FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

Pass Test Prep FINANCIAL-ACCOUNTING-AND-REPORTING Exam with 100% Guarantee

Free Download Real Questions & Answers **PDF** and **VCE** file from:

https://www.geekcert.com/financial-accounting-and-reporting.html

100% Passing Guarantee
100% Money Back Assurance

Following Questions and Answers are all new published by Test Prep Official Exam Center

QUESTION 1

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

The equipment that Quo manufactures is sold with a five-year warranty. Because of a production

breakthrough, Quo reduced its computation of warranty costs from 3% of sales to 1% of sales.

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: B

Choice "b" is correct. Change in the computation of warranty costs from 3% of sales to 1% of sales is a change in accounting estimate.

QUESTION 2

In Baer Food Co.\\'s 1990 single-step income statement, the section titled "Revenues" consisted of the following:

Net sales revenue		$187,000
Results from discontinued operations:		
Loss from operations of component		
(net of $1,200 tax effect)	$(2,400)	
Gain on disposal of component		
(net of $7,200 tax effect)	14,400	12,000
Interest revenue		10,200
Gain on sale of equipment		4,700
Total revenues		$213,900

In the revenues section of its 1990 income statement, Baer Food should have reported total revenues of:

A. $216,300

B. $215,400

C. $203,700

D. $201,900

Correct Answer: D

Choice "d" is correct. $201,900.

Revenues (in a single step income statement) include:

Net sales revenue (of goods & services)	$187,000
Interest revenue (and dividends earned)	10,200
Gain on sale of equipment	4,700
Total revenues	201,900

The various amounts from discontinued operations should be included in discontinued operations, not in revenues.

QUESTION 3

On August 31, 1992, Harvey Co. decided to change from the FIFO periodic inventory system to the weighted average periodic inventory system. Harvey is on a calendar year basis. The cumulative effect of the change is determined:

A. As of January 1, 1992.

B. As of August 31, 1992.

C. During the eight months ending August 31, 1992, by a weighted average of the purchases.

D. During 1992 by a weighted average of the purchases.

Correct Answer: A

Rule: The cumulative effect of a change in accounting principle equals the difference between retained earnings at the beginning of period of the change and what retained earnings would have been if the change was applied to all affected prior periods. Choice "a" is correct. As of January 1, 1992, the beginning of the year. This assumes that the company is not presenting comparative financial statements. If comparative financial statements are presented, then the adjustment is made to the beginning retained earnings of the earliest year presented. Choice "b" is incorrect. The cumulative effect of the change is not determined as of the date the decision is made. Choices "c" and "d" are incorrect. The cumulative effect of the change is not determined by a weighted average. (A far out distractor.)

QUESTION 4

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.

QUESTION 5

On January 2, 20X5, to better reflect the variable use of its only machine, Holly, Inc. elected to change its method of depreciation from the straight-line method to the units of production method. The original cost of the machine on January 2, 20X3, was $50,000, and its estimated life was 10 years. Holly estimates that the machine\\'s total life is 50,000 machine hours. Machine hours usage was 8,500 during 20X4 and 3,500 during 20X3. Holly\\'s income tax rate is 30%. Holly should report the accounting change in its 20X5 financial statements as a(n):

A. Cumulative effect of a change in accounting principle of $2,000 in its income statement.

B. Adjustment to beginning retained earnings of $2,000.

C. Cumulative effect of a change in accounting principle of $1,400 in its income statement.

D. None of the above.

Correct Answer: D

Choice "d" is correct. A change in the method of depreciation is now considered to be both a change in method and a change in estimate. These changes should be accounted for as changes in estimate and handled prospectively. The new depreciation method should be used as of the beginning of the year of change and should start with the current book value of the underlying asset. No retroactive or retrospective

calculations should be made, and no adjustment should be made to retained earnings.

The cumulative effect treatment on the income statement was the treatment of most changes in accounting

principle prior to SFAS No. 154. The adjustment to beginning retained earnings is the treatment now given

to changes in accounting principle by SFAS No. 154. However a change in depreciation method is no

longer accounted for as a change in accounting principle.

Choices "a", "b", and "c" are incorrect, per the above Explanation: .