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NEW QUESTION: 1

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.

Answer: (SHOW ANSWER)

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.

NEW QUESTION: 2

Which of the following types of entities are required to report on business segments?

- A. Nonpublic business enterprises.
- B. Publicly-traded enterprises.
- C. Not-for-profit enterprises.
- D. Joint ventures.

Answer: (SHOW ANSWER)

Choice "b" is correct. Only publicly-traded enterprises are required to report on business segments.

Choices "a", "c", and "d" are incorrect, per the Explanation: above.

NEW QUESTION: 3

Which of the following information should be included in Melay, Inc.'s 1992 summary of significant accounting policies?

- A. Property, plant, and equipment is recorded at cost with depreciation computed principally by the straight-line method.
- B. During 1992, the Delay component was sold.
- C. Business segment 1992 sales are Alay \$1M, Belay \$2M, and Celay \$3M.
- D. Future common share dividends are expected to approximate 60% of earnings.

Answer: (SHOW ANSWER)

Choice "a" is correct. Computing depreciation principally by the straight-line method is a GAAP method of depreciation that should be described in the "summary of significant accounting policies."

Choice "b" is

incorrect. Disclosing the sale of a component of a business is required (and is covered in the lecture on

"discontinued operations" in the F1 class) but is not a "significant accounting policy."

Choice "c" is incorrect. Disclosing "sales" of segments is required, but is not a "significant accounting policy."

Choice "d" is incorrect. "Estimates of future common share dividends" are not appropriate disclosures for

the financial statements. They might be appropriate for the "presidents letter to shareholders."

NEW QUESTION: 4

During 1992, Krey Co. increased the estimated quantity of copper recoverable from its mine. Krey uses

the units of production depletion method. As a result of the change, which of the following should be reported in Krey's 1992 financial statements?

	<i>Cumulative effect of a change in accounting principle</i>	<i>Pro forma effects of retroactive application of new depletion base</i>
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: C (LEAVE A REPLY)

Choice "c" is correct, No - No. This is a change in "accounting estimate," which affects only the current and subsequent periods (not prior periods and not retained earnings). "Cumulative effect of a change in accounting principle" is only used for changes in "accounting principle."

NEW QUESTION: 5

At December 31, 1998, Off-Line Co. changed its method of accounting for demo costs from writing off the costs over two years to expensing the costs immediately. Off-Line made the change in recognition of an increasing number of demos placed with customers that did not result in sales. Off-Line had deferred demo costs of \$500,000 at December 31, 1997, \$300,000 of which were to be written off in 1998 and the remainder in 1999. Off-Line's income tax rate is 30%. In its 1998 financial statements, what amount should Off-Line report as cumulative effect of change in accounting principle?

- A. \$0
- B. \$200,000
- C. \$350,000
- D. \$500,000

Answer: A (LEAVE A REPLY)

Choice "a" is correct. When a change in accounting principle is considered inseparable from a change in estimate, the change is handled as a change in estimate - prospectively. No cumulative effect adjustment

is made.

Choices "b", "c", and "d" are incorrect since no cumulative effect adjustment is made.

NEW QUESTION: 6

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 A represents possible clarifications of these

transactions as: a change in accounting principle, a change in accounting estimate, a correction of an

error in previously presented financial statements, or neither an accounting change nor an accounting error.

During 1993, Quo increased its investment in Worth, Inc. from a 10% interest, purchased in 1992, to 30%,

and acquired a seat on Worth's board of directors. As a result of its increased investment, Quo changed

its method of accounting for investment in Worth, Inc. from the cost method to the equity method.

List A

A. Change in accounting principle.

B. Change in accounting estimate.

C. Correction of an error in previously presented financial statements.

D. Neither an accounting change nor an accounting error.

Answer: (SHOW ANSWER)

Choice "d" is correct. A change from the cost method (less than 20% ownership) to the equity method

(20% or more ownership or a Board seat or other significant influence) of accounting for investment in an

investee is neither an accounting change nor an accounting error. If it is not an accounting change, it

cannot be a change in accounting principle or a change in accounting estimate since those two types of

changes are both accounting changes.

There is a considerable amount of controversy on this particular answer. Some people think that this

change is a change in accounting principle (something certainly changed, but was it the accounting principle?), and others think it is a change in accounting entity (which is not one of the available answers;

anyway, did the accounting entity actually change or is it the same entity accounted for differently?).

Under SFAS No. 154, a change in accounting principle is treated retrospectively and a change in accounting entity is treated retrospectively.

This kind of change (cost to equity) has never been specifically identified in any accounting literature as

either a change in accounting principle or a change in accounting entity. The words "cost method" were

never mentioned in APB 20 (other than the full cost method for oil & gas companies, which is an entirely

different subject), nor was it mentioned in SFAS No. 154. It was, however, discussed in APB 18 (the

pronouncement for the equity method) in Paragraph 19m (bold added): "An investment in common stock

of an investee that was previously accounted for on other than the equity method may become qualified

for use of the equity method by an increase in the level of ownership described in paragraph 17 (i.e.,

acquisition of additional voting stock by the investor, acquisition or retirement of voting stock by the

investee, or other transactions). When an investment qualifies for use of the equity method, the investor

should adopt the equity method of accounting. The investment, results of operations (current and prior

periods presented), and retained earnings of the investor should be adjusted retroactively in a manner

consistent with the accounting for a step-by-step acquisition of a subsidiary."

What does all this mean? It means that, when there is a change in the percentage of ownership that

changes accounting from the cost method to the equity method, the change is treated retroactively (just

like changes in accounting entity used to be treated, although they are now treated retrospectively). It

does not say that the change is a change in accounting principle or anything else. Nothing in SFAS

No.154 changed this treatment. So all this still makes Choice "d" correct. This whole issue might easily be considered to be splitting hairs, at the very least. Some questions on the CPA exam are just that way. Most are not.

