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Exam : Financial-Accounting-Reporting

Title : Certified Public Accountant (Financial Accounting & Reporting)

Vendor : Admission Test

Version : DEMO
In September 1996, Koff Co.'s operating plant was destroyed by an earthquake. Earthquakes are rare in the area in which the plant was located. The portion of the resultant loss not covered by insurance was $700,000. Koff’s income tax rate for 1996 was 40%. In its 1996 income statement, what amount should Koff report as extraordinary loss?

A. $0  
B. $700,000  
C. $420,000  
D. $280,000

Answer: C

During the first quarter of 1993, Tech Co. had income before taxes of $200,000, and its effective income tax rate was 15%. Tech’s 1992 effective annual income tax rate was 30%, but Tech expects its 1993 effective annual income tax rate to be 25%. In its first quarter interim income statement, what amount of income tax expense should Tech report?

A. $0  
B. $60,000  
C. $50,000  
D. $30,000

Answer: C

Which of the following accounting pronouncements is the most authoritative?

B. AICPA Statement of Position.  
C. AICPA Accounting Principles Board Opinion.  

Answer: C

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. AICPA Industry and Audit Guides.  
B. AICA Statements of Position.  

Answer: D

In open market transactions, Gold Corp. simultaneously sold its long-term investment in Iron Corp. bonds and purchased its own outstanding bonds. The broker remitted the net cash from the two transactions. Gold’s gain on the purchase of its own bonds exceeded its loss on the sale of the Iron bonds. Assume the transaction to purchase its own outstanding bonds is unusual in nature and has occurred infrequently. Gold should report the:

A. Effect of its own bond transaction as an extraordinary gain, and report the Iron bond transaction...
loss in income before extraordinary items.

B. Effect of its own bond transaction gain in income before extraordinary items, and report the Iron bond transaction as an extraordinary loss.

C. Net effect of the two transactions in income before extraordinary items.

D. Net effect of the two transactions as an extraordinary gain.

**Answer:** A

**NO.6** The effect of a change in accounting principle that is inseparable from the effect of a change in accounting estimate should be reported:

A. By restating the financial statements of all prior periods presented.

B. As a component of income from continuing operations, in the period of change and future periods if the change affects both.

C. As a separate disclosure after income from continuing operations, in the period of change and future periods if the change affects both.

D. As a correction of an error.

**Answer:** B

**NO.7** 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 A represents possible clarifications of these transactions as: a change in accounting principle, a change in accounting estimate, a correction of an error in previously presented financial statements, or neither an accounting change nor an accounting error.

**Item to Be Answered**

Quo manufactures heavy equipment to customer specifications on a contract basis. On the basis that it is preferable, accounting for these long-term contracts was switched from the completed-contract method to the percentage-of-completion method.

List A (Select one)

A. Neither an accounting change nor an accounting error.

B. Correction of an error in previously presented financial statements.

C. Change in accounting estimate.

D. Change in accounting principal.

**Answer:** D

**NO.8** Rock Co.’s financial statements had the following balances at December 31:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extraordinary gain</td>
<td>$50,000</td>
</tr>
<tr>
<td>Foreign currency translation gain, net of tax</td>
<td>100,000</td>
</tr>
<tr>
<td>Net income</td>
<td>400,000</td>
</tr>
<tr>
<td>Unrealized gain on available-for-sale equity securities, net of tax</td>
<td>20,000</td>
</tr>
</tbody>
</table>

What amount should Rock report as comprehensive income for the year ended December 31?

A. $400,000
NO. 9 Coffey Corp.'s trial balance of Income Statement Accounts for the year ended December 31, 1988 as follows:

<table>
<thead>
<tr>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$960,000</td>
<td>$1,600,000</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>235,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>25,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>10,000</td>
<td>0.00</td>
</tr>
<tr>
<td>Hurricane damage</td>
<td>0.00</td>
<td>10,000</td>
</tr>
<tr>
<td>Gain on debt extinguishment</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Totals</td>
<td>$1,410,000</td>
<td>$1,610,000</td>
</tr>
</tbody>
</table>

Coffey's income tax rate is 30%. The gain on debt extinguishment is considered a usual and recurring part of Coffey's operations. The hurricane is considered an unusual and infrequent event. Coffey prepares a multiple-step income statement for 1988.

Net income is:
A. $200,000
B. $168,000
C. $161,000
D. $140,000

Answer: D

NO. 10 Several sources of GAAP consulted by an auditor are in conflict as to the application of an accounting principle. Which of the following should the auditor consider the most authoritative?
A. AICPA Technical Practice Aids.
B. FASB Technical Bulletins.
D. AICPA Accounting Interpretations.

Answer: B

NO. 11 In the hierarchy of generally accepted accounting principles, APB Opinions have the same authority as AICPA:
A. Accounting Research Bulletins.
B. Statements of Position.
C. Industry Audit and Accounting Guides.
D. Issues Papers.

Answer: A

NO. 12 According to the FASB conceptual framework, the process of reporting an item in the financial statements of an entity is:
A. Recognition.
B. Matching.
C. Allocation.
D. Realization.

Answer: A