20 True or False

Decide, then check the answer and reason below each statement.

Question 1

The convention of conservatism is also called the doctrine of prudence.

TRUE

Both names refer to the same principle of exercising caution in accounting.

Question 2

The golden rule of conservatism is: anticipate no profit, but provide for all possible losses.

TRUE

This is the standard summary line used to describe the conservatism convention.

Question 3

Under conservatism, closing stock is valued at cost price or market price, whichever is lower.

TRUE

Valuing stock at the lower figure avoids showing an unrealised gain on unsold goods.

Question 4

Conservatism requires a provision for doubtful debts to be created before an actual default occurs.

TRUE

The expected loss is recognised in advance as a prudent estimate.

Question 5

Conservatism is recognised as an accounting convention under GAAP.

TRUE

GAAP lists conservatism among its core accounting conventions.

Question 6

Understating closing stock in one year raises the reported profit of the following year.

TRUE

A lower opening stock next year reduces the trading account debit, boosting that year's profit.

Question 7

The consistency convention requires the same accounting method to be used period after period.

TRUE

Consistency is about applying uniform methods across periods, such as one depreciation method.

Question 8

The going concern concept and the conservatism concept are two distinct accounting ideas.

TRUE

Going concern assumes continued operation, while conservatism is about valuing gains and losses cautiously.

Question 9

AFM, or Accounting & Financial Management for Bankers, is Paper 3 of the JAIIB examination.

TRUE

The convention of conservatism is a core topic tested in JAIIB's AFM paper.

Question 10

Conservatism directs accountants to ignore unrealised gains until they are actually realised.

TRUE

A rise in an unsold asset's market value is not booked as profit under conservatism.

Question 11

Conservatism means a business should always deliberately understate its profits.

FALSE

Deliberate understatement is explicitly wrong; conservatism calls for realistic caution, not pessimism.

Question 12

Under conservatism, closing stock should be valued at the higher of cost or market price.

FALSE

Conservatism requires stock to be valued at the lower of cost or market price, not the higher.

Question 13

The convention of conservatism is the same concept as the going concern concept.

FALSE

They are separate ideas; going concern assumes the business will continue, unrelated to cautious valuation.

Question 14

Conservatism allows accountants to record unrealised gains on assets that have risen in value but not been sold.

FALSE

Such paper profits are excluded from the books until the gain is actually realised.

Question 15

Overstating profits is acceptable under conservatism as long as some losses are also recorded.

FALSE

Conservatism treats any overstatement of profits or assets as poor accounting practice.

Question 16

The materiality convention is identical to the conservatism convention in accounting.

FALSE

Materiality concerns the significance of an item to decisions, while conservatism concerns cautious valuation.

Question 17

Conservatism recommends recording liabilities and expenses at the lowest reasonable value.

FALSE

Conservatism actually requires liabilities and expenses to be recorded at the highest reasonable value.

Question 18

Banks do not rely on financial statements when assessing a borrower's credit risk.

FALSE

Banks depend heavily on financial statements, which is why overstated figures can lead to bad lending decisions.

Question 19

The convention of conservatism recommends recording assets and revenues at the highest reasonable value.

FALSE

Conservatism requires assets and revenues to be recorded at the lowest reasonable value, not the highest.

Question 20

Deliberately suppressing profits to create secret reserves is considered good accounting practice under conservatism.

FALSE

Creating secret reserves through deliberate understatement distorts the true financial picture and is not sound practice.