FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

A planned volume variance in the first quarter, which is expected to be absorbed by the end of the fiscal period, ordinarily should be deferred at the end of the first quarter if it is:

	Favorable	Unfavorable
A.	Yes	No
B.	No	Yes
C.	No	No
D.	Yes	Yes

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: D

Choice "d" is correct. Yes - Yes.

Rule: Volume variances that are planned or expected to be absorbed by the end of the year should be

deferred at interim whether favorable or unfavorable.

QUESTION 2

Hyde Corp. has three manufacturing divisions, each of which has been determined to be a reportable segment. In 1989, Clay division had sales of $3,000,000, which was 25% of Hyde\\'s total sales, and had operating costs of $1,900,000, as reported to the CFO. In 1989, Hyde incurred operating costs of $500,000 that were not directly traceable to any of the divisions. In addition, Hyde incurred corporate interest expense of $300,000 in 1989. In reporting segment information, what amount should be shown as Clay\\'s operating profit for 1989?

A. $875,000

B. $900,000

C. $975,000

D. $1,100,000

Correct Answer: D

Choice "d" is correct. $1,100,000 operating profit for clay.

Rule: Operating profit by segments is based on the measure of profit reported to the "chief operating decision maker."

Allocations for general operating costs and interest, etc., should not be made solely for purposes of

segment disclosures.

Sales	$3,000,000
Less operating costs	(1,900,000)
Sub total	$1,100,000

QUESTION 3

If a company is not presenting comparative financial statements, the correction of an error in the financial statements of a prior period should be reported, net of applicable income taxes, in the current:

A. Retained earnings statement after net income but before dividends.

B. Retained earnings statement as an adjustment of the opening balance.

C. Income statement after income from continuing operations and before extraordinary items.

D. Income statement after income from continuing operations and after extraordinary items.

Correct Answer: B

Choice "b" is correct. The correction of an error in the financial statements of a prior period should be

reported, net of tax, in the current statement of retained earnings as an adjustment of the opening balance.

Choice "a" is incorrect. The adjustment is before net income, not after net income.

Choices "c" and "d" are incorrect. Corrections of errors of prior periods go to retained earnings and do not

affect 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 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

The equipment that Quo manufactures is sold with a five-year warranty. Because of a production

breakthrough, Quo reduced its computation of warranty costs from 3% of sales to 1% of sales.

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 the computation of warranty costs from 3% of sales to 1% of sales is a change in accounting estimate.

QUESTION 5

A development stage enterprise should use the same generally accepted accounting principles that apply to established operating enterprises for:

	Revenue recognition	Deferral of expenses
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: A

Choice "a" is correct. Development stage enterprises must use all the same principles as established enterprises including those of revenue recognition and deferral of expenses. The primary difference is that development stage enterprises must provide additional disclosures not required of established operating enterprises. SFAS #7, para. 10

QUESTION 6

Is the cumulative effect of an inventory pricing change on prior years earnings reported on the financial statements for

	LIFO to weighted average?	Weighed average to LIFO?
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: B

Choice "b" is correct. The cumulative effect of a change in accounting principle is now reported as an adjustment to beginning retained earnings when it is considered practicable to calculate the cumulative effect. When making a change to LIFO, it is generally considered impracticable to calculate the cumulative effect of the change (in most cases, data on the historical LIFO layers in not available). In a change to LIFO, the beginning inventory dollar amount becomes the first LIFO layer. No cumulative effect adjustment is made. The change is accounted for prospectively. A change from LIFO to weighted average, there is no such impracticability. The cumulative effect is computed and the change is handled retrospectively. Choices "a", "c", and "d" are incorrect, per the above Explanation: .

QUESTION 7

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.

•

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.

•

Prospective approach - Report 1993 and future financial statements on the new basis but do not restate 1992 financial statements.

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 B (Select one)

A. Cumulative effect approach.

B. Retroactive or retrospective restatement approach.

C. Prospective approach.

Correct Answer: B

Choice "B" is correct. Changes in accounting principle are handled "retrospectively." Beginning retained earnings of the earliest year presented is adjusted for the cumulative effect of the change and all prior year financial statements are restated.

QUESTION 8

Deficits accumulated during the development stage of a company should be:

A. Reported as organization costs.

B. Reported as a part of stockholders\\' equity.

C. Capitalized and written off in the first year of principal operations.

D. Capitalized and amortized over a five year period beginning when principal operations commence.

Correct Answer: B

Choice "b" is correct. Deficits accumulated during the development stage of a company should be reported as a part of stockholders\\' equity. Rule: Development stage enterprises should present FS in accordance with GAAP and make additional disclosures such as: cumulative net losses, cumulative deficit (as part of equity), cumulative sales and expenses (part of I/S), cumulative statement of cash flows and supplementary "shareholders equity." Choices "a", "c", and "d" are incorrect, per the rule above.

