FINANCIAL-ACCOUNTING-AND-REPORTING Q&As

Certified Public Accountant (Financial Accounting & Reporting)

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QUESTION 1

According to the FASB conceptual framework, the process of reporting an item in the financial statements of an entity is:

A. Allocation.

B. Matching.

C. Realization.

D. Recognition.

Correct Answer: D

Choice "d" is correct. Recognition is the process of recording an item in the financial statements of an entity. SFAC 5 para. 6 Choice "a" is incorrect. Allocation is the accounting process of assigning or distributing an amount according to a plan or a formula. SFAC 6 para. 142 Choice "b" is incorrect. Matching of costs and revenues is simultaneous or combined recognition of the revenues and expenses that result directly and jointly from the same transactions or other events. SFAC 6 para. 146 Choice "c" is incorrect. Realization is the process of converting noncash resources and rights into money. SFAC 6 para. 143

QUESTION 2

According to the FASB conceptual framework, predictive value is an ingredient of:

	Relevance	Reliability
A.	No	No
B.	Yes	Yes
C.	No	Yes
D.	Yes	No

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: D

Choice "d" is correct. Yes - No. Predictive value is an ingredient of relevance but not of reliability.

Memorize:

Bud\\'s relevance to "PFT."

Bud\\'s reliability to "VRN."

QUESTION 3

Wilson Corp. experienced a $50,000 decline in the market value of its inventory in the first quarter of its fiscal year. Wilson had expected this decline to reverse in the third quarter, and in fact, the third quarter recovery exceeded the previous decline by $10,000. Wilson\\'s inventory did not experience any other declines in market value during the fiscal year. What amounts of loss and/or gain should Wilson report in its interim financial statements for the first and third quarters?

	First quarter	Third quarter
A.	$0	$0
B.	$0	$10,000 gain
C.	$50,000 loss	$50,000 gain
D.	$50,000 loss	$60,000 gain

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: A

Choice "a" is correct. Temporary market declines in inventory need not be recognized at interim when a turn-around can reasonably be expected to occur before the end of the fiscal year.

QUESTION 4

A change from the cost approach to the market approach of measuring fair value is considered to be what type of accounting change?

A. Change in accounting estimate.

B. Change in accounting principle.

C. Change in valuation technique.

D. Error correction.

Correct Answer: A

Choice "a" is correct. A change in the valuation technique used to measure fair value is a change in accounting estimate. Choice "b" is incorrect. Per SFAS No. 157, a change in valuation technique is a change in accounting estimate, not a change in accounting principal. Choice "c" is incorrect. Although a change from the cost approach to the market approach is a change in valuation technique, a change in valuation technique is not defined as a type of accounting change, but instead falls into the category of changes in accounting estimate. Choice "d" is incorrect. Both the market approach and the cost approach are acceptable methods of measuring fair value per SFAS No. 157; therefore, switching between these methods is not the correction of an error. Additionally, an error correction is not a type of accounting change.

QUESTION 5

Which of the following information should be included in Melay, Inc.\\'s 1992 summary of significant accounting policies?

A. Property, plant, and equipment is recorded at cost with depreciation computed principally by the straight-line method.

B. During 1992, the Delay component was sold.

C. Business segment 1992 sales are Alay $1M, Belay $2M, and Celay $3M.

D. Future common share dividends are expected to approximate 60% of earnings.

Correct Answer: A

Choice "a" is correct. Computing depreciation principally by the straight-line method is a GAAP method of depreciation that should be described in the "summary of significant accounting policies." Choice "b" is incorrect. Disclosing the sale of a component of a business is required (and is covered in the lecture on "discontinued operations" in the F1 class) but is not a "significant accounting policy." Choice "c" is incorrect. Disclosing "sales" of segments is required, but is not a "significant accounting policy." Choice "d" is incorrect. "Estimates of future common share dividends" are not appropriate disclosures for the financial statements. They might be appropriate for the "presidents letter to shareholders."