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 statements conforms to the realization concept?

A. Equipment depreciation was assigned to a production department and then to product unit costs.

B. Depreciated equipment was sold in exchange for a note receivable.

C. Cash was collected on accounts receivable.

D. Product unit costs were assigned to cost of goods sold when the units were sold.

Correct Answer: B

Choice "b" is correct. Revenues and gains are realized when assets are exchanged for cash or claims to cash. SFAC 5 para. 83. Choice "a" is incorrect. Assigning depreciation in a production department is an example of allocating overhead. There is no realization associated with the assignment. Choice "c" is incorrect. The realization concept is integral to accounting for revenues and expenses and is not connected to collection of receivables. Choice "d" is incorrect. Assignment of overhead costs to products and thus to cost of goods sold is an example of matching. There is no realization associated with this assignment.

QUESTION 2

During a period when an enterprise is under the direction of a particular management, its financial statements will directly provide information about:

A. Both enterprise performance and management performance.

B. Management performance but not directly provide information about enterprise performance.

C. Enterprise performance but not directly provide information about management performance.

D. Neither enterprise performance nor management performance.

Correct Answer: C

Choice "c" is correct. Financial reporting, and especially financial statements, usually cannot and do not separate management performance from enterprise performance. Financial reporting provides information about an enterprise during a period when it was under the direction of a particular management but does not directly provide information about that management\\'s performance. SFAC 1 para. 53

QUESTION 3

Rock Co.\\'s financial statements had the following balances at December 31:

Extraordinary gain	$50,000
Foreign currency translation gain, net of tax	100,000
Net income	400,000
Unrealized gain on available-for-sale equity securities, net of tax	20,000

What amount should Rock report as comprehensive income for the year ended December 31?

A. $400,000

B. $420,000

C. $520,000

D. $570,000

Correct Answer: C

Choice "c" is correct. Comprehensive Income includes all items included in "Net Income" plus "Other Comprehensive Income" items. Since the $50,000 extraordinary gain is already included in Net Income, Comprehensive Income is:

Net Income	$400,000
"PUFE" adjustments:	
Foreign currency translation adj.	100,000
Unrealized gain on available-for-sale securities	20,000
	$520,000

QUESTION 4

During the first quarter of 1993, Tech Co. had income before taxes of $200,000, and its effective income tax rate was 15%. Tech\\'s 1992 effective annual income tax rate was 30%, but Tech expects its 1993 effective annual income tax rate to be 25%. In its first quarter interim income statement, what amount of income tax expense should Tech report?

A. $0

B. $30,000

C. $50,000

D. $60,000

Correct Answer: C

Choice "c" is correct. Interim period tax expense is the estimated annual effective tax rate (25% in this case) applied to the year-to-date income before taxes minus the tax expense recognized in previous interim periods. Since this question involves the first quarter, there are no previous interim periods. 25% ?$200,000 = $50,000. FIN 18, para. 16 Choice "a" is incorrect. Income tax expense is reported in interim income statements. Choice "b" is incorrect. The 1993 annual estimated tax rate, not the first quarter effective tax rate, is used to calculate income tax expense for interim statements. Choice "d" is incorrect. The 1993 annual estimated tax rate, not the 1992 annual effective tax rate, is used to calculate income tax expense for interim statements.

QUESTION 5

Deficits accumulated during the development stage of a company should be:

A. Reported as organization costs.

B. Reported as a part of stockholders\\' equity.

C. Capitalized and written off in the first year of principal operations.

D. Capitalized and amortized over a five year period beginning when principal operations commence.

Correct Answer: B

Choice "b" is correct. Deficits accumulated during the development stage of a company should be reported as a part of stockholders\\' equity. Rule: Development stage enterprises should present FS in accordance with GAAP and make additional disclosures such as: cumulative net losses, cumulative deficit (as part of equity), cumulative sales and expenses (part of I/S), cumulative statement of cash flows and supplementary "shareholders equity." Choices "a", "c", and "d" are incorrect, per the rule above.