

Chapter 01 Introduction to financial accounting theory

1. Which of the following is true about theories in general? ☐A. Theories can include any coherent set of ideas or statements to explain, or provide guidance in respect of, certain phenomena ☐B. Theories must be empirically based to describe what is, rather than what should be ☐C. Theories must be based on inductive reasoning to provide a generalisation or prediction ☐D. All of the given options are correct.

2. According to Thouless (1974), the 'tricks' some writers often use to distract readers from limitations in the logic of an argument or theory are: ☐A. Using emotionally-toned words ☐B. Evasion of a sound refutation of an argument by use of a sophisticated formula ☐C. Changing the meaning of a term during the course of an argument ☐D. All of the given options are correct.

3. Normative accounting theories and research seek to: ☐A. Explain and predict particular phenomena based on observation ☐B. Prescribe particular approaches not driven by existing practices ☐C. Describe what is normal, or generally accepted, practice ☐D. All of the given options are correct.

4. A theory that predicts that, if certain conditions are met then particular accounting practices will be observed, is an example of: ☐A. Positive Accounting Theory ☐B. Negative Accounting Theory ☐C. Normative Accounting Theory ☐D. Descriptive Accounting Theory

5. Which of the following is not assumed in Positive Accounting Theory? ☐A. Individuals (including managers) are economically rational in their behaviour ☐B. Individuals (including managers) are primarily motivated by self-interest ☐C. The natural objective of managers is to maximise the wealth of the firm ☐D. Managers are not indifferent in selecting accounting methods to use.

6. A theory (or model) that states that the most useful information for economic decision making is the current cash equivalents, as measured by the current net market values, is: ☐A. Current Price Accounting ☐B. Continuously Contemporary Accounting Theory ☐C. Current Cost Accounting Theory ☐D. Replacement Value Accounting Theory

7. One criticism of Positive Accounting Theory is that it tells us nothing about: ☐A. Whether the practice or method being used is the most efficient ☐B. Whether the practice or method being used is the most equitable ☐C. Which method a firm should use ☐D. All of the given options are correct.

8. Which of the following is *not* an example of a normative accounting theory or research? ☐A. Conceptual frameworks of accounting ☐B. Critical perspectives of accounting practice ☐C. Capital markets-based (security

price) research^[L]_[SEP]D. True income theories

9. In evaluating theories of accounting, which of the following is *not* true? ^[L]_[SEP]A. Different theories are often the result of working in different paradigms, which provide greatly different perspectives.^[L]_[SEP]B. Positive Accounting Theory is an example of a theory that is value free.^[L]_[SEP]C. Selecting a theory, topic, design or method for research is based on value judgements.^[L]_[SEP]D. All theories of accounting, and assumptions on which they are based, are abstractions of reality, and so choice is based on how closely the theory fits our own perceptions.

10. Which of the following statements is true about proving a theory? ^[L]_[SEP]A. An accepted Positive Accounting Theory purports to provide sound predictions the majority of the time.^[L]_[SEP]B. An accepted Positive Accounting Theory that purports to explain and predict, must hold true in all cases.^[L]_[SEP]C. A Positive Accounting Theory does not need to be tested or proven.^[L]_[SEP]D. An accepted Positive Accounting Theory has no 'exceptions to the rule'.

11. Which of the following statements aligns with the views of 'Falsificationists', such as Popper and others? ^[L]_[SEP]A. Hypotheses are proposed by guessing, without guidance from existing theories.^[L]_[SEP]B. It is possible to state that a theory is true.^[L]_[SEP]C. Hypotheses must be stated in a form that assumes they are true, until evidence that is not supportive rejects them.^[L]_[SEP]D. All theories are false until they are proved to be true.

12. Which of the following statements best explains the role of logic in a theoretical argument? ^[L]_[SEP]A. As long as the premises of an argument follow logically from one to the other, the conclusion will be correct.^[L]_[SEP]B. A conclusion can only be true to the extent that we accept that the premises on which it is based are true.^[L]_[SEP]C. Arguments cannot be rejected on the basis of observation; only on whether they are logical or not.^[L]_[SEP]D. All theories and their arguments must correspond with actual observation of current practices, or real-world phenomena, to be logical.

13. The failure of a particular study to support a theory: ^[L]_[SEP]A. Provides the basis for rejecting the theory as useless or insignificant.^[L]_[SEP]B. Means that the particular study must have flaws in its design or execution in specifying and collecting the data.^[L]_[SEP]C. Threatens the theory, if repeated or more refined studies fail to support it with empirical evidence.^[L]_[SEP]D. Means that the hypothesis was too broad, and did not specify the particular circumstances and conditions in enough detail

14. Which of the following statements is correct about generalising the findings of a study to the general population, based on particular samples? ^[L]_[SEP]A. It is not possible to make generalisations unless you study the entire population.^[L]_[SEP]B. It is possible to make generalisations as long as the sample is representative of the population.^[L]_[SEP]C. It is possible to make generalisations as long as the sample includes at least 50 per cent of the population.^[L]_[SEP]D. It is possible to make generalisations if the sample is representative, and its size allows statistical inferences to be made.

