FINANCIAL-ACCOUNTING-AND-REPORTING^Q&As^

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QUESTION 1

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 should be disclosed as the gain (loss) from extraordinary items in

1990?

A. $0

B. $5,000

C. $(90,000)

D. $(350,000)

Correct Answer: A

Choice "a" is correct. $0. Note: The sale of the steel transportation component resulted in a loss from discontinued operations and is reported after "income from continuing operations." 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).

QUESTION 2

Opto Co. is a publicly-traded, consolidated enterprise reporting segment information. Which of the

following items is a required enterprise-wide disclosure regarding external customers?

A. The fact that transactions with a particular external customer constitute more than 10% of the total enterprise revenues.

B. The identity of any external customer providing 10% or more of a particular operating segment\\'s revenue.

C. The identity of any external customer considered to be "major" by management.

D. Information on major customers is not required in segment reporting.

Correct Answer: A

Choice "a" is correct. In order to conform to GAAP, financial statements for public business enterprises

must report segment information about a company\\'s major customers if that customer provides 10% or

more of the combined revenue, internal and external, of all operating segments.

Choice "b" is incorrect. Revenue is 10% of ALL operating segments not "a particular" segment.

Choice "c" is incorrect. Disclosure is not at management\\'s discretion.

Choice "d" is incorrect. Disclosure is required.

QUESTION 3

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

	Debit	Credit
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	$1,370,000	$1,610,000

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.

Income from operations before income tax is:

A. $190,000

B. $200,000

C. $230,000

D. $240,000

Correct Answer: D

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.

QUESTION 4

On January 2, 1991, Air, Inc. agreed to pay its former president $300,000 under a deferred compensation arrangement. Air should have recorded this expense in 1990 but did not do so. Air\\'s reported income tax expense would have been $70,000 lower in 1990 had it properly accrued this deferred compensation in its December 31,1991, financial statements, Air should adjust the beginning balance of its retained earnings by a:

A. $230,000 credit.

B. $230,000 debit.

C. $300,000 credit.

D. $370,000 debit.

Correct Answer: B

Less adjustments (shown "net of tax"):	
Deferred compensation	$ 300,000
Less: Applicable tax	(70,000)
Debit to subtract	$ 230,000 B

Choice "b" is correct. $230,000 debit.

QUESTION 5

The cumulative effect of a change in accounting estimate should be shown separately: A. On the income statement above income from continuing operations.

B. On the income statement after income from continuing operations and before extraordinary items.

C. On the retained earnings statement as an adjustment to the beginning balance.

D. It should not be recorded separately on any financial statement.

Correct Answer: D

Choice "d" is correct. A change in estimate is handled prospectively. No cumulative effect adjustment is

made and no separate line item presentation is made on any financial statement. If a material change is

being made, appropriate footnote disclosure is necessary.

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

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