FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

According to the FASB conceptual framework, which of the following attributes would not be used to measure inventory?

A. Historical cost.

B. Replacement cost.

C. Net realizable value.

D. Present value of future cash flows.

Correct Answer: D

Choice "d" is correct. The present value of future cash flows is used to measure long-term receivables or payables, not inventory, because inventory is a short-term asset, which has more immediate cash flows.

SFAC 5 para. 67 Choice "a" is incorrect. Historical cost can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory. Choice "b" is incorrect. Replacement (or current) cost can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory. Choice "c" is incorrect. Net realizable value can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory.

QUESTION 2

What information should a public company present about revenues from its reporting segments?

A. Disclose separately the amount of sales to unaffiliated customers and the amount of intracompany sales.

B. Disclose as a combined amount sales to unaffiliated customers and intracompany sales between geographic areas.

C. Disclose separately the amount of sales to unaffiliated customers but not the amount of intracompany sales between geographic areas.

D. No disclosure of revenues from foreign operations need be reported.

Correct Answer: A

Choice "a" is correct. Unaffiliated customers sales and intracompany sales must be disclosed separately.

QUESTION 3

On January 2, 1993, Quo, Inc. hired Reed to be its controller. During the year, Reed, working closely with

Quo\\'s president and outside accountants, made changes in accounting policies, corrected several errors

dating from 1992 and before, and instituted new accounting policies.

Quo\\'s 1993 financial statements will be presented in comparative form with its 1992 financial statements.

This question represents one of Quo\\'s transactions. List B represents the general accounting treatment

required for these transactions. These treatments are:

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Cumulative effect approach - Include the cumulative effect of the adjustment resulting from the accounting change or error correction in the 1993 financial statements, and do not restate the 1992 financial statements.

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Retroactive or retrospective restatement approach - Restate the 1992 financial statements and adjust 1992 beginning retained earnings if the error or change affects a period prior to 1992.

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Prospective approach - Report 1993 and future financial statements on the new basis but do not restate 1992 financial statements.

Item to Be Answered

Quo changed from LIFO to FIFO to account for its finished goods inventory.

List B (Select one)

A. Cumulative effect approach.

B. Retroactive or retrospective restatement approach.

C. Prospective approach.

Correct Answer: B

Choice "B" is correct. A change in accounting principle should be shown in the retained earnings statement of the earliest year presented as an adjustment of the beginning balance. All prior year financial statements are recast.

QUESTION 4

A material loss should be presented separately as a component of income from continuing operations when it is:

A. An extraordinary item.

B. A cumulative effect type change in accounting principle.

C. Unusual in nature and infrequent in occurrence.

D. Not unusual in nature but infrequent in occurrence.

Correct Answer: D

Choice "d" is correct. Gains or losses that are unusual in nature or occur infrequently but not both, are presented as a component of income from continuing operations. Choice "a" is incorrect. Extraordinary items are shown net of tax in a separate section of the income statement after income from continuing operations. Choice "b" is incorrect. Cumulative effects of changes in accounting principle are now shown net of tax as an adjustment to the opening balance of retained earnings in the retained earnings statement. This treatment is called retrospective application. There really are no longer any cumulative effect types of changes in accounting principle. The cumulative effect is merely how the amount of the change is measured. Choice "c" is incorrect. This is the definition of an extraordinary item.

QUESTION 5

During 20X5, Dale Corp. made the following accounting changes:

Method used in 20X4	Method used in 20X5	After-tax effect
Sum-of-the-years' digits depreciation	Straight-line depreciation	$30,000
Last-in, first-out for inventory valuation	First-in, first-out for inventory valuation	98,000

What amount should be shown in the 20X5 retained earnings statement as an adjustment to the beginning balance?

A. $0

B. $30,000

C. $98,000

D. $128,000

Correct Answer: C

Choice "c" is correct. $98,000. The cumulative effect of a change in accounting principle is now shown on the retained earnings statement as an adjustment to the beginning balance of retained earnings, assuming that the cumulative effect can be calculated. A change from LIFO to FIFO for inventory valuation (costing) is a change in accounting principle. An exception is made however, for a change in depreciation method, since a change in depreciation method is no longer considered to be a change in accounting principle. A change in depreciation method is now considered to be both a change in principle and a change in estimate. These changes should now be accounted for as a change in estimate and handled prospectively. The new depreciation method should be used as of the beginning of the year of change and should start with the current book value of the underlying asset. No retroactive or retrospective calculations should be made, and no adjustment should be made to retained earnings. Choices "a", "b", and "d" are incorrect, per the above Explanation: .

