FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

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:

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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.

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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.

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Prospective approach - Report 1993 and future financial statements on the new basis but do not restate 1992 financial statements.

During 1993, Quo increased its investment in Worth, Inc. from a 10% interest, purchased in 1992, to 30%, and acquired a seat on Worth\\'s board of directors. As a result of its increased investment, Quo changed its method of accounting for investment in Worth, Inc. from the cost method to the equity method.

List B

A. Cumulative effect approach.

B. Retroactive or retrospective restatement approach.

C. Prospective approach.

Correct Answer: B

Choice "B" is correct. The equity method of accounting is applied retroactively when the investor has acquired 20% ownership. Prior to acquiring the ability to influence the investee, the cost method is proper. The retroactive restatement approach does not mean that this change is the correction of an error (which is now treated retroactively), a change in accounting principle (which is now treated retrospectively), or a change in accounting entity (which is now treated retrospectively). It just means that retroactive restatement is the proper treatment.

QUESTION 2

According to the FASB conceptual framework, the process of reporting an item in the financial statements of an entity is:

A. Allocation.

B. Matching.

C. Realization.

D. Recognition.

Correct Answer: D

Choice "d" is correct. Recognition is the process of recording an item in the financial statements of an entity. SFAC 5 para. 6 Choice "a" is incorrect. Allocation is the accounting process of assigning or distributing an amount according to a plan or a formula. SFAC 6 para. 142 Choice "b" is incorrect. Matching of costs and revenues is simultaneous or combined recognition of the revenues and expenses that result directly and jointly from the same transactions or other events. SFAC 6 para. 146 Choice "c" is incorrect. Realization is the process of converting noncash resources and rights into money. SFAC 6 para. 143

QUESTION 3

Terra Co.\\'s total revenues from its three operating segments were as follows: Which operating segment(s) is (are) deemed to be reportable segments?

Segment	Sales to unaffiliated customers	Intersegment sales	Total revenues
Lion	$ 70,000	$ 30,000	$ 100,000
Monk	22,000	4,000	26,000
Nevi	8,000	16,000	24,000
Combined	$100,000	$ 50,000	$ 150,000
Elimination	-	(50,000)	(50,000)
Consolidated	$100,000	$ -	$ 100,000

A. None.

B. Lion only.

C. Lion and Monk only.

D. Lion, Monk, and Nevi.

Correct Answer: D

Choice "d" is correct. A reportable operating segment is one having 10% of all revenue, including revenue

from unaffiliated sales and from intersegment sales:

Lion\\'s revenue percentage is 66.7% [$100,000/150,000].

Monk\\'s revenue percentage is 17.3% [$26,000/150,000].

Nevi\\'s revenue percentage is 16% [$24,000/150,000].

Thus, all three segments meet the 10% of total revenues test and are reportable as operating segments.

SFAS 14 para. 10 and 15 as amended by SFAS 131 Choice "a" is incorrect. All segments with revenue

percentages exceeding 10% of total revenues are reportable operating segments.

Choice "b" is incorrect. Lion is not the only segment with revenue percentages exceeding 10% of total

revenues.

Choice "c" is incorrect. Nevi has a revenue percentage exceeding 10% of total revenues.

QUESTION 4

According to the FASB conceptual framework, which of the following relates to both relevance and reliability?

A. Comparability.

B. Feedback value.

C. Verifiability.

D. Timeliness.

Correct Answer: A

Choice "a" is correct. Comparability and consistency are secondary qualities of both relevance and

reliability. SFAC 2 para. 111-122 Choice "b" is incorrect. Feedback value is a key characteristic of

relevance only.

Choice "c" is incorrect. Verifiability is a key characteristic of reliability only.

Choice "d" is incorrect. Timeliness is a key characteristic of relevance only.

QUESTION 5

Gown, Inc. sold a warehouse and used the proceeds to acquire a new warehouse. The excess of the proceeds over the carrying amount of the warehouse sold should be reported as a(an):

A. Extraordinary gain, net of income taxes.

B. Part of continuing operations.

C. Gain from discontinued operations, net of income taxes.

D. Reduction of the cost of the new warehouse.

Correct Answer: B

Choice "b" is correct. Part of continuing operations.

Rule: When a fixed asset is sold, gain or loss is recognized as part of income from continuing operations.

The amount of the gain or loss is equal to the difference between the proceeds from the sale and the

carrying amount (FMV) of the fixed asset sold.

Choice "a" is incorrect. The gain is not extraordinary and is shown gross - not net of tax.

Choice "c" is incorrect. The gain is part of continuing operations - not discontinued operations.

Choice "d" is incorrect. The gain is not reported as a reduction of the cost of the new warehouse.