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QUESTION 1

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.

QUESTION 2

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 B represents the general accounting treatment

required for these transactions. These treatments are:

- Cumulative effect approach - Include the cumulative effect of the adjustment resulting from the accounting change or error correction in the 1993 financial statements, and do not restate the 1992 financial statements.

- Retroactive or retrospective restatement approach - Restate the 1992 financial statements and adjust 1992 beginning retained earnings if the error or change affects a period prior to 1992.

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Prospective approach - Report 1993 and future financial statements on the new basis but do not restate 1992 financial statements.

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 B (Select one)

A. Cumulative effect approach.

B. Retroactive or retrospective restatement approach.

C. Prospective approach.

Correct Answer: C

Choice "C" is correct. This affects only the prospective (current and subsequent) periods - not prior periods, not retained earnings.

QUESTION 3

Terra Co.\\'s total revenues from its three operating segments were as follows: Which operating segment(s) is (are) deemed to be reportable segments?

Segment	Sales to unaffiliated customers	Intersegment sales	Total revenues
Lion	$ 70,000	$ 30,000	$ 100,000
Monk	22,000	4,000	26,000
Nevi	8,000	16,000	24,000
Combined	$100,000	$ 50,000	$ 150,000
Elimination	-	(50,000)	(50,000)
Consolidated	$100,000	$ -	$ 100,000

A. None.

B. Lion only.

C. Lion and Monk only.

D. Lion, Monk, and Nevi.

Correct Answer: D

Choice "d" is correct. A reportable operating segment is one having 10% of all revenue, including revenue

from unaffiliated sales and from intersegment sales:

Lion\\'s revenue percentage is 66.7% [$100,000/150,000].

Monk\\'s revenue percentage is 17.3% [$26,000/150,000].

Nevi\\'s revenue percentage is 16% [$24,000/150,000].

Thus, all three segments meet the 10% of total revenues test and are reportable as operating segments.

SFAS 14 para. 10 and 15 as amended by SFAS 131 Choice "a" is incorrect. All segments with revenue

percentages exceeding 10% of total revenues are reportable operating segments.

Choice "b" is incorrect. Lion is not the only segment with revenue percentages exceeding 10% of total

revenues.

Choice "c" is incorrect. Nevi has a revenue percentage exceeding 10% of total revenues.

QUESTION 4

During 1994, Orca Corp. decided to change from the FIFO method of inventory valuation to the weightedaverage method. Inventory balances under each method were as follows:

	FIFO	Weighted-average
January 1, 1994	$71,000	$77,000
December 31, 1994	79,000	83,000

Orca\\'s income tax rate is 30%.

Orca should report the cumulative effect of this accounting change as a(n):

A. Adjustment to beginning retained earnings.

B. Component of income from continuing operations.

C. Extraordinary item.

D. Component of income after extraordinary items.

Correct Answer: A

Choice "a" is correct. The cumulative effect of a change in accounting principle is shown as an adjustment to beginning retained earnings. Choice "b" is incorrect. The cumulative effect of a change in accounting principle is now presented as a separate category on the retained earnings statement and is not a component of net income. Choice "c" is incorrect. Extraordinary items are unusual and infrequent in nature. Extraordinary items have nothing to do with changes in accounting principle. Choice "d" is incorrect. A change in accounting principle affects retained earnings, not the income statement, under SFAS No. 154.

QUESTION 5

Which of the following statements is incorrect regarding the inputs that can be used to measure fair value?

I. Level I inputs are the most reliable fair value measurements and Level III inputs are the least reliable.

II. Level I measurements are quoted prices in active markets for identical or similar assets or liabilities.

III. A fair value measurement based on management assumptions only (no market data) would not be acceptable per GAAP.

IV.

The level in the fair value hierarchy of a fair value measurement is determined by the level of the highest level significant input.

A.

I only.

B.

I, II, IV.

C.

II, III, IV.

D.

I, II, III, IV.

Correct Answer: C

Choice "c" is correct. Statement I is correct and statements II, III, and IV are incorrect. Statement II is incorrect because Level I measurements are quoted prices in active markets for identical assets or liabilities only. Quoted prices in active markets for similar assets or liabilities are Level II inputs. Statement III is incorrect because a fair value measurement based on management assumptions only is a Level III measurement and is acceptable when there are no Level I or Level II inputs or when undo cost or effort is required to obtain Level I or Level II inputs. Statement IV is incorrect because the level in the fair value hierarchy of a fair value measurement is determined by the level of the lowest level significant input.

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