NEW QUESTION: 7

The effect of a material transaction that is infrequent in occurrence but not unusual in nature should be presented separately as a component of income from continuing operations when the transaction results in a:

	<u>Gain</u>	<u>Loss</u>
A. Yes	Yes	Yes
B. Yes	No	No
C. No	No	No
D. No	Yes	Yes

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: A ([LEAVE A REPLY](#))

Choice "a" is correct, Yes - Yes. A material transaction that is "infrequent in occurrence" but not "unusual in nature" should be presented separately as a component of "income from continuing operations" when the transaction results in a gain or loss.

NEW QUESTION: 8

Which of the following qualifies as an operating segment?

- A. Corporate headquarters, which oversees \$1 billion in sales for the entire company.
- B. North American segment, whose assets are 12% of the company's assets of all segments, and management reports to the chief operating officer.
- C. South American segment, whose results of operations are reported directly to the chief operating officer, and has 5% of the company's assets, 9% of revenues, and 8% of the profits.
- D. Eastern Europe segment, which reports its results directly to the manager of the European division, and has 20% of the company's assets, 12% of revenues, and 11% of profits.

Answer: (SHOW ANSWER)

Choice "b" is correct. Assets of the North American segment exceed 10% combined assets of all operating segments.

Choice "a" is incorrect. Corporate headquarters is not considered a segment.

Choice "c" is incorrect. The South American segment does not meet any of the 10% minimums (Revenue, P&L or Assets).

Choice "d" is incorrect. Eastern Europe segment does not report to the chief operating officer.

NEW QUESTION: 9

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 A represents possible clarifications of these

transactions as: a change in accounting principle, a change in accounting estimate, a correction of an

error in previously presented financial statements, or neither an accounting change nor an accounting error.

Item to Be Answered

The equipment that Quo manufactures is sold with a five-year warranty. Because of a production

breakthrough, Quo reduced its computation of warranty costs from 3% of sales to 1% of sales.

List A (Select one)

A. Change in accounting principal.

B. Change in accounting estimate.

C. Correction of an error in previously presented financial statements.

D. Neither an accounting change nor an accounting error.

Answer: (SHOW ANSWER)

Choice "b" is correct. Change in the computation of warranty costs from 3% of sales to 1% of sales is a change in accounting estimate.

NEW QUESTION: 10

According to the FASB conceptual framework, which of the following is an essential characteristic of an asset?

- A. The claims to an asset's benefits are legally enforceable.
- B. An asset is tangible.
- C. An asset is obtained at a cost.
- D. An asset provides future benefits.

Answer: D (LEAVE A REPLY)

Choice "d" is correct. An asset provides future benefits.

Rule: According to the FASB conceptual framework, assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

NEW QUESTION: 11

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

Answer: C (LEAVE A REPLY)

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

Annual property taxes	$\$90,000 \div 4 =$	<u>Quarterly</u> <u>\$22,500</u>
Repairs which will benefit operations for 3 quarters remaining in year	$150,000 \div 3 =$	<u>50,000</u>
		<u>\$72,500</u>

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

NEW QUESTION: 12

Reclassification adjustments must be shown in the financial statement that discloses comprehensive income:

- A. To show what portion of comprehensive income is from the realization of current assets.
- B. To show the tax effect of items of comprehensive income.

C. To avoid double counting in comprehensive income items, which are currently displayed in net income.

D. To avoid including transactions with shareholders in items of comprehensive income.

Answer: C (LEAVE A REPLY)

Choice "c" is correct. Reclassification entries may be necessary to avoid double counting an item

previously reported as comprehensive income (i.e., unrealized gain), which are now reported as part of

net income (i.e., realized gain). Choice "a" is incorrect. The classification of assets as current or

non-current has no bearing on reporting comprehensive income. Choice "b" is incorrect. All items of

comprehensive income must be shown net of the related tax effects, but it is not done with reclassification

adjustments. Choice "d" is incorrect. Transactions with shareholders such as paying dividends and

issuing capital stock are not included in comprehensive income, thus, reclassification adjustments are not

necessary to exclude them.

NEW QUESTION: 13

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:

. 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.

. 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.

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

1992 financial statements.

During 1993, Quo increased its investment in Worth, Inc. from a 10% interest, purchased in 1992, to 30%,

and acquired a seat on Worth's board of directors. As a result of its increased investment, Quo changed

its method of accounting for investment in Worth, Inc. from the cost method to the equity method.

List B

A. Cumulative effect approach.

B. Retroactive or retrospective restatement approach.

C. Prospective approach.

Answer: (SHOW ANSWER)

Choice "B" is correct. The equity method of accounting is applied retroactively when the investor has

acquired 20% ownership. Prior to acquiring the ability to influence the investee, the cost method is proper.

The retroactive restatement approach does not mean that this change is the correction of an error (which

is now treated retroactively), a change in accounting principle (which is now treated retrospectively), or a

change in accounting entity (which is now treated retrospectively). It just means that retroactive

restatement is the proper treatment.

NEW QUESTION: 14

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.

Answer: (SHOW ANSWER)

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

NEW QUESTION: 15

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 A represents possible clarifications of these

transactions as: a change in accounting principle, a change in accounting estimate, a correction of an

error in previously presented financial statements, or neither an accounting change nor an accounting error.

Item to Be Answered

Quo manufactures heavy equipment to customer specifications on a contract basis. On the basis that it is

preferable, accounting for these long-term contracts was switched from the completed-contract method to

the percentage-of-completion method.

List A (Select one)

A. Change in accounting principal.

B. Change in accounting estimate.

C. Correction of an error in previously presented financial statements.

D. Neither an accounting change nor an accounting error.

Answer: (SHOW ANSWER)

Choice "a" is correct. Switching from the completed-contract method of accounting to the percentage-of

completion method is a "change in accounting principle."

NEW QUESTION: 16

Adam Corp. had the following infrequent transactions during 1989:

. A \$190,000 gain on reacquisition and retirement of bonds. This material event is also considered

unusual for Adam Corp.

. A \$260,000 gain on the disposal of a component of a business. Adam continues similar operations at

another location.

. A \$90,000 loss on the abandonment of equipment.

In its 1989 income statement, what amount should Adam report as total infrequent net gains that are not considered extraordinary?

