FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

FASB Interpretations of Statements of Financial Accounting Standards have the same authority as the FASB:

A. Statements of Financial Accounting Concepts.

B. Emerging Issues Task Force Consensus.

C. Technical Bulletins.

D. Statements of Financial Accounting Standards.

Correct Answer: D

Choice "d" is correct. FASB interpretations of the "statements of financial accounting standards" (SFAS) have the same authority as the FASB statements of financial accounting standards (SFAS), which by themselves determine GAAP. Choice "a" is incorrect. Statements of financial accounting concepts (FAC\\'s) have much less authority (fifth floor) and do not by themselves determine GAAP as is the case with SFASs and interpretations of SFASs. Choice "b" is incorrect. Emerging issues task force (EITF) consensus is in the nature of a "third floor" authority. The EITF was established in 1984 to aid the FASB in identifying and implementing emerging issues before they become widespread and ultimately require action by the FASB. After discussing the issues and the relevant accounting pronouncements, the group can sometimes reach a consensus on an issue, in which case no action by the FASB is usually needed. Choice "c" is incorrect. Technical bulletins of the FASB (second floor) do not by themselves determine GAAP.

QUESTION 2

Grum Corp., a publicly-owned corporation, is subject to the requirements for segment reporting. In its income statement for the year ended December 31, 1991, Grum reported revenues of $50,000,000, operating expenses of $47,000,000, and net income of $3,000,000. Operating expenses include payroll costs of $ 15,000,000. Grum\\'s combined identifiable assets of all industry segments at December 31, 1991, were $40,000,000. In its 1991 financial statements, Grum should disclose major customer data if sales to any single customer amount to at least:

A. $300,000

B. $1,500,000

C. $4,000,000

D. $5,000,000

Correct Answer: D

Choice "d" is correct. $5,000,000 (10% x $50,000,000 revenue). If revenue from a single external customer is 10% or more of total revenue, then the company should disclose this fact, the total amount of revenue from the customer, and the segment or segments reporting the revenues. The identity of the customer need not be disclosed.

QUESTION 3

On August 31, 1992, Harvey Co. decided to change from the FIFO periodic inventory system to the weighted average periodic inventory system. Harvey is on a calendar year basis. The cumulative effect of the change is determined:

A. As of January 1, 1992.

B. As of August 31, 1992.

C. During the eight months ending August 31, 1992, by a weighted average of the purchases.

D. During 1992 by a weighted average of the purchases.

Correct Answer: A

Choice "a" is correct, as of January 1, 1992, the beginning of the year. Rule: The cumulative effect of a change in accounting principle equals the difference between retained earnings at the beginning of period of the change and what retained earnings would have been if the change was applied to all affected prior periods, assuming comparative financial statements are not presented. If comparative statements are presented, then beginning retained earnings of the earliest year presented is adjusted for the cumulative effect of the change. We are assuming, based on the answer options given, that Harvey is not presenting comparative financial statements. Choice "b" is incorrect. The cumulative effect of the change is not determined as of the date the decision is made. Choices "c" and "d" are incorrect. The cumulative effect of the change is not determined by a weighted average.

QUESTION 4

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 changed from LIFO to FIFO to account for its finished goods inventory.

List B (Select one)

A. Cumulative effect approach.

B. Retroactive or retrospective restatement approach.

C. Prospective approach.

Correct Answer: B

Choice "B" is correct. A change in accounting principle should be shown in the retained earnings statement of the earliest year presented as an adjustment of the beginning balance. All prior year financial statements are recast.

QUESTION 5

A planned volume variance in the first quarter, which is expected to be absorbed by the end of the fiscal period, ordinarily should be deferred at the end of the first quarter if it is:

	Favorable	Unfavorable
A.	Yes	No
B.	No	Yes
C.	No	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.

Rule: Volume variances that are planned or expected to be absorbed by the end of the year should be

deferred at interim whether favorable or unfavorable.