

FINANCIAL-ACCOUNTING-AND- REPORTING^{Q&As}

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

On December 2, 20X1, Flint Corp.'s board of directors voted to discontinue operations of its frozen food division and to sell the division's assets on the open market as soon as possible. The division reported net operating losses of \$20,000 in December and \$30,000 in January. On February 26, 20X2, sale of the division's assets resulted in a gain of \$90,000. Assuming that the frozen foods division qualifies as a component of the business and ignoring income taxes, what amount of gain/loss from discontinued operations should Flint recognize in its income statement for 20X2?

- A. \$0
- B. \$40,000
- C. \$60,000
- D. \$90,000

Correct Answer: C

Choice "c" is correct. The \$60,000 gain from discontinued operations would be reported in Flint's 20X2 income statement. The operating loss for January would offset the gain from disposal in February, and the net amount would be reported as a gain (in this case) from discontinued operations.

The operating losses for December would have been reported in Flint's 20X1 income statement.

Choice "a" is incorrect per the above. It would be correct if all of the gains and losses were included in 20X1 instead of 20X2. However, gains and losses from discontinued operations are included in the year they occur.

Choice "b" is incorrect. It includes the operating loss for December, 20X1 in with the 20X2 amounts.

Choice "d" is incorrect. It ignores the January operating loss. Operating losses are included in gain/loss from discontinued operations, along with impairment losses and gains/losses on disposal.

QUESTION 2

According to the FASB conceptual framework, predictive value is an ingredient of:

	<u>Relevance</u>	<u>Reliability</u>
A.	No	No
B.	Yes	Yes
C.	No	Yes
D.	Yes	No

A. Option A

- B. Option B
- C. Option C
- D. Option D

Correct Answer: D

Choice "d" is correct. Yes - No. Predictive value is an ingredient of relevance but not of reliability.

Memorize:

Bud's relevance to "PFT."

Bud's reliability to "VRN."

QUESTION 3

The following information pertains to Aria Corp. and its divisions for the year ended December 31, 1988:

Sales to unaffiliated customers	\$2,000,000
Intersegment sales of products similar to those sold to unaffiliated customers	600,000
Interest earned on loans to other industry segments	40,000

Aria and all of its divisions are engaged solely in manufacturing operations. Aria has a reportable segment if that segment's revenue exceeds:

- A. \$264,000
- B. \$260,000
- C. \$204,000
- D. \$200,000

Correct Answer: B

Choice "b" is correct. \$260,000 represents a reportable segment (10% of total sales):

Including unaffiliated sales	\$2,000,000
and intersegment sales	600,000
Total combined sales	<u>2,600,000</u>
	× 10%
	<u>\$ 260,000</u>

Rule: To be significant enough to report on, a segment must be at least 10% of:

- 1.

Combined revenues (whether intersegment or unaffiliated customers), or

2.

Operating income, or

3.

Identifiable assets.

QUESTION 4

Which of the following assumptions means that money is the common denominator of economic activity and provides an appropriate basis for accounting measurement and analysis?

A. Going concern.

B. Periodicity.

C. Monetary unit.

D. Economic entity.

Correct Answer: C

Choice "c" is correct. The monetary unit assumption means that money is the common denominator for economic activity and provides an appropriate basis for accounting measurements and analysis. Choice "a" is incorrect. The going concern assumption has nothing to do with money per se. The going concern assumption presumes that an entity will continue to operate in the foreseeable future. Choice "b" is incorrect. The periodicity has nothing to do with money per se. The periodicity assumption is that economic activity can be divided into meaningful time periods. Choice "d" is incorrect. The economic entity assumption has nothing to do with money per se. The economic entity assumption is that economic activity can be accounted for when considering an identifiable set of activities.

QUESTION 5

The cumulative effect of a change in accounting estimate should be shown separately: A. On the income statement above income from continuing operations.

B. On the income statement after income from continuing operations and before extraordinary items.

C. On the retained earnings statement as an adjustment to the beginning balance.

D. It should not be recorded separately on any financial statement.

Correct Answer: D

Choice "d" is correct. A change in estimate is handled prospectively. No cumulative effect adjustment is made and no separate line item presentation is made on any financial statement. If a material change is being made, appropriate footnote disclosure is necessary.

Choices "a", "b", and "c" are incorrect, per the above Explanation: .

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