QUESTION 9

What is the purpose of information presented in notes to the financial statements?

A. To provide disclosures required by generally accepted accounting principles.

B. To correct improper presentation in the financial statements.

C. To provide recognition of amounts not included in the totals of the financial statements.

D. To present management\\'s responses to auditor comments.

Correct Answer: A

Choice "a" is correct. Information presented in notes to the financial statements have the purpose of providing disclosures required by generally accepted accounting principles. SFAC 5 para. 7

QUESTION 10

Which of the following information should be included in Melay, Inc.\\'s 1992 summary of significant accounting policies?

A. Property, plant, and equipment is recorded at cost with depreciation computed principally by the straight-line method.

B. During 1992, the Delay component was sold.

C. Business segment 1992 sales are Alay $1M, Belay $2M, and Celay $3M.

D. Future common share dividends are expected to approximate 60% of earnings.

Correct Answer: A

Choice "a" is correct. Computing depreciation principally by the straight-line method is a GAAP method of depreciation that should be described in the "summary of significant accounting policies." Choice "b" is incorrect. Disclosing the sale of a component of a business is required (and is covered in the lecture on "discontinued operations" in the F1 class) but is not a "significant accounting policy." Choice "c" is incorrect. Disclosing "sales" of segments is required, but is not a "significant accounting policy." Choice "d" is incorrect. "Estimates of future common share dividends" are not appropriate disclosures for the financial statements. They might be appropriate for the "presidents letter to shareholders."

QUESTION 11

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 12

Grum Corp., a publicly-owned corporation, is subject to the requirements for segment reporting. In its income statement for the year ended December 31, 1991, Grum reported revenues of $50,000,000, operating expenses of $47,000,000, and net income of $3,000,000. Operating expenses include payroll costs of $ 15,000,000. Grum\\'s combined identifiable assets of all industry segments at December 31, 1991, were $40,000,000. Cott Co.\\'s four business segments have revenues and identifiable assets expressed as percentages of Cott\\'s total revenues and total assets as follows: Which of these business segments are deemed to be reportable segments?

	Revenues	Assets
Ebon	64%	66%
Fair	14%	18%
Gel	14%	4%
Hak	8%	12%
	100%	100%

A. Ebon only.

B. Ebon and Fair only.

C. Ebon, Fair, and Gel only.

D. Ebon, Fair, Gel, and Hak.

Correct Answer: D

Rule: A segment must be at least 10% of:

1.

Combined revenues (whether intersegment or unaffiliated customers), or

2.

Operating income (of all segments not having an operating loss), or

3.

Identifiable assets.

Choice "d" is correct. Ebon, Fair, Gel, and Hak, since all four companies meet at least one of the criteria.

QUESTION 13

YIV, Inc. is a multidivisional corporation, which has both intersegment sales and sales to unaffiliated customers. YIV should report segment financial information for each division meeting which of the following criteria?

A. Segment operating profit or loss is 10% or more of consolidated profit or loss.

B. Segment operating profit or loss is 10% or more of combined operating profit or loss of all company segments.

C. Segment revenue is 10% or more of combined revenue of all the company segments.

D. Segment revenue is 10% or more of consolidated revenue.

Correct Answer: C

Choice "c" is correct. Segment revenue is 10% or more of combined revenue of all the company segments. Rule: To be significant enough to report on, a segment must be at least 10% of:

1.

Combined revenues (whether intersegment or affiliated customers) or

2.

Operating profit (of all segments not having an operating loss), or

3.

Identifiable assets.

Choice "a" is incorrect. Rule is 10% of "operating profit," not "consolidated profit."

Choice "b" is incorrect. Segments with "operating losses" are not combined with those having "operating

profits" in determining a segment. Choice "d" is incorrect. "Consolidated revenue" would not include

"intersegment revenue." Rule is "combined revenue," not "consolidated revenue."

QUESTION 14

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 15

Which of the following qualifies as an operating segment?

A. Corporate headquarters, which oversees $1 billion in sales for the entire company.

B. North American segment, whose assets are 12% of the company\\'s assets of all segments, and management reports to the chief operating officer.

C. South American segment, whose results of operations are reported directly to the chief operating officer, and has 5% of the company\\'s assets, 9% of revenues, and 8% of the profits.

D. Eastern Europe segment, which reports its results directly to the manager of the European division, and has 20% of the company\\'s assets, 12% of revenues, and 11% of profits.

Correct Answer: B

Choice "b" is correct. Assets of the North American segment exceed 10% combined assets of all operating

segments.

Choice "a" is incorrect. Corporate headquarters in not considered a segment.

Choice "c" is incorrect. The South American segment does not meet any of the 10% minimums (Revenue,

PandL or Assets).

Choice "d" is incorrect. Eastern Europe segment does not report to the chief operating officer.