FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

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 2

Belle Co. determined after four years that the estimated useful life of its labeling machine should be 10 years rather than 12 years. The machine originally cost $46,000 and had an estimated salvage value of $1,000. Belle uses straight-line depreciation. What amount should Belle report as depreciation expense for the current year?

A. $3,200

B. $3,750

C. $4,500

D. $5,000

Correct Answer: D

Choice "d" is correct. A change in estimated useful life is a change in accounting estimate, and is therefore accounted for prospectively. The revised useful life should be used as of the beginning of the year of the change and should be applied to the current book value of the fixed asset. The first step in determining the depreciation expense in the year of the change in estimate is to determine the book value of the labeling machine at the time of the change:

Original cost $46,000

-Accumulated depreciation 15,000 = [(46,000 - 1,000) / 12] *4 Current book value $31,000 This book value is then depreciated over the remaining life of the fixed asset based on the new estimated life. In this problem, the new estimated life is 10 years, four of which have already passed, so the asset must be depreciated over the remaining 6 years: ($31,000 - 1,000) / 6 = $5,000 Choice "a" is incorrect. This answer is incorrectly calculated by adding the salvage value to the current book value, and by using the entire 10 year revised estimated life. Salvage value should always be subtracted and the asset should only be depreciated over the remaining life of the asset. Choice "b" is incorrect. This is the annual depreciation before the change in estimated life ($46,000 -$1,000) / 12 = $3,750]. The depreciation after the change in estimate should be calculated as described above. Choice "c" is incorrect. This would have been the annual straight-line depreciation if the original useful life of the asset had been 10 years rather than 12 years. The change in estimated life is applied prospectively, as described above, not retrospectively.

QUESTION 3

Which of the following accounting pronouncements is the most authoritative?

A. FASB Statement of Financial Accounting Concepts.

B. FASB Technical Bulletin.

C. AICPA Accounting Principles Board Opinion.

D. AICPA Statement of Position.

Correct Answer: C

Choice "c" is correct. The AICPA accounting principal board opinion (APBO) is a first floor (category A) of established accounting principle pronouncements. Choice "a" is incorrect. FASB statement of financial accounting concepts (SFAC or FACs) is a fifth floor (other accounting literature) category. Choice "b" is incorrect. FASB technical bulletins are a second floor (category B) accounting pronouncement. Choice "d" is incorrect. AICPA statement of position is a second floor (category B) accounting pronouncement.

QUESTION 4

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

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.

Correct Answer: B

Choice "b" is correct. Change in lives of fixed assets is a change in accounting estimate.

QUESTION 5

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.

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