

31. (1.5 points)

Contrast the following accounting concepts:

a. (0.5 point)

Liquidation vs. going concern

b. (0.5 point)

Fair value vs. historical cost

c. (0.5 point)

Principle-based vs. rule-based

EXAM 6C SPRING 2015 SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 31	
TOTAL POINT VALUE: 1.5	LEARNING OBJECTIVE: C3 for all parts
SAMPLE ANSWERS (BY PART, AS APPLICABLE)	
Part a: 0.5 point	
Candidate need one element from each concept to receive full credit.	
<ul style="list-style-type: none"> • Liquidation: <ul style="list-style-type: none"> ○ Liquidation sees assets and liabilities as a run-off. ○ Values of assets and liabilities if the company is forced to liquidate (shut down) today. ○ Liquidation is important for the regulator. • Going concern : <ul style="list-style-type: none"> ○ Going concern sees assets and liabilities as an ongoing business. ○ Evaluation as if company will still operate in the future. ○ Going concern is more important to investors or shareholders. 	
Part b: 0.50 point	
Candidate need one element from each concept to receive full credit.	
<ul style="list-style-type: none"> • Fair value: <ul style="list-style-type: none"> ○ Fair value is a value that it would be bought or sold for in the open market. ○ Fair value is the current market value. ○ It is more accurate than historical price. • Historical cost : <ul style="list-style-type: none"> ○ Historical cost means valuing it at the original purchase price less depreciation. ○ It is easier to obtain or calculate than fair value. 	
Part c: 0.50 point	
Candidate need one element from each concept to receive full credit.	
<ul style="list-style-type: none"> • Principle-based: <ul style="list-style-type: none"> ○ A principle describes a general accounting approach that must be interprets and applied. ○ More adaptable to changes vs. rule-based. • Rule-based: <ul style="list-style-type: none"> ○ A rule provides specific accounting guidance on how something should be done. ○ Easier to understand and audit than principle-based. 	
EXAMINER'S REPORT (BY PART, AS APPLICABLE)	
<ul style="list-style-type: none"> • Most candidates performed well on this question. 	
Part a	
<ul style="list-style-type: none"> • The candidates should use the definitions of each concept to contrast or give some differences on one aspect between the two concepts. 	
Part b	
<ul style="list-style-type: none"> • The most common error was not specifying that the historical cost needs to consider depreciation. 	
Part c	
<ul style="list-style-type: none"> • The most common error was to mix up the two concepts. 	