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QUESTION 1

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 2

For interim financial reporting, the computation of a company's second quarter provision for income taxes uses an effective tax rate expected to be applicable for the full fiscal year. The effective tax rate should reflect anticipated:

	<u>Foreign tax rates</u>	<u>Available tax planning alternatives</u>
A.	No	Yes
B.	No	No
C.	Yes	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.

The effective income tax rates for operations for the full year should reflect anticipated foreign tax rates and available tax planning alternatives. In addition, the effect of other anticipated tax credits, capital gains rates, and foreign tax credits should be included.



QUESTION 3

In financial reporting of segment data, which of the following items is always used in determining a segment's operating income?

- A. Income tax expense.
- B. Sales to other segments.
- C. General corporate expense.
- D. Gain or loss on discontinued operations.

Correct Answer: B

Choice "b" is correct. Sales to other segments would be used in determining a segment's operating income.

Rule: Equity in net income of another company, general corporate expenses, interest, income tax expense, and gains or losses on discontinued operations are all not included in segment profit unless they are included in the determination of segment profit reported to the "Chief Operating Decision Maker."

QUESTION 4

On January 1, 1991, Brecon Co. installed cabinets to display its merchandise in customers' stores. Brecon expects to use these cabinets for five years. Brecon's 1991 multi-step income statement should include:

- A. One-fifth of the cabinet costs in cost of goods sold.
- B. One-fifth of the cabinet costs in selling, general, and administrative expenses.
- C. All of the cabinet costs in cost of goods sold.
- D. All of the cabinet costs in selling, general, and administrative expenses.

Correct Answer: B

Choice "b" is correct. One-fifth of the cabinet costs (depreciation expense) should be included in selling, general, and administrative expenses for 1991. Choice "a" is incorrect. Merchandise display cabinets in stores relate to selling activities, not to the purchase cost of goods sold. Choices "c" and "d" are incorrect. Merchandise display cabinets are fixed assets whose cost should be allocated systematically over their five-year useful life.

QUESTION 5

Several sources of GAAP consulted by an auditor are in conflict as to the application of an accounting principle. Which of the following should the auditor consider the most authoritative?

- A. FASB Technical Bulletins.
- B. AICPA Accounting Interpretations.



C. FASB Statements of Financial Accounting Concepts.

D. AICPA Technical Practice Aids.

Correct Answer: A

Choice "a" is correct. The most authoritative pronouncements (first floor) are FASB Statements, FASB Staff Positions, FASB Statement 133 Implementation Issues, FASB Interpretations, AICPA APB opinions, and AICPA Accounting Research Bulletins. When these pronouncements do not provide appropriate guidance, the next level of pronouncements (second floor) are AICPA Industry Audit and Accounting Guides, AICPA Statements of Position, and FASB Technical Bulletins.

Choice "b" is incorrect. AICPA Accounting Interpretations are not as authoritative as FASB Technical Bulletins, since they are on the fourth floor. Choices "c" and "d" are incorrect. FASB Concepts Statements and AICPA Technical Practice Aids are among the least authoritative of accounting literature (fifth floor).

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