FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

According to the FASB conceptual framework, an entity\\'s revenue may result from:

A. A decrease in an asset from primary operations.

B. An increase in an asset from incidental transactions.

C. An increase in a liability from incidental transactions.

D. A decrease in a liability from primary operations.

Correct Answer: D

Rule: Revenues are inflows or other enhancements of assets and/or settlements (decreases) in liabilities

resulting from the entity\\'s ongoing major operations, not from "incidental" operations.

Choice "d" is correct. An entity\\'s revenue may result from a decrease in a liability from primary operations.

QUESTION 2

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 3

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

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

B. As a correction of an error.

C. As a component of income from continuing operations, in the period of change and future periods if the change affects both.

D. As a separate disclosure after income from continuing operations, in the period of change and future periods if the change affects both.

Correct Answer: C

Choice "c" is correct. A change in accounting principle that is inseparable from a change in accounting estimate should now be reported as a change in estimate and thus as a component of income from continuing operations, in the period of change and future periods if the change affects both. Distinguishing between a change in accounting principle and a change in accounting estimate is sometimes difficult. For example, a company may change from deferring and amortizing a cost to recording it as an expense when incurred because future benefits of the cost have become doubtful. The new accounting method is adopted, therefore, in partial or complete recognition of the change in estimated future benefits. The effect of the change in principle is inseparable from the effect of the change in estimate. Changes of this type are often related to the continuing process of obtaining additional information and revising estimates and are therefore considered as changes in estimates. Choice "a" is incorrect. Restating the financial statements of all prior periods would be done in the case of prior period adjustments (corrections of errors), changes in accounting principle (retrospective application), and changes in accounting entity (retrospective application).

Choice "b" is incorrect. Correction of an error would be treated as a prior period adjustment. Choice "d" is incorrect. Separate disclosure after income from continuing operations would be done in the case of extraordinary items or discontinued operations. However, this disclosure would not be made "in the period of change and future periods if the change affects both" but only in the period of the extraordinary item or discontinued operation.

QUESTION 4

According to the FASB conceptual framework, what does the concept of reliability in financial reporting include?

A. Effectiveness.

B. Certainty.

C. Precision.

D. Neutrality.

Correct Answer: D

Choice "d" is correct. The concept of reliability in financial reporting includes; neutrality, representational

faithfulness and verifiability.

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

QUESTION 5

Reclassification adjustments must be shown in the financial statement that discloses comprehensive income:

A. To show what portion of comprehensive income is from the realization of current assets.

B. To show the tax effect of items of comprehensive income.

C. To avoid double counting in comprehensive income items, which are currently displayed in net income.

D. To avoid including transactions with shareholders in items of comprehensive income.

Correct Answer: C

Choice "c" is correct. Reclassification entries may be necessary to avoid double counting an item previously reported as comprehensive income (i.e., unrealized gain), which are now reported as part of net income (i.e., realized gain). Choice "a" is incorrect. The classification of assets as current or non-current has no bearing on reporting comprehensive income. Choice "b" is incorrect. All items of comprehensive income must be shown net of the related tax effects, but it is not done with reclassification adjustments. Choice "d" is incorrect. Transactions with shareholders such as paying dividends and issuing capital stock are not included in comprehensive income, thus, reclassification adjustments are not necessary to exclude them.