FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

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QUESTION 1

Which of the following statements regarding fair value is/are correct?

I. The fair value of an asset or liability is specific to the entity making the fair value measurement.

II. Fair value is the price to acquire an asset or assume a liability.

III. Fair value includes transportation costs, but not transaction costs.

IV.

The price in the principal market for an asset or liability will be the fair value measurement.

A.

I and II

B.

I and IV

C.

II and III

D.

III and IV

Correct Answer: D

Choice "d" is correct. Statements III and IV are correct. Statement I is incorrect because fair value is a

market-specific measure, not an entity-specific measure. Statement II is incorrect because fair value is an

exit price (the price to sell an asset or transfer a liability), not an entrance price.

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

QUESTION 2

According to the FASB conceptual framework, which of the following is an essential characteristic of an asset?

A. The claims to an asset\\'s benefits are legally enforceable.

B. An asset is tangible.

C. An asset is obtained at a cost.

D. An asset provides future benefits.

Correct Answer: D

Choice "d" is correct. An asset provides future benefits.

Rule: According to the FASB conceptual framework, assets are probable future economic benefits

obtained or controlled by a particular entity as a result of past transactions or events.

QUESTION 3

A statement of cash flows for a development stage enterprise:

A. Is the same as that of an established operating enterprise and, in addition, shows cumulative amounts from the enterprise\\'s inception.

B. Shows only cumulative amounts from the enterprise\\'s inception.

C. Is the same as that of an established operating enterprise, but does not show cumulative amounts from the enterprise\\'s inception.

D. Is not presented.

Correct Answer: A

Rule: Development stage enterprises should present financial statements in accordance with GAAP and

make additional disclosures such as cumulative amounts from inception for: net losses, deficits, sales,

expenses, and cash flows and supplementary data.

Choice "a" is correct, per the rule shown above.

Choice "b" is incorrect. Current amounts are shown as well as cumulative amounts.

Choice "c" is incorrect. Cumulative amounts from inception are shown.

Choice "d" is incorrect. A statement of cash flows is required.

QUESTION 4

Envoy Co. manufactures and sells household products. Envoy experienced losses associated with its small appliance group. Operations and cash flows for this group can be clearly distinguished from the rest of Envoy\\'s operations. Envoy plans to sell the small appliance group with its operations. What is the earliest point at which Envoy should report the small appliance group as a discontinued operation?

A. When Envoy classifies it as held for sale.

B. When Envoy receives an offer for the segment.

C. When Envoy first sells any of the assets of the segment.

D. When Envoy sells the majority of the assets of the segment.

Correct Answer: A

Choice "a" is correct. The earliest period that a component of an entity can be reported in discontinued operations is when the component meets the following "held for sale" criteria:

1.

Management commits to a plan to sell the component.

2.

The component is available for immediate sale in its present condition.

3.

An active program to locate a buyer has been initiated.

4.

The sale of the component is probable and the sale is expected to be completed within one year.

5.

The sale of the component is being actively marketed.

6.

It is unlikely that significant change to the plan to sell will be made or that the plan will be withdrawn. Choices "b", "c", and "d" are incorrect, per the Explanation: above.

QUESTION 5

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.