A. \$100,000

B. \$170,000

C. \$360,000

D. \$450,000

Answer: B (LEAVE A REPLY)

Infrequent net gains not considered extraordinary include:

Gain on disposal of a component of a business	\$260,000
Loss on abandonment of equipment	(90,000)
Total	<u>\$170,000</u>

Choice "b" is correct. \$170,000.

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NEW QUESTION: 17

Coffey Corp.'s trial balance of Income Statement Accounts for the year ended December 31, 1988 as

follows: Coffey's income tax rate is 30%. The gain on debt extinguishment is considered a usual and

recurring part of Coffey's operations. Coffey prepares a multiple-step income statement for 1988.

	<u>Debit</u>	<u>Credit</u>
Net sales		\$1,600,000
Cost of goods sold	\$ 960,000	
Selling expenses	235,000	
Administrative expenses	150,000	
Interest expense	25,000	
Gain on debt extinguishment		10,000
Totals	<u>\$1,370,000</u>	<u>\$1,610,000</u>

Income from operations before income tax is:

A. \$190,000

B. \$200,000

C. \$230,000

D. \$240,000

Answer: D (LEAVE A REPLY)

Choice "d" is correct. \$240,000 The gain on debt extinguishment does not meet the unusual and infrequent criteria of APB 30 to be treated as an extraordinary item (per SFAS No. 145, extinguishments of debt are no longer automatically extraordinary), so it is included as part of income from continuing operations.

NEW QUESTION: 18

Which of the following statements regarding fair value is/are correct?

I. The fair value of an asset or liability is specific to the entity making the fair value measurement.

II. Fair value is the price to acquire an asset or assume a liability.

III. Fair value includes transportation costs, but not transaction costs.

IV. The price in the principal market for an asset or liability will be the fair value measurement.

A. I & II

B. I & IV

C. II & III

D. III & IV

Answer: D (LEAVE A REPLY)

Choice "d" is correct. Statements III and IV are correct. Statement I is incorrect because fair value is a market-specific measure, not an entity-specific measure. Statement II is incorrect because fair value is an exit price (the price to sell an asset or transfer a liability), not an entrance price. Choices "a", "b" and "c" are incorrect, per the above Explanation: .

NEW QUESTION: 19

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.

Answer: D (LEAVE A REPLY)

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.

NEW QUESTION: 20

There are multiple active markets for a financial asset with different observable market prices:

<u>Market</u>	<u>Quoted Price</u>	<u>Transaction Costs</u>
A	\$76	\$5
B	\$74	\$2

There is no principal market for the financial asset. What is the fair value of the asset?

- A. \$71
- B. \$72
- C. \$74
- D. \$76

Answer: C ([LEAVE A REPLY](#))

Choice "c" is correct. When there is no principal market, the price in the most advantageous market is the fair value measurement. Although transaction costs are not included in the fair value measurement, they

are used to determine the most advantageous market, as follows:

Market A: Net Price = Quoted Price - Transaction Costs = \$76 - 5 = \$71
 Market B: Net Price = Quoted

Price - Transaction Costs = \$74 - 2 = \$72

Because the net price in Market B is higher than the net price in Market A, Market B is the most

advantageous market and the quoted price in Market B (\$74) is the fair value of the asset. Choice "a" is incorrect.

This is the net price in Market A.

Fair value does not include transaction costs. Choice "b" is incorrect. This is the net price in Market B.

This net price indicates that Market B is the most advantageous market, but the net price is not the fair value because fair value does not include transaction costs. Choice "d" is incorrect. If Market A were the principal market for the asset, then this would be the fair value of the asset. However, because there is no principal market, the price in the most advantageous market (Market B) is the price of the asset.

NEW QUESTION: 21

Conn Co. reported a retained earnings balance of \$400,000 at December 31, 1991. In August 1992, Conn determined that insurance premiums of \$60,000 for the three-year period beginning January 1, 1991, had been paid and fully expensed in 1991. Conn has a 30% income tax rate. What amount should Conn report as adjusted beginning retained earnings in its 1992 statement of retained earnings?

- A. \$420,000
- B. \$428,000
- C. \$440,000
- D. \$442,000

Answer: B (LEAVE A REPLY)

Choice "b" is correct. \$428,000 net of tax.

NEW QUESTION: 22

Earnings per share data should be reported on the income statement for:

Extraordinary items	Income before extraordinary items
Yes	No
Yes	Yes
No	Yes
No	No

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: B (LEAVE A REPLY)

Choice "b" is correct. Yes - Yes.

Both the "extraordinary items" and "income before extraordinary items" should be shown with an earnings per share number on the income statement.

NEW QUESTION: 23

APB Opinion No. 28, Interim Financial Reporting, concluded that interim financial reporting should be

viewed primarily in which of the following ways?

- A.** As useful only if activity is spread evenly throughout the year.
- B.** As if the interim period were an annual accounting period.
- C.** As reporting for an integral part of an annual period.
- D.** As reporting under a comprehensive basis of accounting other than GAAP.

Answer: C (LEAVE A REPLY)

Choice "c" is correct. Interim financial reporting should be viewed as reporting for an integral part of an annual period.

Choices "a", "b", and "d" are incorrect, per the above rule.

NEW QUESTION: 24

Kell Corp.'s \$95,000 net income for the quarter ended September 30, 1990, included the following aftertax items:

. A \$60,000 extraordinary gain, realized on April 30, 1990, was allocated equally to the second, third, and fourth quarters of 1990.

. A \$16,000 cumulative-effect loss resulting from a change in inventory valuation method was recognized on August 2, 1990.

In addition, Kell paid \$48,000 on February 1, 1990, for 1990 calendar-year property taxes.

Of this amount,

\$ 12,000 was allocated to the third quarter of 1990.

For the quarter ended September 30, 1990, Kell should report net income of:

- A.** \$91,000
- B.** \$103,000
- C.** \$111,000
- D.** \$115,000

Answer: (SHOW ANSWER)

Choice "a" is correct. \$91,000 net income for the third quarter ended 9-30-90.

Rules: The entire amount of an "extraordinary" item should be reported during the period incurred.

A "cumulative effect" type accounting change is not included in the net income of the period of change;

instead, the beginning of the year retained earnings is restated.

