



INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

Subject: Business Finance 2

Chapter: Unit 1

Category: Practice question 1

A company's statement of profit or loss includes the cost of electricity that was consumed during the year, but was not paid for until sometime during the following year. Which of the following accounting concepts requires this treatment of the electricity cost?

- A. accruals
- B. business entity
- C. going concern
- D. money measurement

2. CT2 October 2010 Question 5

Which of the following accounting concepts can be used to justify carrying a non-current asset at its historical cost less depreciation even though this is not a particularly relevant figure for most decisions?

- A. accruals
- B. going concern
- C. prudence
- D. realization

3. CT2 April 2011 Question 6

Which of the following statements best describes the role of accounting standards in the preparation of financial statements for publication?

- A. Accounting standards have little impact on the process of preparing financial statements.
- B. Accounting standards provide companies with a broad indication of what the financial statements should contain.
- C. Accounting standards reduce variations between companies in the way they prepare accounts.
- D. Accounting standards eliminate all scope for disagreement over accounting.

4. CT2 April 2011 Question 7

Which of the following accounting concepts provides justification for the fact that book values of certain assets may not always reflect their true value?

- A. business entity
- B. going concern
- C. money measurement
- D. realisation

5. CT2 April 2012 Question 7

Which of the following is most likely to arise as a consequence of the money measurement concept?

- A. Assets will be recorded at cost.
- B. Some valuable assets will be excluded from the financial statements altogether.
- C. Expenses will be accrued regardless of when the associated payment is made.
- D. Assets will not be written down to their break-up values.

- B. going concern
- C. cost concept
- D. business entity

7. CT2 April 2013 Question 7

Which of the following best summarises the dual aspect concept?

- A. There are frequently two or more ways to approach any accounting judgement.
- B. Every transaction affects two balances and both must be adjusted in the bookkeeping records.
- C. There ought to be independent verification of matters of judgement.
- D. The bookkeeping records ought to be backed up regularly and the backup copy kept securely.

8. CT2 September 2013 Question 10

Who makes the final decision as to whether International Financial Reporting Standards are used as the basis for accounting in any given country?

- A. the International Accounting Standards Board (IASB)
- B. the national government
- C. professional accountancy bodies
- D. the national stock exchange

9. CT2 April 2015 Question 6

Which of the following best describes the need for the consistency concept in financial reporting?

- A. All similar transactions should input into the bookkeeping records in the same way throughout the accounting period.
- B. Financial statements prepared by an entity should be comparable from year to year.
- C. Financial statements prepared by different entities should be comparable.
- D. The users of financial statements should use consistent criteria for interpreting accounting information.

10. CT2 September 2015 Question 9

Which of the following best describes the role of International Financial Reporting Standards (IFRS) in the situations in which they are applicable?

- A. IFRS eliminates inconsistency in accounting choices.
- B. IFRS ensures consistent disclosure across all companies.
- C. IFRS prevent misleading financial reporting.
- D. IFRS provide guidance on the appropriate treatment of specific matters

11. CT2 September 2017 Question 5

A new International Financial Reporting Standard (IFRS) has come into effect, requiring companies to change an important accounting policy.

Which of the following best explains the implications of the concept of consistency in this case?

- A. Consistency requires that the new IFRS be ignored in order to give a true and fair view.

consistency

12. CT2 September 2017 Question 7

Which of the following best explains the implications of the going concern concept in financial accounting?

- A. It is a fact that businesses tend to continue indefinitely.
- B. Incorrect valuations of property, plant and equipment can be tolerated.
- C. The figures will remain the same if the business faces closure.
- D. The financial statements will be comparable from period to period.

13. CT2 April 2018 Question 4

Which of the following is NOT a correct interpretation of the prudence concept?

- A. An asset that cost \$400,000 was professionally revalued at \$500,000 and that valuation has been recognised in the financial statements.
- B. An asset that could be sold for between \$500,000 and \$800,000 has been valued at \$400,000 in the financial statements.
- C. An asset that could be sold for between \$500,000 and \$800,000 has been valued at \$600,000 in the financial statements.
- D. An intangible asset could be worth up to \$800,000, but the asset's value has not been recognised in the financial statements

14. CB1 April 2021 Question 6

A holiday company takes bookings for holidays up to a year before customers travel. The company recognises revenue from those bookings in the same accounting period as the costs associated with providing the holidays is incurred. Which accounting concept is the holiday company applying?

- A. Accruals
- B. Dual aspect
- C. Matching
- D. Prudence.

15. CB1 April 2023 Question 8

Insurance company financial statements require premiums received in respect of future liabilities to be identified and held until the liabilities have expired. Which accounting concept does this reflect?

- A. dual aspect
- B. going concern
- C. matching
- D. money measurement

Short answers:

1. CT2 April 2008 Question 13

Explain the purpose of accounting standards.

3. CT2 October 2012 Question 18

Explain the difficulties faced by the International Accounting Standards Board (IASB) in setting credible accounting standards.

4. CT2 September 2013 Question 17

A famous accounting scandal involved a company's decision to recognise the premiums from the sale of holiday insurance contracts when the contracts were sold, rather than waiting until after the customer's safe return from holiday (which was the normal practice followed by other companies). There were no specific accounting standards to deal with this matter.

Discuss the issues associated with recognising the profit from the sale of travel insurance in this way in terms of accounting concepts

5. CT2 April 2014 Question 17

Discuss the importance of the International Accounting Standards Board (IASB).

6. CT2 April 2014 Question 18

Discuss the difficulties associated with deciding whether the going concern concept is appropriate

7. CT2 April 2015 Question 18

Describe the importance of the standards set by the International Accounting Standards Board (IASB).

8. CT2 April 2017 Question 18

Describe the problems faced by the external auditor in reporting on the fair presentation of financial statements.

9. CT2 September 2017 Question 14

Describe why it is necessary for the International Accounting Standards Board (IASB) to identify the users of financial statements

10. CB1 April 2019 Question 18

The development and implementation of International Financial Reporting Standards (IFRS) is sometimes a contentious and prolonged process.

Describe the implications of this.

11. CB1 April 2020 Question 14

International Accounting Standards identify relevance as a desirable characteristic for accounting information.

Describe whether accounting for property, plant and equipment at historical cost less depreciation results in a valuation that lacks relevance.

12. CB1 April 2020 Question 16

Describe the relevance of International Financial Reporting Standards (IFRS) to external auditors.

13. CB1 September 2020 Question 17

Discuss the proposition that the needs of all users of financial statements can be satisfied by a single set of financial statements.

Describe the implications for the International Accounting Standards Board (IASB)

15. State the key responsibilities of SEBI.

16. Why is there a need for competition laws?

17. Define accounting standards. State the need for having accounting standards.



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