FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

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QUESTION 1

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.

Correct Answer: A

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.

QUESTION 2

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.

Correct Answer: A

Choice "a" is correct. Switching from the completed-contract method of accounting to the percentageofcompletion method is a "change in accounting principle."

QUESTION 3

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 4

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 5

During 1990, Fuqua Steel Co. had the following unusual financial events occur:

- Bonds payable were retired five years before their scheduled maturity, resulting in a $260,000 gain. Fuqua has frequently retired bonds early when interest rates declined significantly.

- A steel forming segment suffered $255,000 in losses due to hurricane damage. This was the fourth similar loss sustained in a 5-year period at that location.

- A component of Fuqua\\'s operations, steel transportation, was sold at a net loss of $350,000.

This was Fuqua\\'s first divestiture of one of its operating segments.

Before income taxes, what amount of gain (loss) should be reported separately as a component of income

from continuing operations in 1990?

A. $260,000

B. $5,000

C. $(255,000)

D. $(350,000)

Correct Answer: B

Choice "b" is correct. $5,000.

The steel forming segment\\'s hurricane damage (4th in 5 years) of $255,000 is only "unusual in nature" and

does not occur infrequently, therefore, it is not an "extraordinary item," and should be reported separately

as a component of "income from continuing operations."

The retirement of debt, although unusual, is not infrequent for the company; therefore, the gain does not

qualify for classification as an extraordinary item per APBO No. 30 (and SFAS No. 145).

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