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QUESTION 1

Which of the following is true regarding the presentation of "comprehensive income."

	<u>Must be shown on the face of the income statement</u>	<u>Related tax effects for components must be disclosed</u>
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: C

Choice "c" is correct. No - Yes.

Comprehensive income may be shown on the face of a combined "statement of income and comprehensive income" a separate section below net income, or in:

1.

Separate "statement of comprehensive income," or as a

2.

Component of the "statement of changes of owners\' equity."

The income tax expense or benefit allocated to components must be disclosed, either on the face of the statement or in notes to the statement.

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

QUESTION 2

ArpcO, Inc., a for-profit provider of healthcare services, recently purchased two smaller companies and is researching accounting issues arising from the two business combinations. Which of the following accounting pronouncements are



the most authoritative?

- A. AICA Statements of Position.
- B. AICPA Industry and Audit Guides.
- C. FASB Statements of Financial Accounting Concepts.
- D. FASB Statements of Financial Accounting Standards.

Correct Answer: D

Choice "d" is correct. Since Arpco is a for-profit provider of healthcare services, it is covered under normal GAAP. Thus, the most authoritative pronouncements are the FASB Statements of Financial Accounting Standards (SFAS). Choice "a" is incorrect. AICPA Statements of Position are not the most authoritative pronouncement for almost anything (other than for some issues that only they cover). They are normally "merely" the opinion of the AICPA. Choice "b" is incorrect. AICPA Industry and Audit Guides are not the most authoritative pronouncement for almost anything (other than for some issues that only they cover). Choice "c" is incorrect. FASB Statements of Financial Accounting Concepts are not authoritative pronouncements except where they have been incorporated by reference into an SFAS. They are the basis on which SFAS can be constructed.

QUESTION 3

Tanker Oil Co., a development stage enterprise, incurred the following costs during its first year of operations:

Legal fees for incorporation and other related matters	55,000
Underwriters' fees for initial stock offering	40,000
Exploration costs and purchases of mineral rights	60,000

Tanker had no revenue during its first year of operation. What amount may Tanker capitalize as organizational costs?

- A. \$115,000
- B. \$95,000
- C. \$55,000
- D. \$0

Correct Answer: D



	<i>Capitalize as organizational <u>costs</u></i>
Legal fees for incorporation and other related matters should be expensed as start-up costs	-
Underwriting fees for initial stock offering should be recorded as a reduction of contributed capital	-
Exploration costs should be expensed as research & development	-
Purchases of mineral rights should be capitalized as fixed assets	<u>-</u>
Capitalize as organizational costs	0

Choice "d" is correct. \$0.

All organizational costs (start-up costs) should be expensed when incurred (per SOP 98-5).

Fair Value Measurements

QUESTION 4

Earnings per share data should be reported on the income statement for:

<u>Extraordinary items</u>	<u>Income before extraordinary items</u>
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 5

According to the FASB conceptual framework, predictive value is an ingredient of:

	<u>Relevance</u>	<u>Reliability</u>
A.	No	No
B.	Yes	Yes
C.	No	Yes
D.	Yes	No

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: D

Choice "d" is correct. Yes - No. Predictive value is an ingredient of relevance but not of reliability.

Memorize:

Bud\\'s relevance to "PFT."

Bud\\'s reliability to "VRN."

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