What do you remember?
BUS312A/612A
Financial Reporting I

Homework 9.3.14
Financial Accounting and Accounting Standards
CA 1-12 GAAP Terminology

a) AICPA  

b) CAP  

c) ARB  

d) APB  

e) FAF  

f) FASAC  

g) SOP  

h) GAAP  

i) CPA  

j) FASB  

k) SEC  

l) IASB
Objective of Financial Reporting CA1-5

A recent college graduate is employed by a large manufacturing company and asked by the controller to prepare the company’s response to a current Preliminary Views published by the FASB. Knowing that the FASB has a conceptual framework that they believe will support the company’s response, they prepare a rough draft citing the objective of financial reporting.

a) Identify the objective of financial reporting.

b) Describe the level of sophistication expected of users of financial information by the objective of financial reporting.
Models for Setting GAAP CA1-11

1. The purely political approach, where national legislative action decrees GAAP.
2. The private, professional approach, where GAAP is set and enforced by private professional actions only.
3. The public/private mixed approach, where GAAP is basically set by private-sector bodies that behave as though they were public agencies and whose standards to a great extent are enforced thought governmental agencies.

a) Which of these three models best describes standard-setting in the US? Comment on your answer.

b) Why do companies, financial analysts, labor unions, industry trade associations, and others take such an active interest in standard setting?

c) Cite an example of a group other than the FASB that attempts to establish accounting standards. Speculate as to why another group might wish to set its own standards.
Financial Reporting Pressures CA1-15

a) What appears to be Troy Normand’s ethical issue as manager in the corporate reporting department and one of 5 individuals that plead guilty in the WorldCom case?

b) Is Troy Normand acting improperly or immorally?
Economic Consequences CA1-16

a) Rep. John Dingell threw support behind the FASB’s controversial derivatives accounting standard and encouraged the FASB to adopt the rule promptly. Indicate why a member of Congress might feel obligated to comment on this proposed standard?

b) In a strongly worded letter to Senator Faircloth (R-NC) and House Banking Committee Chair Jim Leach (R-IA), the AICPA cautioned against government intervention in the accounting standard-setting process, warning that it had the potential of jeopardizing US capital markets. Explain how government intervention could possibly affect capital markets adversely.
Conceptual Framework

Question (true or false):

A conceptual framework underlying financial accounting is necessary because future accounting practice problems can be solved by reference to the conceptual framework and a formal standard-setting body will not be necessary.
What are the Statements of Financial Accounting Concepts intended to establish?

a. Generally accepted accounting principles in financial reporting by business enterprises.

b. The meaning of “Present fairly in accordance with generally accepted accounting principles.”

c. The objectives and concepts for use in developing standards of financial accounting and reporting.

d. The hierarchy of sources of generally accepted accounting principles.
According to the FASB conceptual framework, the objectives of financial reporting for business enterprises are based on?

a. Generally accepted accounting principles

b. Reporting on management’s stewardship.

c. The need for conservatism.

d. The needs of the users of the information.
According to the FASB conceptual framework, an entity’s revenue may result from

a. A decrease in an asset from primary operations.

b. An increase in an asset from incidental transactions.

c. An increase in a liability from incidental transactions.

d. A decrease in a liability from primary operations.
IFRS SELF-TEST QUESTION

Which of the following statements about the IASB and FASB conceptual frameworks is not correct?

- a. The IASB conceptual framework does not identify the element comprehensive income.

- b. The existing IASB and FASB conceptual frameworks are organized in similar ways.

- c. The FASB and IASB agree that the objective of financial reporting is to provide useful information to investors and creditors.

- d. IFRS does not allow use of fair value as a measurement basis.
IFRS SELF-TEST QUESTION

Which of the following statements is false?

a. The monetary unit assumption is used under IFRS.

b. Under IFRS, companies may use fair value for property, plant, and equipment.

c. The FASB and IASB are working on a joint conceptual framework project.

d. Under IFRS, there are the same number of financial statement elements as in GAAP.
The issues that the FASB and IASB must address in developing a common conceptual framework include all of the following except:

a. Should the characteristic of relevance be traded-off in favor of information that is verifiable?

b. Should a single measurement method be used?

c. Should the common framework lead to standards that are principles-based or rules-based?

d. Should the role of financial reporting focus on stewardship as well as providing information to assist users in decision-making?