1. The overriding criterion by which accounting information can be judged is that of
   A. usefulness for decision making.
   B. freedom from bias.
   C. timeliness.
   D. comparability.

2. 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.

3. The quality of information that gives assurance that it is reasonably free of error and bias and is a faithful representation is
   A. relevance.
   B. reliability.
   C. verifiability.
   D. neutrality.

4. According to STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 2, which of the following relates to both relevance and reliability?
   A. Materiality
   B. Understandability
   C. Usefulness
   D. All of these

5. According to STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 2, timeliness is an ingredient of the primary quality of
   - Relevance
   - Reliability

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6. According to STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 2, verifiability is an ingredient of the primary quality of
   - Relevance
   - Reliability

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7. According to STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 2, neutrality is an ingredient of the primary quality of

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8. Information is neutral if it
   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. is free from bias toward a predetermined result.

9. 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. reliability.
   C. verifiability.
   D. neutrality.

10. According to STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 2, predictive value is an ingredient of the primary quality of

    |                | Relevance | Reliability |
    |----------------|-----------|-------------|
    | A.             | Yes       | No          |
    | B.             | Yes       | Yes         |
    | C.             | No        | No          |
    | D.             | No        | Yes         |

11. Under STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 2, representational faithfulness is an ingredient of the primary quality of

    |                | Reliability | Relevance |
    |----------------|-------------|-----------|
    | A.             | Yes         | Yes       |
    | B.             | No          | Yes       |
    | C.             | Yes         | No        |
    | D.             | No          | No        |

12. Financial information does not demonstrate consistency when
   A. firms in the same industry use different accounting methods to account for the same type of transaction.
   B. a company changes its estimate of the salvage value of a fixed asset.
   C. a company fails to adjust its financial statements for changes in the value of the measuring unit.
   D. none of these.
13. 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. accounting entities give accountable events the same accounting treatment 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.

14. Information about different entities and about different periods of the same entity can be prepared and presented in a similar manner. Comparability and consistency are related to which of these objectives?

<table>
<thead>
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<td>A. Entities</td>
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15. When information about two different enterprises has been prepared and presented in a similar manner, the information exhibits the characteristic of
   A. relevance.
   B. reliability.
   C. consistency.
   D. none of these.

16. The elements of financial statements include investments by owners. These are increases in an entity's net assets resulting from owners'
   A. transfers of assets to the entity.
   B. rendering services to the entity.
   C. satisfaction of liabilities of the entity.
   D. all of these.

17. 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.
18. A decrease in net assets arising from peripheral or incidental transactions is called a(n)
   A. capital expenditure.
   B. cost.
   C. loss.
   D. expense.

19. One of the elements of financial statements is comprehensive income. As described in STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 6, "Elements of Financial Statements," comprehensive income is equal to
   A. revenues minus expenses plus gains minus losses.
   B. revenues minus expenses plus gains minus losses plus investments by owners minus distributions to owners.
   C. revenues minus expenses plus gains minus losses plus investments by owners minus distributions to owners plus assets minus liabilities.
   D. none of these.

20. Which of the following elements of financial statements is not a component of comprehensive income?
   A. Revenues
   B. Distributions to owners
   C. Losses
   D. Expenses

21. 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.

22. During the lifetime of an entity, accountants produce financial statements at arbitrary points in time in accordance with which basic accounting concept?
   A. Cost/benefit constraint
   B. Periodicity assumption
   C. Conservatism constraint
   D. Matching principle

23. What accounting concept justifies the usage of accruals and deferrals?
   A. Going concern assumption
   B. Materiality constraint
   C. Consistency characteristic
   D. Monetary unit assumption

24. The assumption that a business enterprise will not be sold or liquidated in the near future is known as the
   A. economic entity assumption.
   B. monetary unit assumption.
   C. conservatism assumption.
   D. none of these.
25. Which of the following is an implication of the going concern assumption?
   A. The historical cost principle is credible.
   B. Depreciation and amortization policies are justifiable and appropriate.
   C. The current-noncurrent classification of assets and liabilities is justifiable and significant.
   D. All of these.

