CHAPTER 16

FINANCIAL REPORTING STANDARDS

1. (C) both relevance and faithful representation.

Explanation

In the IFRS framework, timeliness, comparability, verifiability, and understandability are characteristics that enhance the two fundamental qualitative characteristics, relevance and faithful representation. Information that is not timely will not be relevant or faithfully represent the activities of a firm over the reporting period.

(Study Session 5, Module 16.2, LOS 16.c)

Related Material

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2. (C) Statements should be prepared at least quarterly.

Explanation

IFRS require reporting at least annually. The other two choices are requirements included in IAS No. 1.

(Study Session 5, Module 16.2, LOS 16.d)

Related Material

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3. (C) useful to decision makers.

Explanation

According to the Conceptual Framework for Financial Reporting, the objective of financial reporting is to provide information about the firm to current and potential investors and creditors that is useful for making their decisions about investing in or lending to the firm.

(Study Session 5, Module 16.1, LOS 16.a)

Related Material

Schweser Notes - Book 2

4. (C) professional organizations that establish financial reporting standards.

Explanation

Standard-setting bodies are professional organizations of accountants and auditors that establish financial reporting standards. Regulatory authorities are government agencies that have the legal authority to enforce compliance with financial reporting standards. Regulatory authorities, such as the Securities and Exchange Commission in the U.S. and the Financial Conduct Authority in the United Kingdom, are established by national governments. Most national authorities belong to the International Organization of Securities Commissions (IOSCO).

(Study Session 5, Module 16.1, LOS 16.b)

Related Material

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5. (C) **Conservatism.**

Explanation

Qualitative characteristics that accounting information must possess according to the IASB Conceptual Framework are relevance and faithful representation, which are enhanced by the characteristics of timeliness, verifiability, understandability, and comparability. While conservatism in accounting has traditionally been viewed as a desirable characteristic, it is not one of the qualitative characteristics specified in the IASB Conceptual Framework.

(Study Session 5, Module 16.2, LOS 16.c)

Related Material

Schweser Notes - Book 2

6. (A) **Reliability.**

Explanation

The IASB Conceptual Framework names relevance and faithful representation as the two fundamental characteristics that make financial information useful.

For Further Reference:

(Study Session 5, Module 16.2, LOS 16.c)

CFA® Program Curriculum, Volume 2, page 524

Related Material

Schweser Notes - Book 2

7. (A) **faithful representation.**

Explanation

In the IASB conceptual framework, the two qualitative characteristics of financial statements are relevance and faithful representation. Timeliness is a characteristic that enhances relevance and faithful representation. Going concern is an underlying assumption of financial statements.

(Study Session 5, Module 16.2, LOS 16.c)

Related Material

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8. (A) **management has not explained its business purpose.**

Explanation

New types of transactions may emerge that are not covered by existing accounting standards or regulations. Analysts should obtain information from a firm's management about the economic substance of such transactions to ensure that they serve a business purpose and have not been created primarily to manipulate the firm's financial statements.

(Study Session 5, Module 16.2, LOS 16.e)

Related Material

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9. (C) **Disclosures of material events.**

Explanation

International Accounting Standard (IAS) No. 1 defines which financial statements are required and how they must be presented. The required financial statements are:

- Balance sheet.
- Statement of comprehensive income.
- Cash flow statement.
- Statement of changes in equity.
- Explanatory notes, including a summary of accounting policies.

Disclosures of material events that affect the company are required by the Securities and Exchange Commission (Form 8-K) for firms that are publicly traded in the United States.

(Study Session 5, Module 16.2, LOS 16.d)

Related Material

Schweser Notes - Book 2

10. (A) **balance sheet and explanatory notes.**

Explanation

Financial statements that are required by IAS No. 1 include a balance sheet, a statement of comprehensive income, a cash flow statement, a statement of changes in owners' equity, and explanatory notes that include a summary of the company's accounting policies. IAS No. 1 does not require an auditor's report or a working capital summary.

(Study Session 5, Module 16.2, LOS 16.d)

Related Material

Schweser Notes - Book 2

11. (B) timeliness, comparability, and verifiability.

Explanation

The four characteristics that enhance relevance and faithful representation are comparability, verifiability, timeliness, and understandability.

(Study Session 5, Module 16.2, LOS 16.c)

Related Material

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12. (C) going concern and accrual accounting.

Explanation

The two underlying assumptions of financial statements according to the conceptual framework are accrual accounting and the going concern assumption. Historical cost is one of several measurement bases that may be used for financial reporting.

(Study Session 5, Module 16.2, LOS 16.c)

Related Material

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