15. In evaluating various research studies, it is important to first consider: ^[L]_[SEP]A. The logic of the argument and how it is tested.^[L]_[SEP]B. The logic of the argument and the assumptions on which it is based.^[L]_[SEP]C. The purpose of the study and the type of theory on which it is based.^[L]_[SEP]D. Whether the data collected represents a valid measure of

the theoretical variables in question

16. Theories and models in the social sciences differ from theories in the pure sciences because: ☐A. Theories about human behaviour cannot be expected to apply all the time, like some natural science theories. ☐B. A number of theories may be available to describe, or provide a different perspective on, a particular phenomenon. ☐C. Not all theories in social science have predictions that can be tested. ☐D. All of the given options are correct.

17. The sequential stages of inductive reasoning are: ☐A. Principles, objectives, assumptions and practice ☐B. Practice, principles, assumptions and objectives ☐C. Objectives, assumptions, principles and definitions ☐D. Assumptions, objectives, principles and definitions

18. Which of the following terms describes a relationship that is argued from the specific (or particular) to the general? ☐A. Scientific reasoning ☐B. Inductive reasoning ☐C. Deductive reasoning ☐D. Logical reasoning

19. Which of the following is an example of a dominant paradigm in accounting prior to 1960? ☐A. Current cost accounting ☐B. Conceptual framework of accounting ☐C. Historical cost accounting ☐D. Continuously contemporary accounting

20. What is a deductive theory or argument judged by? ☐A. Logic and assumptions ☐B. Observable real-world phenomena ☐C. Empirical evidence of relevant data to test the theory ☐D. All of the given options are correct.

21. An inductive theory or argument: ☐A. Relies on observation of real-world phenomena ☐B. Establishes its truth or falsity by collecting objective empirical evidence ☐C. Argues from the specific to form generalisations ☐D. All of the given options are correct.

22. Which of the following is *not* a description of a paradigm? ☐A. It is a model for the formulation and resolution of research problems. ☐B. It is a school of thought or a principle by which a group of researchers operate. ☐C. It is a collection of unrelated theories. ☐D. It offers a systematic approach to raise questions and to frame answers.

23. The sequential stages of deductive reasoning are: ☐A. Principles, objectives, assumptions and practice ☐B. Practice, principles, assumptions and objectives ☐C. Objectives, assumptions, principles and definitions ☐D. Assumptions, objectives, principles and definitions

24. All liability accounts have credit balances. The accounts receivable account is a liability account. Therefore, the accounts receivable account has a credit balance. Which of the following statements is correct with respect

to the above argument? ☐A. The argument follows a logical and clear reasoning ☐B. The argument is illogical. ☐C. The conclusion reached is clearly true. ☐D. The classification of accounts receivable is consistent with the observed classification of receivables.

25. Which of the following conditions should be satisfied for generalisations to be accepted as legitimate in the process of induction? ☐A. The number of observation statements forming the basis of a generalisation must be sufficiently large. ☐B. Observations must be repeated under a wide variety of conditions. ☐C. No accepted observation statement should conflict with the derived universal law. ☐D. All of the given options are correct.

26. Which of the following hypotheses is testable, and therefore possible to falsify? ☐A. Assets are designed to best fulfil the function for which they are intended ☐B. Current replacement cost accounting is more useful than historical cost accounting ☐C. Research and development expenditure is an expense. ☐D. The net profit of a company is affected by the economic downturn

27. A good theory is one: ☐A. That is falsified ☐B. That is true ☐C. For which there is a conceivable means of testing its falsity and the theory withstands the test ☐D. For which there is no conceivable means of testing its falsity and the theory upholds

28. A theory is: ☐A. A proposed explanation of a phenomenon which still has to be rigorously tested ☐B. A scheme or system of ideas or statements or propositions which has undergone extensive testing and is generally accepted to be the accurate explanation behind an observation ☐C. A provisionally accepted hypothesis proposed for further research ☐D. None of the given options are correct.

29. Statement 1: All the fixed assets in the company are more than 10 years old. ☐Statement 2: Some of the fixed assets in the company are plant and machinery. ☐Assuming that Statement 1 and 2 are true, which of the following is correct based on logical deduction? ☐A. All plant and machinery in the company is more than 10 years old. ☐B. Most plant and machinery in the company is more than 10 years old. ☐C. No plant and machinery in the company is more than 10 years old. ☐D. Very little of the plant and machinery in the company is more than 10 years old.

Chapter 01 Introduction to financial accounting theory **Key**

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☐Deegan - Chapter 01 #2 ☐Difficulty: Easy ☐

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☐Deegan - Chapter 01 #3 ☐Difficulty: Easy ☐

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☐Deegan - Chapter 01 #4 ☐Difficulty: Easy ☐

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☐Deegan - Chapter 01 #5 ☐Difficulty: Easy ☐

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☐Deegan - Chapter 01 #6 ☐Difficulty: Easy ☐

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☐Deegan - Chapter 01 #7 ☐Difficulty: Easy ☐

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☐Deegan - Chapter 01 #8 ☐Difficulty: Easy ☐

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^[SEP]Deegan - Chapter 01 #16^[SEP]Difficulty: Easy^[SEP]

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^[SEP]Deegan - Chapter 01 #17^[SEP]Difficulty: Medium^[SEP]

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^[SEP]Deegan - Chapter 01 #18^[SEP]Difficulty: Easy^[SEP]

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^[SEP]Deegan - Chapter 01 #20^[SEP]Difficulty: Easy^[SEP]

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<i>Category</i>	<i># of Questions</i>
Deegan - Chapter 01	29
Difficulty: Easy	15
Difficulty: Hard	4
Difficulty: Medium	10