FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

In the hierarchy of generally accepted accounting principles, APB Opinions have the same authority as AICPA:

A. Statements of Position.

B. Industry Audit and Accounting Guides.

C. Issues Papers.

D. Accounting Research Bulletins.

Correct Answer: D

Choice "d" is correct. AICPA Accounting Research Bulletins, FASB Standards, FASB Interpretations, FASB Staff Positions, FASB Statement 133 Implementation Issues, and APB Opinions and Interpretations are the most authoritative sources of generally accepted accounting principles. Choice "a" is incorrect. AICPA Statements of Position, AICPA Accounting and Auditing Guides, and FASB Technical Bulletins are secondary sources of generally accepted accounting principles. Choice "b" is incorrect. AICPA Statements of Position, AICPA Accounting and Auditing Guides, and FASB Technical Bulletins are secondary sources of generally accepted accounting principles. Choice "c" is incorrect. AICPA Issues Papers and Practice Bulletins, FASB Concepts Statements, and other authoritative pronouncements are tertiary sources for generally accepted accounting principles.

QUESTION 2

Which of the following statements best describes an operating procedure for issuing a new Financial Accounting Standards Board (FASB) statement?

A. The emerging issues task force must approve a discussion memorandum before it is disseminated to the public.

B. The exposure draft is modified per public opinion before issuing the discussion memorandum.

C. A new statement is issued only after a majority vote by the members of the FASB.

D. A new FASB statement can be rescinded by a majority vote of the AICPA membership.

Correct Answer: C

Choice "c" is correct. A new statement from the FASB is issued only after a majority vote of the members of the FASB.

Choice "a" is incorrect. There is no necessity for the EITF to approve a discussion memorandum (presumably the question means a discussion memorandum of the FASB statement itself and not an EITF statement) before it is disseminated to the public.

Choice "b" is incorrect. There is no necessity for an exposure draft to be modified per public opinion before issuing the discussion memorandum (a question can be raised here as to "what" discussion memorandum"). Exposure drafts are quite/most often modified before they are issued as FASB statements, but they do not have to be. Whether they are or are not modified is a function of whether the FASB thinks they should be modified, partly due to the public comments that have been received.

Choice "d" is incorrect. There is no way to rescind a new FASB statement, although, in reality, a FASB

statement can be rescinded by the issuance of a new statement on the same subject. However, even if there was a way to rescind a new FASB statement, it would not be by a majority vote of the AICPA membership, but by a majority vote of the members of the FASB. Reporting Net Income

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	2,600,000
	× 10%
	$ 260,000

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

Reclassification adjustments must be shown in the financial statement that discloses comprehensive income:

A. To show what portion of comprehensive income is from the realization of current assets.

B. To show the tax effect of items of comprehensive income.

C. To avoid double counting in comprehensive income items, which are currently displayed in net income.

D. To avoid including transactions with shareholders in items of comprehensive income.

Correct Answer: C

Choice "c" is correct. Reclassification entries may be necessary to avoid double counting an item previously reported as comprehensive income (i.e., unrealized gain), which are now reported as part of net income (i.e., realized gain). Choice "a" is incorrect. The classification of assets as current or non-current has no bearing on reporting comprehensive income. Choice "b" is incorrect. All items of comprehensive income must be shown net of the related tax effects, but it is not done with reclassification adjustments. Choice "d" is incorrect. Transactions with shareholders such as paying dividends and issuing capital stock are not included in comprehensive income, thus, reclassification adjustments are not necessary to exclude them.

QUESTION 5

What is the purpose of information presented in notes to the financial statements?

A. To provide disclosures required by generally accepted accounting principles.

B. To correct improper presentation in the financial statements.

C. To provide recognition of amounts not included in the totals of the financial statements.

D. To present management\\'s responses to auditor comments.

Correct Answer: A

Choice "a" is correct. Information presented in notes to the financial statements have the purpose of providing disclosures required by generally accepted accounting principles. SFAC 5 para. 7