



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

Certified Public Accountant (Financial Accounting & Reporting)

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### QUESTION 1

Grum Corp., a publicly-owned corporation, is subject to the requirements for segment reporting. In its income statement for the year ended December 31, 1991, Grum reported revenues of \$50,000,000, operating expenses of \$47,000,000, and net income of \$3,000,000. Operating expenses include payroll costs of \$ 15,000,000. Grum's combined identifiable assets of all industry segments at December 31, 1991, were \$40,000,000. Cott Co.'s four business segments have revenues and identifiable assets expressed as percentages of Cott's total revenues and total assets as follows: Which of these business segments are deemed to be reportable segments?

	<u>Revenues</u>	<u>Assets</u>
Ebon	64%	66%
Fair	14%	18%
Gel	14%	4%
Hak	8%	12%
	<u>100%</u>	<u>100%</u>

- A. Ebon only.
- B. Ebon and Fair only.
- C. Ebon, Fair, and Gel only.
- D. Ebon, Fair, Gel, and Hak.

Correct Answer: D

Rule: A segment must be at least 10% of:

1. Combined revenues (whether intersegment or unaffiliated customers), or
2. Operating income (of all segments not having an operating loss), or
3. Identifiable assets.

Choice "d" is correct. Ebon, Fair, Gel, and Hak, since all four companies meet at least one of the criteria.

### QUESTION 2

What information should a public company present about revenues from its reporting segments?

- A. Disclose separately the amount of sales to unaffiliated customers and the amount of intracompany sales.



- B. Disclose as a combined amount sales to unaffiliated customers and intracompany sales between geographic areas.
- C. Disclose separately the amount of sales to unaffiliated customers but not the amount of intracompany sales between geographic areas.
- D. No disclosure of revenues from foreign operations need be reported.

Correct Answer: A

Choice "a" is correct. Unaffiliated customers sales and intracompany sales must be disclosed separately.

### QUESTION 3

According to the FASB conceptual framework, the process of reporting an item in the financial statements of an entity is:

- A. Allocation.
- B. Matching.
- C. Realization.
- D. Recognition.

Correct Answer: D

Choice "d" is correct. Recognition is the process of recording an item in the financial statements of an entity. SFAC 5 para. 6 Choice "a" is incorrect. Allocation is the accounting process of assigning or distributing an amount according to a plan or a formula. SFAC 6 para. 142 Choice "b" is incorrect. Matching of costs and revenues is simultaneous or combined recognition of the revenues and expenses that result directly and jointly from the same transactions or other events. SFAC 6 para. 146 Choice "c" is incorrect. Realization is the process of converting noncash resources and rights into money. SFAC 6 para. 143

### QUESTION 4

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.

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### QUESTION 5

An extraordinary gain should be reported as a direct increase to which of the following?

- A. Net income.
- B. Comprehensive income.
- C. Income from continuing operations, net of tax.
- D. Income from discontinued operations, net of tax.

Correct Answer: A

Choice "a" is correct. Extraordinary items are reported as a component of net income, after income from continuing operations and discontinued operations. Choice "b" is incorrect. An extraordinary gain (or loss) only indirectly affects comprehensive income as a component of net income. Choice "c" is incorrect. Extraordinary items are reported net of tax after income from continuing operations and discontinued operations. Choice "d" is incorrect. Extraordinary items are reported net of tax after income from continuing operations and discontinued operations.

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