Expenses, which benefit more than one interim period, such as property taxes, are allocated among the periods benefited.

Third quarter income as originally calculated	\$95,000
Less: 1/3 of second quarter extraordinary gain	(20,000)
Subtotal	\$75,000
Plus: Cumulative effect of accounting change	16,000
Corrected third quarter net income	<u>\$91,000</u>

NEW QUESTION: 25

On November 1, 20X2, Smith Co. contracted to dispose of an industry segment.

Throughout 20X2 the

segment had operating losses. These losses were expected to continue until the segment's disposition.

If a loss is projected on final disposition, how much of the operating losses should be included in the loss

from discontinued operations reported in Smith's 20X2 income statement?

I. Operating losses for the period January 1 to October 31, 20X2.

II. Operating losses for the period November 1 to December 31, 20X2.

III. Estimated operating losses for the period January 1 to February 28, 20X3.

A. II only.

B. II and III only.

C. I and III only.

D. I and II only.

Answer: D (LEAVE A REPLY)

Choice "d" is correct. The operating losses to be included in Smith's 20X2 income statement would be the

total 20X2 operating losses, regardless of whether those losses occurred before or after the date the

decision to dispose of the component was made, and not any 20X3 operating losses.

Projected operating

losses are not anticipated and accrued. Choice "a" is incorrect. The operating losses to be included in

Smith's 20X2 income statement would be the total 20X2 operating losses, regardless of whether those

losses occurred before or after the date the decision to dispose of the component was made, and not any

2 0X3 operating losses. Choice "b" is incorrect. The operating losses to be included in Smith's 20X2

income statement would be the total 20X2 operating losses, regardless of whether those losses occurred before or after the date the decision to dispose of the component was made, and not any 20X3 operating losses. Choice "c" is incorrect. The operating losses to be included in Smith's 20X2 income statement would be the total 20X2 operating losses, regardless of whether those losses occurred before or after the date the decision to dispose of the component was made, and not any 20X3 operating losses.

NEW QUESTION: 26

FASB Interpretations of Statements of Financial Accounting Standards have the same authority as the

FASB:

- A.** Statements of Financial Accounting Concepts.
- B.** Emerging Issues Task Force Consensus.
- C.** Technical Bulletins.
- D.** Statements of Financial Accounting Standards.

Answer: D (LEAVE A REPLY)

Choice "d" is correct. FASB interpretations of the "statements of financial accounting standards" (SFAS)

have the same authority as the FASB statements of financial accounting standards (SFAS), which by

themselves determine GAAP. Choice "a" is incorrect. Statements of financial accounting concepts (FAC's)

have much less authority (fifth floor) and do not by themselves determine GAAP as is the case with

SFASs and interpretations of SFASs. Choice "b" is incorrect. Emerging issues task force (EITF)

consensus is in the nature of a "third floor" authority. The EITF was established in 1984 to aid the FASB in

identifying and implementing emerging issues before they become widespread and ultimately require

action by the FASB. After discussing the issues and the relevant accounting pronouncements, the group

can sometimes reach a consensus on an issue, in which case no action by the FASB is usually needed.

Choice "c" is incorrect. Technical bulletins of the FASB (second floor) do not by themselves determine

GAAP.

NEW QUESTION: 27

A transaction that is unusual in nature and infrequent in occurrence should be reported separately as a component of income:

- A. After cumulative effect of accounting changes and before discontinued operations of a segment of a business.
- B. After cumulative effect of accounting changes and after discontinued operations of a segment of a business.
- C. Before cumulative effect of accounting changes and before discontinued operations of a segment of a business.
- D. After discontinued operations of a segment of a business.

Answer: D (LEAVE A REPLY)

Choice "d" is correct. An extraordinary item (a transaction that is both "unusual in nature" and "infrequent in occurrence") should be reported separately as a component of income after discontinued operations of a segment of a business.

The cumulative effect of a change in accounting principle is shown on the retained earnings statement.

This is why memorizing the mnemonic "idea" is so important.

NEW QUESTION: 28

The following question is based on the following:

Vane Co.'s trial balance of income statement accounts for the year ended December 31, 2002, included

the following: Vane's income tax rate is 30%.

	<u>Debit</u>	<u>Credit</u>
Sales		\$575,000
Cost of sales	\$240,000	
Administrative expenses	70,000	
Loss on sale of equipment	10,000	
Sales commissions	50,000	
Interest revenue		25,000
Write-out	15,000	
Loss on early retirement of long-term debt (unusual & infrequent item)	20,000	
Uncollectible accounts expense	15,000	
Totals	<u>\$420,000</u>	<u>\$600,000</u>
<u>Other information</u>		
Finished goods inventory		
January 1, 2002	\$400,000	
December 31, 2002	\$360,000	

In Vane's 2002 multiple-step income statement, what amount should Vane report as income from continuing operations?

- A. \$126,000
- B. \$129,500
- C. \$140,000
- D. \$147,000

Answer: C (LEAVE A REPLY)

Choice "c" is correct, \$140,000.

Net of credits over debits (\$600-420)	\$180,000
add: extraordinary item - loss on early retirement of long-term debt	<u>20,000</u>
Income from continuing operations	200,000
"Net of tax" rate (100%-30% tax)	<u>70%</u>
Income after income taxes from continuing operations	<u>\$140,000</u>

NEW QUESTION: 29

In general, an enterprise preparing interim financial statements should:

- A. Defer recognition of seasonal revenue.
- B. Disregard permanent decreases in the market value of its inventory.
- C. Allocate revenues and expenses evenly over the quarters, regardless of when they actually occurred.
- D. Use the same accounting principles followed in preparing its latest annual financial statements.

Answer: D (LEAVE A REPLY)

Choice "d" is correct. Generally accepted accounting principles that were used in the most recent annual report of an enterprise should be applied to interim financial statements of the current year, unless a change in accounting principle is adopted in the current year. Choices "a", "b", and "c" are incorrect, per above.

NEW QUESTION: 30

The following items were among those that were reported on Lee Co.'s income statement for the year ended December 31, 1989:

Legal and audit fees	\$170,000
Rent for office space	240,000
Interest on inventory floorplan	210,000
Loss on abandoned data processing equipment used in operations	<u>35,000</u>

The office space is used equally by Lee's sales and accounting departments. What amount of the above

listed items should be classified as general and administrative expenses in Lee's multiple-step income statement?

