FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

According to the FASB conceptual framework, which of the following attributes would not be used to measure inventory?

A. Historical cost.

B. Replacement cost.

C. Net realizable value.

D. Present value of future cash flows.

Correct Answer: D

Choice "d" is correct. The present value of future cash flows is used to measure long-term receivables or payables, not inventory, because inventory is a short-term asset, which has more immediate cash flows.

SFAC 5 para. 67 Choice "a" is incorrect. Historical cost can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory. Choice "b" is incorrect. Replacement (or current) cost can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory. Choice "c" is incorrect. Net realizable value can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory.

QUESTION 2

According to the FASB conceptual framework, an entity\\'s revenue may result from:

A. A decrease in an asset from primary operations.

B. An increase in an asset from incidental transactions.

C. An increase in a liability from incidental transactions.

D. A decrease in a liability from primary operations.

Correct Answer: D

Rule: Revenues are inflows or other enhancements of assets and/or settlements (decreases) in liabilities

resulting from the entity\\'s ongoing major operations, not from "incidental" operations.

Choice "d" is correct. An entity\\'s revenue may result from a decrease in a liability from primary operations.

QUESTION 3

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 4

What information should a public company present about revenues from its reporting segments?

A. Disclose separately the amount of sales to unaffiliated customers and the amount of intracompany sales.

B. Disclose as a combined amount sales to unaffiliated customers and intracompany sales between geographic areas.

C. Disclose separately the amount of sales to unaffiliated customers but not the amount of intracompany sales between geographic areas.

D. No disclosure of revenues from foreign operations need be reported.

Correct Answer: A

Choice "a" is correct. Unaffiliated customers sales and intracompany sales must be disclosed separately.

QUESTION 5

Chester Corp. was a development stage enterprise from its inception on September 1, 1987 to December 31, 1988. The following information was taken from Chester\\'s accounting records for the above period:

Net sales	$1,350,000
Cost of sales	1,000,000
Selling, general, and administrative expenses	400,000
Research and development costs	300,000
Interest expense	100,000

For the period September 1, 1987 to December 31, 1988, what amount should Chester report as net loss?

A. $ 50,000

B. $150,000

C. $350,000

D. $450,000

Correct Answer: D

Choice "d" is correct. $450,000 net loss for the period Sept. 1, 1987 to DeC. 31, 1988.

Rule: "Development stage enterprises" present their FS in accordance with GAAP and make additional

disclosures such as: cumulative net losses, cumulative deficit, cumulative sales and expenses.

Net sales	$1,350,000
Cost of sales	(1,000,000)
Selling, general and administrative exp.	(400,000)
Research & development costs (100% expense)	(300,000)
Interest expense	(100,000)
Net loss (9/1/87 to 12/31/88)	(450,000)

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