FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

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		years elapsed		accumulated deprec
Original	$264	÷	8 yrs	=	$33	x	3yrs	=	$99 ('89-'91)
Accum deprec	(99)								
NBV 12/31/91	165								
Salvage	<24>								
Revised	141	÷	3 yrs	=	47	x	1 yr	=	47 (1992)
Balance, 12/31/92									$146

QUESTION 2

How should the effect of a change in accounting principle that is inseparable from the effect of a change in accounting estimate be reported?

A. As a component of income from continuing operations.

B. By restating the financial statements of all prior periods presented.

C. As a correction of an error.

D. By footnote disclosure only.

Correct Answer: A

Choice "a" is correct. When the effect of a change in accounting principle is inseparable from the effect of a change in accounting estimate, the reporting treatment for the overall effect is as a change in estimate. Thus, the effect is reported prospectively as a component of income from continuing operations. Under SFAS No. 154, this type of change is now called a change in accounting estimate affected by a change in accounting principle. Choice "b" is incorrect. Restatement of all prior periods is the retroactive accounting treatment that is applied to the correction of an error and the retrospective accounting treatment given to changes in accounting principle. However, a change in accounting principle that is inseparable from the effect of a change in accounting estimate is now treated as a change in accounting estimate. Choice "c" is incorrect. Correction of an error is given retroactive treatment as a prior period adjustment to retained earnings with restatement of prior periods. This is not the treatment appropriate for the effect of a change in accounting principle that is inseparable from the effect of a change in accounting estimate. Choice "d" is incorrect. While footnote disclosure is always appropriate for an accounting change, such disclosure alone is never the appropriate accounting treatment.

QUESTION 3

What is the purpose of information presented in notes to the financial statements?

A. To provide disclosures required by generally accepted accounting principles.

B. To correct improper presentation in the financial statements.

C. To provide recognition of amounts not included in the totals of the financial statements.

D. To present management\\'s responses to auditor comments.

Correct Answer: A

Choice "a" is correct. Information presented in notes to the financial statements have the purpose of providing disclosures required by generally accepted accounting principles. SFAC 5 para. 7

QUESTION 4

Which of the following qualifies as an operating segment?

A. Corporate headquarters, which oversees $1 billion in sales for the entire company.

B. North American segment, whose assets are 12% of the company\\'s assets of all segments, and management reports to the chief operating officer.

C. South American segment, whose results of operations are reported directly to the chief operating officer, and has 5% of the company\\'s assets, 9% of revenues, and 8% of the profits.

D. Eastern Europe segment, which reports its results directly to the manager of the European division, and has 20% of the company\\'s assets, 12% of revenues, and 11% of profits.

Correct Answer: B

Choice "b" is correct. Assets of the North American segment exceed 10% combined assets of all operating

segments.

Choice "a" is incorrect. Corporate headquarters in not considered a segment.

Choice "c" is incorrect. The South American segment does not meet any of the 10% minimums (Revenue,

PandL or Assets).

Choice "d" is incorrect. Eastern Europe segment does not report to the chief operating officer.

QUESTION 5

There are multiple active markets for a financial asset with different observable market prices: There is no principal market for the financial asset. What is the fair value of the asset?

Market	Quoted Price	Transaction Costs
A	$76	$5
B	$74	$2

A. $71

B. $72

C. $74

D. $76

Correct Answer: C

Choice "c" is correct. When there is no principal market, the price in the most advantageous market is the fair value measurement. Although transaction costs are not included in the fair value measurement, they are used to determine the most advantageous market, as follows:

Market A: Net Price = Quoted Price - Transaction Costs = $76 - 5 = $71 Market B: Net Price = Quoted Price - Transaction Costs = $74 - 2 = $72

Because the net price in Market B is higher than the net price in Market A, Market B is the most advantageous market and the quoted price in Market B ($74) is the fair value of the asset. Choice "a" is incorrect. This is the net price in Market A. Fair value does not include transaction costs. Choice "b" is incorrect. This is the net price in Market B. This net price indicates that Market B is the most advantageous market, but the net price is not the fair value because fair value does not include transaction costs. Choice "d" is incorrect. If Market A were the principal market for the asset, then this would be the fair value of the asset. However, because there is no principal market, the price in the most advantageous market (Market B) is the price of the asset.