FINANCIAL-ACCOUNTING-AND-REPORTING[Q&As]

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

Taft Corp. discloses supplemental industry segment information. The following information is available for 1992:
Additional 1992 expenses, not included above, are as follows:

Segment	Sales	Traceable operating expenses
A	$ 20,000	$ 12,000
B	16,000	10,000
C	12,000	7,000
	$ 48,000	$ 29,000

Indirect operating expenses $7,200 General corporate expenses 4,800

Segment C\\'s 1992 operating profit was:

A. $5,000

B. $3,200

C. $2,600

D. $2,000

Correct Answer: A

Choice "a" is correct. $5,000 operating profit for Segment C.

Rule: Operating profit by segments is based on the measure of profit reported to the "Chief Operating

Decision Maker."

Interest expense, income taxes, and general corporate expenses are not allocated to the divisions solely

for the purposes of segment disclosures; they may be allocated if that is how the segments report to the

"Chief Operating Decision Maker."

Segment C's sales	$12,000
Less traceable operating expenses	(7,000)
Segment C operating profit	$ 5,000

QUESTION 2

Which of the following must be included in a company\\'s summary of significant accounting policies in the notes to the financial statements?

A. Description of current year equity transactions.

B. Summary of long-term debt outstanding.

C. Schedule of fixed assets.

D. Revenue recognition policies.

Correct Answer: D

Choice "d" is correct. The summary of significant accounting policies should include "policies." The only policy in the choices listed is the revenue recognition policies. Choice "a" is incorrect. A description of current year equity transactions is not a policy. It should be disclosed somewhere in the footnotes but not in the summary of significant accounting policies. Choice "b" is incorrect. A summary of long-term debt outstanding is not a policy. It should be disclosed somewhere in the footnotes but not in the summary of significant accounting policies. Choice "c" is incorrect. A schedule of fixed assets is not a policy. It should be disclosed somewhere in the footnotes but not in the summary of significant accounting policies.

QUESTION 3

In 1992, hail damaged several of Toncan Co.\\'s vans. Hailstorms had frequently inflicted similar damage to Toncan\\'s vans. Over the years, Toncan had saved money by not buying hail insurance and either paying for repairs, or selling damaged vans and then replacing them. In 1992, the damaged vans were sold for less than their carrying amount. How should the hail damage cost be reported in Toncan\\'s 1992 financial statements?

A. The actual 1992 hail damage loss as an extraordinary loss, net of income taxes.

B. The actual 1992 hail damage loss in continuing operations, with no separate disclosure.

C. The expected average hail damage loss in continuing operations, with no separate disclosure.

D. The expected average hail damage loss in continuing operations, with separate disclosure.

Correct Answer: B

Choice "b" is correct. Actual hail damage must be reported. Since the hailstorms are frequent, the damage

is not considered an extraordinary gain/loss. Thus, the damages would be shown in continuing operations.

No separate disclosure is necessary since hail damage is a common occurrence.

Choice "a" is incorrect. Hailstorms are not unusual and infrequent so the loss could not be classified as

extraordinary. APB 30 para. 20 Choice "c" is incorrect. Actual hail damage must be reported. Estimated

hail damage may be probable but is not estimable; so it should not be included in income calculations.

Choice "d" is incorrect. Estimated hail damage may be probable but is not estimable; so it should not be

included in income calculations.

QUESTION 4

In Yew Co.\\'s 1992 annual report, Yew described its social awareness expenditures during the year as follows:

"The Company contributed $250,000 in cash to youth and educational programs. The Company also gave $140,000 to health and human-service organizations, of which $80,000 was contributed by employees through payroll deductions. In addition, consistent with the Company\\'s commitment to the environment, the Company spent $100,000 to redesign product packaging." What amount of the above should be included in Yew\\'s income statement as charitable contributions expense?

A. $310,000

B. $390,000

C. $410,000

D. $490,000

Correct Answer: A

Choice "a" is correct. Charitable contributions include amounts the company gave to recognized charities. This includes:

Youth and education programs	$ 250,000
Health ($140,000 - $80,000)	60,000
Total	$ 310,000

Note: Of the $140,000, employees gave $80,000, and the company $60,000. Redesigning packaging is not

a contribution to a charity.

Choice "b" is incorrect. The company gave only $60,000 of the $140,000. Employees gave $80,000.

Choice "c" is incorrect. Redesigning packaging is not a contribution to a charity.

Choice "d" is incorrect. The company gave only $60,000 of the $140,000. Employees gave $80,000.

Redesigning packaging is not a contribution to a charity.

QUESTION 5

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 During 1993, Quo determined that an insurance premium paid and entirely expensed in 1992 was for the period January 1, 1992, through January 1, 1994.

List B (Select one)

A. Cumulative effect approach.

B. Retroactive or retrospective restatement approach.

C. Prospective approach.

Correct Answer: B

Choice "B" is correct. If comparative FS are issued, restate prior year\\'s FS. If comparative FS are not issued, restate prior year-end\\'s retained earnings account by "adjusting" (net of tax) the opening balance of the current retained earnings statement.