FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

Which of the following describes how comprehensive income should be reported?

A. Must be reported in a separate statement, as part of a complete set of financial statements.

B. Should not be reported in the financial statements but should only be disclosed in the footnotes.

C. May be reported in a separate statement, in a combined statement of income and comprehensive income, or within a statement of stockholders\\' equity.

D. May be reported in a combined statement of income and comprehensive income or disclosed within a statement of stockholders\\' equity; separate statements of comprehensive income are not permitted.

Correct Answer: C

Choice "c" is correct.

Comprehensive income must be presented in one of three formats:

1.

In a combined statement of income and comprehensive income;

2.

In a separate statement of comprehensive income that begins with net income; or

3.

In a statement of changes in equity.

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

Balance Sheet and Disclosures Overview

QUESTION 2

According to the FASB conceptual framework, the objectives of financial reporting for business enterprises are based on:

A. Generally accepted accounting principles.

B. Reporting on management\\'s stewardship.

C. The need for conservatism.

D. The needs of the users of the information.

Correct Answer: D

Choice "d" is correct. The FASB conceptual framework states that the objectives of financial reporting stem from the informational needs of the external users of the information. SFAC 1 para. 28 Choice "a" is incorrect. Generally accepted accounting principles (GAAP) are derived from and based on the objectives of financial reporting, not the other way around. Choice "b" is incorrect. Information concerning management\\'s stewardship is only one aspect of the information financial statements are intended to provide. SFAC 1 para. 50 Choice "c" is incorrect. Conservatism is an underlying concept for financial accounting but is not the basis for the objectives. SFAC 2 para. 91-97

QUESTION 3

Due to a decline in market price in the second quarter, Petal Co. incurred an inventory loss. The market price is expected to return to previous levels by the end of the year. At the end of the year the decline had not reversed. When should the loss be reported in Petal\\'s interim income statements?

A. Ratably over the second, third, and forth [sic] quarters.

B. Ratably over the third and fourth quarters.

C. In the second quarter only.

D. In the fourth quarter only.

Correct Answer: D

Choice "d" is correct. When the loss is probable and estimable, the expected loss must be recorded in full.

This loss becomes such at the end of the fourth quarter. Therefore, the inventory must be valued on the

year-end at the lower of cost or market, recognizing the loss at that time.

Choice "a" is incorrect. Expected losses must be recorded in full when the loss is probable and estimable

and not ratably over several quarters. Choice "b" is incorrect. Expected losses must be recorded in full

when the loss is probable and estimable and not ratably over several quarters. Choice "c" is incorrect.

Since the loss is not probable at the end of the second quarter, no amount should be recognized at that

time.

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 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 5

Conn Co. reported a retained earnings balance of $400,000 at December 31, 1991. In August 1992, Conn determined that insurance premiums of $60,000 for the three-year period beginning January 1, 1991, had been paid and fully expensed in 1991. Conn has a 30% income tax rate. What amount should Conn report as adjusted beginning retained earnings in its 1992 statement of retained earnings?

A. $420,000

B. $428,000

C. $440,000

D. $442,000

Correct Answer: B

Beginning balance - RE 12-31-91	$400,000
Add: Prior period adjustment - Net of tax:	
$60,000 3-year insurance policy 1-1-91 to 1-1-94	
Expensed in 1991. 2/3 prepaid at	
1-1-92. ($60,000 × 2/3 = $40,000 × 70% net of tax)	28,000
Adjusted balance – RE 1-1-92	$428,000
	B

Choice "b" is correct. $428,000 net of tax.

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