaluation option
> asset impairment (test for impairment if indicator requires, and subsequent reversal of impairment loss)
> development costs
> post-employment benefits (recognition of actuarial gains/losses)
> income taxes
> interest capitalization
> compound financial instruments
> preferred shares in tax planning arrangements
> value of conversion option for convertible bonds

(See Exhibit 1.1 "Some Key Differences between IFRS and ASPE" for a full list and a description of the di