- A. \$290,000
- B. \$325,000
- C. \$410,000
- D. \$500,000

Answer: (SHOW ANSWER)

Legal and audit fees	\$170,000
Rent for admin office ($1/2 \times \$240,000$)	<u>120,000</u>
Total general and administrative expenses	\$290,000

Note: 1/2 of the office space of \$240,000 was used by the sales department, which should be allocated to

"selling expenses" (not general and administrative).

Choice "a" is correct. \$290,000.

NEW QUESTION: 31

In the hierarchy of generally accepted accounting principles, APB Opinions have the same authority as

AICPA:

- A. Statements of Position.
- B. Industry Audit and Accounting Guides.
- C. Issues Papers.
- D. Accounting Research Bulletins.

Answer: D (LEAVE A REPLY)

Choice "d" is correct. AICPA Accounting Research Bulletins, FASB Standards, FASB Interpretations,

FASB Staff Positions, FASB Statement 133 Implementation Issues, and APB Opinions and Interpretations are the most authoritative sources of generally accepted accounting principles. Choice "a"

is incorrect. AICPA Statements of Position, AICPA Accounting and Auditing Guides, and FASB Technical

Bulletins are secondary sources of generally accepted accounting principles. Choice "b" is incorrect.

AICPA Statements of Position, AICPA Accounting and Auditing Guides, and FASB Technical Bulletins

are secondary sources of generally accepted accounting principles. Choice "c" is incorrect. AICPA Issues

Papers and Practice Bulletins, FASB Concepts Statements, and other authoritative pronouncements are

tertiary sources for generally accepted accounting principles.

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NEW QUESTION: 32

In open market transactions, Gold Corp. simultaneously sold its long-term investment in Iron Corp. bonds and purchased its own outstanding bonds. The broker remitted the net cash from the two transactions.

Gold's gain on the purchase of its own bonds exceeded its loss on the sale of the Iron bonds. Assume the transaction to purchase its own outstanding bonds is unusual in nature and has occurred infrequently.

Gold should report the:

- A. Net effect of the two transactions as an extraordinary gain.
- B. Net effect of the two transactions in income before extraordinary items.
- C. Effect of its own bond transaction gain in income before extraordinary items, and report the Iron bond transaction as an extraordinary loss.
- D. Effect of its own bond transaction as an extraordinary gain, and report the Iron bond transaction loss in income before extraordinary items.

Answer: D (LEAVE A REPLY)

Choice "d" is correct, these are two separate transactions because Gold Corp. (1) sold Iron Corp. bonds

(an investment) for a loss, and, (2) bought back its own (Gold) Corp. bonds (a debt) for a gain. This is not

a "refinancing" (where one would sell new bond debt to buy back old bond debt outstanding).

The gain from the purchase of its own bonds is an "extraordinary gain" because it is both unusual in

nature and infrequently occurring (per APB Opinion No. 30 and SFAS No. 145). The Iron Corp.

transaction is a loss in "income before extraordinary items."

Choices "a" and "b" are incorrect. The two transactions are separate and cannot be netted.

Choice "c" is incorrect. Just the opposite. The sale of the investment is a loss in "income before extraordinary items," while the purchase of its bond debt is an "extraordinary gain" according to the provisions of APB Opinion No. 30.

NEW QUESTION: 33

According to the FASB conceptual framework, what does the concept of reliability in financial reporting include?

- A.** Effectiveness.
- B.** Certainty.
- C.** Precision.
- D.** Neutrality.

Answer: (SHOW ANSWER)

Choice "d" is correct. The concept of reliability in financial reporting includes; neutrality, representational faithfulness and verifiability.

Choices "a", "b", and "c" are incorrect, per the above.

NEW QUESTION: 34

Which of the following assumptions means that money is the common denominator of economic activity and provides an appropriate basis for accounting measurement and analysis?

- A.** Going concern.
- B.** Periodicity.
- C.** Monetary unit.
- D.** Economic entity.

Answer: C (LEAVE A REPLY)

Choice "c" is correct. The monetary unit assumption means that money is the common denominator for economic activity and provides an appropriate basis for accounting measurements and analysis. Choice

"a" is incorrect. The going concern assumption has nothing to do with money per se. The going concern

assumption presumes that an entity will continue to operate in the foreseeable future.

Choice "b" is

incorrect. The periodicity has nothing to do with money per se. The periodicity assumption is that

economic activity can be divided into meaningful time periods. Choice "d" is incorrect. The economic

entity assumption has nothing to do with money per se. The economic entity assumption is that economic activity can be accounted for when considering an identifiable set of activities.

NEW QUESTION: 35

On December 31, 20X2, the Board of Directors of Maxy Manufacturing, Inc. committed to a plan to

discontinue the operations of its Alpha division. Maxy estimated that Alpha's 20X3 operating loss would

be \$500,000 and that the fair value of Alpha's facilities was \$300,000 less than their carrying amounts.

The estimate for 20X3 turned out to be correct. Alpha's 20X2 operating loss was \$1,400,000, and the

division was actually sold for \$400,000 less than its carrying amount. Maxy's effective tax rate is 30%.

In its 20X3 income statement, what amount should Maxy report as loss from discontinued operations?

A. \$350,000

B. \$500,000

C. \$420,000

D. \$600,000

Answer: C (LEAVE A REPLY)

Choice "c" is correct. The 20X3 loss from discontinued operations would include both the 20X3 operating

loss of \$500,000 (which turned out to be a correct estimate) and the "additional" loss (on disposal) of

\$ 100,000, net of tax, for a total of \$600,000 x .70 or \$420,000. Choice "a" is incorrect. It includes the 20X3

operating loss of \$500,000 but not the \$300,000 impairment loss but does report the 20X3 operating loss

net of tax. Choice "b" is incorrect. It includes the 20X3 operating loss of \$500,000, but not the \$100,000

loss on disposal, and reports the 20X3 operating loss gross of tax and not net of tax.