QUESTION 6

Arpco, Inc., a for-profit provider of healthcare services, recently purchased two smaller companies and is researching accounting issues arising from the two business combinations. Which of the following accounting pronouncements are the most authoritative?

A. AICA Statements of Position.

B. AICPA Industry and Audit Guides.

C. FASB Statements of Financial Accounting Concepts.

D. FASB Statements of Financial Accounting Standards.

Correct Answer: D

Choice "d" is correct. Since Arpco is a for-profit provider of healthcare services, it is covered under normal GAAP. Thus, the most authoritative pronouncements are the FASB Statements of Financial Accounting Standards (SFAS). Choice "a" is incorrect. AICPA Statements of Position are not the most authoritative pronouncement for almost anything (other than for some issues that only they cover). They are normally "merely" the opinion of the AICPA. Choice "b" is incorrect. AICPA Industry and Audit Guides are not the most authoritative pronouncement for almost anything (other than for some issues that only they cover). Choice "c" is incorrect. FASB Statements of Financial Accounting Concepts are not authoritative pronouncements except where they have been incorporated by reference into an SFAS. They are the basis on which SFAS can be constructed.

QUESTION 7

Which of the following factors determines whether an identified segment of an enterprise should be reported in the enterprise\\'s financial statements under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information?

I. The segment\\'s assets constitute more than 10% of the combined assets of all operating segments.

II.

The segment\\'s liabilities constitute more than 10% of the combined liabilities of all operating segments.

A.

I only.

B.

II only.

C.

Both I and II.

D.

Neither I nor II.

Correct Answer: A

Choice "a" is correct. For segment reporting, if an identified segment\\'s assets constitute more than 10% of

the combined assets of all operating segments, the segment should be reported. The same rule does not

apply for the segment\\'s liabilities. The candidate does have to remember the 10% and also the 10% of

"what."

Choice "b" is incorrect. For segment reporting, if an identified segment\\'s assets constitute more than 10%

of the combined assets of all operating segments, the segment should be reported. The same rule does

not apply for the segment\\'s liabilities.

Choice "c" is incorrect. For segment reporting, if an identified segment\\'s assets constitute more than 10%

of the combined assets of all operating segments, the segment should be reported. The same rule does

not apply for the segment\\'s liabilities, so the correct answer cannot be "Both."

Choice "d" is incorrect. For segment reporting, if an identified segment\\'s assets constitute more than 10%

of the combined assets of all operating segments, the segment should be reported. The correct answer

cannot be "Neither."

QUESTION 8

On March 15, 1992, Krol Co. paid property taxes of $90,000 on its office building for the calendar year 1992. On April 1, 1992, Krol paid $150,000 for unanticipated repairs to its office equipment. The repairs will benefit operations for the remainder of 1992. What is the total amount of these expenses that Krol should include in its quarterly income statement for the three months ended June 30, 1992?

A. $172,500

B. $97,500

C. $72,500

D. $37,500

Correct Answer: C

Rule: Actual and estimated expenditures benefiting all interim periods equally should be expensed ratably throughout the year.

		Quarterly	
Annual property taxes	$90,000 ÷ 4 =	$22,500	
Repairs which will benefit operations for 3 quarters remaining in year	150,000 ÷ 3 =	50,000	
		$72,500	C

Choice "c" is correct. $72,500 total expense for the three months ended June 30, 1992.

QUESTION 9

An extraordinary item should be reported separately on the income statement as a component of income:

	Net of income taxes	Before discontinued operations of a segment of a business
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: B

Choice "b" is correct, Yes - No. An extraordinary item should be reported separately on the income

statement as a component of income:

Yes - net of income taxes.

No - after (not before) "discontinued operations of a segment of a business."

QUESTION 10

In September 1996, Koff Co.\\'s operating plant was destroyed by an earthquake. Earthquakes are rare in the area in which the plant was located. The portion of the resultant loss not covered by insurance was $700,000. Koff\\'s income tax rate for 1996 was 40%. In its 1996 income statement, what amount should Koff report as extraordinary loss?

A. $0

B. $280,000

C. $420,000

D. $700,000

Correct Answer: C

Choice "c" is correct. For a loss to be reported as an extraordinary loss, the event causing the loss must be both unusual in nature and infrequent in occurrence. The earthquake in this case does meet these criteria so the loss is reported net of income tax effect as an extraordinary loss of $420,000 (60% of the total $700,000 loss). APB 30.11, .19-.26 Choice "a" is incorrect. Review the criteria for reporting an extraordinary loss. Choice "b" is incorrect. This is the tax effect of the loss. Review your calculations. Choice "d" is incorrect. It is not appropriate to report the full loss as an extraordinary loss.

