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Question 1

Question Type: **MultipleChoice**

Coffey Corp.'s trial balance of Income Statement Accounts for the year ended December 31, 1988 as follows:

	Debit	Credit
Net sales		$1,600,000
Cost of goods sold	$960,000	
Selling expenses	235,000	
Administrative expenses	150,000	
Interest expense	25,000	
Hurricane damage	40,000	
Gain on debt extinguishment		10,000
Totals	$1,410,000	$1,610,000

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:

Options:

A- $140,000

B- $161,000

C- $168,000

D- $200,000

Answer:

A

Explanation:

Choice 'a' is correct. $140,000.

Net income is the 'bottom line' amount after all has been considered on the income statement. Without showing all the line items as required for the income statement, the 'bottom line' amount of $140,000 is derived as follows:

Income from continuing operations	$240,000
Less: Income taxes (30%)	(72,000)
Extraordinary item - Hurricane damage (net of tax)	(28,000)
Net Income	$140,000

Question 2

Question Type: **MultipleChoice**

Coffey Corp.'s trial balance of Income Statement Accounts for the year ended December 31, 1988 as follows:

	Debit	*Credit*
Net sales		$1,600,000
Cost of goods sold	$ 960,000	
Selling expenses	235,000	
Administrative expenses	150,000	
Interest expense	25,000	
Gain on debt extinguishment		10,000
Totals	$1,370,000	$1,610,000

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

Income from operations before income tax is:

Options:

A- $190,000

B- $200,000

C- $230,000

D- $240,000

Answer:

D

Explanation:

Choice 'd' is correct. $240,000

The gain on debt extinguishment does not meet the unusual and infrequent criteria of APB 30 to be treated as an extraordinary item (per SFAS No. 145, extinguishments of debt are no longer automatically extraordinary), so it is included as part of income from continuing operations.

Question 3

Question Type: **MultipleChoice**

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?

Options:

A- FASB Technical Bulletins.

B- AICPA Accounting Interpretations.

C- FASB Statements of Financial Accounting Concepts.

D- AICPA Technical Practice Aids.

Answer:

A

Explanation:

Choice 'a' is correct. The most authoritative pronouncements (first floor) are FASB Statements, FASB Staff Positions, FASB Statement 133 Implementation Issues, FASB Interpretations, AICPA APB opinions, and AICPA Accounting Research Bulletins. When these pronouncements do not provide appropriate guidance, the next level of pronouncements (second floor) are AICPA Industry Audit and Accounting Guides, AICPA Statements of Position, and FASB Technical Bulletins.

Choice 'b' is incorrect. AICPA Accounting Interpretations are not as authoritative as FASB Technical Bulletins, since they are on the fourth floor.

Choices 'c' and 'd' are incorrect. FASB Concepts Statements and AICPA Technical Practice Aids are among the least authoritative of accounting literature (fifth floor).

Question 4

Question Type: MultipleChoice

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

Options:

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.

Answer:

A

Explanation:

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.'

Question 5

Question Type: MultipleChoice

The following costs were incurred by Griff Co., a manufacturer, during 1992:

Accounting and legal fees	$25,000
Freight-in	175,000
Freight-out	160,000
Officers salaries	150,000
Insurance	85,000
Sales representatives salaries	215,000

What amount of these costs should be reported as general and administrative expenses for 1992?

Options:

A- $260,000

B- $550,000

C- $635,000

D- $810,000

Answer:

A

Explanation:

Choice 'a' is correct. $260,000.

General and administrative

Accounting and legal fees	$ 25,000
Officers salaries	150,000
Insurance	85,000
Total "general and admin" expenses	$260,000 **A**

'Freight-in' is part of 'cost of goods sold.'

'Freight-out' is a 'selling' expense.

Sales representative salaries is a selling expense.

Question 6

Question Type: **MultipleChoice**

The summary of significant accounting policies should disclose the:

Options:

A- Maturity dates of noncurrent debts.

B- Terms for convertible debt to be exchanged for common stock.

C- Concentration of credit risk of all financial instruments by geographical region.

D- Criteria for determining which investments are treated as cash equivalents.

Answer:

D

Explanation:

Choice 'd' is correct. The criteria for determining which investments are treated as cash equivalents would be part of the summary of significant accounting policies.

Choice 'a' is incorrect. The maturity dates of noncurrent debts are required disclosures, but are not a part of the summary of significant accounting policies.

Choice 'b' is incorrect. The terms for convertible debt to be exchanged for common stock are not accounting policies; they would be disclosed separately.

Choice 'c' is incorrect. The concentration of credit risk of all financial instruments by geographic region may be a required segment disclosure, especially for financial institutions. However, it would not be a part of the summary of significant accounting policies.

