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QUESTION 1

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.

QUESTION 2

A development stage enterprise should use the same generally accepted accounting principles that apply to established operating enterprises for:



	<u>Revenue recognition</u>	<u>Deferral of expenses</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: A

Choice "a" is correct. Development stage enterprises must use all the same principles as established enterprises including those of revenue recognition and deferral of expenses. The primary difference is that development stage enterprises must provide additional disclosures not required of established operating enterprises. SFAS #7, para. 10

QUESTION 3

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 4



In Yew Co.'s 1992 annual report, Yew described its social awareness expenditures during the year as follows:

"The Company contributed \$250,000 in cash to youth and educational programs. The Company also gave \$140,000 to health and human-service organizations, of which \$80,000 was contributed by employees through payroll deductions. In addition, consistent with the Company's commitment to the environment, the Company spent \$100,000 to redesign product packaging." What amount of the above should be included in Yew's income statement as charitable contributions expense?

- A. \$310,000
- B. \$390,000
- C. \$410,000
- D. \$490,000

Correct Answer: A

Choice "a" is correct. Charitable contributions include amounts the company gave to recognized charities. This includes:

Youth and education programs	\$ 250,000
Health (\$140,000 - \$80,000)	60,000
Total	<u>\$ 310,000</u>

Note: Of the \$140,000, employees gave \$80,000, and the company \$60,000. Redesigning packaging is not a contribution to a charity.

Choice "b" is incorrect. The company gave only \$60,000 of the \$140,000. Employees gave \$80,000.

Choice "c" is incorrect. Redesigning packaging is not a contribution to a charity.

Choice "d" is incorrect. The company gave only \$60,000 of the \$140,000. Employees gave \$80,000.

Redesigning packaging is not a contribution to a charity.

QUESTION 5

In financial reporting of segment data, which of the following must be considered in determining if an industry segment is a reportable segment?



	<u>Sales to unaffiliated customers</u>	<u>Intersegment sales</u>
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

A. Option A

B. Option B

C. Option C

D. Option D

Correct Answer: A

Choice "a" is correct. A segment is considered reportable if its reported revenue, including sales to unaffiliated customers and intersegment sales, is 10% or more of the combined revenue (unaffiliated and intersegment) of all operating segments.

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

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