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### QUESTION 1

Is the cumulative effect of an inventory pricing change on prior years earnings reported on the financial statements for

	<u>LIFO to weighted average?</u>	<u>Weighted average to LIFO?</u>
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. The cumulative effect of a change in accounting principle is now reported as an adjustment to beginning retained earnings when it is considered practicable to calculate the cumulative effect. When making a change to LIFO, it is generally considered impracticable to calculate the cumulative effect of the change (in most cases, data on the historical LIFO layers is not available). In a change to LIFO, the beginning inventory dollar amount becomes the first LIFO layer. No cumulative effect adjustment is made. The change is accounted for prospectively. A change from LIFO to weighted average, there is no such impracticability. The cumulative effect is computed and the change is handled retrospectively. Choices "a", "c", and "d" are incorrect, per the above Explanation: .

### QUESTION 2

A segment of Ace Inc. was discontinued during 1992. Ace's loss from discontinued operations should not:

A. Include employee relocation costs associated with the decision to dispose.

B. Exclude operating losses from the date the decision to dispose of the segment was made until the end of 1992.

C. Include additional pension costs associated with the decision to dispose.

D. Include operating losses of the current period up to the date the decision to dispose of the segment was made.

Correct Answer: B

Choice "b" is correct. Ace's loss on discontinued operations should not exclude operating losses from the date the decision to dispose of the segment was made until the end of 1992. All 1992 operating losses should be included. Choice "a" is incorrect. Employee relocation costs associated with the decision to dispose should be included in the loss from discontinued operations. Choice "c" is incorrect. Additional pension costs associated with the decision to dispose



should be included in the loss from discontinued operations. Choice "d" is incorrect. Ace's loss on discontinued operations should include operating losses of the current period up to the date the decision to dispose of the segment was made and also after that date. All 1992 operating losses should be included.

### QUESTION 3

Hyde Corp. has three manufacturing divisions, each of which has been determined to be a reportable segment. In 1989, Clay division had sales of \$3,000,000, which was 25% of Hyde's total sales, and had operating costs of \$1,900,000, as reported to the CFO. In 1989, Hyde incurred operating costs of \$500,000 that were not directly traceable to any of the divisions. In addition, Hyde incurred corporate interest expense of \$300,000 in 1989. In reporting segment information, what amount should be shown as Clay's operating profit for 1989?

- A. \$875,000
- B. \$900,000
- C. \$975,000
- D. \$1,100,000

Correct Answer: D

Choice "d" is correct. \$1,100,000 operating profit for clay.

Rule: Operating profit by segments is based on the measure of profit reported to the "chief operating decision maker."

Allocations for general operating costs and interest, etc., should not be made solely for purposes of segment disclosures.

Sales	\$3,000,000
Less operating costs	(1,900,000)
Sub total	<u>\$1,100,000</u>

### QUESTION 4

Deficits accumulated during the development stage of a company should be:

- A. Reported as organization costs.
- B. Reported as a part of stockholders' equity.
- C. Capitalized and written off in the first year of principal operations.
- D. Capitalized and amortized over a five year period beginning when principal operations commence.

Correct Answer: B



Choice "b" is correct. Deficits accumulated during the development stage of a company should be reported as a part of stockholders' equity. Rule: Development stage enterprises should present FS in accordance with GAAP and make additional disclosures such as: cumulative net losses, cumulative deficit (as part of equity), cumulative sales and expenses (part of I/S), cumulative statement of cash flows and supplementary "shareholders equity." Choices "a", "c", and "d" are incorrect, per the rule above.

#### QUESTION 5

Arpco, Inc., a for-profit provider of healthcare services, recently purchased two smaller companies and is researching accounting issues arising from the two business combinations. Which of the following accounting pronouncements are the most authoritative?

- A. AICA Statements of Position.
- B. AICPA Industry and Audit Guides.
- C. FASB Statements of Financial Accounting Concepts.
- D. FASB Statements of Financial Accounting Standards.

Correct Answer: D

Choice "d" is correct. Since Arpco is a for-profit provider of healthcare services, it is covered under normal GAAP. Thus, the most authoritative pronouncements are the FASB Statements of Financial Accounting Standards (SFAS). Choice "a" is incorrect. AICPA Statements of Position are not the most authoritative pronouncement for almost anything (other than for some issues that only they cover). They are normally "merely" the opinion of the AICPA. Choice "b" is incorrect. AICPA Industry and Audit Guides are not the most authoritative pronouncement for almost anything (other than for some issues that only they cover). Choice "c" is incorrect. FASB Statements of Financial Accounting Concepts are not authoritative pronouncements except where they have been incorporated by reference into an SFAS. They are the basis on which SFAS can be constructed.

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