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 attributes would not be used to measure inventory?

A. Historical cost.

B. Replacement cost.

C. Net realizable value.

D. Present value of future cash flows.

Correct Answer: D

Choice "d" is correct. The present value of future cash flows is used to measure long-term receivables or payables, not inventory, because inventory is a short-term asset, which has more immediate cash flows.

SFAC 5 para. 67 Choice "a" is incorrect. Historical cost can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory. Choice "b" is incorrect. Replacement (or current) cost can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory. Choice "c" is incorrect. Net realizable value can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory.

QUESTION 2

Tack, Inc. reported a retained earnings balance of $150,000 at December 31,1990. In June 1991, Tack discovered that merchandise costing $40,000 had not been included in inventory in its 1990 financial statements. Tack has a 30% tax rate. What amount should Tack report as adjusted beginning retained earnings in its statement of retained earnings at December 31, 1991?

A. $190,000

B. $178,000

C. $150,000

D. $122,000

Correct Answer: B

Retained earnings as previously reported 12-31-90		$150,000
Add: Adjustment for inventory not recorded	$40,000	
Less applicable tax (30% × 40,000)	(12,000)	28,000
As restated		$178,000 B

Choice "b" is correct. $178,000.

QUESTION 3

An extraordinary item should be reported separately on the income statement as a component of income:

	Net of income taxes	Before discontinued operations of a segment of a business
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: B

Choice "b" is correct, Yes - No. An extraordinary item should be reported separately on the income

statement as a component of income:

Yes - net of income taxes.

No - after (not before) "discontinued operations of a segment of a business."

QUESTION 4

According to the FASB conceptual framework, which of the following situations violates the concept of reliability?

A. Data on segments having the same expected risks and growth rates are reported to analysts estimating future profits.

B. Financial statements are issued nine months late.

C. Management reports to stockholders regularly refer to new projects undertaken, but the financial statements never report project results.

D. Financial statements include property with a carrying amount increased to management\\'s estimate of market value.

Correct Answer: D

Choice "d" is correct. Management\\'s estimate of market value lacks verifiability, which is a component of reliability. SFAC 2 para. 89 Choice "a" is incorrect. Communicating data on segments to analysts does not violate the concept of reliability. Choice "b" is incorrect. Issuing financial statements nine months late violates timeliness, which is a component of relevance, not reliability. SFAC 2 para. 56 Choice "c" is incorrect. Neglecting to report results of new projects violates full disclosure, not reliability.

QUESTION 5

In 1990, Brighton Co. changed from the individual item approach to the aggregate approach in applying the lower of FIFO cost or market to inventories. The cumulative effect of this change should be reported in Brighton\\'s financial statements as a:

A. Retrospective adjustment on the retained earnings statement, with separate disclosure.

B. Component of income from continuing operations, with separate disclosure.

C. Component of income from continuing operations, without separate disclosure.

D. Component of income after continuing operations, with separate disclosure.

Correct Answer: A

Choice "a" is correct. A change in the composition of the elements of cost such as changing from the individual item approach to the aggregate approach in applying the lower of FIFO cost or market to inventories (LCM is covered in F4) is an example of a change in accounting principle. The cumulative effect of the change in accounting principle should now be shown on the retained earnings statement as an adjustment to the beginning balance of retained earnings, in what is called retrospective application. Choices "b", "c", and "d" are incorrect. The cumulative effect of a change in accounting principle is now reported on the retained earnings statement, not the income statement. Most of these types of changes (changes in accounting principle) used to be reported on the income statement. SFAS No. 154 changed that.