Question 7

Question Type: MultipleChoice

Which of the following should be disclosed in a summary of significant accounting policies?

i. Management's intention to maintain or vary the dividend payout ratio.

ii. Criteria for determining which investments are treated as cash equivalents.

iii. Composition of the sales order backlog by segment.

Options:

A- I only.

B- I and III.

C- II only.

D- II and III.

Answer:

C

Explanation:

Choice 'c' is correct. II only.

The criteria for determining which investments are treated as 'cash equivalents' is a method of accounting policies that needs to be disclosed in the summary of significant accounting policies.

Choice 'a' is incorrect. Management's intention to maintain or vary the 'dividend payout ratio' is not an 'accounting policy.'

Choices 'b' and 'd' are incorrect. Composition of the sales order backlog by segment is not an 'accounting policy.'

Question 8

Question Type: MultipleChoice

Which of the following accounting pronouncements is the most authoritative?

Options:

A- FASB Statement of Financial Accounting Concepts.

B- FASB Technical Bulletin.

C- AICPA Accounting Principles Board Opinion.

D- AICPA Statement of Position.

Answer:

C

Explanation:

Choice 'c' is correct. The AICPA accounting principal board opinion (APBO) is a first floor (category A) of established accounting principle pronouncements.

Choice 'a' is incorrect. FASB statement of financial accounting concepts (SFAC or FACs) is a fifth floor (other accounting literature) category.

Choice 'b' is incorrect. FASB technical bulletins are a second floor (category B) accounting pronouncement.

Choice 'd' is incorrect. AICPA statement of position is a second floor (category B) accounting pronouncement.

Question 9

Question Type: MultipleChoice

On January 1, 1991, Brecon Co. installed cabinets to display its merchandise in customers' stores. Brecon expects to use these cabinets for five years. Brecon's 1991 multi-step income statement should include:

Options:

A- One-fifth of the cabinet costs in cost of goods sold.

B- One-fifth of the cabinet costs in selling, general, and administrative expenses.

C- All of the cabinet costs in cost of goods sold.

D- All of the cabinet costs in selling, general, and administrative expenses.

Answer:

B

Explanation:

Choice 'b' is correct. One-fifth of the cabinet costs (depreciation expense) should be included in selling, general, and administrative expenses for 1991.

Choice 'a' is incorrect. Merchandise display cabinets in stores relate to selling activities, not to the purchase cost of goods sold.

Choices 'c' and 'd' are incorrect. Merchandise display cabinets are fixed assets whose cost should be allocated systematically over their five-year useful life.

Question 10

Question Type: **MultipleChoice**

FASB Interpretations of Statements of Financial Accounting Standards have the same authority as the FASB:

Options:

A- Statements of Financial Accounting Concepts.

B- Emerging Issues Task Force Consensus.

C- Technical Bulletins.

D- Statements of Financial Accounting Standards.

Answer:

D

Explanation:

Choice 'd' is correct. FASB interpretations of the 'statements of financial accounting standards' (SFAS) have the same authority as the FASB statements of financial accounting standards (SFAS), which by themselves determine GAAP.

Choice 'a' is incorrect. Statements of financial accounting concepts (FAC's) have much less authority (fifth floor) and do not by themselves determine GAAP as is the case with SFASs and interpretations of SFASs.

Choice 'b' is incorrect. Emerging issues task force (EITF) consensus is in the nature of a 'third floor' authority. The EITF was established in 1984 to aid the FASB in identifying and implementing emerging issues before they become widespread and ultimately require action by the FASB. After discussing the issues and the relevant accounting pronouncements, the group can sometimes reach a consensus on an issue, in which case no action by the FASB is usually needed.

Choice 'c' is incorrect. Technical bulletins of the FASB (second floor) do not by themselves determine GAAP.

Question 11

Question Type: MultipleChoice

In Baer Food Co.'s 1990 single-step income statement, the section titled "Revenues" consisted of the following:

Net sales revenue		$187,000
Results from discontinued operations:		
Loss from operations of component		
(net of $1,200 tax effect)	$(2,400)	
Gain on disposal of component		
(net of $7,200 tax effect)	14,400	12,000
Interest revenue		10,200
Gain on sale of equipment		4,700
Total revenues		$213,900

In the revenues section of its 1990 income statement, Baer Food should have reported total revenues of:

Options:

A- $216,300

B- $215,400

C- $203,700

D- $201,900

Answer:

D

Explanation:

Choice 'd' is correct. $201,900.

Revenues (in a single step income statement) include:

Net sales revenue (of goods & services)	$187,000
Interest revenue (and dividends earned)	10,200
Gain on sale of equipment	4,700
Total revenues	201,900

The various amounts from discontinued operations should be included in discontinued operations, not in revenues.