

# **FINANCIAL-ACCOUNTING-AND- REPORTING<sup>Q&As</sup>**

Certified Public Accountant (Financial Accounting & Reporting)

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## QUESTION 1

On March 15, 1992, Krol Co. paid property taxes of \$90,000 on its office building for the calendar year 1992. On April 1, 1992, Krol paid \$150,000 for unanticipated repairs to its office equipment. The repairs will benefit operations for the remainder of 1992. What is the total amount of these expenses that Krol should include in its quarterly income statement for the three months ended June 30, 1992?

- A. \$172,500
- B. \$97,500
- C. \$72,500
- D. \$37,500

Correct Answer: C

Rule: Actual and estimated expenditures benefiting all interim periods equally should be expensed ratably throughout the year.

Annual property taxes	$\$90,000 \div 4 =$	<u>\$22,500</u>
Repairs which will benefit operations for 3 quarters remaining in year	$150,000 \div 3 =$	<u>50,000</u>
		<u>\$72,500</u> <b>C</b>

Choice "c" is correct. \$72,500 total expense for the three months ended June 30, 1992.

## QUESTION 2

Which of the following types of entities are required to report on business segments?

- A. Nonpublic business enterprises.
- B. Publicly-traded enterprises.
- C. Not-for-profit enterprises.
- D. Joint ventures.

Correct Answer: A

Choice "b" is correct. Only publicly-traded enterprises are required to report on business segments. Choices "a", "c", and "d" are incorrect, per the Explanation: above.

## QUESTION 3

An inventory loss from a permanent market decline of \$360,000 occurred in May 1989. Cox Co. appropriately recorded this loss in May 1989 after its March 31, 1989 quarterly report was issued. What amount of inventory loss should be reported in Cox's quarterly income statement for the three months ended June 30, 1989?

- A. \$0
- B. \$90,000
- C. \$180,000
- D. \$360,000

Correct Answer: D

Choice "d" is correct. \$360,000 inventory loss reported for the quarter ended 6-30-89. Rule: Inventory losses from "permanent market declines" are recognized in the interim period, incurred and later, if they "turn-around," are recognized as gains in a subsequent interim period only to the extent of previously reported losses. Rule: "Temporary" market declines need not be recognized at interim when a "turn-around" can reasonably be expected to occur before the end of the fiscal year. Facts: This \$360,000 inventory decline is permanent and the entire loss would be recognized in the quarter interim period incurred (6-30-89).

#### QUESTION 4

The summary of significant accounting policies should disclose the:

- A. Maturity dates of noncurrent debts.
- B. Terms for convertible debt to be exchanged for common stock.
- C. Concentration of credit risk of all financial instruments by geographical region.
- D. Criteria for determining which investments are treated as cash equivalents.

Correct Answer: D

Choice "d" is correct. The criteria for determining which investments are treated as cash equivalents would be part of the summary of significant accounting policies. Choice "a" is incorrect. The maturity dates of noncurrent debts are required disclosures, but are not a part of the summary of significant accounting policies. Choice "b" is incorrect. The terms for convertible debt to be exchanged for common stock are not accounting policies; they would be disclosed separately. Choice "c" is incorrect. The concentration of credit risk of all financial instruments by geographic region may be a required segment disclosure, especially for financial institutions. However, it would not be a part of the summary of significant accounting policies.

#### QUESTION 5

On January 2, 1989, Union Co. purchased a machine for \$264,000 and depreciated it by the straight-line method using an estimated useful life of eight years with no salvage value. On January 2, 1992, Union determined that the machine had a useful life of six years from the date of acquisition and will have a salvage value of \$24,000. An accounting change was made in 1992 to reflect the additional data. The accumulated depreciation for this machine should have a balance at December 31, 1992, of:

- A. \$176,000
- B. \$160,000
- C. \$154,000

D. \$146,000

Correct Answer: D

Choice "d" is correct, \$146,000 accumulated depreciation balance at DeC. 31, 1992.

	depreciable cost	useful life	annual deprec	x	years elapsed	=	accumulated deprec
Original	\$264 ÷	8 yrs	= \$33	x	3yrs	=	\$99 ('89-'91)
Accum deprec	(99)						
NBV 12/31/91	<u>165</u>						
Salvage	<u>&lt;24&gt;</u>						
Revised Balance, 12/31/92	141 ÷	3 yrs	= 47	x	1 yr	=	47 (1992) \$146

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