FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

A planned volume variance in the first quarter, which is expected to be absorbed by the end of the fiscal period, ordinarily should be deferred at the end of the first quarter if it is:

	Favorable	Unfavorable
A.	Yes	No
B.	No	Yes
C.	No	No
D.	Yes	Yes

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: D

Choice "d" is correct. Yes - Yes.

Rule: Volume variances that are planned or expected to be absorbed by the end of the year should be

deferred at interim whether favorable or unfavorable.

QUESTION 2

In financial reporting of segment data, which of the following items is always used in determining a segment\\'s operating income?

A. Income tax expense.

B. Sales to other segments.

C. General corporate expense.

D. Gain or loss on discontinued operations.

Correct Answer: B

Choice "b" is correct. Sales to other segments would be used in determining a segment\\'s operating

income.

Rule: Equity in net income of another company, general corporate expenses, interest, income tax expense,

and gains or losses on discontinued operations are all not included in segment profit unless they are included in the determination of segment profit reported to the "Chief Operating Decision Maker."

QUESTION 3

On November 1, 20X2, Smith Co. contracted to dispose of an industry segment. Throughout 20X2 the segment had operating losses. These losses were expected to continue until the segment\\'s disposition. If a loss is projected on final disposition, how much of the operating losses should be included in the loss from discontinued operations reported in Smith\\'s 20X2 income statement?

I. Operating losses for the period January 1 to October 31, 20X2.

II. Operating losses for the period November 1 to December 31, 20X2.

III.

Estimated operating losses for the period January 1 to February 28, 20X3.

A.

II only.

B.

II and III only.

C.

I and III only.

D.

I and II only.

Correct Answer: D

Choice "d" is correct. The operating losses to be included in Smith\\'s 20X2 income statement would be the total 20X2 operating losses, regardless of whether those losses occurred before or after the date the decision to dispose of the component was made, and not any 20X3 operating losses. Projected operating losses are not anticipated and accrued. Choice "a" is incorrect. The operating losses to be included in Smith\\'s 20X2 income statement would be the total 20X2 operating losses, regardless of whether those losses occurred before or after the date the decision to dispose of the component was made, and not any 20X3 operating losses. Choice "b" is incorrect. The operating losses to be included in Smith\\'s 20X2 income statement would be the total 20X2 operating losses, regardless of whether those losses occurred before or after the date the decision to dispose of the component was made, and not any 20X3 operating losses. Choice "c" is incorrect. The operating losses to be included in Smith\\'s 20X2 income statement would be the total 20X2 operating losses, regardless of whether those losses occurred before or after the date the decision to dispose of the component was made, and not any 20X3 operating losses.

QUESTION 4

On January 2, 1993, Quo, Inc. hired Reed to be its controller. During the year, Reed, working closely with Quo\\'s president and outside accountants, made changes in accounting policies, corrected several errors dating from 1992 and before, and instituted new accounting policies. Quo\\'s 1993 financial statements will be presented in comparative form with its 1992 financial statements. This question represents one of Quo\\'s transactions. List A represents possible clarifications of these transactions as: a change in accounting principle, a change in accounting estimate, a correction of an error in previously presented financial statements, or neither an accounting change nor an accounting error.

Item to Be Answered Quo manufactures heavy equipment to customer specifications on a contract basis. On the basis that it is preferable, accounting for these long-term contracts was switched from the completed-contract method to the percentage-of-completion method.

List A (Select one)

A. Change in accounting principal.

B. Change in accounting estimate.

C. Correction of an error in previously presented financial statements.

D. Neither an accounting change nor an accounting error.

Correct Answer: A

Choice "a" is correct. Switching from the completed-contract method of accounting to the percentageofcompletion method is a "change in accounting principle."

QUESTION 5

Under FASB Statement of Financial Accounting Concepts #5, which of the following items would cause earnings to differ from comprehensive income for an enterprise in an industry not having specialized accounting principles?

A. Unrealized loss on investments in noncurrent marketable equity securities available for sale.

B. Unrealized loss on investments in current marketable equity securities held for trading.

C. Loss on exchange of nonmonetary assets without commercial substance.

D. Loss on exchange of nonmonetary assets with commercial substance.

Correct Answer: A

Choice "a" is correct. Unrealized loss on investments in marketable equity securities available for sale would cause earnings to differ from comprehensive income for an enterprise in an industry not having specialized accounting principles. Rule: FAC 5 defines "earnings" for a period to exclude certain cumulative accounting adjustments and other non-owner changes in equity (such as changes in market value of marketable securities available for sale) that are included in comprehensive income for a period.