Choice "d" is

incorrect. It reports the 20X3 loss from discontinued operations gross of tax and not net of tax. The 20X3

loss from discontinued operations should include both the 20X3 operating loss of \$500,000 and the loss

on disposal of \$100,000, net of tax, for a total of \$600,000 x .70 or \$420,000.

NEW QUESTION: 36

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:

. 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.

. Retroactive or retrospective restatement approach - Restate the 1992 financial statements and adjust

1 1992 beginning retained earnings if the error or change affects a period prior to 1992.

. Prospective approach - Report 1993 and future financial statements on the new basis but do not restate 1 1992 financial statements.

Item to Be Answered

During 1993, Quo determined that an insurance premium paid and entirely expensed in 1992 was for the period January 1, 1992, through January 1, 1994.

List B (Select one)

A. Cumulative effect approach.

B. Retroactive or retrospective restatement approach.

C. Prospective approach.

Answer: B (LEAVE A REPLY)

Choice "B" is correct. If comparative FS are issued, restate prior year's FS. If comparative FS are not issued, restate prior year-end's retained earnings account by "adjusting" (net of tax) the opening balance of the current retained earnings statement.

NEW QUESTION: 37

On August 31, 1992, Harvey Co. decided to change from the FIFO periodic inventory system to the weighted average periodic inventory system. Harvey is on a calendar year basis. The cumulative effect of

the change is determined:

A. As of January 1, 1992.

B. As of August 31, 1992.

C. During the eight months ending August 31, 1992, by a weighted average of the purchases.

D. During 1992 by a weighted average of the purchases.

Answer: A (LEAVE A REPLY)

Rule: The cumulative effect of a change in accounting principle equals the difference between retained

earnings at the beginning of period of the change and what retained earnings would have been if the

change was applied to all affected prior periods. Choice "a" is correct. As of January 1, 1992, the

beginning of the year. This assumes that the company is not presenting comparative financial statements.

If comparative financial statements are presented, then the adjustment is made to the beginning retained

earnings of the earliest year presented. Choice "b" is incorrect. The cumulative effect of the change is not

determined as of the date the decision is made. Choices "c" and "d" are incorrect. The cumulative effect of

the change is not determined by a weighted average. (A far out distractor.)

NEW QUESTION: 38

On January 2, 1989, Union Co. purchased a machine for \$264,000 and depreciated it by the straight-line

method using an estimated useful life of eight years with no salvage value. On January 2, 1992, Union

determined that the machine had a useful life of six years from the date of acquisition and will have a

salvage value of \$24,000. An accounting change was made in 1992 to reflect the additional data. The

accumulated depreciation for this machine should have a balance at December 31, 1992, of:

A. \$176,000

B. \$160,000

C. \$154,000

D. \$146,000

Answer: D (LEAVE A REPLY)

Choice "d" is correct, \$146,000 accumulated depreciation balance at Dec. 31, 1992.

	depreciable cost	useful life	annual deprec	years elapsed	accumulated deprec
Original	\$264 +	8 yrs	= \$33	x 3yrs	= \$99 ('89-'91)
Accum deprec	(99)				
NBV 12/31/91	165				
Salvage	<24>				
Revised	141 +	3 yrs	= 47	x 1 yr	= 47 (1992)
Balance, 12/31/92					\$146

NEW QUESTION: 39

The summary of significant accounting policies should disclose the:

- A. Maturity dates of noncurrent debts.
- B. Terms for convertible debt to be exchanged for common stock.
- C. Concentration of credit risk of all financial instruments by geographical region.
- D. Criteria for determining which investments are treated as cash equivalents.

Answer: (SHOW ANSWER)

Choice "d" is correct. The criteria for determining which investments are treated as cash equivalents

would be part of the summary of significant accounting policies. Choice "a" is incorrect.

The maturity

dates of noncurrent debts are required disclosures, but are not a part of the summary of significant

accounting policies. Choice "b" is incorrect. The terms for convertible debt to be exchanged for common

stock are not accounting policies; they would be disclosed separately. Choice "c" is incorrect. The

concentration of credit risk of all financial instruments by geographic region may be a required segment

disclosure, especially for financial institutions. However, it would not be a part of the summary of

significant accounting policies.

NEW QUESTION: 40

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:

. 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.

. 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.

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

Item to Be Answered

As a result of a production breakthrough, Quo determined that manufacturing equipment previously depreciated over 15 years should be depreciated over 20 years.

List B (Select one)

A. Cumulative effect approach.

B. Retroactive or retrospective restatement approach.

C. Prospective approach.

Answer: C (LEAVE A REPLY)

Choice "C" is correct. This affects only the prospective (current and subsequent) periods - not prior periods, not retained earnings.

NEW QUESTION: 41

Ocean Corp.'s comprehensive insurance policy allows its assets to be replaced at current value. The

policy has a \$50,000 deductible clause. One of Ocean's waterfront warehouses was destroyed in a winter

storm. Such storms occur approximately every four years. Ocean incurred \$20,000 of costs in dismantling

the warehouse and plans to replace it. The tax rate is 30%. The following data relate to the warehouse:

Current carrying amount \$ 300,000

Replacement cost 1,100,000

What amount of gain should Ocean report as a separate component of income before extraordinary items?

- A. \$1,030,000
- B. \$780,000
- C. \$730,000
- D. \$0

Answer: (SHOW ANSWER)

Choice "c" is correct. \$730,000 gain reported as a separate component of income before extraordinary items.

Replacement cost	\$1,100,000
Less: Deductible clause	(50,000)
Subtotal - insurance proceeds	1,050,000
Less: Costs to dismantle old warehouse	(20,000)
Subtotal	1,030,000
Less: Current carrying amount	(300,000)
Gain on insurance settlement of casualty	<u>\$ 730,000</u>

NEW QUESTION: 42

According to the FASB conceptual framework, which of the following statements conforms to the realization concept?

- A. Equipment depreciation was assigned to a production department and then to product unit costs.
- B. Depreciated equipment was sold in exchange for a note receivable.
- C. Cash was collected on accounts receivable.
- D. Product unit costs were assigned to cost of goods sold when the units were sold.

