FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

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 2

According to the FASB conceptual framework, which of the following is an essential characteristic of an asset?

A. The claims to an asset\\'s benefits are legally enforceable.

B. An asset is tangible.

C. An asset is obtained at a cost.

D. An asset provides future benefits.

Correct Answer: D

Choice "d" is correct. An asset provides future benefits.

Rule: According to the FASB conceptual framework, assets are probable future economic benefits

obtained or controlled by a particular entity as a result of past transactions or events.

QUESTION 3

On December 31, 20X2, the Board of Directors of Maxy Manufacturing, Inc. committed to a plan to discontinue the operations of its Alpha division. Maxy estimated that Alpha\\'s 20X3 operating loss would be

$500,000 and that the fair value of Alpha\\'s facilities was $300,000 less than their carrying amounts.

Alpha\\'s 20X2 operating loss was $1,400,000, and the division was actually sold for $400,000 less than its

carrying amount in 20X3. Maxy\\'s effective tax rate is 30%.

In its 20X2 income statement, what amount should Maxy report as loss from discontinued operations?

A. $980,000

B. $1,190,000

C. $1,400,000

D. $1,700,000

Correct Answer: B

Choice "b" is correct. Since the fair value of Alpha\\'s facilities was $300,000 less than its carrying value, there has been an impairment loss, and that loss should be recognized in 20X2. That $300,000 impairment loss plus the $1,400,000 20X2 operating loss would be recognized in 20X2 net of tax. The total loss would be $1,700,000 ?70% (100% - 30%) or $1,190,000. Choice "a" is incorrect. It includes the 20X2 operating loss of $1,400,000 but not the $300,000 impairment loss but does report the 20X2 operating loss net of tax. Choice "c" is incorrect. It includes the 20X2 operating loss of $1,400,000, but not the $300,000 impairment loss, and reports the 20X2 operating loss gross of tax and not net of tax. Choice "d" is incorrect. It reports the 20X2 loss from discontinued operations gross of tax and not net of tax.

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

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."