FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

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

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

B. Option B

C. Option C

D. Option D

Correct Answer: B

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.

QUESTION 2

How should the effect of a change in accounting estimate be accounted for?

A. By restating amounts reported in financial statements of prior periods.

B. By reporting pro forma amounts for prior periods.

C. As a prior period adjustment to beginning retained earnings.

D. In the period of change and future periods if the change affects both.

Correct Answer: D

Choice "d" is correct, a "change in accounting estimate" affects only the current and subsequent (future) periods, if the change affects both. It does not affect "prior periods," nor "retained earnings." Choice "a" is incorrect. Restating prior years\\' financial statements is required when comparative financial statements are shown for prior period adjustments of "corrections of errors," "changes in entities," and changes in accounting principle.

Choices "b" and "c" are incorrect. A "change in accounting estimate" does not affect prior periods.

QUESTION 3

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

Correct Answer: B

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.

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 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.

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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 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.

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 5

Which of the following should be disclosed in a summary of significant accounting policies?

A. Basis of profit recognition on long-term construction contracts.

B. Future minimum lease payments in the aggregate and for each of the five succeeding fiscal years.

C. Depreciation expense.

D. Composition of sales by segment.

Correct Answer: A

Choice "a" is correct. The summary of significant accounting policies should disclose policies. The only policy in this question is the "basis" of profit recognition on long-term construction contracts. The other disclosures are accounting details and would be disclosed in other footnotes, but not in the summary of significant accounting policies. Choice "b" is incorrect. The future minimum lease payments should be disclosed, but not in the summary of significant accounting policies. Choice "c" is incorrect. Depreciation expense should certainly be disclosed, but not in the summary of significant accounting policies. Choice "d" is incorrect. The composition of sales by segment should be disclosed, but not in the summary of significant accounting policies.

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