FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

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QUESTION 1

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.

Correct Answer: D

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.

QUESTION 2

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.

QUESTION 3

How should the effect of a change in accounting principle that is inseparable from the effect of a change in accounting estimate be reported?

A. As a component of income from continuing operations.

B. By restating the financial statements of all prior periods presented.

C. As a correction of an error.

D. By footnote disclosure only.

Correct Answer: A

Choice "a" is correct. When the effect of a change in accounting principle is inseparable from the effect of a change in accounting estimate, the reporting treatment for the overall effect is as a change in estimate. Thus, the effect is reported prospectively as a component of income from continuing operations. Under SFAS No. 154, this type of change is now called a change in accounting estimate affected by a change in accounting principle. Choice "b" is incorrect. Restatement of all prior periods is the retroactive accounting treatment that is applied to the correction of an error and the retrospective accounting treatment given to changes in accounting principle. However, a change in accounting principle that is inseparable from the effect of a change in accounting estimate is now treated as a change in accounting estimate. Choice "c" is incorrect. Correction of an error is given retroactive treatment as a prior period adjustment to retained earnings with restatement of prior periods. This is not the treatment appropriate for the effect of a change in accounting principle that is inseparable from the effect of a change in accounting estimate. Choice "d" is incorrect. While footnote disclosure is always appropriate for an accounting change, such disclosure alone is never the appropriate accounting treatment.

QUESTION 4

Which of the following is true regarding the comparison of managerial to financial accounting?

A. Managerial accounting is generally more precise.

B. Managerial accounting has a past focus and financial accounting has a future focus.

C. The emphasis on managerial accounting is relevance and the emphasis on financial accounting is timeliness.

D. Managerial accounting need not follow generally accepted accounting principles (GAAP) while financial accounting must follow them.

Correct Answer: D

Choice "d" is correct. Public companies must follow GAAP for (external) financial reporting purposes.

GAAP need not be followed for (internal) managerial accounting purposes.

Choice "a" is incorrect. Financial accounting is generally more precise.

Choice "b" is incorrect. Managerial accounting has a future focus, while financial accounting focuses on

reporting past results. Choice "c" is incorrect. The emphasis of financial accounting is providing useful

information to financial statement users (including the characteristic of relevance), while the emphasis of

managerial accounting is providing timely information to management decision makers.

QUESTION 5

Which of the following statements is incorrect regarding the inputs that can be used to measure fair value?

I. Level I inputs are the most reliable fair value measurements and Level III inputs are the least reliable.

II. Level I measurements are quoted prices in active markets for identical or similar assets or liabilities.

III. A fair value measurement based on management assumptions only (no market data) would not be acceptable per GAAP.

IV.

The level in the fair value hierarchy of a fair value measurement is determined by the level of the highest level significant input.

A.

I only.

B.

I, II, IV.

C.

II, III, IV.

D.

I, II, III, IV.

Correct Answer: C

Choice "c" is correct. Statement I is correct and statements II, III, and IV are incorrect. Statement II is incorrect because Level I measurements are quoted prices in active markets for identical assets or liabilities only. Quoted prices in active markets for similar assets or liabilities are Level II inputs. Statement III is incorrect because a fair value measurement based on management assumptions only is a Level III measurement and is acceptable when there are no Level I or Level II inputs or when undo cost or effort is required to obtain Level I or Level II inputs. Statement IV is incorrect because the level in the fair value hierarchy of a fair value measurement is determined by the level of the lowest level significant input.

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