Answer: B (LEAVE A REPLY)

Choice "b" is correct. Revenues and gains are realized when assets are exchanged for cash or claims to cash. SFAC 5 para. 83.

Choice "a" is incorrect. Assigning depreciation in a production department is an example of allocating

overhead. There is no realization associated with the assignment.

Choice "c" is incorrect. The realization concept is integral to accounting for revenues and expenses and is not connected to collection of receivables.

Choice "d" is incorrect. Assignment of overhead costs to products and thus to cost of goods sold is an example of matching. There is no realization associated with this assignment.

NEW QUESTION: 43

Income tax-basis financial statements differ from those prepared under GAAP in that income tax-basis financial statements:

A. Do not include nontaxable revenues and nondeductible expenses in determining income.

B. Include detailed information about current and deferred income tax liabilities.

C. Contain no disclosures about capital and operating lease transactions.

D. Recognize certain revenues and expenses in different reporting periods.

Answer: ([SHOW ANSWER](#))

Choice "d" is correct. Income tax-basis financial statements recognize events when taxable income or

deductible expenses are recognized on the entity's tax return. Non-taxable income and non-deductible

expenses are shown on the financial statement and included in the determination of income (and become

M-1 adjustments to arrive at taxable income). Please Note: This question appeared in the releases for

1 999 in FARE; however, it may also apply to OCBOA financial statements discussed in the Auditing

textbook. The question did not apply well to any FARE CSO line item, so we included it here so that you

could read the Explanation: and learn from it.

NEW QUESTION: 44

A change from the cost approach to the market approach of measuring fair value is considered to be what

type of accounting change?

A. Change in accounting estimate.

B. Change in accounting principle.

C. Change in valuation technique.

D. Error correction.

Answer: **A** ([LEAVE A REPLY](#))

Choice "a" is correct. A change in the valuation technique used to measure fair value is a change in

accounting estimate. Choice "b" is incorrect. Per SFAS No. 157, a change in valuation technique is a

change in accounting estimate, not a change in accounting principal. Choice "c" is incorrect. Although a

change from the cost approach to the market approach is a change in valuation technique, a change in

valuation technique is not defined as a type of accounting change, but instead falls into the category of

changes in accounting estimate. Choice "d" is incorrect. Both the market approach and the cost approach

are acceptable methods of measuring fair value per SFAS No. 157; therefore, switching between these methods is not the correction of an error. Additionally, an error correction is not a type of accounting change.

NEW QUESTION: 45

Advertising costs may be accrued or deferred to provide an appropriate expense in each period for:



Interim financial reporting	Year-end financial reporting
Yes	No
Yes	Yes
No	No
No	Yes

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: B ([LEAVE A REPLY](#))

Choice "b" is correct. Yes - Yes.

Advertising costs may be accrued or deferred to provide an appropriate expense in each period for both "interim" and "year-end" financial reporting.

NEW QUESTION: 46

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.

Answer: D ([LEAVE A REPLY](#))

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.

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NEW QUESTION: 47

Lore Co. changed from the cash basis of accounting to the accrual basis of accounting during 1994. The cumulative effect of this change should be reported in Lore's 1994 financial statements as a:

- A.** Prior period adjustment resulting from the correction of an error.
- B.** Prior period adjustment resulting from the change in accounting principle.
- C.** Component of income before extraordinary item.
- D.** Component of income after extraordinary item.

Answer: (SHOW ANSWER)

Choice "a" is correct. The cash basis for financial reporting is not a generally accepted accounting basis of accounting (GAAP); therefore, it is an error. Correction of an error from a prior period is a reported as prior period adjustment to retained earnings. Choice "b" is incorrect. Cash basis reporting is not an accounting principle under accrual accounting principles. Thus, the change from cash basis is not reported as a change in accounting principle. In addition, changes in accounting principle are not prior period adjustments; instead, they are treated retrospectively. Choices "c" and "d" are incorrect. Correction of prior period errors has no effect on the current year's income statement.

NEW QUESTION: 48

In single period statements, which of the following should not be reflected as an adjustment to the opening balance of retained earnings?

- A.** Effect of a failure to provide for uncollectible accounts in the previous period.
- B.** Effect of a decrease in the estimated useful life of depreciable equipment.
- C.** Cumulative effect of a change from the percentage of completion to the completed contract method of accounting for long-term construction projects.
- D.** Cumulative effect of a change from LIFO to FIFO in valuing merchandise inventory.

Answer: B (LEAVE A REPLY)

Choice "b" is correct. A change in the estimated useful life of a depreciable asset is a change in estimate handled prospectively. No adjustment to retained earnings is necessary. Choice "a" is incorrect. The correction of a failure to provide for uncollectible accounts is considered to be a correction of an error. The opening balance of retained earnings would be adjusted to correct the error. Choice "c" is incorrect. This change is a change in accounting principle and is handled retrospectively. With retrospective application, the opening balance of retained earnings would be adjusted to reflect the cumulative effect of the changes. Choice "d" is incorrect. This change is a change in accounting principle and is handled retrospectively. With retrospective application, the opening balance of retained earnings would be adjusted to reflect the cumulative effect of the changes.

NEW QUESTION: 49

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:

- . 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.
- . 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.
- . 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 FIFO to average cost to account for its raw materials and work in process inventories.

List B (Select one)

- A.** Cumulative effect approach.
- B.** Retroactive or retrospective restatement approach.
- C.** Prospective approach.

Answer: B (LEAVE A REPLY)

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.

NEW QUESTION: 50

Goddard has used the FIFO method of inventory valuation since it began operations in 1987. Goddard decided to change to the weighted-average method for determining inventory costs at the beginning of 1990. The following schedule shows year-end inventory balances under the FIFO and weighted-average methods: What amount, before income taxes, should be reported in the 1990 retained earnings statement as the cumulative effect of the change in accounting principle?

<u>Year</u>	<u>FIFO</u>	<u>Weighted-average</u>
1987	\$45,000	\$54,000
1988	78,000	71,000
1989	83,000	78,000

- A.** \$5,000 decrease.
- B.** \$3,000 decrease.

