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Question 1

Question Type: **MultipleChoice**

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 changed from FIFO to average cost to account for its raw materials and work in process inventories.

List A (Select one)

Options:

A- Change in accounting principal.

B- Change in accounting estimate.

C- Correction of an error in previously presented financial statements.

D- Neither an accounting change nor an accounting error.

Answer:

A

Explanation:

Choice 'a' is correct. Change in inventory pricing method from FIFO to average cost is a change in accounting principle.

Question 2

Question Type: MultipleChoice

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 B represents the general accounting treatment required for these transactions. These treatments are:

* Cumulative effect approach - Include the cumulative effect of the adjustment resulting from the accounting change or error correction in the 1993 financial statements, and do not restate the 1992 financial statements.

* Retroactive or retrospective restatement approach - Restate the 1992 financial statements and adjust 1992 beginning retained earnings if the error or change affects a period prior to 1992.

* Prospective approach - Report 1993 and future financial statements on the new basis but do not restate 1992 financial statements.

Item to Be Answered

Quo changed from LIFO to FIFO to account for its finished goods inventory.

List B (Select one)

Options:

A- Cumulative effect approach.

B- Retroactive or retrospective restatement approach.

C- Prospective approach.

Answer:

B

Explanation:

Choice 'B' is correct. A change in accounting principle should be shown in the retained earnings statement of the earliest year presented as an adjustment of the beginning balance. All prior year financial statements are recast.

Question 3

Question Type: **MultipleChoice**

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 changed from LIFO to FIFO to account for its finished goods inventory.

List A (Select one)

Options:

A- Change in accounting principal.

B- Change in accounting estimate.

C- Correction of an error in previously presented financial statements.

D- Neither an accounting change nor an accounting error.

Answer:

A

Explanation:

Choice 'a' is correct. Change from LIFO to FIFO is a change in accounting principle.

Question 4

Question Type: **MultipleChoice**

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 B represents the general accounting treatment required for these transactions. These treatments are:

* Cumulative effect approach - Include the cumulative effect of the adjustment resulting from the accounting change or error correction in the 1993 financial statements, and do not restate the 1992 financial statements.

* Retroactive or retrospective restatement approach - Restate the 1992 financial statements and adjust 1992 beginning retained earnings if the error or change affects a period prior to 1992.

* Prospective approach - Report 1993 and future financial statements on the new basis but do not restate 1992 financial statements.

Item to Be Answered

The equipment that Quo manufactures is sold with a five-year warranty. Because of a production breakthrough, Quo reduced its computation of warranty costs from 3% of sales to 1% of sales.

List B (Select one)

Options:

A- Cumulative effect approach.

B- Retroactive or retrospective restatement approach.

C- Prospective approach.

Answer:

C

Explanation:

Choice 'C' is correct. This affects only the prospective (current and subsequent) periods - not prior periods, not retained earnings.

Question 5

Question Type: **MultipleChoice**

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 B represents the general accounting treatment required for these transactions. These treatments are:

* Cumulative effect approach - Include the cumulative effect of the adjustment resulting from the accounting change or error correction in the 1993 financial statements, and do not restate the 1992 financial statements.

* Retroactive or retrospective restatement approach - Restate the 1992 financial statements and adjust 1992 beginning retained earnings if the error or change affects a period prior to 1992.

* Prospective approach - Report 1993 and future financial statements on the new basis but do not restate 1992 financial statements.

Item to Be Answered

As a result of a production breakthrough, Quo determined that manufacturing equipment previously depreciated over 15 years should be depreciated over 20 years.

List B (Select one)

Options:

A- Cumulative effect approach.

B- Retroactive or retrospective restatement approach.

C- Prospective approach.

Answer:

C

Explanation:

Choice 'C' is correct. This affects only the prospective (current and subsequent) periods - not prior periods, not retained earnings.

Question 6

Question Type: MultipleChoice

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

As a result of a production breakthrough, Quo determined that manufacturing equipment previously depreciated over 15 years should be depreciated over 20 years.

List A (Select one)

Options:

A- Change in accounting principal.

B- Change in accounting estimate.

C- Correction of an error in previously presented financial statements.

D- Neither an accounting change nor an accounting error.

Answer:

B

Explanation:

Choice 'b' is correct. Change in lives of fixed assets is a change in accounting estimate.

Question 7

Question Type: **MultipleChoice**

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 B represents the general accounting treatment required for these transactions. These treatments are:

* Cumulative effect approach - Include the cumulative effect of the adjustment resulting from the accounting change or error correction in the 1993 financial statements, and do not restate the 1992 financial statements.

* Retroactive or retrospective restatement approach - Restate the 1992 financial statements and adjust 1992 beginning retained earnings if the error or change affects a period prior to 1992.

* Prospective approach - Report 1993 and future financial statements on the new basis but do not restate 1992 financial statements.

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 B (Select one)

Options:

A- Cumulative effect approach.

B- Retroactive or retrospective restatement approach.

C- Prospective approach.

Answer:

B

Explanation:

Choice 'B' is correct. Changes in accounting principle are handled 'retrospectively.' Beginning retained earnings of the earliest year presented is adjusted for the cumulative effect of the change and all prior year financial statements are restated.