26. 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. reliable.
   B. relevant.
   C. indicative of the entity's purchasing power.
   D. conservative.

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

28. Revenue is generally recognized when realized or realizable and earned. This statement describes the
   A. consistency characteristic.
   B. matching principle.
   C. revenue recognition principle.
   D. relevance characteristic.

29. Generally, revenue from sales should be recognized at a point when
   A. management decides it is appropriate to do so.
   B. the product is available for sale to the ultimate consumer.
   C. the entire amount receivable has been collected from the customer and there remains no further warranty liability.
   D. none of these.

30. Revenue generally should be recognized
   A. at the end of production.
   B. at the time of cash collection.
   C. when realized.
   D. when realized or realizable and earned.

31. "When products (goods or services), merchandise, or other assets are exchanged for cash or claims to cash" is a definition of
   A. allocated.
   B. realized.
   C. realizable.
   D. earned.
32. The accounting principle of matching 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.

33. Which of the following serves as the justification for the periodic
    recording of depreciation expense?
   A. Association of efforts (expense) with accomplishments (revenue)
   B. Systematic and rational allocation of cost over the periods
      benefited
   C. Immediate recognition of an expense
   D. Minimization of income tax liability

34. Application of the full disclosure principle
   A. is theoretically desirable but not practical because the costs
      of complete disclosure exceed the benefits.
   B. is violated when important financial information is buried in the
      notes to the financial statements.
   C. is demonstrated by the use of supplementary information
      presenting the effects of changing prices.
   D. requires that the financial statements be consistent and
      comparable.

35. Under STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 2, which of the
    following relates to both relevance and reliability?
   A. Cost-benefit constraint
   B. Predictive value
   C. Verifiability
   D. Representational faithfulness

36. 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. matching principle.
   C. materiality constraint.
   D. historical cost principle.

37. Which of the following statements about materiality is NOT correct?
   A. An item must make a difference or it need not be disclosed.
   B. Materiality is a matter of relative size or importance.
   C. An item is material if its inclusion or omission would influence
      or change the judgment of a reasonable person.
   D. All of these are correct statements about materiality.

38. Which of the following are considered pervasive constraints by
    STATEMENT OF FINANCIAL ACCOUNTING CONCEPTS NO. 2?
   A. Cost-benefit relationship and conservatism
   B. Timeliness and feedback value
   C. Conservatism and verifiability
   D. Materiality and cost-benefit relationship
39. 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 the
   A. conservatism constraint.
   B. materiality constraint.
   C. substance over form principle.
   D. industry practices constraint.

40. Which of the following best illustrates the accounting concept of conservatism?
   A. Use of the allowance method to recognize bad debt losses from credit sales
   B. Use of the lower-of-cost-or-market approach in valuing inventories.
   C. Use of the same accounting method from one period to the next in computing depreciation expense
   D. Utilization of a policy of deliberate understatement of asset values in order to present a conservative net income figure

41. Trade-offs between the characteristics that make information useful may be necessary or beneficial. Issuance of interim financial statements is an example of a trade-off between
   A. relevance and reliability.
   B. reliability and periodicity.
   C. timeliness and materiality.
   D. understandability and timeliness.

42. Allowing firms to estimate rather than physically count inventory at interim (quarterly) periods is an example of a trade-off between
   A. verifiability and reliability.
   B. relevance and comparability.
   C. timeliness and verifiability.
   D. neutrality and consistency.

43. According to the FASB's conceptual framework, predictive value is an ingredient of

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44. According to the FASB's conceptual framework, the process of reporting an item in the financial statements of an entity is
   A. recognition.
   B. realization.
   C. allocation.
   D. matching.
45. According to the FASB's conceptual framework, which of the following relates to both relevance and reliability?

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