C. \$2,000 increase.

D. \$0.

Answer: (SHOW ANSWER)

Choice "a" is correct. \$5,000 decrease. The cumulative effect of change in accounting principle is determined as of the beginning of the year of change if comparative financial statements are not presented. In this case, the year of change is 1990, so the cumulative effect is the difference in inventory as of the end of 1989. [Note that inventory is a balance sheet item, so the change is based on the balances at the end of the last year the prior method was used. Had this question shown annual income statement amounts of cost of goods sold, we would have had to look at all the past years in the aggregate.] This will allow us to arrive at the adjustment to obtain the amount of retained earnings that would have been reported at the beginning of the period of change if the new accounting principle had been used for all prior periods.

	1989
FIFO (current method)	\$83,000
Weighted average - new method	(78,000)
Decrease in 1990 retained earnings	<u>\$ 5,000</u>

NEW QUESTION: 51

Envoy Co. manufactures and sells household products. Envoy experienced losses associated with its small appliance group. Operations and cash flows for this group can be clearly distinguished from the rest of Envoy's operations. Envoy plans to sell the small appliance group with its operations. What is the earliest point at which Envoy should report the small appliance group as a discontinued operation?

- A. When Envoy classifies it as held for sale.
- B. When Envoy receives an offer for the segment.
- C. When Envoy first sells any of the assets of the segment.
- D. When Envoy sells the majority of the assets of the segment.

Answer: A (LEAVE A REPLY)

Choice "a" is correct. The earliest period that a component of an entity can be reported in discontinued operations is when the component meets the following "held for sale" criteria:

- 1 . Management commits to a plan to sell the component.
 - 2 . The component is available for immediate sale in its present condition.
 - 3 . An active program to locate a buyer has been initiated.
 - 4 . The sale of the component is probable and the sale is expected to be completed within one year.
 - 5 . The sale of the component is being actively marketed.
 - 6 . It is unlikely that significant change to the plan to sell will be made or that the plan will be withdrawn.
- Choices "b", "c", and "d" are incorrect, per the Explanation: above.

NEW QUESTION: 52

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.

Answer: D (LEAVE A REPLY)

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.

NEW QUESTION: 53

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

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

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: B (LEAVE A REPLY)

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."

NEW QUESTION: 54

A planned volume variance in the first quarter, which is expected to be absorbed by the end of the fiscal

period, ordinarily should be deferred at the end of the first quarter if it is:

	<u>Favorable</u>	<u>Unfavorable</u>
A.	Yes	No
B.	No	Yes
C.	No	No
D.	Yes	Yes

- A. Option A
- B. Option B
- C. Option C
- D. Option D

Answer: D (LEAVE A REPLY)

Choice "d" is correct. Yes - Yes.

Rule: Volume variances that are planned or expected to be absorbed by the end of the year should be

deferred at interim whether favorable or unfavorable.

NEW QUESTION: 55

During the first quarter of 1993, Tech Co. had income before taxes of \$200,000, and its effective income

tax rate was 15%. Tech's 1992 effective annual income tax rate was 30%, but Tech expects its 1993 effective annual income tax rate to be 25%. In its first quarter interim income statement, what amount of income tax expense should Tech report?

- A. \$0
- B. \$30,000
- C. \$50,000
- D. \$60,000

Answer: C (LEAVE A REPLY)

Choice "c" is correct. Interim period tax expense is the estimated annual effective tax rate (25% in this case) applied to the year-to-date income before taxes minus the tax expense recognized in previous interim periods. Since this question involves the first quarter, there are no previous interim periods. $25\% \times$

$\$200,000 = \$50,000$. FIN 18, para. 16

Choice "a" is incorrect. Income tax expense is reported in interim income statements.

Choice "b" is incorrect. The 1993 annual estimated tax rate, not the first quarter effective tax rate, is used

to calculate income tax expense for interim statements.

Choice "d" is incorrect. The 1993 annual estimated tax rate, not the 1992 annual effective tax rate, is used

to calculate income tax expense for interim statements.

NEW QUESTION: 56

During the second quarter of 1988, Buzz Company sold a piece of equipment at a \$12,000 gain. What portion of the gain should Buzz report in its income statement for the second quarter of 1988?

- A. \$12,000
- B. \$6,000
- C. \$4,000
- D. \$0

Answer: (SHOW ANSWER)

Choice "a" is correct. \$12,000.

Rule: The entire amount of an "extraordinary gain or loss" or an "unusual or infrequently occurring item,"

e.g., a gain or loss from sale of fixed assets, should be reported during the period (quarter) incurred.

Choices "b", "c", and "d" are incorrect. The full gain should be reported in the second quarter when it occurred.

NEW QUESTION: 57

Under FASB Statement of Financial Accounting Concepts #5, which of the following items would cause earnings to differ from comprehensive income for an enterprise in an industry not having specialized accounting principles?

- A.** Unrealized loss on investments in noncurrent marketable equity securities available for sale.
- B.** Unrealized loss on investments in current marketable equity securities held for trading.
- C.** Loss on exchange of nonmonetary assets without commercial substance.
- D.** Loss on exchange of nonmonetary assets with commercial substance.

Answer: A (LEAVE A REPLY)

Choice "a" is correct. Unrealized loss on investments in marketable equity securities available for sale would cause earnings to differ from comprehensive income for an enterprise in an industry not having specialized accounting principles. Rule: FAC 5 defines "earnings" for a period to exclude certain cumulative accounting adjustments and other non-owner changes in equity (such as changes in market value of marketable securities available for sale) that are included in comprehensive income for a period.

NEW QUESTION: 58

According to the FASB conceptual framework, which of the following relates to both relevance and reliability?

- A.** Comparability.
- B.** Feedback value.
- C.** Verifiability.
- D.** Timeliness.

Answer: A (LEAVE A REPLY)

Choice "a" is correct. Comparability and consistency are secondary qualities of both relevance and reliability. SFAC 2 para. 111-122

Choice "b" is incorrect. Feedback value is a key characteristic of relevance only.

Choice "c" is incorrect. Verifiability is a key characteristic of reliability only.

Choice "d" is incorrect. Timeliness is a key characteristic of relevance only.

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