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QUESTION 1

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 2

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 3**

During 1992, Krey Co. increased the estimated quantity of copper recoverable from its mine. Krey uses the units of production depletion method. As a result of the change, which of the following should be reported in Krey's 1992 financial statements?

	<i>Cumulative effect of a change in accounting principle</i>	<i>Pro forma effects of retroactive application of new depletion base</i>
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: C

Choice "c" is correct, No - No. This is a change in "accounting estimate," which affects only the current and subsequent periods (not prior periods and not retained earnings). "Cumulative effect of a change in accounting principle" is only used for changes in "accounting principle."

QUESTION 4

According to the FASB conceptual framework, the quality of information that helps users increase the likelihood of correctly forecasting the outcome of past or present events is called:

A. Feedback value.

B. Predictive value.

C. Representational faithfulness.

D. Reliability.

Correct Answer: B

Choice "b" is correct. The quality of information that helps users increase the likelihood of correctly forecasting the outcome of past or present events is called predictive value. Forecasting is predicting. Choice "a" is incorrect. The quality of information that helps users increase the likelihood of correctly forecasting the outcome of past or present events is called predictive value, not feedback value. Feedback value enables decision makers to confirm prior expectations or to adjust or correct the decisions made previously. Choice "c" is incorrect. The quality of information that



helps users increase the likelihood of correctly forecasting the outcome of past or present events is called predictive value, not representational faithfulness. Representational faithfulness is the agreement between financial reporting and the resources or events represented. Choice "d" is incorrect. The quality of information that helps users increase the likelihood of correctly forecasting the outcome of past or present events is called predictive value, not reliability. Reliability is the combination of neutrality, representational faithfulness, and verifiability.

QUESTION 5

Brock Corp. reports operating expenses in two categories: (1) selling and (2) general and administrative. The adjusted trial balance at December 31, 1989 included the following expense and loss accounts: One-half of the rented premises is occupied by the sales department. Brock's total selling expenses for 1989 are:

Accounting and legal fees	\$120,000
Advertising	150,000
Freight out	80,000
Interest	70,000
Loss on sale of long-term investment	30,000
Officers' salaries	225,000
Rent for office space	220,000
Sales salaries and commissions	140,000

- A. \$480,000
- B. \$400,000
- C. \$370,000
- D. \$360,000

Correct Answer: A

Advertising	\$150,000
Freight out	80,000
Office space	110,000 (1/2 × \$220,000)
Sales salaries and commissions	140,000
Total selling expenses	\$480,000

Note: Only one-half of rent for office space was used for sales office. Choice "a" is correct. \$480,000.