QUESTION 11

Which of the following statements best describes an operating procedure for issuing a new Financial Accounting Standards Board (FASB) statement?

A. The emerging issues task force must approve a discussion memorandum before it is disseminated to the public.

B. The exposure draft is modified per public opinion before issuing the discussion memorandum.

C. A new statement is issued only after a majority vote by the members of the FASB.

D. A new FASB statement can be rescinded by a majority vote of the AICPA membership.

Correct Answer: C

Choice "c" is correct. A new statement from the FASB is issued only after a majority vote of the members of the FASB.

Choice "a" is incorrect. There is no necessity for the EITF to approve a discussion memorandum (presumably the question means a discussion memorandum of the FASB statement itself and not an EITF statement) before it is disseminated to the public.

Choice "b" is incorrect. There is no necessity for an exposure draft to be modified per public opinion before issuing the discussion memorandum (a question can be raised here as to "what" discussion memorandum"). Exposure drafts are quite/most often modified before they are issued as FASB statements, but they do not have to be. Whether they are or are not modified is a function of whether the FASB thinks they should be modified, partly due to the public comments that have been received.

Choice "d" is incorrect. There is no way to rescind a new FASB statement, although, in reality, a FASB

statement can be rescinded by the issuance of a new statement on the same subject. However, even if there was a way to rescind a new FASB statement, it would not be by a majority vote of the AICPA membership, but by a majority vote of the members of the FASB. Reporting Net Income

QUESTION 12

Which of the following should be reported as a prior period adjustment?

	Change in estimated lives of depreciable assets	Change from unaccepted principle to accepted principle
A.	Yes	Yes
B.	No	Yes
C.	Yes	No
D.	No	No

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: B

Choice "b" is correct. No - Yes Change in estimated lives of depreciable assets is a "change in estimate." They affect only current and future periods (not "prior periods," not retained earnings). Change from unaccepted principle to accepted principle is an example of an error of a prior period that should be reported as a "prior period adjustment."

QUESTION 13

Conceptually, interim financial statements can be described as emphasizing:

A. Timeliness over reliability.

B. Reliability over relevance.

C. Relevance over comparability.

D. Comparability over neutrality.

Correct Answer: A

Choice "a" is correct. Interim financial statements emphasize timeliness (an element of relevance) by providing financial information based on actual performance to date and estimates prior to year end. Information must be available when it is needed to be useful. Reliability is impeded by the extensive use of estimates; however, the lag until verifiability is obtained detracts from usefulness. SFAC 2 para. 56 Choice "b" is incorrect. Relevance (particularly timeliness) of information in interim financial statements is emphasized more than reliability. Reliability is impeded by the extensive use of estimates in interim data. Choice "c" is incorrect. Since comparability is a secondary quality of information, there should be no need to trade off comparability for relevance (a primary quality). Choice "d" is incorrect. Neutrality is an element of reliability (a primary quality of information. There should be NO need for a trade-off for comparability over neutrality.

QUESTION 14

According to the FASB conceptual framework, which of the following situations violates the concept of reliability?

A. Data on segments having the same expected risks and growth rates are reported to analysts estimating future profits.

B. Financial statements are issued nine months late.

C. Management reports to stockholders regularly refer to new projects undertaken, but the financial statements never report project results.

D. Financial statements include property with a carrying amount increased to management\\'s estimate of market value.

Correct Answer: D

Choice "d" is correct. Management\\'s estimate of market value lacks verifiability, which is a component of reliability. SFAC 2 para. 89 Choice "a" is incorrect. Communicating data on segments to analysts does not violate the concept of reliability. Choice "b" is incorrect. Issuing financial statements nine months late violates timeliness, which is a component of relevance, not reliability. SFAC 2 para. 56 Choice "c" is incorrect. Neglecting to report results of new projects violates full disclosure, not reliability.

QUESTION 15

During a period when an enterprise is under the direction of a particular management, its financial statements will directly provide information about:

A. Both enterprise performance and management performance.

B. Management performance but not directly provide information about enterprise performance.

C. Enterprise performance but not directly provide information about management performance.

D. Neither enterprise performance nor management performance.

Correct Answer: C

Choice "c" is correct. Financial reporting, and especially financial statements, usually cannot and do not separate management performance from enterprise performance. Financial reporting provides information about an enterprise during a period when it was under the direction of a particular management but does not directly provide information about that management\\'s performance. SFAC 1 para. 53